

District of British Columbia
Division No. 03-Vancouver
Vancouver Registry
Court No. B-220142
Estate No. 11-254383



**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

IN THE MATTER OF THE BANKRUPTCY OF CANADIAN DEHUA
INTERNATIONAL MINES GROUP INC.

RESPONSE TO APPLICATION FOR BANKRUPTCY ORDER

Filed by: Canadian Dehua International Mines Group Inc. ("CDI")

THIS IS A RESPONSE TO the Application for Bankruptcy Order filed April 6, 2022.

The respondent estimates that the application will take two days.

Part 1: ORDER(S) CONSENTED TO

CDI opposes the granting of the order set out in the Application for Bankruptcy Order.

Part 2: ORDERS OPPOSED

CDI opposes the granting of the order set out in the Application for Bankruptcy Order.

Part 3: ORDER ON WHICH NO POSITION IS TAKEN

CDI takes no position on the granting of the order set out in paragraph: None.

Part 4: FACTUAL BASIS

1. CDI is a company incorporated in 2004 pursuant to the laws of British Columbia in order to develop underground core mining properties, and consequently invests in, and operates, mining assets in British Columbia and elsewhere.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 3.

2. CDI primarily cooperated on mining projects with major Chinese mining companies and steel factories as partners. However, for various reasons, a number of the projects did not

proceed as planned. This has resulted in significant debt and limited revenue while CDI finds new buyers and develops new mining projects.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 4.

3. On June 3, 2022, CDI commenced proceedings under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA").

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 5.

CDI's Assets

4. Until the closing of a purchase transaction with West Moberly First Nations in March 2025, CDI wholly owned two mining projects:
 - (a) the Wapiti River coal project (the "Wapiti Project"), where CDI is the sole shareholder of the company that owns and operates the project, Wapiti Coking Coal Mines Corporation ("WCCMC"). The Wapiti Project is a large-scale underground mine at the senior exploration stage located near Tumbler Ridge, British Columbia; and
 - (b) the Bullmoose coalfield exploration project (the "Bullmoose Project") located near Tumbler Ridge, British Columbia.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 6.

5. CDI's remaining assets include:
 - (a) a 51% interest in Canadian Dehua Lvliang International Mining Inc., which owns of 40% interest in HD Mining International Limited ("HDL"). HDL owns the Murray River project which involves the construction, operation and decommissioning of an underground coal mine and supporting infrastructure located near Tumbler Ridge, British Columbia (the "Murray River Project"). As a result, CDI has a 20.4% indirect interest in the Murray River Project;
 - (b) a 24% interest in Canadian Kailuan Dehua Mines Co., Ltd. ("CKD"); and

- (c) a mining project known as the Iron Ross Project and CDI's shares in Canada Dehua Drilling Ltd. and Vancouver Island Iron Ore Corporation (the "**Remaining Assets**").

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 7.

6. On April 22, 2025, CDI and Qu Bo Liu, a shareholder of CDI who has provided interim financing to CDI during the course of its CCAA proceedings (in such capacity, the "**Interim Lender**") negotiated stalking horse sales agreements for the Murray River Project (the "**Murray River APA**") and the Remaining Assets (the "**Remaining Assets APA**"). The Murray River APA provides for a purchase price of \$1,400,000. The Remaining Assets APA provides for a purchase price of \$400,000.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 8-9.

7. If the CCAA proceedings are permitted continue, a sales and investment solicitation process ("**SISP**") will be completed over a 90 day period and will make use of the stalking horse bids in the Murray River APA and the Remaining Assets APA to set a floor price for other offers in the SISP.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 10.

CKD - Background

8. The only asset that will not be included in the SISP is CDI's shares in CKD.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 11.

9. Shougang International Trade & Engineering Corporation ("**Shougang**") and Canada Zhonghe Investment Ltd. ("**Zhonghe**") are, together with CDI, shareholders in CKD. CDI owns 24% of the shares and Zhonghe and Shougang own 51% and 25% of the shares, respectively. Shougang and Zhonghe are both state-owned entities in the People's Republic of China.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 12.

10. On November 16, 2012, after the formation of the CKD joint venture, CDI agreed to indemnify CKD for any losses it might suffer as a result of CDI's transfer, on a tax rollover

basis, of the Gething Coal Project mine site to the joint venture (the "**CKD Indemnity Claim**").

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 14.

11. On December 1, 2016, CDI and CKD entered into a further indemnification agreement pursuant to which (i) the definition of "liabilities" for which CDI would be required to indemnify CKD for was significantly expanded; and (ii) CDI pledged its shares in CKD as collateral for its indemnification obligations.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 15.

12. On December 7, 2016, CKD registered a security interest over CDI's shares in CKD in support of the CKD Indemnity Claim (the "**CKD Security Interest**").

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 17.

13. Although the intent of the CKD JDA was the development of the Gething Coal Project for benefit of the shareholders of CKD, the project has not been developed. CKD and its assets remain in the control of the majority shareholder, Zhonghe.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 18.

Litigation with Zhonghe

14. On May 10, 2021, Zhonghe commenced proceedings in British Columbia against CDI to enforce certain obligations under a promissory note relating to the Bullmoose Project. On August 30, 2021, Zhonghe obtained default judgment against CDI in the principal amount of \$4,781,310.20 plus interest and costs in respect of a promissory note executed by CDI in favour of Zhonghe (the "**Zhonghe Judgment**").

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 20 and 22.

15. On September 10, 2021, Zhonghe took steps to realize on the Zhonghe Judgment and appointed a bailiff, Accurate Court Bailiff Services Ltd. ("**Accurate**") to seize and market CDI's shares in CKD. Without CDI's knowledge or consent, an auction was held on November 24, 2021.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 23 and 25.

16. The successful bidder for the CKD Shares was Witcool Technology Co. Ltd. ("**Witcool**") for a purchase price of \$55,000. Given the information in CKD financial statements for the year ended December 31, 2020 which indicated that the value of the CKD Shares was in excess of \$30 million, the offer from Witcool for the CKD Shares was significantly undervalue.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 18, 26 and 27.

17. Despite knowing the value of the CKD Shares, Zhonghe brought an application to approve the sale of CKD Shares to Witcool for a purchase price that was millions of dollars less than the actual value of such shares.

Affidavit #1 of Naishun Liu made May 19, 2025 at para. 28.

Litigation with Shougang

18. On January 20, 2020, Shougang commenced an action against CDI in an effort to recognize an arbitration award received by Shougang in China against CDI in the amount of \$20.8 million (the "**Arbitration Award**"). The judgment was granted on January 21, 2021 (the "**Judgment**").

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 29.

19. The Arbitration Award relates to the Wapiti coking coal project near Tumbler Ridge, British Columbia and the return of a USD\$10 million cooperation deposit that Shougang made in the Wapiti Project, plus interest thereon.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 30.

20. On April 6, 2022, Shougang filed an Application for Bankruptcy Order in respect of CDI (the "**Bankruptcy Application**") after failing in its collection efforts on the Judgment. The Bankruptcy Application was supported by Zhonghe.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 32.

21. In response to the Bankruptcy Application, CDI commenced proceedings under the CCAA and an Initial Order was granted by this Court on June 3, 2022. The relief sought by CDI under the CCAA was opposed Shougang and Zhonghe.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 33.

Current Status of the CCAA Proceedings

22. Shougang and Zhonghe have both filed proofs of claim in the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") proceedings of CDI but neither of those claims have been proven in those proceedings.

Seventh Report of the Monitor dated September 7, 2023, paras 47 and 49.

33. CKD was excluded from filing a proof of claim pursuant to the Claims Process Order, however, the determination of the validity and quantum of the CKD Indemnity Claim will provide valuable information to CDI and the Monitor on the next steps in these proceedings in respect of the CKD Shares. Discussions are ongoing with CKD's counsel to set a date before the end of June for an application to determine the validity and quantum of the CKD Indemnity Claim.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 35.

34. The principal motivation of Shougang and Zhonghe in proceeding with and supporting, respectively, the Bankruptcy Application is to prevent CDI from realizing on the value of the CKD Shares. It is CDI's position that the CKD Shares continue to have significant value and, if the CKD Indemnity Claim can be determined, CDI would be able to move forward with a sale process for the CKD Shares which would benefit all of the stakeholders of CDI.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 36.

35. If a bankruptcy were to occur now, without a sale of the Murray River Project and the Remaining Assets, there would be no funding available for any sales process or litigation to occur in the bankruptcy proceedings. The Interim Lender is only willing to advance additional funding to CDI if the CCAA proceedings are continued.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 37.

36. Although a trustee in bankruptcy may be able to sell the assets in a bankruptcy proceeding, the time and cost of doing so is uncertain. The Interim Lender is not willing to advance stalking horse bids in a bankruptcy and, as a result, there is no guarantee that any of these assets will be sold.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 38.

23. A lack of funding would also curtail and, more likely, eliminate a trustee in bankruptcy's ability to determine the CKD Indemnity Claim.

Affidavit #1 of Naishun Liu, made May 19, 2025, at para. 39.

24. It is CDI's position that the proposed path forward in the CCAA proceedings will provide a better and faster recovery for all of CDI's stakeholders as opposed to a bankruptcy proceeding. The SISF is for a limited period of time and will be undertaken by the Monitor not CDI. The relief sought by CDI provides the same level of oversight and control by a court officer that Shougang and Zhonghe would be seeking in a bankruptcy scenario.
25. The only parties that will benefit from a bankruptcy are Shougang and Zhonghe, as it will provide them with control over CKD, which has substantial value, all to the detriment of the other stakeholders of CDI.

Part 5: LEGAL BASIS

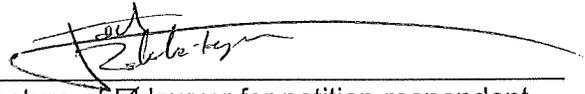
1. *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, sections 42(1), 43(1) and 43(7).

Part 6: MATERIAL TO BE RELIED ON

1. Affidavit #1 of Naishun Liu, made May 19, 2025;
2. Seventh Report of the Monitor dated September 7, 2023;
3. Supplement to the Twenty-Sixth Report of the Monitor dated April 21, 2025;
4. Supplement to the Twenty-Sixth Report of the Monitor dated April 23, 2025; and
5. Such further and other material as counsel may advise.

May 20, 2025

Dated



Signature of lawyer for petition respondent
For DLA Piper (Canada) LLP (Jeffrey Bradshaw)

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RESPONSE TO PETITION

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