



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.**

**TWELFTH REPORT OF THE MONITOR**

**May 6, 2024**

## INTRODUCTION AND PURPOSE

1. This report (“**Twelfth 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:
  - (a) CDI was incorporated in British Columbia on December 29, 2004;
  - (b) The Company is owned 50% by Mr. Naishun Liu (“**Mr. Liu**”) and 50% by his spouse, Mrs. Qubo Liu (“**Mrs. Liu**”);
  - (c) Mr. Liu is the sole director and officer of the Company;
  - (d) The Company currently owns 100% of the shares of two mining projects and a drilling company, namely Wapiti Coking Coal Mines Corporation (“**Wapiti**”), Canadian Bullmoose Mines (“**CBM**”) and Canada Dehua Drilling Ltd. (“**CDD**”);
  - (e) CDI has a partial ownership interest in the following companies:
    - i. Canadian Kailuan Dehua Mines Co., Ltd. (“**CKD**”);
    - ii. Canadian Dehua Lvliang Corp. (“**CDLV**”) which holds a 40% interest in HD Mining International Ltd. (“**HD Mining**”);
    - iii. Vancouver Island Iron Ore Corporation (“**VIIO**”); and
    - iv. An interest in a mining project referred to as Iron Ross.

3. On April 6, 2022, China Shougang International Trade & Engineering Corporation (“**Shougang International**”) filed a petition for a bankruptcy order against CDI (the “**Bankruptcy Application**”).
4. In response to the Bankruptcy Application, on June 3, 2022, CDI sought and obtained a stay of proceedings pursuant to the provisions of the CCAA.
5. On June 9, 2022, CDI was granted an Amended and Restated Initial Order (the “**ARIO**”) which included an extension of its stay of proceedings to August 19, 2022, as well as approving a Debtor-in-possession loan facility (the “**DIP Loan**”) in an amount not to exceed \$350,000.
6. The ARIO also granted a charge for the DIP Loan (the “**DIP Lender’s Charge**”) against the assets of the Company subordinate only to the Administration Charge.
7. On June 28, 2022, the Company sought and obtained the approval of a claims process (the “**Claims Process Order**”) which set a claims bar date of August 15, 2022.
8. On August 18, 2022, the Company sought and obtained an order approving a Sales and Investment Solicitation Process (the “**SISP Order**”).
9. In addition, on August 18, 2022, the Company was granted a Second Amended and Restated Initial Order (the “**SARIO**”) which included an extension of its stay of proceedings to December 1, 2022, in addition to increasing the approved amount of the DIP Loan and DIP Lender’s Charge to \$820,000.
10. On November 30, 2022, the Company was granted a Third Amended and Restated Initial Order (the “**TARIO**”) which included an extension of its stay of proceedings to March 17, 2023, in addition to increasing the approved amount of the DIP Loan and DIP Lender’s Charge to \$1,090,000.

11. On November 30, 2022, the Company was also granted a Modified Sales and Investment Solicitation Process (the “**Modifed SISP Order**”). The Modified SISP Order expanded the company’s sale process by including its shares of the Bullmoose Project and its shares of the Murray River Project.
12. On March 9, 2023, the Company was granted a Fourth Amended and Restated Initial Order (the “**Fourth ARIO**”) which included an extension of its stay of proceedings to June 23, 2023.
13. On June 15, 2023, the Company was granted a Fifth Amended and Restated Initial Order (the “**Fifth ARIO**”) which included an extension of its stay of proceedings to September 15, 2023, in addition to increasing the amount of the approved DIP Loan and DIP Lender’s Charge to \$1,390,000.
14. On September 11, 2023, the Company was granted a Sixth Amended and Restated Initial Order (the “**Sixth ARIO**”) which included an extension of its stay of proceedings to November 17, 2023.
15. On November 14, 2023, the Company sought and was granted an extension of its stay of proceedings to December 8, 2023.
16. On December 5, 2023, the Company sought and was granted an extension of its stay of proceedings to January 19, 2024.
17. On January 17, 2024, the Company sought and was granted an extension of its stay of proceedings to March 19, 2024, in addition to an increase in the amount of the approved DIP Loan and DIP Lender’s Charge to \$1,680,000.
18. On March 15, 2024, the Company sought and was granted an extension of its stay of proceedings to April 26, 2024.
19. On April 24, 2024, the Company sought and was granted an extension of its stay of proceedings to May 10, 2024.

20. The purpose of the Twelfth Report of the Monitor is to provide this Honourable Court with an update on the following:
- (a) The status of the Company's sales and investment solicitation process;
  - (b) The Company's current cash position;
  - (c) The Monitor's view of options available to the Company; and
  - (d) The Monitor's views on the relief being sought by the Company with respect to its CCAA proceedings.

The reports of the Monitor and other information in respect of these proceedings are posted on the Monitor's website at <http://cfcanada.fticonsulting.com/canadiandehuainternational>

#### **TERMS OF REFERENCE**

21. 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**").
22. 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.
23. 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.
24. 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.

25. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

## **THE STATUS OF THE AMENDED SISP**

### **The Potential Purchaser**

26. As indicated in the Tenth Report, on January 29, 2024, a call with the Chairman of the Board of the Potential Purchaser (the “**Chairman**”) was set up with representatives of the Company and a mandarin speaking representative of the Monitor.
27. The Chairman advised that due to the size of the capital commitment required subsequent to an acquisition in order to get the mining projects to commercial production, it was seeking to partner with a Hong Kong based company.
28. The Chairman indicated that a meeting of the Hong Kong based partner was intended to take place in March 2024.
29. As at the date of this report, the Monitor understands that a decision by the Hong Kong based partner is still pending and accordingly there has been no further developments with respect to the Potential Purchaser.

### **The HD Mining Potential Purchaser**

30. As indicated in the Tenth Report, another potential purchaser had emerged with respect to CDI’s indirect interest in HD Mining International Limited (“**HD Mining**”) (owner of the Murray River mining project).
31. The potential purchaser (the “**HD Mining Potential Purchaser**”) had entered into an Equity Transfer Framework Agreement (the “**Framework**”) with CDLV and Huiyong Holdings (BC) Ltd. (“**Huiyong**”), the owner of 55% of the equity of HD Mining.

32. The Monitor understands that the Framework which was prepared by in-house legal counsel for Huiyong's parent company in Beijing ("Mr. Zhao"). The Framework was signed in China on February 28, 2024 by the HD Mining Potential Purchaser, Huiyong and CDLV.
33. The Framework outlines the proposed terms of an agreement to be negotiated as between the HD Mining Potential Purchaser, Huiyong and CDLV.
34. The significant terms of the Framework are as follows:
- (a) CDLV would receive US\$220 million for its 40% interest in HD Mining;
  - (b) The definitive agreements would be negotiated with the support of Canadian legal counsel;
  - (c) Closing of the transaction would occur within three months from the date of the Framework; and
  - (d) Within 16 business days from the date of finalizing the Framework (expected to be no later than March 26, 2024), the HD Mining Purchaser would provide a deposit of RMB40 million (approximate \$7.5 million) to an account designated by CDLV.
35. At the hearing on March 15, 2024, the Court granted the Company an extension of its stay of proceedings to April 26, 2024, on the basis that by then the Company would be able to confirm receipt of the deposit.
36. As at the date of the Twelfth Report, the Monitor is advised by the Company that the deposit has still not been received. The Monitor is informed by Mrs. Liu that the HD Mining Potential Purchaser had sent a team to Canada to conduct due diligence and that upon their return to China a decision would be made whether to proceed.

37. On April 30, 2024, the Monitor contacted Mr. Zhao who confirmed that the deposit has not been received and accordingly, in his view there was no deal. He further advised that he was not the person driving the transaction and that the Monitor should direct all future enquiries to Huiyong.
38. The Monitor's counsel subsequently reached out to Huiyong's BC counsel who advises that they have no instructions regarding the transaction.

### **Other Potential Purchaser**

39. On April 27, 2024, the Monitor received an email from the Company's counsel indicating that a new potential purchaser had emerged requesting a copy of the Teaser.
40. The Monitor provided the Teaser and the form of Confidentiality Agreement used previously in the SISP to the Company's counsel. The Monitor understands that Company's counsel forwarded the Confidentiality Agreement to the new potential purchaser, however at the date of this report a signed copy has not been returned by the potential purchaser.

### **CASH POSITION**

41. The Monitor has not provided an updated summary of actual receipts and disbursements of the Company since no transactions have occurred subsequent to the date of the Eleventh Report.
42. As a result the Company draws remain at \$1,184,291 against an approved DIP Loan of \$1,680,000.
43. As at May 6, 2024, the Company held cash of approximately \$1,000.
44. As at May 6, 2024, professional fees in the aggregate amount of approximately \$133,000 are currently outstanding as summarized below:



Unpaid Professional Fees	Outstanding Invoices	Retainer	Exposure	Note
DLA Piper LLP	\$ 129,742	\$ -	\$ 129,742	October 2023 to March 2024 Invoices outstanding
FTI Canada Consulting Inc.	3,288	-	3,288	Partial March 2024 invoice outstanding due to retainer applied
Bennett Jones LLP	-	29,074	-	No outstanding invoices
<b>Total</b>	<b>\$ 133,029</b>	<b>\$ 29,074</b>	<b>\$ 133,029</b>	

45. Mrs. Liu has advised that she is in the process of borrowing funds to pay the outstanding professional fees and asked the Monitor and its counsel to use the retainers to reduce the exposure (reflected in the table above).
46. Mrs. Liu further advises that she expects her funding to be received by the middle of this week at which time she will renew the retainers.

### THE MONITOR'S VIEWS ON THE COMPANY'S OPTIONS

47. The Monitor is of the view that the Company has made good faith efforts to conduct its SISP, however it is unclear to the Monitor as to the intentions of the interested parties that the Company has been dealing with to date.
48. As noted in previous reports of the Monitor, the Monitor is of the view that the only path to a recovery by the Company's unsecured creditors is through the sale of one or more of CDI's assets.
49. The Monitor's support for prior extensions of the Company's stay of proceedings was premised on this view and the fact that the process was being funded by a related party at very favourable rates and that there likely no other parties to fund such a process.
50. However, it appears that the Company's ability to continue to fund the CCAA proceedings is becoming more challenging. Accordingly, the Monitor's recommendations for options is based on balancing a process for maximizing return with truncated timelines.

## **Bankruptcy**

51. As the Court is aware, Shougang filed a Petition for a Bankruptcy back in June 2022 which has been adjourned since the commencement of these CCAA proceedings.
52. Accordingly, one option available is to end the stay of proceedings and allow the hearing for the petition to proceed.
53. However, given the current DIP Charge against CDI's assets, the Monitor is of the view that absent funding from a third party, it would be challenging to find a Licensed Insolvency Trustee ("LIT") willing to act. The Monitor would also be concerned that without a source of funding, an LIT would be limited in its ability to conduct a fulsome sale process.

## **Auction by Monitor**

54. The Monitor notes that at least two parties have conducted due diligence procedures on Wapiti and HD Mining.
55. On the basis that additional funding is received by the Company pursuant to its approved DIP Loan, the Monitor could conduct an auction for CDI's shares in Wapiti and HD Mining.
56. Interested parties could be given 30 days to put forward a binding offer with no reserve bid price. Given that two parties signed non-binding LOIs, the Monitor is of the view that if those parties were serious, they would pursue the opportunity if there is no reserve bid price.

## **File a Plan of Arrangement**

57. The Monitor notes that in a bankruptcy scenario, the creditors recovery would be limited to the assets of the Company.
58. As a result, the Company could file a Plan of Arrangement to the creditors offering equity in certain of its subsidiary holdings to creditors in satisfaction of their debts. Whether the required majorities of creditors would accept a compromise of this nature is unknown.
59. This option would also be premised on the basis that some additional funding be provided pursuant to the DIP Loan in order to fund the professionals in preparing and implementing the Plan of Arrangement and holding the meeting of creditors.

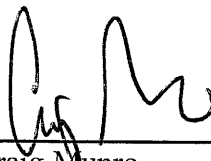
## THE MONITOR'S VIEWS ON THE RELIEF BEING SOUGHT

60. The Monitor understands that the Company is seeking to extend the stay of proceedings to June 10, 2024.
61. Absent an extension, the stay of proceedings would expire on May 10, 2024.
62. The Monitor has considered the tests that the Court must be satisfied with in order to grant an extension of the stay of proceedings to the Company, namely that:
  - (a) The Company must be acting in good faith and with due diligence; and
  - (b) The Company satisfy the Court that circumstances exist that make the order appropriate.
63. The Monitor is of the view that the Company is acting in good faith and with due diligence.
64. The Monitor has provided its thoughts with respect to the Company's options and understands that the Company is seeking some additional time to consult with its counsel on pursuing one of the latter two options.
65. The Monitor considers this request to be reasonable, subject to two conditions:
  - (a) The DIP Lender advances funds to the Company to provide for the payment of outstanding professional fees; and
  - (b) The major creditors are supportive of the relief.

66. The Monitor does not believe that a further extension would cause prejudice to the unsecured creditors, however it may be beneficial to gauge the unsecured creditors interest in a potential Plan of Arrangement, should that be the option pursued by the Company.
67. Accordingly, subject to the two conditions noted above. the Monitor supports the Company's request for an extension of the stay of proceedings to June 10, 2024.

All of which is respectfully submitted this 6<sup>th</sup> day of May, 2024.

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



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Name: Craig Munro  
Title: Managing Director,  
FTI Consulting Canada Inc.