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.

SIXTEENTH REPORT OF THE MONITOR

August 29, 2024

FTI

INTRODUCTION AND PURPOSE

1. This report ("**Sixteenth 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. The purpose of the Sixteenth Report of the Monitor is to provide this Honourable Court with an update on the status of the Company's restructuring efforts since the date of the Fifteenth Report.

3. 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

4. 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**").

5. 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.

6. 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.

7. 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.

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

THE STATUS OF THE AMENDED SISP

9. As indicated in the Fifteenth Report, the DIP Lender advised the Monitor of its intention to submit a stalking horse offer which would be structured partially as a credit bid with a top up cash component.

10. Based on the DIP Lender's assertions, the Monitor supported an extension of the current stay of proceedings to August 30, 2024 in order for the DIP Lender to engage independent counsel and prepare its offer.

11. On August 12, 2024, the Monitor advised counsel to the Company that the Monitor had received an expression of interest from a publicly traded company for the Wapiti and Bullmoose developments, but that it had asked the Monitor to keep its identity and the particulars confidential given it is publicly traded.

12. On August 20, 2024, the Monitor had a call with a lawyer from the law firm Fraser Litigation who confirmed that his firm had recently been retained by the DIP Lender and was seeking instructions from his client regarding the preparation of an offer on the Wapiti and Bullmoose developments.

13. On August 22, 2024, Counsel to the Company provided the Monitor with the terms of a draft stalking horse sales process. The Monitor provided comment the same day.

14. On August 28, 2024, the Monitor was copied on an email from Fraser Litigation advising that the DIP Lender would be preparing a binding agreement to acquire CDI's shares of Bullmoose and Wapiti with the only condition being that the Company seek a vesting order such that the assets are free of all prior encumbrances.

15. A copy of the email from Fraser Litigation is attached as Appendix A.

16. As noted in its previous two reports, the Monitor received a Letter of Intent ("**LOI**") from a potential purchaser (the "**Unsolicited Purchaser**") seeking to acquire the Company's interest in the Wapiti and Bullmoose projects for a purchase price of $400,000.

17. Based on feedback from the Monitor's counsel and from the Company's counsel, the Unsolicited Purchaser provided a further LOI indicating its willingness to act as a stalking horse bidder with the same purchase price of $400,000.

18. The Monitor understands that the Company had two issues with the stalking horse process indicated in the Unsolicited Purchaser's LOI being:

    (a) The Company believed the purchase price being offered was too low; and

    (b) The marketing timeline for seeking alternative offers was too compressed.

19. The Monitor understands that no progress has been made by the Company and the Unsolicited Purchaser towards resolving these two issues since the date of the Monitor's Fifteenth Report.

20. On August 27, 2024, the Monitor was forwarded an email from the Unsolicited Purchaser's counsel with a letter providing commercial support for the purchase price indicated in its LOI.

21. The Monitor has attached a copy of the letter as Appendix B.

22. The Monitor notes that the purchase price indicated in the email from Fraser Litigation on behalf of the DIP Lender is higher than the purchase price indicated in the Unsolicited Purchaser's LOI.

23. Given that neither party has provided a binding agreement of purchase and sale to the Company, the Monitor understands that the Company is seeking a short extension to allow time for the DIP Lender to finalize its offer.

24. The Monitor supports the relief being sought by the Company on the basis that all parties having expressed an interest in the Wapiti and Bullmoose developments, including the DIP Lender and the Unsolicited Purchaser, be invited to submit a binding offer subject only to Court approval on or before September 6, 2024 such that materials can be prepared for the Court's approval prior to the expiration of the stay extension being sought by the Company.

PROJECTED CASH FLOW

25. The DIP Lender has continued to advanced further funds to the Company which has allowed for the professional fees to be kept current, except for their unbilled time in August.

26. Accordingly, the Company should have sufficient resources to meet its obligations during the proposed stay extension period.

27. As at August 28, 2024, the Company held cash of approximately $42,000.

THE MONITOR'S VIEWS ON THE RELIEF BEING SOUGHT

28. On August 9, 2024, the stay of proceedings was extended to August 30, 2024.

29. The Monitor is of the view that based on its discussions with the Company and the DIP Lender's counsel, an extension of the stay is warranted to allow the DIP Lender, the Unsolicited Purchaser and any other interested party the time necessary to prepare firm offers.

30. The Monitor is of the view that the Company is acting in good faith and with due diligence and accordingly recommends that this Honourable Court grant the extension of the stay of proceedings to September 13, 2024.

All of which is respectfully submitted this 29th day of August, 2024.

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

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

APPENDIX A

From: R. Barry Fraser
To: Bradshaw, Jeffrey; Xiao (Helen) Liu; Hunter, Carole
Cc: Brousson, Colin; He, Weiguo (William); Yang, Dannis; Bradshaw, Jeffrey; Munro, Craig
Subject: [EXTERNAL] Offer to Purchase - Canadian Dehua International Mines Group Inc.
Date: Wednesday, August 28, 2024 2:20:32 PM

Jeffrey:

We act for Mrs. Qubo Liu, who has provided Debtor in Possession financing for Canadian Dehua International Mines Group Inc. ("**CDI**") in the amount of $1,459,331.16 (the "**DIP Loan**") according to the records we have reviewed.

We have instructions to prepare and present on behalf of Mrs. Liu, on an expedited basis, an offer to purchase the shares of Wapiti Coking Coal Mines Corporation and Canadian Bullmoose Mines Co. Ltd., (the "**Companies**") together with any and all rights, property and assets belonging to and relating to the Companies, including all mineral and coal licences, geological and exploration data and intellectual property (the "**Assets**"), for the total sum of $600,000.00 to be paid by way of a set-off in the amount of $500,000 against Mrs. Liu's DIP Loan and the balance of $100,000 in cash which can be used by CDI and the Monitor to pursue the monetization of the remaining properties of CDI for the benefit of its creditors.

The offer will be subject only to the shares of the Companies and the Assets being free and clear of all encumbrances at the closing date which we anticipate will take place within 5 business days of court approval and entry of a satisfactory vesting order. The offer will not require negotiation will be capable of being accepted without further negotiation, although Mrs. Liu is open to a discussion about its terms.

Upon acceptance of the offer by CDI, Mrs. Liu will provide a good faith deposit of $50,000 to your firm to be held in trust pending court approval and completion of the transaction. We understand that you will be including this communication in the Monitor's Report for the hearing before Justice Walker on Friday. If there is anything further you require from us at this time, please let us know.

Regards,

Barry Fraser

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FRASER / BATKIN / TRIBE LLP

From: Bradshaw, Jeffrey <jeffrey.bradshaw@dlapiper.com>
Sent: Tuesday, August 27, 2024 8:38 PM
To: Xiao (Helen) Liu <hliu@fraserlitigation.com>; Hunter, Carole <carole.hunter@dlapiper.com>
Cc: Brousson, Colin <colin.brousson@dlapiper.com>; He, Weiguo (William) <william.he@dlapiper.com>; R. Barry Fraser <BFraser@FraserLitigation.com>; Yang, Dannis <dannis.yang@dlapiper.com>
Subject: Re: [EXTERNAL] Dehua International Mines Group Inc.

Hi Helen and Barry,

Further to our call today we were of the understanding that we would receive some correspondence relating to this transaction today. We have not received any update. We were contacted by Court scheduling late in the day that we will be appearing before Justice Walker on Friday at 10am by Teams. The Company and the Monitor will have to file materials tomorrow.

We cannot stress the urgency of this situation enough. We have been contacted by counsel for a competing bidder who will be in attendance and have been advised that they will be opposing any extension of time for your client's offer. The Company has to decide a path forward for those materials and we are out of time.

Please contact me at your earliest opportunity tomorrow morning to discuss. I can be reached on my cell at 604-649-1428.

Regards,
Jeffrey

APPENDIX B

TĀNECAP
TāneMahuta Capital

1515 West 7th Avenue
Suite 100
Vancouver, BC
admin@tanecap.com

August 26, 2024

Craig Munro
FTI Consulting
via email: craig.munro@fticonsulting.com

RE: Valuation of Wapiti and Bullmoose Projects

Mr. Munro,

We find ourselves disappointed that neither you nor any representative of Canadian Dehua International Mines Group Inc. (the "**Company**") have responded formally to my letter of July 31, 2024 making a stalking horse bid for the Bullmoose and Wapiti projects. We had been invited to revise our prior offer which had requested exclusivity, which we did, instead submitting a stalking horse bid per your suggestion. At that point, we expected our bid to be presented to the Company and the Court, and for our offer to allow the bidding timeline to begin. We were then informed in a call with you on August 12, 2024 that the Company was seeking a separate stalking horse offer from the DIP lender – essentially ignoring our offer. We have had no meaningful engagement from the Company except to tell us that our offer price of $400,000 is too low. As you know, the stalking horse process is designed precisely to find the best available price for the assets, and our offer would not preclude others from entering a higher bid. It appears to us that the process being run by the Company and overseen by you is not being run in good faith, and is ignoring the only real buyer for the Company's assets. Our funds are readily available and already in possession of our legal counsel, ready to be made available for closing. We intend to vigorously pursue these assets and strongly request that you urge the Company to reconsider our offer and recommend to the Court that the stalking horse bid process begin immediately.

Nevertheless, putting aside the questions of process for the moment, we also disagree with the Company's assertion that our offer price is not a reasonable reflection of the value of the Wapiti and Bullmoose assets. The purpose of this letter is to help explain why we believe our offer to be reasonable.

The coal tenures cannot be developed in light of environmental and First Nations concerns

Metallurgical coal mining in northeast British Columbia has long been subject to boom-and-bust cycles, but recent events have made it clear that early-stage projects in the northeast have no reasonable prospect of being developed where there is First Nations opposition. This was most recently demonstrated in the case of the proposed Sukunka coal mine from Glencore, one of the world's largest coal miners. In December of 2022, the Government of Canada determined that the proposed project would have significant adverse environmental effects and

declined to approve it. The Sukunka project had been opposed by West Moberly First Nations, and the Chief of that Nation had written to B.C. to say that the mine's development would negatively impact caribou populations and "will seriously infringe upon everything that is salient to the West Moberly way of life." The First Nations' opposition was a key factor in the Government of Canada's denial of the environmental assessment certificate required for development.

In the case of the Company's proposed projects at Bullmoose and Wapiti, they are in the same region as the Sukunka mine and already face similar opposition from First Nations on the basis of negative impacts to caribou populations and water quality. In a letter dated September 30, 2023 (which you filed as Appendix B to your Eleventh Report of the Monitor dated March 14,, 2024) the Chief of West Moberly First Nations wrote to you to indicate that West Moberly is opposed to the development of the Company's coal assets. The Chief referred to the 2020 *Intergovernmental Partnership Agreement for the Conservation of the Central Group of Southern Mountain Caribou* (the "**Caribou Partnership Agreement**"). That agreement, which had four parties – Canada, British Columbia, West Moberly First Nations and Saulteau First Nations – laid out certain zones in which there is a moratorium on coal mine development in order to protect caribou populations. Significant parts of the Bullmoose and Wapiti coal licenses fall within that moratorium zone (Zone A2 in the Caribou Partnership Agreement), meaning that projects in those areas cannot be approved without the consent of the First Nations parties. As the letter from Chief Willson indicates in no uncertain terms, that consent is unlikely to be forthcoming. In his words:

> *The Wapiti and Bullmoose coal assets – as well as other CDI coal properties, whether wholly or partially owned – sit within areas of high cultural and environmental value for our people, and include high value caribou habitat, and for the foreseeable future any development of those sites are incompatible with our objective to recover caribou populations. We wish to warn any bidder for these assets that the likelihood of their development is extremely low, and any financial commitments they make at this time for their acquisition will result only in a loss.*

There is no business case for new coal mines in the northeast

The hurdles for permitting a new coal mine are not only environmental and First Nations-related. There is little business case to be made for new coal mines in northeast British Columbia in light of market dynamics, supply chain and transportation challenges, and rising costs. Even prior to the 2022 denial of the Sukunka environmental assessment certificate, no new coal mines had been permitted in the region for over ten years. Indeed, operating coal mines had closed due to unfavorable economic conditions, including the Roman/Trend Mine owned by Anglo American and the Quintette mine owned by Teck Resources. The Roman/Trend mine has been in care and maintenance (i.e. dormant) since approximately 2012, and despite having a historical permit and turn-key infrastructure in place, its owners have not found it economically viable to restart it to this day.

In addition, the Province has increased and intends to continue increasing bonding requirements for coal mines, particularly to address outstanding concerns about water quality. There has been widespread recognition that historical bonding practices have not accounted for the true cost of remediation of coal mine sites, and that the need for ongoing water treatment even after mine closure will significantly increase the reclamation process. Simply put, the cost of cleanup is now exceeding the value of the coal resource extracted. For example, a recent widely-cited report revealed that it will cost $6.4 billion to reverse rising selenium concentrations from Teck's metallurgical coal mines in the Elk Valley, far in excess of Teck's $1.9 billion reclamation security. The mine owner will ultimately be on the hook for those costs. Coal mine development in northeast BC faces the same water quality issues and bonding requirements are being updated to reflect the greater costs. In short, nobody can afford to develop new coal mines anymore in BC.

Market price for a developed coal mine: the Quintette example

Teck Resources chose to sell its Quintette Mine to Conuma Coal Resources in December 2022, and that transaction can provide us with some sense of value of the Wapiti and Bullmoose tenures. In that sale, Conuma purchased a fully developed, turnkey mine, with full loadout and plant infrastructure and an existing permit in place. The mine had been in operation for many years prior to it being mothballed due to unfavorable economic conditions. The sale price to Conuma in 2022 reflected the value of that permit and physical infrastructure, for which Conuma agreed to pay $120 million in staged payments over three years. In contrast, the value of the coal in the ground was essentially considered nil at the time of the transaction, though Conuma agreed to pay a net profits interest royalty to Teck tied to the profitability of any coal extracted and sold in the future. Estimated coal resources at the Quintette are approximately 239 million tons, which is comparable to the Wapiti project.

In this case, the Bullmoose and Wapiti projects have no permits and no physical coal mining, handling or transportation infrastructure in place. They are simply selling the prospect of future extraction, for which a new owner must invest significant sums to develop the necessary coal mining, handling and transportation infrastructure. If the Quintette sale is to serve as an example, simple coal in the ground is valued at essentially nothing in net present value terms; Teck would receive a future net profits interest royalty for the coal only. In the case here, the context of a CCAA transaction would not reasonably permit a royalty structure. In any case, if we are to adopt the Quintette valuation model, then given that there is no reasonable prospect of extracting coal from these assets in the foreseeable future, no royalty would ever become payable.

The value of these assets lies in the conservation of the land

In light of environmental, First Nations and business hurdles, the value of the Wapiti and Bullmoose coal tenures lies in their retirement for conservation purposes. There are numerous conservation organizations who, with government and First Nations support, are seeking ways to preserve the environment in the northeast of British Columbia for caribou habitat and other

purposes. A new conservation economy has developed as a result, with government funding available including from recent commitments from the government of BC. Our stalking horse bid of $400,000 for these assets reflects the amount we are able to pay to further the aim of environmental conservation of this area, which in turn stems from a mandate from our investors and funding sources.

* * *

In closing, we urge you again to have the Company accept our stalking horse offer and set a timeline towards closing for the Bullmoose and Wapiti assets. The fact remains that there are no other real bidders for these coal properties. Two years have now passed in CCAA proceedings where no other offers have come forward, despite many supposedly interested parties. Experts in the coal industry know that developing a new mine from scratch in northeast British Columbia is well-nigh impossible, and that these assets therefore have no value. As an organization oriented towards sustainability, we are the only viable bidder and are able to close on these assets quickly. We urge you to advocate for a clear, proper and transparent bidding process that can finally resolve this portion of the CCAA proceeding and deliver some value to the Company's creditors.

We look forward to hearing from you.

Very truly yours,

TaneMahuta Capital Ltd.

By: _____

Name: Aref Amanat
Title: President