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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF TERREBONNE
COURT. No.:
OFFICE No.:

S U P E R I O R C O U R T
Commercial Division

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

THE LION ELECTRIC COMPANY, a legal person having its elected domicile at 921 chemin de la Riviere-du-Nord, Saint-Jerome, Quebec, Canada J7Y 5G2

-&-

LION ELECTRIC FINANCE CANADA INC., a legal person having its elected domicile at 921 chemin de la Riviere-du-Nord, Saint-Jerome, Quebec, Canada J7Y 5G2

-&-

LION ELECTRIC VEHICLE FINANCE CANADA INC., a legal person having its elected domicile at 921 chemin de la Riviere-du-Nord, Saint-Jerome, Quebec, Canada J7Y 5G2

-&-

LION ELECTRIC HOLDING USA INC., a legal person having its elected domicile at 2915 Ogletown Road, Newark, Delaware, 19713

-&-

NORTHERN GENESIS ACQUISITION CORP., a legal person having its elected domicile at 2915 Ogletown Road, Newark, Delaware, 19713

-&-

THE LION ELECTRIC CO. USA INC., a legal person having its elected domicile at 915 Ogletown Road, Newark, Delaware, 19713

-&-

LION ELECTRIC MANUFACTURING USA INC., a legal person having its elected domicile at 915 Ogletown Road, Newark, Delaware, 19713

-&-

LION ELECTRIC FINANCE USA INC., a legal person having its elected domicile at 915 Ogletown Road, Newark, Delaware, 19713

Applicants

-&-

DELOITTE RESTRUCTURING INC., a legal person having a place of business at 500-1190 ave des Canadiens-de-Montréal, in the city and district of Montreal, province of Quebec, H3B 0M7.

Proposed Monitor

FIRST REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED MONITOR
(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)

INTRODUCTION

1. The Lion Electric Company ("**Lion Electric**"), Lion Electric Finance Canada Inc. ("**Lion Finance**"), Lion Electric Vehicle Finance Canada Inc. ("**Lion Vehicle Finance**"), Lion Electric Holding USA Inc. ("**Lion Holding USA**"), Northern Genesis Acquisition Corp. ("**Northern Genesis**"), The Lion Electric Co. USA Inc. ("**Lion USA**"), Lion Electric Manufacturing USA Inc. ("**Lion Manufacturing USA**"), Lion Electric Finance USA Inc. ("**Lion Finance USA**"), (collectively "**Lion**", the "**Company**" or the "**Applicants**") have filed an *Application for the Issuance of an Initial Order, an Amended and Restated Initial Order and a Sale and Investment Solicitation Process ("**SISP**") order* (the "**Application**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**"), before the Superior Court of Québec (the "**Court**") seeking the appointment of Deloitte Restructuring Inc. ("**Deloitte**") as the CCAA monitor in these proceedings (the "**Proposed Monitor**") and various other reliefs.

2. This report (the "**First Report**") has been prepared by the Proposed Monitor prior to its appointment as monitor in the contemplated CCAA proceedings (the "**CCAA Proceedings**") to provide information to the Court for its consideration in respect of the Application and addresses only those matters set out in the proposed first day initial order (the "**Proposed First Day Initial Order**") and the order approving the pursuit of the ongoing Sale and Investment Solicitation Process ("**Proposed SISP Order**") sought pursuant thereto.

3. If the Proposed First Day Initial Order is granted, the Applicants intend to return to Court to seek the issuance of the amended and restated initial order sought in the Application (the "**Proposed Initial Order**") and the Proposed Monitor will file a supplemental report if needed to provide additional information and its views on additional information and request to the Court in respect of the Proposed Initial Order being sought by the Applicants.

4. Unless otherwise stated, all monetary amounts contained herein are expressed in US dollars.

PURPOSE OF THIS REPORT

5. The purpose of the First Report of the Proposed Monitor is to provide information to the Court with respect to:

   (i) Deloitte's qualification to act as monitor;

   (ii) The business, financial affairs and financial results of Lion;

   (iii) The proposed restructuring process (the "**Restructuring Process**");

   (iv) The SISP;

   (v) The Key Employees Retention Program (the "**KERP**");

   (vi) Lion's cash flow forecast;

   (vii) The Interim Financing Facility;

   (viii) The Charges sought in the Proposed First Day Initial Order and the Proposed Initial Order;

   (ix) Recognition Proceedings in the United States; and,

   (x) The Proposed Monitor's conclusions and recommendations.

6. In preparing the First Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, Lion's books and records and financial information prepared by Lion and discussions with management ("**Management**") of Lion (collectively, the "**Information**"). Except as described in this First Report in respect of the Applicants' Cash Flow Statement (as defined below):

   (i) The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and,

   (ii) Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.

7. Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

8. Unless otherwise indicated, the Proposed Monitor's understanding of factual matters expressed in the First Report concerning Lion and their business is based on the Information, and not independent factual determinations made by the Proposed Monitor.

DELOITTE'S QUALIFICATION TO ACT AS MONITOR

9. Deloitte is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.

10. On May 3, 2024, the Proposed Monitor was retained by National Bank of Canada ("**NBC**", the "**Lender**" or the "**Agent**"), as administrative agent of the bank syndicate which also includes The Fédération des Caisses Desjardins ("**Desjardins**") and Bank of Montreal ("**BMO**") (collectively the "**Bank Syndicate**") to act as a consultant, to review the operations and financial position of Lion. Lion consented to the mandate provided to Deloitte by NBC. The mandate included the following matters:

    (i) A review of the Lion pro forma budget and the assessment of the reasonableness of the underlying assumptions, including a monthly variance analysis of actual results against budget;

    (ii) A review and assessment of Lion weekly short-term cash flows (13 weeks cash flows), and the reasonableness of the underlying assumptions; and,

    (iii) Upon the specific written request of the Agent, any other matters which appeared to the Agent, acting reasonably after consultation with Lion, to be relevant to an assessment of the administrative agent's security position and future course of action.

11. Since May 3, 2024, the Proposed Monitor has been involved on a continuous basis with Lion acting as financial advisor to the Bank Syndicate. Throughout that period, the Proposed Monitor carried out the review of actual results compared to forecast, the monitoring of the investors' solicitation process led by Financière Banque Nationale ("**FBN**"), has been involved in the discussions relating to the various amendments to the credit agreement and other strategic discussions between the Agent, the Bank Syndicate and Lion.

12. In the context of the foregoing, the Proposed Monitor's representatives working on this matter have acquired material knowledge of Lion and its business over the 6-month period preceding the Application. The Proposed Monitor has spent time with Management understanding the operations and financial structure as more fully described in this First Report, in order to provide assistance to the Court, and the Proposed Monitor is in position to act as Court-appointed monitor without delay, in an efficient and diligent manner in the CCAA proceedings for the benefit of all of its stakeholders.

13. The Proposed Monitor has retained Lavery de Billy LLP ("**Lavery**") to act as its independent counsel in the CCAA Proceedings.

THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF LION

<u>*Historical overview*</u>

14. Lion designs, develops, manufactures, and distributes electric medium and heavy-duty urban vehicles (school buses and trucks).

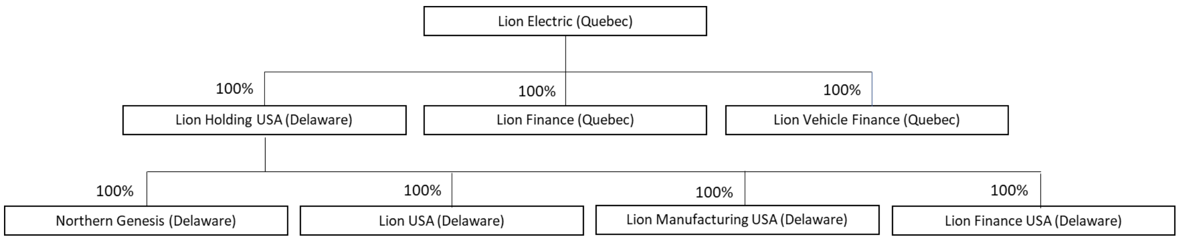
15. The product line includes two (2) models of all-electric school buses (Lion C and Lion D) and three (3) models of all-electric trucks (Lion 5, 6 and 8), all of which are sold throughout Canada and the USA. Although Lion's fleet is made of five (5) different types of vehicles, its flagship product is the Lion C bus.

16. Lion operates two plants to manufacture the buses and trucks, which are located in St-Jerome (Quebec, Canada) and Joliet (Illinois, USA). The St-Jerome plant hosts most of the manufacturing activities as the Joliet plant has only recently opened and doesn't manufacture many units so far. Lion also owns and operates a battery manufacturing plant

in Mirabel, Quebec, Canada (the “**Battery Plant**”), which started production in 2024, to supply Lion’s vehicle manufacturing initially solely, but with the ambition to also supply other clients in the market.

<u>Corporate structure</u>

17. Lion corporate structure is the following:



Lion Electric

18. Lion Electric is a Quebec-based company, incorporated in 2008, that specializes in designing, developing, manufacturing and distributing purpose-built all-electric medium and heavy-duty urban vehicles, mainly school buses.

19. Lion Electric is the ultimate parent company of Lion and directly or indirectly owns all of the issued and outstanding shares of the entities forming part of the group. The head office is located in St-Jerome, in the province of Quebec, Canada.

20. The operations and assembly primarily take place at the St-Jerome facility, but also at the Joliet facility located in Illinois, USA. Lion also operates the Battery Plant and a warehouse located in Terrebonne, Quebec.

21. Lion currently employs a total of 313 employees across Canada and the Unites-States of America (“**USA**”). 256 of these employees are located in Canada and 57 are located in USA.

Lion Finance

22. Lion Finance is a wholly owned subsidiary of Lion Electric responsible for assisting with the sale of carbon credits associated with the acquisition of vehicles.

Lion Vehicle Finance

23. Lion Vehicle Finance is another wholly owned subsidiary of Lion Electric responsible for assisting with the offering of financing solutions to Canadian-based customers for the acquisition of vehicles manufactured by Lion Electric.

Lion Holding USA

24. Lion Holding USA is a wholly owned subsidiary of Lion Electric and was incorporated on November 18, 2021, under the laws of Delaware.

25. Lion Holding USA is not an operating or manufacturing entity. As a holding entity in the USA, it holds all of the issued and outstanding shares of the other operating entities located in the USA, namely Northern Genesis Lion USA, Lion Manufacturing USA and Lion Finance USA.

Northern Genesis

26. Northern Genesis is a wholly owned subsidiary of Lion Holding USA.

27. Northern Genesis was a publicly traded special purpose acquisition company that merged with another wholly owned subsidiary of Lion Electric on May 6, 2021. Following the business combination, Lion Electric became the official public offer and Lion Electric's common shares began trading on the New York Stock Exchange and the Toronto Stock Exchange under the ticker symbol "LEV". Following the merger, Northern Genesis became a subsidiary of Lion Holding USA within Lion's corporate structure.

28. Northern Genesis has no operations of its own.

Lion USA

29. Lion USA is a wholly owned subsidiary of Lion Holding USA, incorporated in 2018.

30. It is responsible for the sale of the Lion vehicles within the USA market.

Lion Manufacturing USA

31. Lion Manufacturing USA is a wholly owned subsidiary of Lion Holding USA, incorporated in 2021 under the laws of Delaware.

32. Lion Manufacturing USA is responsible for manufacturing vehicles destined for the US market.

33. The facility operated for the manufacturing of vehicles in the USS is located in Joliet, Illinois.

Lion Finance USA

34. Lion Finance USA is a wholly owned subsidiary of Lion Holding USA, incorporated in 2021 under the laws of Delaware.

35. Lion Finance USA is responsible for offering financing solutions to US-based customers for the acquisition of vehicles manufactured by Lion.

Financial analysis

36. The following table sets out selected financial information for the periods indicated. The selected financial information below has been derived from the corresponding financial statements of Lion:

The Lion Electric Company

Income Statement For the period ended in 000 USD	**Audited 31-Dec-22 12 months**	**Audited 31-Dec-23 12 months**	**Unaudited 30-Sep-24 9 months**
Revenue	139 914	253 496	30 627
Cost of sales	(152 862)	(259 020)	(46 580)
Gross profit (loss)	**(12 947)**	**(5 524)**	**(15 953)**
Gross margin	*-9%*	*-2%*	*-52%*
SG&A	67 817	71 130	13 473
Restructuring	-	1 426	780
Impairment of intangibles and PPE	-	35 998	-
Operating loss	**(80 764)**	**(114 079)**	**(30 206)**
Operating margin	*-58%*	*-45%*	*-99%*
Finance costs	955	17 892	13 024
Other expense (income)	(99 496)	(28 205)	(9 285)
Net earnings (loss)	**17 776**	**(103 766)**	**(33 946)**

37. In 2023, Lion has increased its revenue by 81%, from $139M in 2022 to $253M in 2023. In number of units, Lion sold 519 vehicles in 2022 and 853 in 2023. However, sales have dropped in 2024 totalling $31M for the first 9 months of the year. 386 vehicles were delivered as of Q3 2024, a decrease of 278 vehicles, as compared to the 664 delivered last year for the same period.

38. According to the Company, the decrease in sales is due, in part, to delays in the processing of governmental subsidies or incentives which are a condition to substantially all of the vehicles included in Lion's order book, as well as the economic slowdown in relation to the Electric Vehicle ("**EV**") market, which materially adversely impacted its revenues and its cash flows.

39. With a view to manage its liquidity in difficult circumstances, Lion implemented in 2024, various workforce reductions and other cost-cutting measures which negatively impacted production cadence and vehicle deliveries, which also negatively impacted the Lion's revenues and cash flows.

40. Ultimately, given the challenges described above, the significant amount of capital required to operate its business, as well as its significant debt-load and cash burn rate, Lion has been unable to be profitable as a business thus far.

41. As described in the table above, Lion has sustained net losses in the last years and has not been able to generate net positive operating income since 2021. Despite an increase in sales in 2023 and several initiatives to reduce costs in 2024, Lion has recorded operating losses.

42. The table below illustrates Lion's historical balance sheet:

The Lion Electric Company

Balance Sheet **As at** **in 000 USD**	**Audited** **31-Dec-22**	**Audited** **31-Dec-23**	**Unaudited** **30-Sep-24**
Cash	88 267	29 893	26 288
Trade receivable, net of allowance for credit losses	25 685	40 622	19 959
Incentive and government receivable	25 313	26 625	18 569
Other receivables	11 974	8 395	10 197
Accounts receivable	62 972	75 642	48 725
Raw materials	135 657	173 404	141 927
Work in process	22 810	28 106	26 997
Finished goods	8 725	48 096	46 179
Inventories	167 192	249 607	215 103
Prepaid expenses and other current assets	5 068	1 553	2 181
Current assets	323 498	356 695	292 297
Propety, plant and equipment	160 756	198 537	186 611
Intangibles	151 364	175 073	189 171
Other non current asset	74 793	110 817	112 121
Total assets	**710 411**	**841 121**	**780 200**
Trade and other payables	75 222	92 425	57 906
Deferred revenue and other deferred liabilities	635	18 267	44 253
Current portion of long term debt	25	27 056	149 541
Current portion of lease liabilities	5 210	7 985	8 190
Current liabilities	81 092	145 733	259 890
Long-term debts	110 649	197 886	143 095
Lease liabilities	58 310	83 972	87 217
Other non-current liabilities	23 244	54 616	9 563
Equity (deficit)	437 117	358 914	280 435
Total liabilities and equity	**710 411**	**841 121**	**780 200**

43. Lion's principal assets, as of September 30, 2024, are the following (*all values hereinafter are stated for indication purposes only*):

(i) Accounts receivable of approximately $49M, composed of approximately $20M of trade receivables, $19M of incentives and government assistance receivable and $10M of research and development tax credits receivables;

(ii) Inventories of $215M, composed of approximately $142M of raw materials, $27M of work-in-progress and $46M of finished goods. This amount of finished goods includes chargers, batteries and 174 vehicle units (86 buses and 88 trucks). 129 of these vehicles were located in Canada and 45 were located in USA;

(iii) Property, plants and equipment totalling $187M, composed of $74M of machinery and equipment, $60M of leasehold improvements, $34M of building and $19M of other assets. Lion rents most of its operating buildings with only one exception of a specific building located in Mirabel (Quebec) and identified as the Innovation Center[1];

The Lion Electric Company
Operating facilities

Location	Rent/Owned
Plant - St-Jérôme, Qc	Rent
Innovation Center - Mirabel, Qc	Owned
Battery Center - Mirabel, Qc	Rent
Plant - Joliet, IL	Rent
Experience Centers - various locations (12)	Rent

(iv) Intangible assets totalling $189M, include mainly the capitalization of the research and development costs on the various projects over time that are getting amortized on a yearly basis;

(v) Other non-current assets are essentially the right-of-use of assets of $91M, primarily composed of the sales leaseback value of the Battery Plant building and some leased equipment, contract assets of $13M representing share warrants obligations issued to various parties and other non-current assets of $8M.

Lions' creditors

44. According to Lion's books and records, the following table summarizes the obligation of Lion to secured and unsecured creditors as of September 30, 2024:

[1] There was a recent announcement that the Innovation Center sold to a third party.

The Lion Electric Company Summary of debts As at September 30, 2024 in 000 USD	Secured	Unsecured	Total
Trade and other payables	-	57 906	57 906
Lease liabilities	6 843	88 565	95 408
Share warrant obligations	-	5 522	5 522
Conversion options on convertible debt instruments	-	4 041	4 041
Deferred revenue and other deferred liabilities			
Deferred revenue - EPA Program	-	39 034	39 034
Innovation program funds - Investissement Quebec ("IQ")	-	3 636	3 636
Other deferred liabilities	-	1 583	1 583
Long term debt			
Banking Syndicate - Credit agreement	117 100	-	117 100
IQ - Battery plant loan	27 308	-	27 308
Strategic Innovation Fund ("SIF") - Battery plant loan	-	15 455	15 455
Finalta-CDPQ - Loan on R&D tax credits and subsidies receiv.	22 660	-	22 660
National Bank - Supplier factoring credit facility	-	9 254	9 254
Group Mach/Fondation Saputo - Non-convertible debenture	47 539	-	47 539
IQ, FTQ, Fondaction, MEIE - Convertible debenture	-	49 494	49 494
IQ - Essor Project loan	-	3 826	3 826
Total secured and unsecured debt	221 449	278 316	499 765

Secured creditors

45. As illustrated in the table above, Lion advised the Proposed Monitor that its principal secured creditors are:

(i) the Bank Syndicate which provided to Lion a revolving credit facility;
(ii) CDPQ Revenu Fixe I Inc. and Fonds Finalta Capital S.E.C. (a limited partnership acting through Commandité Fonds Finalta Capital Inc., its general partner, itself acting through its manager, Finalta Capital Inc.) ("**CDPQ/Finalta**") which provided to Lion a loan secured by R&D tax credits and subsidies receivables;
(iii) Holders of the 2023 Non-Convertible Debentures (as defined below) represented by Groupe Mach Inc. as fondé de pouvoir (hypothecary representative) ("**Groupe Mach**") pursuant to the secured non-convertible debentures secured by, inter alia, a first ranking security interest on the Innovation Center (sold on December 16, 2024) and specific equipment in the Battery Plant; and,
(iv) Investissement Québec ("**IQ**") pursuant to a loan for the acquisition of specific assets related to the Battery Plant.

The Bank of Montreal ("**BMO**") holding first rank security on certain equipment at the Joliet facility.

46. The terms of the secured indebtedness are more fully described in the Application.

47. Under the original revolving credit facility agreement, the maximum revolving credit facility available of $200M bears interest at a floating rate equivalent to 8.6% per annum as of September 30, 2024. As of the date of the First Report, the amount drawn on the facility was $111.2M, and as per the most recent agreement with the Bank Syndicate, Lion was not authorized to make any further draws on the revolving credit facility.

48. The revolving credit facility is secured by a first ranking hypothec over the universality of Lion's assets (other than certain specific assets over which CDPQ/Finalta and Groupe Mach hold first ranking security interests).

49. The CDPQ/Finalta loan has matured on November 30, 2024, and Lion is currently unable to repay the amount owed pursuant to this facility.

50. The Proposed Monitor has asked Lavery to conduct an independent review of the security granted to the various secured creditors over Lion's assets. This review is currently

underway. Once completed, the Proposed Monitor will report to the Court on its findings. For the purposes hereof, the Proposed Monitor has based its report on the assumption that the security described above is valid and enforceable.

Unsecured creditors

51. Lion has advised the Proposed Monitor that its principal unsecured liabilities, which are estimated to be approximately $282M as per the books and records of Lion, mostly consist of:

    (i) Trade payables and accruals;

    (ii) Accrued salaries and vacation pay;

    (iii) Lease obligations;

    (iv) Deferred revenue related to the grants received from the EPA Clean School Bus program;

    (v) Convertible debentures;

    (vi) Supplier factoring credit facility; and,

    (vii) Strategic Innovation Fund Loan related to the financing of the Battery Plant.

52. According to Management, payroll obligations are current, and the Applicants intend to continue to fulfill their payroll obligations as a going concern with respect to the current employees. Payments are made on a biweekly basis. Payroll management is outsourced to third parties, namely *Nethris* in Canada and *Solved* in the US. As per Management, all source deductions are current.

Liquidity

53. As illustrated in the table below, Lion's operating and investing activities cash flows, as explained in the previous financial analysis section, have been negative over the last three (3) years and is primarily explained by:

    I. An inability to generate liquidity through its operations caused by unprofitable unit economics (Lion has not achieved its breakeven level in the past years) and a selling, general and administrative costs structure to support on an annual basis;

    II. Investment in assets ("**CAPEX**") by building a manufacturing plant located in Joliet (USA) and building the Lion Campus located in Mirabel where the Lion Battery packs were developed and are now manufactured. The investment in Joliet required a total investment of approximately $106M and the Lion Campus required a total investment of $125M; and,

    III. Significant investments over the years in research and development to develop and improve the different vehicles, batteries and other related technologies.

The Lion Electric Company

Cash evolution **Consolidated statement of cash flows** **in 000 USD**	**Audited** **31-Dec-22** 12 months	**Audited** **31-Dec-23** 12 months	**Unaudited** **30-Sep-24** 9 months
Operating activities	(119 553)	(110 036)	(31 569)
Investing activities	(204 607)	(123 506)	(26 701)
Financing activities	172 802	175 454	53 829
Effect of exchange rate on cash held in foreign currency	(2 078)	(286)	836
Change in cash	**(153 435)**	**(58 374)**	**(3 605)**
Cash (overdraft) - Beginning	241 702	88 267	29 893
Cash (overdaft) - Ending	**88 267**	**29 893**	**26 288**

54. To finance negative operating and investing cash flows, Lion has relied on various financial instruments namely the revolving credit facility, the issuance of common stock and warrants, the issuance of convertible and non-convertible debentures, the sale and leaseback of the Battery Plant building and various other loans and governmental support.

55. On July 5, 2024, considering Lion’s cash position, the Company retained FBN, as financial advisor to undertake a structured process to seek new equity in the market.

56. Despite FBN running a solicitation process and generating interest from potential parties, Lion was not able to secure the required additional equity funding to allow the Company to raise new equity or financing to implement its financial plan.

57. Simultaneously, to preserve liquidity, Management, started implementing various initiatives to optimize operations with, among other things, headcount reduction of approximately 30% of its workforce in August 2024. Despite the implementation of these restructuring efforts, Lion has not been able to generate sufficient liquidity to allow it to maintain the going concern, deliver its reduced business plan and honour its liabilities. Since January 2024, approximately 75% (approximately 1,000 employees on 1,300 employees) of the workforce has been laid off with the objective to preserve liquidity. On December 16, 2024, the Lion Group closed a definitive agreement to sell the Innovation Center to Montreal Airport for a purchase price of approximately C$50,000,000 and all net proceeds from such transaction were used towards the partial repayment of the 2023 Non-Convertible Debentures.

58. It is the understanding of the Proposed Monitor that this sale is done at the fair market value between independent parties and that the secured creditors of the Company are not opposed to this transaction.

59. As of the date of this First Report, and as explained in further detail below, Lion’s available liquidity is clearly not sufficient to allow it to meet its financial obligations and financial commitments.

60. Consequently, the Proposed Monitor is of the view that Lion is insolvent.

THE RESTRUCTURING PROCESS

61. The CCAA proceedings aim to allow the Debtors to continue, with the assistance of NBF and the Monitor and under the supervision of this Court, to canvass the market and solicit a wider variety of offers from potentially interested parties that will hopefully allow the Lion Group to maximize value for the benefit of its creditors and other stakeholders.

62. The Company will also take this opportunity to further restructure its business from an operational standpoint and implement additional cost-cutting measures, which may be achieved by, inter alia, further reducing operating costs through the disclaimer of non-profitable contracts or leases, closure of unprofitable business operations and other corporate restructuring.

63. Given its lack of adequate liquidity, Lion has no alternative but to implement significant cash preservation measures and resort to DIP financing in order to maintain its current operations while ensuring the preservation of the value of the Company's assets, for the purposes of facilitating a possible transaction for the benefit of all stakeholders.

64. Accordingly, considering the limited cash on hand, Lion, in consultation with the Proposed Monitor, believes that the CCAA proceedings and the implementation of a SISP constitute the only viable option under the circumstances.

THE SISP

65. As previously mentioned, FBN was appointed as financial advisor during the summer of 2024, to assist Lion in its efforts to raise equity.

66. Despite NBF running a solicitation process and generating interest from potential parties, Lion was not able to secure the required additional equity funding to allow the Company to raise sufficient equity or financing on an ongoing basis to implement its financial plan for the coming years.

67. Lion, in consultation with FBN and with the Proposed Monitor, believes that initiating a new SISP in order to solicit a wider range of potential transactions (sale or investment) is the most appropriate course of action to maximize the value for the benefit of creditors and various other stakeholders.

68. The SISP was developed by the Company, in consultation with the Proposed Monitor, FBN and the proposed DIP Lender. FBN will report directly to the Proposed Monitor, which will work with Lion to monitor the SISP progress and report back to the Court.

69. FBN was selected given its experience with the Company and the previous solicitation process, its experience in implementing and conducting solicitation processes under Court-supervised CCAA sales and investment solicitation processes, as well as its extensive knowledge of the Company, its potential strategic partners, purchasers and investors.

70. The SISP is intended to solicit interest for a sale in respect of Lion's businesses through one or multiple transactions and/or an investment, recapitalization, refinancing or other form of reorganization transaction(s). The SISP will also target parties that could be interested in acquiring some of the assets on a piecemeal basis, including liquidation of some of the Company's assets.

Key Dates of the SISP

71. The Company's lack of adequate liquidity requires the implementation of a SISP within a short and critical timeframe. Considering the limited liquidities, the SISP is expected to be launched no later than January 7, 2025. Consequently, Lion, in consultation with the FBN and the Proposed Monitor, believes that the SISP should be approved concurrently with the issuance of the First Day Initial Order.

72. The Proposed Monitor also believes that approving the SISP upon the issuance of the First Day Initial Order is reasonable and appropriate in the circumstances.

73. In accordance with the terms of the engagement letter entered into with the FBN (the "**FBN Engagement Letter**"), which is filed with the Application, the FBN's duties and obligations include, *inter alia*:

    a) review information related to the business, operations and financial performance of the Company;

b) provide financial model and analysis regarding the Transaction;
c) advise the Company on structuring the Transaction, in collaboration with the Company's legal and tax advisors;
d) support the Company in planning, negotiating and documenting the Transaction;
e) assist, in conjunction with the Company and its other professional advisors, in preparing a marketing document;
f) identify and contact prospective purchasers and investors;
g) set up and coordinate access to a virtual data room (which access remains at all times subject to Company's written consent (email sufficient)) to facilitate review by potential purchasers and investors;
h) promptly inform the Company of interesting proposals and requests made by third parties in connection with the Transaction;
i) evaluate offers regarding the Transaction and give recommendations about the offers;
j) advise on the process (including any auction) and key decision points, including providing strategic advice on optimizing competitive tension;
k) participate in negotiations with potential purchaser(s), investor(s) and stakeholder(s), with the exception of NBF related parties, and act as the Company main point of contact; and/or
l) assist the Company through the processes of the Transaction.

74. The fees payable to FBN pursuant to the FBN Engagement Letter include the following items (collectively, the "**Financial Advisor Fee**"):

(i) "**Monthly Work Fee**": a fee payable monthly, which shall be credited in part in the event where a transaction materializes;
(ii) "**Disbursements**": reimbursement of reasonable and documented expenses incurred by NBF in performing its duties;
(iii) "**Transaction Fee**": a percentage of the transaction value of a transaction, which may vary depending on value.

75. The Proposed Monitor has reviewed the terms of the FBN Engagement Letter and considers same to be reasonable in the circumstances.

76. Subject to Court approval and to the terms of the SISP procedures, a two-phase SISP is proposed to be conducted on the following timeline:

Event	**Date**
PHASE 1	
1. Solicitation Letter Financial Advisor to distribute a Solicitation Letter to potential interested parties	By no later than January 7, 2025
2. CIM and VDR Debtors to prepare and have available for parties having executed the NDA (Potential Bidders) the CIM and VDR	By no later than January 7, 2025

Event	Date
3. Phase 1 Qualified Bidders & Bid Deadline Phase 1 Bid Deadline (for delivery of non-binding LOIs by Phase 1 Qualified Bidders in accordance with the requirement of paragraph 10 of the SISP Procedures)	By no later than February 5, 2025, at 5:00 p.m. (prevailing Eastern Time)
4. Phase 1 Satisfactory Bid Financial Advisor to notify each Phase 1 Qualified Bidder in writing as to whether its bid constituted a Phase 1 Satisfactory Bid	By no later than February 7, 2025, at 5:00 p.m. (prevailing Eastern Time)
PHASE 2	
5. Phase 2 Bid Deadline & Qualified Bidders Phase 2 Bid Deadline (for delivery of definitive offers by Phase 2 Qualified Bidders in accordance with the requirement of the SISP Procedures)	By no later than March 7, 2025, at 5:00 p.m. (prevailing Eastern Time)
6. Auction(s) Auction(s) (if needed)	Week of March 10, 2025
7. Selection of final Successful Bid(s) Deadline for selection of final Successful Bid(s)	By no later than March 19, 2025, at 5:00 p.m. (prevailing Eastern Time)
8. Definitive Documentation Completion of definitive documentation in respect of Successful Bid(s)	Week of March 24, 2025
9. Approval Application - Successful Bid(s) Filing of Approval Application in respect of Successful Bid(s)	Week of March 31, 2025
10. Closing - Successful Bid(s) Anticipated deadline for closing of Successful Bid(s)	Week of April 7, 2025, or such earlier date as is achievable
11. Outside Date – Closing Outside Date by which the Successful Bid must close	April 23, 2025

77. The Proposed Monitor is to be kept fully informed in connection with the SISP by the FBN as per the SISP procedures in order to allow the Proposed Monitor to report on same as may be necessary.

78. The Proposed Monitor is of the view that the SISP is reasonable and appropriate in the circumstances.

LION'S CASH FLOW FORECAST

79. Lion, with the assistance of the Proposed Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 8-week period from December 16, 2024, to February 9, 2025 (the "**Cash Flow Period**") for the purpose of forecasting Lion's estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is provided in **Appendix A (under seal)** of this First Report.

80. The Cash Flow Statement has been prepared by Lion using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

81. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the hypothetical assumptions need not to be supported, the Proposed Monitor's procedures were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

82. Based on the Proposed Monitor's review and the foregoing qualifications and limitations, nothing has come to its attention that causes it to believe that, in all material respects:

    (i) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;

    (ii) As at the date of this First Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of Lion or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or

    (iii) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.

83. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report. Neither does the Proposed Monitor express any opinion as to the performance of Lion's statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia* the payment of wages, the government remittances and the payroll deductions to be made by Lion.

84. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

85. The key assumptions used in the Cash Flow Statement are based on the Company's most recent sales and costs trends prior to the First Day Initial Order. Lion's consolidated cash balance as of December 15, 2024, is estimated to be approximately $2.7M.

86. The Cash Flow Statement demonstrates that the liquidity level will not be sufficient to fund the current level of operations during the initial 8-week period without access to interim financing.

87. The DIP Lender, as defined in the next section of this First Report, has agreed to provide the Company with interim financing during the CCAA proceedings. The financing for the first 8-week period cannot exceed $10M and will be disbursed in four tranches, according to the Cash Flow Statement requirements.

88. Management anticipates more restrictive payment terms for purchases from suppliers following the announcement of the CCAA proceedings. As such, Management has anticipated certain "cash on delivery" purchases.

89. As appears from the Cash Flow Statement and the Application, in order to preserve the value of its operations with the view to launching the CCAA SISP, Lion intends to continue to pay its trade creditors for services rendered and goods supplied in the normal course of business during these CCAA proceedings.

90. Management has advised the Proposed Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

THE INTERIM FINANCING FACILITY

91. As it appears from the 8-week cash flow projections attached as **Appendix A (under seal)** to this First Report, interim financing is required immediately to commence the proposed restructuring process contemplated by these CCAA Proceedings and to continue and complete the ongoing SISP.

92. In order to implement the contemplated restructuring, the Bank Syndicate (the "**DIP Lender**"), has advised the Applicants that it is prepared to provide interim financing available to the Company in accordance with the terms and conditions of the DIP loan communicated in support of the Application (the **"DIP Loan"**).

93. Pursuant to the DIP Loan, the Applicants will be authorized to borrow from the DIP Lender, from time to time, a maximum aggregate amount not exceeding $10M (collectively the "**Interim Advances**"), to be advanced by the DIP Lender, in accordance with the terms of the DIP Loan, which Interim Advances are subject to, *inter alia*, the issuance of the First Day Initial Order establishing in favour of the DIP Lender an Interim Lender Charge (as defined below).

94. The initial Interim Advances are essential to finance the ongoing operations of the Applicants and the launch of the SISP as well as to repay in full the emergency interim funding provided by the Bank Syndicate for the period commencing on November 30, 2024, and ending on December 16, 2024. The interim financing is required to fund working capital requirements of Lion and to implement the restructuring contemplated CCAA Proceedings.

95. If the Proposed Initial Order is granted, the Applicants shall be authorized to borrow from the DIP Lender, from time to time, an amount up to $10M, the whole in accordance with the terms and conditions of the DIP Loan. As discussed below, it is currently forecasted that the Interim Advances will total $10M in the first 8-weeks of the CCAA Proceedings.

96. The key terms provided for under the DIP Loan can be summarized as follows:

Key Terms	DIP Term Sheet
Availability following the issuance of the Initial Order	Up to $6M
Availability following the issuance of the Amended and Restated Initial Order	Up to $10M (including the initial $6M)

Fees	First commitment fee equal to 2.4% of the Pre-Phase 1 Milestone Facility Amount ($10M) payable on the date of the initial DIP Advance and deducted from the initial DIP Advance.
Interest rate	Prime plus 7%
Standby fee	None
Priority Charge	All property, excluding the *Biens en priorité de Finalta*, as such terms are defined in the *convention entre créanciers* dated November 7, 2022, entered into among Finalta, in its capacity as agent, and NBC, as amended, supplemented, restated or otherwise modified from time to time (“**CDPQ/Finalta priority assets**”).

97. The Proposed Monitor supports the Company’s request for interim financing for the following reasons:

    (i) No creditor will be materially prejudiced as a result of the Interim Lender’s Charge, as the funding is expected to allow the Company to continue its restructuring efforts and implement the SISP, which will enhance the chance of recovery for the Company’s secured creditors, suppliers and employees as, to the extent possible, it will avoid a piecemeal liquidation of the Company, which would necessarily occur in the absence of funding; and

    (ii) The Proposed Monitor considered the terms of the DIP Loan and its costs to the Company as reasonable in the circumstances.

KEY EMPLOYEES’ RETENTION PROGRAM

98. Certain Lion employees are specialized and have key knowledge about the manufacturing activities are difficult to replace and have a very important knowledge of the business and the industry in which it operates.

99. Management has developed a key employee retention plan (the “**KERP**”) to encourage key employees to remain employed by Lion. Management and the Proposed Monitor believe that retaining certain key employees is essential to the successful restructuring of Lion and SISP process and that in the absence of the KERP, such employees are likely to seek other employment opportunities.

100. The KERP will provide participants with additional payments to encourage them to remain employed by Lion during the CCAA Proceedings. The KERP will essentially be payable at the exit of the restructuring process, and at the latest June 1, 2025.

101. The KERP targets a limited number of employees. A detailed list of employees with supporting calculations is provided in **Appendix B (under seal)**.

102. The Proposed Monitor has reviewed the KERP and believes that it is necessary in the circumstances noted above and that the milestones of the KERP are aligned with those of the proposed restructuring process, namely the contemplated implementation of the SISP.

CHARGES SOUGHT IN THE PROPOSED FIRST DAY INITIAL ORDER AND THE PROPOSED INITIAL ORDER

Administration Charges sought in the Proposed First Day Initial Order

103. The Proposed First Day Initial Order provides that the Monitor, the Monitor's legal counsel (Lavery), the legal counsel for the Applicants (Stikeman Elliot LLP and Troutman Pepper), counsel of the DIP Lender (Fasken Martineau DuMoulin LLP and Chapman Cutler LLP), as security for the professional fees and disbursements incurred both before and after the issuance of the First Day Initial Order and directly related to the CCAA Proceedings, the SISP and the Restructuring, as well as to FBN (in respect of its work-fee and out-of-pocket expenses), are entitled to the benefit of a charge, hypothec and security against the Property, up to an aggregate amount of $0.8M (the "**Administration Charge**"). The Administration Charge has been established based on the respective professionals' previous experience with restructurings of similar magnitude and complexity.

104. The Proposed Monitor believes that the Administration Charge is required and reasonable under the circumstances.

Directors' and Officers' Charge sought in the Proposed First Day Initial Order

105. The Proposed Monitor understands that the Applicants hold insurance which provides for coverage with respect to directors' and officers' liability ("**D&O Insurance**"). The D&O Insurance has not been reviewed by the Proposed Monitor as of the date hereof.

106. It is expected that the directors of the Applicants will remain in their functions if the Proposed First Day Initial Order is granted by the Court, and their commitment and continued support is key to complete the SISP and the restructuring process. In exchange for their continued service, the directors and officers are requiring indemnification against any obligations and liabilities that they may incur in such capacity.

107. The Proposed First Day Initial Order provides for a priority charge in the amount of up to $2.5M in favor of the directors and officers of Lion in respect of liabilities incurred in such capacity after the issuance of the First Day Initial Order, except to the extent that such obligation or liability was incurred as a result of the directors' and officers' gross negligence, willful misconduct or gross or intentional fault ("**D&O Charge**").

108. As per the Application, the D&O Charge becomes effective only if the existing D&O Insurance is not responsive or sufficient, such that the added D&O Insurance coverage reduces the risk that the D&O Charge would be triggered.

109. The amount of the D&O Charge has been calculated by the Proposed Monitor, taking into consideration the periodic payroll costs of existing employees, the accruing and accrued vacation and average sales tax payments, having considered the analysis prepared by Lion in that regard. A detailed calculation of the potential exposure of the directors and officers that will benefit from the D&O Charge is provided in **Appendix C under seal**.

110. As appears from the Proposed First Day Initial Order, the DIP Lender has agreed to allow the D&O Charge to rank senior to the Interim Lender Charge, but only and strictly insofar as to indemnify the directors and officers of the Debtors for employee claims relating to the payment of unpaid employee salaries and vacations accruing as and from the date of the issuance of the Proposed First Day Initial Order, as applicable. Any other claim as against the directors and officers of the Debtors, in such capacity, and secured by the D&O Charge, shall be subordinated to the Interim Lender Charge.

111. The Proposed Monitor believes that the D&O Charge is required and is reasonable under the circumstances.

Interim Lender's Charge

112. Lion does not have sufficient liquidity to operate and conduct the SISP. Consequently, the Lion must obtain additional financing through the Interim Financing Facility.

113. As appears from the DIP Loan, all amounts advance thereunder are to be secured by a Court-ordered super-priority charge priming all rights, claims and security interests against the Debtors and their property, other than in respect of the CDPQ/Finalta priority assets, in order to secure the repayment of the Interim Advances (the "**Interim Lender Charge**"). The Interim Lender Charge shall rank in priority to all other charges except for the Administration Charge and the D&O Charge.

114. As further discussed below, an Interim Advance of $6M is contemplated in the first weeks of the 8-week cash flow forecast. Therefore, the proposed First Day Initial Order contemplates an Interim Lender Charge in an initial amount of $7.2M.

115. The Proposed Monitor believes that the Interim Lender Charge is required and is reasonable under the circumstances.

KERP Charge

116. The Proposed First Day Initial Order provides for a priority charge for the KERP in the amount of $1.5M in favor of the employees cover by the KERP, as described earlier in this First Report (the "**KERP Charge**" and together with the Administration Charge, the D&O Charge and the Interim Lender Charge, the "**CCAA Charges**").

117. The Proposed Monitor believes that the KERP Charge is required and is reasonable.

Financial Advisor Charge

118. The engagement letter with the Financial Advisor provides that the monthly work fee and the transaction fee be secured by a separate priority charge ranking behind the Administration Charge, the D&O Charge, the Interim Financing Charge and the KERP Charge (hereinafter the "**Financial Advisor Charge**"), in the maximum amount of $4M, to the extent that it is payable in accordance with the terms of FBN Engagement Letter, which includes a variable portion subject to the ultimate transaction value at closing.

119. The Proposed Monitor believes that the Financial Advisor Charge is appropriate and reasonable in the circumstances.

Adjustments to the CCAA Charges sought in the Proposed Initial Order

120. If the Proposed First Day Initial Order is granted, the Applicants will seek the issuance of the Proposed Amended and Restated Initial Order, which will propose the following adjustments to the CCAA Charges:

(i) An increase in the Administration Charge to the total amount of $1.3M;

(ii) A reduction in the D&O Charge to a total amount of $1.9M. The reduced amount will be the result of the restructuring measures to be implemented as illustrated in the Cash Flow Statement in **Appendix A under seal**; and

(iii) An increase to the Interim Lender Charge to a total amount of $12M to reflect the increased maximum borrowing capacity under the DIP Loan up to a total amount of $10M.

121. The Proposed Monitor's views on the reasonableness of the proposed modifications to the CCAA Charges to be sought pursuant to the Proposed Initial Order will be set out in its supplemental report to the Court.

122. The priorities of the CCAA Charges as between them are set out in the Proposed First Day Initial Order and the Proposed Initial Order.

RECOGNITION PROCEEDINGS IN THE UNITED STATES

123. Since Lion has activities in the United States, Lion intends to file with the United States Bankruptcy Court for the District of Delaware, immediately following the issuance of the First Day Initial Order or at a later date, petitions seeking the recognition of the CCAA Proceedings as foreign main proceedings and recognition of the Lion Electric as foreign representative of the Applicants, with the objective to obtain the issuance of a recognition order and other relief, the whole under Chapter 15 of the US Bankruptcy Code.

124. The Proposed Monitor is of the view that this recognition could be required to properly implement the Restructuring Process as described further in this First Report.

THE PROPOSED MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

125. The Proposed Monitor believes that the Applicants qualify for and should be granted the benefit of protection under the CCAA, in accordance with the Proposed First Day Initial Order (including granting of the charges provided therein for the initial amounts set out above) as it will allow the Applicants the opportunity to proceed with the contemplated restructuring and to launch the SISP in the CCAA Proceedings without delay, in accordance with the Proposed SISP Order, the whole for the benefit of their stakeholders.

126. The Proposed Monitor respectfully recommends that the Applicants' request for the Proposed First Day Initial Order and the SISP Order, including the ancillary relief described in this First Report be granted by this Court.

127. The Proposed Monitor respectfully submits to the Court this, its First Report.

DATED AT MONTREAL, this 17th day of December 2024.

DELOITTE RESTRUCTURING INC.
In its capacity as Proposed Court-Appointed Monitor of the Petitioners

Benoit Clouâtre, CPA, CIRP, LIT
Senior Vice President

Jean-François Nadon, CPA, CIRP, LIT
President

APPENDIX A

CASH FLOW STATEMENT

(UNDER SEAL)

APPENDIX B

KEY EMPLOYEES RETENTION PROGRAM
("KERP")

(UNDER SEAL)

APPENDIX C

Directors and Officers Charge
("D&O Charge)

(UNDER SEAL)