

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.**

SEVENTH REPORT OF THE MONITOR

September 7, 2023

INTRODUCTION AND PURPOSE

1. This report (“**Seventh 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. 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.
7. On August 18, 2022, the Company sought and obtained an order approving a Sales and Investment Solicitation Process (the “**SISP Order**”).
8. 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 to \$820,000.
9. 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 to \$1,090,000.
10. On November 30, 2022, the Company was also granted a Modified Sales and Investment Solicitation Process (the “**Modified SISP Order**”). The Modified SISP Order expanded the company’s sale process by including its shares of CBM (the “**Bullmoose Project**”) and its shares of HD Mining (the “**Murray River Project**”).

11. 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.
12. 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 to \$1,390,000.
13. The purpose of the Seventh 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 actual cash receipts and disbursements as compared to the cash flow projection included as Appendix B to the Sixth Report;
 - (c) The status of the claims process; and
 - (d) The Monitor’s views on the relief being sought by the Company with respect to its CCAA proceedings.
14. 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

15. 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**").
16. 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.
17. 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.
18. 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.
19. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

THE STATUS OF THE AMENDED SISP

The Wapiti LOI

20. As indicated in prior reports of the Monitor, the Company signed a Letter of Intent dated November 10, 2022 (the “LOI”) with a party (the “Purchaser”) for 60% of CDI’s shares in Wapiti, which if consummated would address the Company’s liquidity issues and provide enough cash for the Company to present a plan of arrangement to its creditors that would substantively address all of its creditors’ claims.
21. A copy of the LOI was provided to this Honourable Court in a Supplemental Fourth Report prepared by the Monitor which was sealed pursuant to an order of this Court dated November 30, 2022.
22. As detailed in the Sixth Report, subsequent to signing the LOI, the following events transpired:
 - (a) The Purchaser sent a delegation to British Columbia for nine days between May 21 and 30, 2023 consisting of the following individuals:
 - i. The Chairman of the Purchaser;
 - ii. The Assistant Chairman;
 - iii. An Assistant VP from the Purchaser’s capital markets group; and
 - iv. Two senior engineers;
 - (b) The Assistant Chairman and the two senior engineers attended the site visits while the Chairman and Assistant VP stayed in Vancouver to conduct meetings with representatives of CDI;
 - (c) The Purchaser’s delegation made site visits to the Wapiti mine, and also visited the Murray River mine and the Pacific Iron mine (the project owned by VIIO);

- (d) The Purchaser met with representatives of HD Mining regarding the potential acquisition of the Murray River mine;
 - (e) Mr. Yijun Hu, CDI's Assistant General Manager, accompanied the Purchaser on its visit to the Wapiti mine and the Pacific Iron mine.
23. Prior to returning to China, the Purchaser requested additional information for each of Wapiti and VIIO in order to complete its due diligence.
24. Subsequent to the date of Sixth Report, Mr. Liu continued to engage with the Purchaser to satisfy its information requests.
25. As indicated in the Sixth Report, the Purchaser intended to send a delegation to Canada over the summer along with representatives of a steel company that is interested in acquiring CDI's interest in the Pacific Iron mine owned by VIIO (the "**Pacific Iron Interested Party**").
26. On August 31, 2023, the Purchaser forwarded a letter dated August 31, 2023, to CDI that confirmed:
- (a) The Purchaser has completed its due diligence on the Wapiti mine and determined that the project aligns with Purchaser's investment strategies and intention;
 - (b) A delegation from the Pacific Iron Interested Party along with a representative of the Purchaser will be departing China on September 2, 2023 for the purpose of the Pacific Iron Interested Party to review the Wapiti mine and the Pacific Iron mine; and
 - (c) The Purchaser and CDI will work toward a target date of September 30, 2023, for signing a definitive agreement in line with the terms of the LOI.
27. A copy of the letter and an English translation of the letter were provided to the Monitor along with a photo of the CEO of the Purchaser signing the letter.

28. On September 2, 2023, an engineer from the Purchaser along with the assistant CEO and Head of Investment from the Pacific Iron Interested Party travelled from China to British Columbia.
29. Since arriving in Canada, the delegation has visited the Wapiti mine and the Pacific Iron mine. The delegation was accompanied by a geologist from CDI.
30. The delegation is scheduled to return to China on either September 9 or 10 depending on flight availability.
31. The Monitor is advised that the results of the Pacific Iron Interested Party's review of the Pacific Iron mine and Wapiti mine have no impact on the Purchaser's commitment to acquire the Wapiti mine. The Purchaser has introduced the Pacific Iron Interested Party to the Pacific Iron mine opportunity to determine if there was a synergy that could be realized for both parties.
32. The Company and the Monitor view this as a positive development as the Purchaser has committed to a timeline to convert the LOI into a binding agreement of purchase and sale (the "APS").
33. The Monitor is advised that the Company's counsel has already drafted a form of APS and accordingly the target date of September 30 for a binding agreement appears reasonable.

PROJECTED CASH FLOW

34. The following summarizes the actual receipts and disbursements of the Company since the commencement of these proceedings to September 3, 2023:

Cash Flow Variance Analysis			
For sixty-sixth week period ending September 3, 2023			
(CAD thousands)	Actual	Forecast	Variance \$
Total Receipts	0	0	-
Disbursements			
Licence Fees	143	203	(60)
Automobile Expenses	3	6	(3)
Bank Charges	0	0	(0)
Travelling Expenses	2	4	(2)
Wages and Benefits	60	121	(61)
Due Diligence Expenses	-	60	(60)
Professional fees	677	964	(287)
Total Disbursements	<u>886</u>	<u>1,359</u>	<u>(473)</u>
Net Change in Cash	(885)	(1,358)	473
DIP Financing / (Repayments)	889	1,390	(501)
Opening Cash	-	-	-
Ending Cash	<u>\$ 4</u>	<u>\$ 32</u>	<u>\$ (28)</u>

35. The variances noted result from comparing the actual receipts and disbursements to the forecast indicated in the cash flow statement filed as Appendix B to the Sixth Report (the “**Sixth Report Forecast**”).
36. The Monitor notes that the positive variances to the Sixth Report Forecast are primarily timing differences that are expected to reverse if the stay of proceedings being sought by the Company is granted (the “**Stay Extension Period**”).
37. The Sixth Report Forecast assumed that the Company would be incurring higher professional fees to negotiate the APS which is now expected to actuate during the Stay Extension Period.

38. In addition, the expenses related to Due Diligence were paid on Mrs. Liu and one of CDI's employees, Mr. Yijun Hu's credit cards. Accordingly, the positive variance is due to timing and will reverse once the Company reimburses Mrs. Liu and Mr. Hu.
39. As a result of the positive variances, the Company has only drawn \$889,231 of funding against an approved DIP Loan of \$1,390,000.
40. As at September 3, 2023, the Company held cash of approximately \$4,000.
41. The Monitor notes that professional fees in the aggregate amount of approximately \$154,000 are currently outstanding as Mrs. Liu was unable to access the Company's accounts while she was in China over the summer in order to pay those accounts.
42. Now that she has returned to Canada, Mrs. Liu expects to advance further funding to the Company and bring the professionals current on their outstanding accounts.
43. Accordingly, the Administration Charge is expected to continue to be adequate.
44. Attached as Appendix B to this report is a cash flow statement prepared by the Company that extends to November 18, 2023.
45. The cash flow assumes the stay of proceedings being sought by the Company to November 15, 2023 is approved by this Honourable Court.
46. The cash flow statement indicates that the amount of the approved DIP Loan will be adequate to provide sufficient resources for the Company through to November 15, 2023, and accordingly the Company is not seeking to increase the DIP Loan.

THE CLAIMS PROCESS

47. As summarized in the Fourth Report, the Monitor received 8 proofs of claim in the approximate amount of \$84.3 million as detailed in the following table:

Claim	Creditor	Claim Currency	Claim in Original Currency	Claim in CAD
Claim 01	HBIS Group International Holding Co., Ltd.	USD	\$ 2,199,074	\$ 2,766,215
Claim 02	Canada Zhonghe Investment Ltd.	CAD	\$ 5,377,913	\$ 5,377,913
Claim 03.1	China Shougang International Trade & Engineering Corporation	USD	\$ 16,889,179	\$ 22,001,667
Claim 03.2		RMB	\$ 1,334,768	
Claim 03.3		CAD	\$ 12,149	
Claim 04.1	Huiyong Holdings Group Co. Ltd.	RMB	\$ 35,000,000	\$ 6,611,500
Claim 04.2		USD	\$ 20,000,000	\$ 25,158,000
Claim 05	HD Mining International Ltd.	CAD	\$ 4,331,421	\$ 4,331,421
Claim 06	Canadian Dehua Lvliang International Mines Corp.	CAD	\$ 15,224,131	\$ 15,224,131
Claim 07	Canadian Bullmoose Mines Co. Ltd.	CAD	\$ 1,904,722	\$ 2,395,950
Claim 08	Canada Revenue Agency	CAD	\$ 459,923	\$ 459,923
TOTAL				\$ 84,326,721

48. The Monitor has reviewed the claims with the Company and understands that it accepts the claims of HBIS Group and Canada Revenue Agency in the approximate amount of \$3.2 million.
49. The Monitor has been advised by the Company's counsel that discussions between counsel for China Shougang and Canada Zhonghe are ongoing, however there is still no resolution on the quantum of their claims.
50. With respect to the balance of the claims, the Monitor has not expended a lot of time on its review in an effort to minimize costs, however now that the Purchaser has committed to a timeline for finalizing an APS, the Monitor expects to re-engage on the claims review in anticipation of the finalization of an APS and subsequent plan or distribution order.

THE MONITOR'S VIEWS ON THE RELIEF BEING SOUGHT

51. The Monitor understands that the Company is seeking to extend the stay of proceedings to November 15, 2023.
52. Absent an extension, the stay of proceedings would expire on September 15, 2023.
53. 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.
54. The Monitor is of the view that the Company is acting in good faith and with due diligence.
55. The Monitor is also of the view that an extension of the stay of proceedings to November 15, 2023 is warranted for the following reasons:
 - (a) As noted previously, the Purchaser has committed to working toward a target date of September 30, 2023, to finalize a binding agreement of purchase and sale with the Company;
 - (b) The purchase price as indicated in the LOI would provide liquidity to address the claims of CDI's creditors;
 - (c) The Purchaser has made a second trip to Canada accompanying the delegation from the Pacific Iron Interested Party, and confirmed that it has concluded its due diligence and indicated its intention to work toward signing a binding agreement by the end of September 2023;

- (d) As indicated in previous reports the Company has minimal physical assets and accordingly any recovery for creditors is dependent on the success of securing a transaction for the Company's mining assets; and
 - (e) The approved DIP Loan appears adequate to provide the funding required by the Company through November 15, 2023, and as a result is not seeking to further increase the DIP Loan.
56. Accordingly, the Monitor is of the view that a short extension is appropriate to allow the time for the Purchaser and the Company to finalize an APS that would support the Company's ability to present a plan of arrangement to its creditors.
57. Accordingly, the Monitor supports the Company's request for an extension of the stay of proceedings to November 15, 2023.

All of which is respectfully submitted this 7th day of September, 2023.

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

Canadian Dehua International Mines Group Inc.
Cash Flow Statement
For the 76-week period ending November 12, 2023

<i>(CAD thousands)</i>	<i>Week Ending</i>	<i>Notes</i>	Week 1 to	Week 67	Week 68	Week 69	Week 70	Week 71	Week 72	Week 73	Week 74	Week 75	Week 76	<i>Total</i>
			Week 66 Actual	Forecast 10-Sep	Forecast 17-Sep	Forecast 24-Sep	Forecast 1-Oct	Forecast 8-Oct	Forecast 15-Oct	Forecast 22-Oct	Forecast 29-Oct	Forecast 5-Nov	Forecast 12-Nov	
Receipts														
Other			\$ 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0
Total Receipts			0	-	-	-	-	-	-	-	-	-	-	0
Disbursements														
Licence Fees		[2]	(143)	-	(60)	-	-	-	-	-	-	-	-	(203)
Automobile Expenses		[3]	(3)	-	(3)	-	-	-	-	-	-	-	-	(6)
Bank Charges			(0)	-	-	-	(0)	-	-	-	-	(0)	-	(0)
Supplies			(0)	-	-	-	-	-	-	-	-	-	-	(0)
Telephone and Communication			-	-	-	-	-	-	-	-	-	-	-	-
Travelling Expenses		[4]	(2)	-	(2)	-	-	-	-	-	-	-	-	(4)
Taxes			-	-	-	-	-	-	-	-	-	-	-	-
Interest Expenses			-	-	-	-	-	-	-	-	-	-	-	-
Wages and Benefits		[5]	(60)	-	(35)	-	(17)	-	-	-	(17)	-	-	(129)
Due Diligence Expenses		[6]	-	-	(20)	-	(40)	-	-	-	-	-	-	(60)
Professional Fees		[7]	(677)	-	(154)	-	(75)	-	-	-	-	(75)	-	(981)
Total Disbursements			(886)	-	(274)	-	(132)	-	-	-	(17)	(75)	-	(1,385)
Net Change in Cash			(885)	-	(274)	-	(132)	-	-	-	(17)	(75)	-	(1,385)
DIP Financing / (Repayments)		[8]	889	150	170	-	181	-	-	-	-	-	-	1,390
Opening Cash		[9]	-	4	154	49	49	98	98	98	98	80	5	-
Ending Cash			\$ 4	\$ 154	\$ 49	\$ 49	\$ 98	\$ 98	\$ 98	\$ 98	\$ 80	\$ 5	\$ 5	\$ 5

Notes:

Management has prepared this Cash Flow Statement solely for the purposes of determining the liquidity requirements of the Company during the CCAA Proceedings.

The Cash Flow Statement is based on the probable and hypothetical assumptions detailed below. Actual results will likely vary from performance projected and such variations may be material.

- [1] Canadian Dehua International Mines Group Inc. ("CDI" or the "Company") is not expected to have any operating revenue during the CCAA Proceedings.
- [2] Licence Fees relate to the renewal of nine mining licenses related to the Bullmoose Project which were paid for by Mrs. Liu. During the forecast period, CDI expects to repay Mrs. Liu for these advances.
- [3] Automobile Expenses relate to car insurance for CDI's automobiles.
- [4] Travelling Expenses relate to reimbursement of August 2023 annual site expenses incurred for collection of environmental assessment data for the Wapiti mine.
- [5] Wages and Benefits relate to the two CDI employees' monthly salaries, benefits and taxes. The employees include the General Manager responsible for operations and an employee responsible for external communication.
- [6] Due Diligence Expenses relate to the reimbursement of site visit expenses incurred.
- [7] Professional fees include the Company's legal counsel, as well as the Monitor and Monitor's legal counsel.
- [8] Total approved DIP amount is \$1,390,000 with \$889,231 withdrawn to date.
- [9] CDI has paid the Monitor a retainer of \$50,000 to support the initial expenses in preparation for the CCAA Proceedings. The retainer has not been reflected in this cash flow.