Court File No. M/M/114-12

IN THE COURT OF QUEEN'S BENCH OF NEW BRUNSWICK

TRIAL DIVISION

JUDICIAL DISTRICT OF MONCTON

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 OF COMPROMISE OR ARRANGEMENT OF LANDDRILL INTERNATIONAL INC. (A BRITISH COLUMBIA CORPORATION), LANDDRILL INTERNATIONAL LTD. (A NEW BRUNSWICK CORPORATION), LANDDRILL ATLANTIC LTD. (A NEW BRUNSWICK CORPORATION), LANDDRILL CONTRACT MINING LTD. (A NEW BRUNSWICK CORPORATION), LANDDRILL INTERNATIONAL MEXICO S.A. DE C.V. (A MEXICAN CORPORATION), LANDDRILL INTERNATIONAL LLC (A MONGOLIAN CORPORATION) and LANDDRILL INTERNATIONAL INC. (A BARBADOS CORPORATION)

FIFTH REPORT OF THE MONITOR

December 7, 2012

INTRODUCTION

1. On August 31, 2012, Landdrill International Inc. ("**Landdrill Inc.**"), a British Columbia corporation, Landdrill International Ltd. ("**Landdrill Ltd**"), a New Brunswick corporation, Landdrill Atlantic Ltd., a New Brunswick corporation, Landdrill Contract Mining Ltd., a New Brunswick corporation (collectively "**Landdrill Canada**"), Landdrill Mexico S.A. de C.V., a Mexican corporation ("**Landdrill Mexico**"), Landdrill International LLC, a Mongolian corporation ("**Landdrill Mongolia**"), and Landdrill International Inc., a Barbados corporation, (collectively, the "**Applicants**" or the "**Companies**"), filed an application with the Court of Queen's Bench of New Brunswick (Trial Division) in the judicial district of Moncton (the "**Court**") to initiate proceedings pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, (the "***CCAA***").

2. On August 31, 2012, this Court made an order (the "**Initial Order**") granting various relief including the appointment of Ernst & Young Inc. as *CCAA* Monitor of the Applicants (the "**Monitor**") and imposing a stay of proceedings against creditors of the Companies until September 28, 2012. By Order (Re: Comeback/Extension Motion) dated September 27, 2012 (the "**Comeback Order**"), the Initial Order was amended to, *inter alia*, extend the Stay Period (as defined in the Initial Order) until November 2, 2012. On November 13, 2012 the Stay Period was extended until February 15, 2013, subject to the Applicants filing a revised cash flow projection by December 9, 2012 demonstrating that the Applicants have sufficient liquidity to continue to operate during the Stay Period.

PURPOSE

3. This Fifth Report of the Monitor (the "Fifth Report") is being filed for the purpose of providing information to this Court with respect to the Applicants' Updated Cash Flow Projection and to provide an update on the Sale Process.

4. The Fifth Report is organized as follows:

   (a) Introduction;
   (b) Purpose;
   (c) Terms of Reference;
   (d) Operational Update;
   (e) Updated Cash Flow Projection to February 15, 2013;
   (f) Extension of the Stay Period;
   (g) Update on Sale Process; and
   (h) Sale of Remaining Assets.

TERMS OF REFERENCE

5. In preparing the Fifth Report, the Monitor has been provided with, and has relied upon unaudited historical financial statements, other unaudited financial information and projections prepared by the Companies, the books and records of the Companies, discussions with the management and employees of the Companies and other information from various sources. The Monitor has assumed that the information it has been provided

is accurate and complete. The Monitor did not audit, review or otherwise attempt to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance with respect to the information presented in the Fifth Report or relied upon by the Monitor in preparing the Fifth Report. Further, the nature of the Monitor's work completed in these *CCAA* proceedings will not necessarily disclose errors, misstatements, irregularities or illegal acts, if such exist, on the part of the Companies, or its officers or employees or in the information.

6. All references to monetary amounts in the Fifth Report are in Canadian dollars unless otherwise noted.

7. Capitalized terms not defined in the Fifth Report are as defined in the Initial Order and the Monitor's previous reports.

8. Copies of the Fifth Report and other court materials in these CCAA proceedings may be obtained from the Monitor's website established in connection with the Companies (www.ey.com/ca/landdrill) (the "Monitor's Website").

OPERATIONAL UPDATE

9. Landdrill Canada's drilling operations ceased on the completion of the sale of its assets to Major Drilling International ('**Major**") as discussed in more detail below. With the onset of winter in Mongolia coupled with the imminent sale of the operating assets of Landdrill Mongolia to a subsidiary of Major, Landdrill Mongolia no longer has any drills in operation in Mongolia. As of the date of this Fifth Report, Landdrill Mexico has eleven drills operating on customer sites in Mexico.

10. Landdrill Canada, as a result of the sale to Major, has significantly reduced the number of employees on its payroll including Mr. Roger Rogers, the former Chief Financial Officer, and Mr. Michael Tripp, the former General Counsel. As of the date of this report, there remain approximately eight Landdrill Canada employees, two of whom are the managers of Landdrill Mexico and Landdrill Mongolia working in those respective jurisdictions.

11. LLC Landdrill International ("**Landdrill Russia**") currently employs three staff in its head office located in Khabarovsk, Russia. Landdrill Inc. utilizes the services of a consultant to travel to Russia and liaise with Landdrill Russia's staff and to assist with various business matters. Based on preliminary information provided to the Monitor by the Applicants, it appears that value may be realized from the assets of Landdrill Russia for the stakeholders of Landdrill Canada. Consequently, with the consent of the Secured Lenders, the Companies intend to continue to provide limited financial support to Landdrill Russia to facilitate the recovery of such value. The assets of Landdrill Russia are discussed in further detail below.

UPDATED CASH-FLOW PROJECTION TO FEBRUARY 15, 2013

12. The Applicants, with the assistance of the Monitor, have prepared an updated consolidated Twenty-Five-week cash flow projection (the "**Updated Projection**") for the purpose of projecting the estimated results of their planned operations and other activities during the Period (as defined in the Updated Projection). In accordance with paragraph 50 of the Initial Order, which orders that any cash-flow statement or part of a cash-flow statement filed with this Court shall not be released to the public and shall be kept confidential, the Updated Projection is attached hereto as **Confidential Appendix "A"** to this Fifth Report.

13. The Updated Projection is presented on a weekly basis during the Period and represents the estimates of management of the Applicants ("**Management**") of the projected cash-flow during the Period.

14. The Updated Projection has been prepared by Management using the probable and hypothetical assumptions set out in Notes 1 to 19 of the Updated Projection.

15. The Updated Projection projects that the Applicants will have sufficient liquidity to continue operating during the Period without the need to draw on the DIP Loan.

16. The Canadian Association of Insolvency and Restructuring Professionals Standards of Professional Practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on a Cash-Flow

Statement. A copy of Standard 09-1 Cash Flow Statement was attached as an appendix to the Pre-filing Report of the Proposed Monitor (the "**Standard**").

17. Pursuant to the Standard, the Monitor's review of the Updated Projection consisted of inquiries, analytical procedures and discussion related to information supplied to the Monitor by certain key members of Management and employees of the Applicants. Since hypothetical assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Updated Projection.

18. The Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Updated Projection.

19. Based on the Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:

    (a) the hypothetical assumptions are not consistent with the purpose of the Updated Projection;

    (b) as at the date of this Fifth Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Updated Projection, given the hypothetical assumptions; or

    (c) the Updated Projection does not reflect the probable and hypothetical assumptions.

20. Since the Updated Projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Projection will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Fifth Report, or relied upon by the Monitor in preparing this Fifth Report.

EXTENSION OF THE STAY PERIOD

21. At the hearing on November 13, 2012, it was determined that an extension of the Stay Period until February 15, 2013, was appropriate to allow the Applicants and the Monitor to attempt to complete the sales of Landdrill Mexico's and Landdrill Mongolia's assets that are contemplated by the Asset Purchase Agreement, as discussed below. At such hearing the cash flow projection filed with this Court did not cover the period to February 15, 2013. The Court granted an extension of the Stay Period to February 15, 2013, subject to updated cash flow projections being filed by December 9, 2012, showing that the Applicants will have sufficient liquidity to continue operating during the Stay Period.

22. The Updated Projection to February 15, 2013 indicates that the Applicants will have sufficient liquidity to operate during the proposed Stay Period without the need for DIP financing.

UPDATE ON SALES PROCESS

23. As discussed in the First Report, the Second Report, and the Fourth Report, several written non-binding EOIs were received by Clarus on or prior to the September 21, 2012 deadline.

24. The Major EOI, as revised and updated, formed the basis of the Asset Purchase Agreement dated November 6, 2012, between Landdrill Canada, Landdrill Mexico and Landdrill Mongolia, as Vendors, and Major, Major Drilling de Mexico SA de CV and Major Drilling Mongolia XXK, as Purchasers. A copy of the Asset Purchase Agreement, redacted to hide certain financial information, is attached to the Fourth Report as Appendix "**A**". An unredacted copy of the Asset Purchase Agreement was contained in Confidential Appendix "**B**" to the Fourth Report.

25. The Asset Purchase Agreement contemplates the following transactions:

    (a) The Canadian Vendor will sell and the Canadian Purchaser will purchase free and clear of all Encumbrances and of all rights of others, the Canadian Assets in the Canadian Transaction;

(b) The Mexican Vendor will sell and the Mexican Purchaser will purchase free and clear of all Encumbrances and of all rights of others the Mexican Assets in the Mexican Transaction;

(c) The Mongolian Vendor will sell and the Mongolian Purchaser will purchase free and clear of all Encumbrances and of all rights of others the Mongolian Assets in the Mongolian Transaction; and

(d) The Mexican Vendor will sell and the Mexican Purchaser will purchase free and clear of all Encumbrances and of all rights of others the Torex Assets in the Torex Transaction.

26. In the Fourth Report, the Monitor recommended to Court the approval of the Asset Purchase Agreement and proceeding to close the various Transactions as soon as possible. This Court approved the Asset Purchase Agreement and the Transactions considered thereby in its "Order for Approval of Asset Purchase Agreement" dated November 13, 2012. The Canadian Transaction closed on November 20, 2012.

27. The final gross proceeds from the Canadian Transaction were $4,619,656, including Quebec and Harmonized Sales Taxes totalling $561,551, resulting in net proceeds of $4,058,105 to the Landdrill estate. Final proceeds net of taxes were $518,435 less than the Canadian Purchase Price of $4,576,540 contemplated by section 2.5(a) of the Asset Purchase Agreement. The reduction in price resulted from a Purchase Price Adjustment based on the required pre-closing asset inspection and inventory count.

28. Section 2.9 of the Asset Purchase Agreement outlines the mechanism for the Purchase Price Adjustment. The agreement states that if some or all of the Canadian Assets set forth in Schedule A-1 to the Agreement (the "**Initial Asset List**") have been lost, stolen, vandalized, transferred or otherwise disposed of (or in the case of Inventory, used in the ordinary course), then the Canadian Purchase Price will be adjusted downward by an amount equal to 60% of the difference between the book value ascribed to such Assets which are lost, stolen, vandalized, transferred or otherwise disposed of (or in the case of Inventory, used in the ordinary course). In the event that there is Inventory *in situ* in

excess of the Canadian Inventory listed in the Initial Inventory List delivered on the date of the Agreement, then the Canadian Purchase Price will be adjusted upward by an amount equal to 60% of the book value of such additional Inventory as of the Canadian Closing Date.

29. Personnel from Major and Landdrill undertook an asset inspection and inventory count in respect of the Canadian Assets (the "**Inspection**") commencing on November 13, 2012, and concluding on November 16, 2012. The Monitor worked closely with Landdrill Management to reconcile and validate all discrepancies in the quantities of Assets and Inventory as compared to the September 30, 2012 Initial Asset List and Initial Inventory List of Landdrill which, in accordance with the terms of the Asset Purchase Agreement, formed the basis for any required closing adjustments to the Canadian Purchase Price. The Asset Inspection and Inventory count took place at the Landdrill sites in Moncton, Wabush, Notre Dame de Nord and at operational drilling sites in Detour Lake, ON and at the Iron Ore Canada site in Labrador. As a result of the Inspection at these sites, Major compiled a draft Asset and Inventory Statement which was reviewed by Landdrill Management.

30. Subsequent to the initial Inspection noted above, Management and the Monitor reviewed the draft Asset and Inventory Statement on November 16, 2012, and identified several items for further investigation and validation.

31. Landdrill Management, with the Monitor's assistance, analyzed the variances in the inventory quantities from the September 30, 2012 Initial Inventory List which attributed a book value to such inventory as at September 30, 2012 of $2,270,990. Management quantified and identified the follow items as the main factors contributing to the downward variance of $939,559 in the book value of inventory:

    (a) the book value of inventory used and not replenished in the ordinary course of operations ($550,000);

(b) the book value of inventory inaccurately included in the Initial Inventory List as being inventory of Landdrill International Ltd. that was actually inventory of Landdrill International Inc. ($40,000);

(c) a winch that had been previously sold by the Applicants ($22,000); and

(d) inaccuracies in counting at the Notre Dame De Nord site when compiling the September 30, 2012 Initial Inventory List ($90,000).

32. These explanations provided by Management account for $702,000 of the $939,559 variance in the book value of Inventory between the Initial Inventory List and the final Asset and Inventory Statement identified in the Inspection noted above. The remaining $237,559 variance was unable to be reconciled at closing resulting in a negative purchase price adjustment of $142,535 (60% of $237,559) or 5.9% of the final actual proceeds for the Canadian Transaction.

33. In addition, as a result of further investigations at the sites noted above, Management located a container holding a number of drilling parts and several hundred drilling rods; and, an additional water truck and a new sampling system for a drill (both of which were not listed on the Initial Asset List). The inclusion of these assets on the draft Asset & Inventory Statement partially mitigated the closing Purchase Price Adjustment by $45,300.

34. The final results of the Inspection resulted in a net Purchase Price reduction of $518,435, being 60% of $939,559 offset by $45,300 based on the final Asset and Inventory Statement agreed between the parties.

35. As noted in the Fourth Report, the Torex Transaction may be terminated by the Mexican Vendor for any reason upon three business days' written notice (the "**Torex Termination Right**") provided that the Torex Deposit, and all interest, income and earnings thereon, are immediately returned and paid to the Mexican Purchaser by the Escrow Agent upon receipt of such termination notice. On November 13, 2012, the Monitor signed a letter of intent with Mr. Ron Goguen Sr. (or his nominee) with respect to the Torex Assets (the "**Goguen Torex LOI**") providing, among other things, that the parties would attempt to

negotiate a purchase agreement prior to November 30, 2012, such agreement to be satisfactory to the Monitor and subject to the approval of this Court. This date was extended to January 15, 2013 at the request of Mr. Goguen Sr. The Goguen Torex LOI contemplates a purchase agreement being negotiated amongst the parties at a price and on terms substantially similar to the existing Torex Transaction.

36. The Monitor, in consultation with the Applicants, is working to finalize the sales of the Mongolian Assets and the Mexican Assets to subsidiaries of Major located in such jurisdictions. The parties are attempting to conclude the sale of the Mongolian Assets in December 2012 or early in January 2013. Following conversations with local counsel in Mexico, the Monitor currently believes that it is unlikely that the Mexican Transaction will be completed by February 15, 2013. The Monitor and its Canadian and Mexican counsel are in constant and continuing discussions with Major and its Canadian and Mexican counsel regarding the necessary process to close the Mexican Transaction and the Torex Transaction.

37. The Monitor will report to this Court on the status of the closings of the remaining Transactions and the Goguen Torex LOI as appropriate, or as requested by the Court.

SALE OF REMAINING ASSETS

38. The Applicants and the Monitor are working cooperatively to realize, for the benefit of the Applicants' stakeholders, the value of the Companies' remaining assets that are not included in any of the sales to Major.

39. As previously discussed, Landdrill Canada's sale to Major included all of the operational assets of Landdrill Ltd. but specifically excluded its land and building located at Notre Dame du Nord in Northern Quebec (the "**Notre Dame Building**") and the trade accounts receivable. Landdrill Ltd. continues to collect its outstanding trade accounts receivable in the normal course of business as shown in the Updated Projection. Landdrill Inc.'s operating assets were not sold to Major and include shop equipment, containers, miscellaneous drilling equipment and office furniture all of which are have been consolidated in Moncton, New Brunswick (the "**Moncton Assets**").

40. In addition, Landdrill Mongolia's real property and building in Ulaanbaatar, Mongolia (the "**Mongolian Building**", collectively with the Notre Dame Building, the "**Real Estate**") is excluded from the transaction with Major.

41. At present, the Monitor does not believe Landdrill Mexico will possess any assets following the completion of the Mexican transactions with the exception of trade accounts receivable.

42. Landdrill Russia's remaining assets include: equipment, inventory, accounts receivable and an award for damages arising from a Russian lawsuit. The Russian equipment and inventory are located in Irkutsk, Russian approximately 500km north of the Mongolian border with Russia.

43. Pursuant to paragraph 28 (h) of the Initial Order:

> *"The Monitor shall have and exercise sole and exclusive authority (in the name of and on behalf of the Applicants), with the consent of the Senior Lenders, to dispose of redundant or non-material assets not exceeding $100,000.00 in any one transaction, or $1,000,000, in the aggregate."*

44. Any individual sale or collection of sales, in excess of the thresholds outlined in Paragraph 28 (h) of the Initial Order, will require Court approval.

<u>Real Estate</u>

45. The Applicants obtained appraisals of the Real Estate from appraisal professionals located in Notre-Dame du Nord and Ulaanbaatar and has provided these appraisals to the Monitor. The Monitor, with the assistance of Management, and the consent of the Senior Lenders, intends to list the Notre Dame Building with a local real estate agent to conduct a broad canvassing of the local market and to explore with Management appropriate sale options for the Mongolian Building.

Moncton Assets

46. Management has compiled a detailed list of the Moncton Assets and provided it to the Monitor. With the assistance of Management, and with the consent of the Secured Lenders, the Monitor intends to sell the Moncton Assets by public auction:

(a) At least four auctioneers will be invited to view the Moncton Assets and to submit auction proposals, no later than December 17, 2012, to conduct a public auction on or about January 15, 2013. Their proposals should include a net minimum guarantee and their plan for advertizing the auction sale;

(b) In addition to the advertising to be conducted by the auctioneer, the Monitor will post on the Monitor's Website the successful auctioneer's notice of sale by public auction, the list of assets to be auctioned, terms of the sale by auction and a notice inviting interested parties to review the aforementioned documents and to attend the auction;

(c) Potential auction attendees will be able to view the Moncton Assets under the supervision of the successful auctioneer prior to the auction;

(d) All of the Moncton Assets sold by auction will have to be removed from Landdrill Canada's yard earlier than one week after the date of the auction but in no event later than Thursday, January 24, 2013.

47. The Monitor believes that this approach will enable a broad canvassing of the local market, a reduction of administration costs by expeditiously vacating the leased premises in Moncton, and will provide the greatest potential net recovery from the Moncton Assets for the Applicants' stakeholders.

Landdrill Russia

48. As previously reported, on August 30, 2012, Landdrill Russia obtained a US$1,744,512 court award relating to a dispute with PD RUS, a customer of Landdrill Russia (the "**Russian Judgment**"). The dispute arose pursuant to a contract whereby Landdrill Russia provided diamond core drilling services to PD RUS. The Russian Judgment was

appealed shortly after the commencement of these CCAA proceedings but was recently upheld: however, the Monitor is informed that further appeals are possible. Management, with the assistance of the Monitor, continue to evaluate the options available to realize the benefits of the Russian Judgement. The Monitor will report to this Court on any significant developments in this matter as they occur.

49. Landdrill Russia is continuing to collect its disputed trade accounts receivable in the normal course of business. Landdrill Russia is in communications with its customers to resolve the invoicing differences and collect the outstanding amounts.

50. The Applicants and the Monitor are working with Landdrill Russia to determine the best process for realising on its remaining equipment and inventory.

ALL OF WHICH is respectfully submitted this 7th day of December, 2012.

ERNST & YOUNG INC.
In its capacity as the Court-appointed Monitor of Landdrill International Inc., a British Columbia corporation, Landdrill International Ltd., a New Brunswick corporation, Landdrill Atlantic Ltd., Landdrill Contract Mining Ltd., a New Brunswick corporation, Landdrill Mexico S.A. de C.V., Landdrill International LLC, a Mongolian corporation, and Landdrill International Inc., a Barbados corporation,

Per:

Paul D. Hickey, CA•CIRP
Senior Vice President

Christopher Mediratta, CA,CIRP
Vice President