Court File No. _____________

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)

PRE-FILING REPORT OF ERNST & YOUNG INC., THE PROPOSED MONITOR

August 31, 2012

INTRODUCTION

1. Ernst & Young Inc. ("**EYI**") understands that on August 31, 2012, 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 Mexico S.A. de C.V., a Mexican corporation, Landdrill International LLC, a Mongolian corporation, and Landdrill International Inc., a Barbados corporation, (collectively, the "**Applicants**" or the "**Companies**"), brought an application before 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**") in order to restructure their business affairs.

2. EYI is the proposed monitor (the "**Proposed Monitor**") in the CCAA proceedings.

PURPOSE

3. This report (the "**Report**") is prepared by EYI as Proposed Monitor to provide the Court with EYI's qualifications to act and the report referred to in paragraph 23(1) (b) of the CCAA as the Court considers the Applicants' request for relief.

EYI'S QUALIFICATIONS TO ACT AS MONITOR

4. EYI was retained by the Companies on June 27, 2012 to act as their financial advisor to, amongst other things, advise the Companies with respect to alternatives for financial restructuring and to act as Monitor in the event of a CCAA filing under the direction and supervision of the Court.

5. EYI is a trustee within the meaning of subsection 2(1) of the Bankruptcy and Insolvency Act. EYI has been appointed as Monitor under the CCAA in many of Canada's largest restructurings. Paul D. Hickey CIRP, a Senior Vice-President with EYI, a Chartered Insolvency and Restructuring Professional and a licensed trustee in bankruptcy, will have primary carriage of this matter.

6. EYI is not subject to any of the restrictions on who may be appointed Monitor set out in section 11.7(2) of the CCAA and, in particular, neither EYI nor any of its representatives have been at any time in the two preceding years:

    1. the auditor of any of the Applicants; or

    2. engaged by the Applicants in connection with any consulting or restructuring matters.

7. EYI has consented to act as Monitor should the Court grant the Applicants' request to commence CCAA proceedings.

PROJECTED CASH FLOW

8. The Applicants prepared a consolidated twelve week cash flow projection (the "**Projection**") for the purposes of projecting the estimated results of the Companies' planned operating and other activities during the Period (as defined therein), determining the quantum of the Debtor-in-Possession ("**DIP**") financing it would seek and determining whether the Applicants and

certain of its Non-Applicants (as defined therein) have sufficient cash to operate during the requested stay of proceedings. The Projection was included as Exhibit C to the Supplemental Affidavit of Ronald J. Goguen, sworn on August 31, 2012 in support of the Applicant's CCAA Application.

9. The Projection is presented on a weekly basis during the Period and represents the estimate of Management of the Applicants (the "**Management**") of the projected cash flow during the Period.

10. The Projection has been prepared by Management using the probable and hypothetical assumptions set out in notes 1 to 21 of the Projection.

11. One of the factors that this Court may consider when considering approval of interim financing is the monitor's report referred to in paragraph 23(1)(b) of the CCAA. Subject to this Court approving funding in the amount of $1.5 million, the Projection projects that the Applicants will have sufficient liquidity to operate during the proposed Period.

12. The Proposed Monitor's duties with respect to its review of the Projection pursuant to section 23(1)(b) of the CCAA require the Proposed Monitor to review it as to its reasonableness and to file a report with this Court on the Proposed Monitor's findings. 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 is attached hereto as Appendix A.

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

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

15. Based on the Proposed 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 Projection;

    (b) as at the date of this 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 Projection, given the hypothetical assumptions; or

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

16. Since the 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 Proposed Monitor expresses no assurance as to whether the Projection will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Proposed Monitor in preparing this Report.

ALL OF WHICH is respectfully submitted this 31st day of August 2012.

ERNST & YOUNG INC.
In its capacity as the Proposed 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

APPENDIX A

Standards of Professional Practice

No. 09-1
CASH-FLOW STATEMENT

In this Standard, words importing the singular number or the masculine gender only include more persons, parties or things of the same kind than one, and females as well as males and the converse.

1.00 SCOPE AND PURPOSE

1.01 The purpose of this Standard is to provide guidance to a Monitor fulfilling its statutory responsibilities under the **Companies' Creditors Arrangement Act (CCAA), R.S.C. 1985, c. C-36, as amended**, in respect of a Monitor's Report on a Cash-Flow Statement. This Standard only addresses the Monitor's obligations with respect to the cash-flow forecast filed in support of the initial application. If appropriate, the Monitor **should** file similar reports in respect of subsequent or revised cash-flow forecasts, notwithstanding that there is no statutory obligation to file such reports.

1.02 The Monitor's duties and obligations in respect of a particular **CCAA** proceeding **shall** be governed by the **Act**, the applicable orders issued by the court, and this Standard where applicable. To the extent that this Standard conflicts with any order issued by the court, the Monitor **shall** be governed by the order.

2.00 DEFINITIONS

2.01 In this Standard:

"**May**" means the Standard is simply intended to be helpful and the Monitor has full discretion to follow it or not.

"**Should**" means it is appropriate to do so in most circumstances. Where a Monitor judges it appropriate to do otherwise, the Monitor should consider the advisability of documenting the reasons for its decision.

"**Shall**" means the Standard is mandatory and the Monitor must follow it.

2.02 In this standard:

"Act" means the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended;

"Association" means Canadian Association of Insolvency and Restructuring Professionals / Association canadienne des professionnels de l'insolvabilité et de la réorganisation;

"**Assumptions**" means the Hypothetical Assumptions and Probable Assumptions developed by the Company;

"Cash-Flow Statement" in respect of a Company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the Company as defined in section 2(1) of the **Act** based on Probable and Hypothetical Assumptions that reflect the Company's planned course of action for the period covered;

"Company" means a debtor company, as defined in Section 2 of the **Act**, that intends to commence or has commenced, as the case may be, a proceeding under the **Act** or in respect of whom a proceeding under the **Act** has been commenced;

"Hypothetical Assumptions" means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash-Flow Statement;

"Material" means that it is probable that a change in an item or an aggregate of items would influence or change a decision;

"Material Adverse Change" means a change that, in the Monitor's opinion, materially and negatively impairs, or is reasonably expected to materially and negatively impair, the Company's cash-flow, financial circumstances or likelihood of success of a plan of arrangement. Examples would include, but not be limited to a change that:

- has a significant adverse effect on the expected cash-flows compared to the Cash-Flow Statement; or
- impairs the ability of the Company to carry on operations; or
- significantly prejudices the rights or interests of one or more classes of creditors.

"Monitor" in respect of a Company, means the person appointed by the court pursuant to Section 11.7 of the **Act** to monitor the business and financial affairs of the Company;

"Monitor's Report" means a report on the Cash-Flow Statement issued by the Monitor in accordance with Section 23(1)(b) of the **Act**;

"Probable Assumptions" means assumptions that: (i) the Company believes reflect the most probable set of economic conditions and planned courses of action, suitably supported that are consistent with the plans of the Company; and (ii) provide a reasonable basis for the Cash-Flow Statement;

"Review for Reasonableness" means the review conducted by the Monitor pursuant to Section 23(1)(b) of the **Act**; and

"Suitably Supported" means that the Assumptions are based on either one or more of the following factors: the past performance of the Company, the performance of other industry / market participants engaged in similar activities as the Company, feasibility studies, marketing studies or any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions. The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

3.00 ASSISTING THE COMPANY

3.01 The Monitor **may** assist the Company in the preparation of the Cash-Flow Statement.

3.02 The Monitor **shall** remind the Company that the Cash-Flow Statement and the Assumptions on which it is based, are the responsibility of the Company.

3.03 The Monitor **shall** remind the Company that the Monitor has the statutory duty to file a report with respect to the Cash-Flow Statement.

3.04 The Monitor **should** advise the Company that any information given by the Company to the Monitor may be disclosed to the court and the creditors.

3.05 The Monitor **should** document the foregoing in a letter to the debtor, a sample of which is attached as Appendix A to this standard.

4.00 DOCUMENTATION

4.01 The review performed by the Monitor in accordance with this Standard **shall** be documented.

4.02 The Monitor **should** obtain written confirmation (a sample letter is attached as Appendix B to this standard) from an authorized officer or director of the Company that:

a) the Cash-Flow Statement and the Assumptions on which it is based, are the responsibility of the Company; and

b) the Company's responsibility extends beyond ensuring that individual Assumptions used in the preparation of the Cash-Flow Statement are appropriate in the circumstances, and includes the responsibility to ensure that such Assumptions as a whole are appropriate in the circumstances.

5.00 MONITOR'S REVIEW

5.01 The Monitor **shall** perform a Review for Reasonableness.

5.02 The review **shall** be performed by an individual or individuals having, when considered as a whole, adequate technical training and proficiency, with due care and with an objective state of mind.

5.03 The review **shall** be adequately planned and properly executed and if assistants are employed, they **shall** be properly supervised.

5.04 The Monitor **should**, as soon as practicable, acquire knowledge of the Company and an understanding of the practices and particulars of the industry within which the Company operates, sufficient to enable it to perform the Review for Reasonableness.

5.05 The Review for Reasonableness **shall** consist of enquiry, analytical procedures and discussions with the Company to determine whether there is anything that causes the Monitor to believe that, in all material respects:

a) the Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement;

b) as at the date of the Monitor's Report, the Probable Assumptions developed by the Company are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or

c) the Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.

5.06 The Monitor **should** satisfy itself that the computations contained in or made in preparing the Cash-Flow Statement are consistent with the Assumptions and materially accurate.

5.07 Where practicable, the Monitor **should** reconcile the Cash-Flow Statement to the appropriate actual cash and loan balances in the financial records of the Company, as at the start date of the Cash-Flow Statement, and a description of such reconciliation process may be included in the Monitor's Report.

5.08 The Monitor **shall** periodically compare actual cash-flow results to those reflected in the Cash-Flow Statement and obtain reasonable explanations for significant variances. The Monitor **should** report the results of such comparisons and reviews to the court. Where the results of such comparisons and reviews indicate a Material Adverse Change in the Company's projected cash-flow or financial circumstances, the Monitor **shall** report the results of such comparisons and reviews to the court without delay.

6.00 MONITOR'S REPORT

6.01 After completing its Review for Reasonableness, the Monitor **shall** consider whether anything material has come to its attention that causes it to believe that:

a) The Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement; or

b) As at the date of the report, the Probable Assumptions developed by the Company are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or

c) The Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.

6.02 The Monitor **should** file the Monitor's Report with the court within 10 days of the granting of the Initial Order or at such other time as may be ordered by the court.

6.03 The Monitor's Report **shall** include an overview and review of the Cash-Flow Statement and a summary of its determinations as required by Section 5.05 of this Standard.

6.04 The Monitor **should** ensure that all material Assumptions are disclosed in the notes and **shall** include in the Monitor's Report a statement to this effect.

6.05 The Monitor **shall** prepare, sign and file the Monitor's Report with the court.

6.06 The Monitor **should** date the Monitor's Report as of the date of the completion of his Review for Reasonableness.

6.07 The form of the Monitor's Report **shall** be substantially as follows:

The <attached> statement of projected cash-flow <attached as appendix ___ of this report/the debtors application material> (the "Cash-Flow Statement") of ________________ (name of Company),(the "Company") as of the ______ day of ____________ ____, consisting of ____________________ (describe, including relevant dates), has been prepared by the management of the Company for the purpose described in Note ______, using the Probable and Hypothetical Assumptions set out in Notes ______.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash-Flow Statement. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash-Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

a) the Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement;

b) *as at the date of this report, the Probable Assumptions developed by management are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or*

c) *the Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.*

Since the Cash-Flow Statement 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, we express no assurance as to whether the Cash-Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

The Cash-Flow Statement has been prepared solely for the purpose described in Note ____/on the face of the Cash-Flow Statement, and readers are cautioned that it may not be appropriate for other purposes.

Optional paragraph if the Monitor's report is to be included as part of another report:

Note: Date and signature of Monitor should be excluded if this report is included within another report prepared by the Monitor.

<Dated at ___________________, this ______ day of __________ ______.

____

Monitor>.

6.08 The Monitor's Report **should** be augmented with such additional comments as deemed appropriate by the Monitor in the circumstances.

6.09 Where the Monitor concludes it is unable to issue the Monitor's Report in the form set out above, in accordance with the timeline detailed in paragraph 6.02, the Monitor:

a) **Shall** advise the Company of the Assumptions and/or other matters that prevent the Monitor from issuing the Monitor's Report and **should** consider advising the Company of same in writing; and

b) **Shall** file a report with the court in accordance with the timeline detailed in paragraph 6.02 setting out the reasons therefore.