



NO. S-224444
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

AND

**IN THE MATTER OF A PLAN OR COMPROMISE AND ARRANGEMENT OF
CANADIAN DEHUA INTERNATIONAL MINES GROUP INC.**

SECOND REPORT OF THE MONITOR

JUNE 24, 2022

INTRODUCTION AND PURPOSE

1. This report (“**Second Report**”) has been prepared by FTI Consulting Canada Inc. in its capacity as the court-appointed Monitor (the “**Monitor**”) of Canadian Dehua International Mines Group Inc. (“**CDI**” or the “**Company**”) by an order of the Supreme Court of British Columbia (the “**Court**”) pronounced June 3, 2022 (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985 c.36, as amended (the “**CCAA**”).
2. As detailed in the First Report, CDI was incorporated in British Columbia on December 29, 2004 in order to invest in and develop mining assets in British Columbia and other jurisdictions.
3. The Company is owned 50% by Mr. Naishun Liu (“**Mr. Liu**”) and 50% by his spouse, Mrs. Qubo Liu (“**Mrs. Liu**”). Mr. Liu is the sole director and officer of the Company.
4. The Company currently owns 100% of the shares of two mining projects and a service company:
 - (a) Wapiti Coking Coal Mines Corporation (“**Wapiti**”);
 - (b) Canada Dehua Drilling Ltd. (“**CDD**”); and
 - (c) Canadian Bullmoose Mines (“**CBM**”).
5. In addition to the above wholly owned companies, CDI has a partial ownership interest in the following mining companies:
 - (a) Canadian Kailuan Dehua Mines Co., Ltd. (“**CKD**”);
 - (b) Canadian Dehua Lvliang Corp. (“**CDLV**”) which holds a 40% interest in HD Mining International Ltd. (“**HD Mining**”); and
 - (c) Vancouver Island Iron Ore Corporation (“**VIIO**”).

6. Finally, the Company holds an interest in a mining project referred to as Iron Ross.
7. On June 3, 2022 CDI sought and obtained a stay of proceedings which the Company deemed necessary to allow it the time to pursue a transaction to divest some of its investments in order to raise sufficient cash to address CDI's liquidity issues.
8. On June 9, 2022 CDI was granted an extension of its stay of proceedings to August 19, 2022.
9. The purpose of the Second Report of the Monitor is to provide this Honourable Court with an update on the following:
 - (a) The status of the Wapiti and CDLV transactions subsequent to the First Report;
 - (b) The Company's actual cash receipts and disbursements as compared to the cash flow projection included as Appendix B in the First Report; and
 - (c) The Monitor's views on the Claims Process Order being sought by the Company.
10. The reports of the Monitor and other information in respect of these proceedings are posted on the Monitor's website at <http://cfcanda.fticonsulting.com/canadiandehuainternational>

TERMS OF REFERENCE

11. In preparing this report, the Monitor has relied upon unaudited financial information, other information available to the Monitor and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
12. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
13. The Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
14. Future oriented financial information reported or relied on in preparing this report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
15. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

THE WAPATI AND CDLV TRANSACTIONS

16. As indicated in the First Report, the potential purchasers of CDI's shares in Wapiti and CDLV are all located in China and accordingly, all communication with the potential purchasers have taken place in the Chinese language.
17. As further indicated previously, the main forum for the dialogue as between CDI and the potential purchasers has been through a WeChat platform of which the Company has continued to provide the Monitor with screenshots of those discussions.
18. With the support of a representative from FTI who is fluent in written Chinese and able to communicate in mandarin (the "**FTI Mandarin Speaker**"), the Monitor has reviewed the correspondence between CDI's management and the potential purchasers.

Wapiti

19. Based on a review of correspondence by the FTI Mandarin Speaker, it appears that the potential purchaser has not physically inspected the Wapiti site to date. The potential purchaser has advised the Company that it will need to do so prior to any final investment approval.
20. The potential purchaser further advised the Company that although Canada has relaxed its travel restrictions related to Covid-19, the restrictions imposed on employees working with state-owned enterprises in China are still very restrictive.
21. Pursuant to information posted on publicly available websites, individuals entering China are currently required to complete a 14 day quarantine stay at a designated hotel followed by a 7 day quarantine at their home and a further 7 day home based health monitoring program.

22. If an individual tests positive for Covid-19 during any part of the 28 day quarantine period, they are required to be transferred to an isolation centre and will only be released upon receiving a permit to release from quarantine for medical observation issued by such facility.
23. Subsequent to receiving a permit to release, the individual must complete a 7 day home based health monitoring program.
24. The Chinese government currently has very restrictive policies on issuing travel visas for Chinese nationals and as a result, any travel by employees of state owned enterprises requires high level approval.
25. The potential purchaser expects those restrictions to be revised soon at which point their ability to travel and inspect the Wapiti site would be more feasible.
26. In summary, although the potential purchaser has continued to be engaged with CDI, further progress continues to be hampered by the Covid-19 related travel restrictions imposed on the potential purchaser.

CDLV

27. As indicated in the First Report, CDI owns 51% of CDLV which in turn owns 40% of HD Mining. The Murray River project is the primary asset held by HD Mining.
28. The FTI Mandarin Speaker was provided with screen shots of the WeChat discussion between the Company and the majority shareholder of HD Mining (the “**Advisor**”) who has been leading the process for the sale of the Murray River project.
29. As noted in the First Report, there are two parties reviewing a potential acquisition of either the shares of HD Mining or alternatively CDI’s shares in CDLV.

30. Both of these parties have reviewed the economic feasibility of the Murray River project based on a report prepared by the Advisor.
31. However, as part of their due diligence process, these potential purchasers are requesting a report from an independent consultant regarding the feasibility of the Murray River project. The report would cover issues such as the estimated cost to build out the mine for operations and the projected profitability based on expected mining costs.
32. The FTI Mandarin Speaker obtained the name of the consulting firm (the “**Consulting Firm**”) being retained by the Advisor which was disclosed in the WeChat conversations with CDI.
33. The FTI Mandarin Speaker researched the Consulting Firm through publicly available sources and notes that it is a China based consulting firm with over 50 years of history providing engineering consulting services to a wide range of industries including coal mining.
34. The Monitor is advised by Mrs. Liu that the Consulting Firm prepared a similar report on the Murray River project in 2011 for use by the shareholders.
35. The FTI Mandarin Speaker was provided with a copy of this report which appears to be a comprehensive review of the Murray River project.
36. According to Mrs. Liu, the report commissioned in 2011 took approximately 3 months to complete and therefore given the Consulting Firm’s previous involvement, she would expect the current report to be obtained within the same timeframe or possibly even sooner.
37. In summary, it appears that reasonable commercial steps are being taken with respect to a sale transaction for the Murray River project.

Correspondence from Shougang

38. The Monitor notes that it received correspondence from Shougang's legal counsel on June 22, 2022 expressing:
- (a) Its skepticism as to CDI's ability to complete either of these transactions given the Company's historical inability to secure a transaction; and
 - (b) Its desire to see a Sale and Investor Solicitation Process ("SISP") commenced immediately.
39. While the Monitor appreciates Shougang's frustration with the delay in being repaid by CDI, the Monitor is of the view that:
- (a) Regardless of whether a formal SISP is in place, the strategy that would likely be pursued by any insolvency professional charged with selling these assets would be to allow a measured amount of time for either of these potential transactions to be consummated, in part because the values being discussed would provide the liquidity required by CDI to address its creditors;
 - (b) The fact that the DIP Facility is being provided by one of the Company's shareholders and at very favourable terms, can be taken as a sign of their commitment and belief that a transaction is possible; and
 - (c) Implementing a SISP at this point wherein the assets are marketed to a broad audience could jeopardize the discussions currently ongoing with respect to the Wapiti and CDLV share transactions.

40. The Monitor notes that it will continue to monitor the progress of the potential sale transactions for Wapiti and CDLV and through its continued oversight expects to have greater insight as to the likelihood of a transaction being reached without the need for a formal SISP. The Monitor will provide a further report prior to the expiration of the stay of proceedings on August 19, 2022.

PROJECTED CASH FLOW

41. The proposed DIP Facility that was approved by an order of this Court on June 9, 2022 was finalized as between CDI and Mrs. Liu. The Monitor was provided with the first drawdown certificate in the amount of \$150,000 which was funded on June 20, 2022.
42. This is consistent with the cash flow statement (the “**Cash Flow**”) filed as Appendix B to the First Report.
43. To date there have been no payments made from the Company’s bank account.
44. The Company does not anticipate any material changes to the Cash Flow at this time.

THE COMPANY'S REQUEST FOR A CLAIMS PROCESS ORDER

45. CDI is seeking the approval of this Honourable Court for a claims process order.
46. The Monitor has been provided with a copy of the proposed order in addition to a draft Notice of Application.
47. The Monitor supports the Company's request for the following reasons:
- (a) There is uncertainty regarding the quantum of some claims;
 - (b) One of the assets has a security interest registered against it for a contingent claim. The quantum of this claim may need to be ascertained in the event this particular asset becomes subject to a SISP;
 - (c) Understanding the pool of claims will allow the Company and its professional advisors to determine the options that may be available to restructure its affairs; and
 - (d) If a transaction for Wapiti or CDLV is consummated, the Company and the Monitor would need to know the proven claims for purposes of a distribution.
48. The Monitor is of the view that the timeline for submission of claims is reasonable and that the process being suggested by the Company is consistent with other claims processes.
49. The Monitor also notes that CDI intends to include a notice written in Chinese advising the recipient to read the package in its entirety and suggesting that the creditor may want to seek Canadian legal counsel to ensure its rights are preserved.

50. The Monitor is of the view that it would be challenging to translate the entire claims package and that the inclusion of this notice is helpful in ensuring that any creditor where English is not its first language is provided with some notice in the Chinese language advising them not to disregard the enclosed documents.
51. The Monitor advises that the Company continues to be responsive to the Monitor's information requests and that the Company is acting in good faith and with due diligence.

All of which is respectfully submitted this 24th day of June, 2022.

FTI Consulting Canada Inc.,
in its capacity as Monitor of Canadian Dehua
International Mines Group Inc.



Name: Craig Munro
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FTI Consulting Canada Inc.