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)

EIGHTH REPORT OF THE MONITOR

March 5, 2013

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. The Stay Period was further extended by the Court from November 2, 2012, until November 13, 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 would have sufficient liquidity to continue to operate during the Stay Period. The revised cash flow projection was filed on December 7, 2012, and demonstrated sufficient liquidity to operate during the Stay Period. On February 15, 2013, the Stay period was further extended until and including April 8, 2013.

PURPOSE

3. This Eighth Report of the Monitor (the "**Eighth Report**") is being filed in response to the Norrep Motion (as defined below) seeking an order authorizing and directing Landdrill Mexico to execute and deliver to Norrep (as defined below) a document substantially in the form of the Proposed Amendment Agreement (as defined below) which comprises Exhibit "D" to the Affidavit of Christopher Johnson sworn on February 21, 2013, (the "**Johnson Affidavit**") and filed in support of the Norrep Motion.

4. The Eighth Report is organized as follows:

   (a) Introduction;
   (b) Purpose;
   (c) Terms of Reference;
   (d) Proposed Amendment Agreement;
   (e) Financing Term Sheet;
   (f) Asset Purchase Agreement With Major;
   (g) Non-Payment of Professional Fees; and
   (h) Sealing of Confidential Appendices.

TERMS OF REFERENCE

5. In preparing the Eighth 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 of the Companies ("**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. Except as noted in the body of this Eighth Report, 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 provided to the Monitor and presented in the Eighth Report or relied upon by the Monitor in preparing the Eighth 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 Eighth Report are in Canadian dollars unless otherwise noted.

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

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

PROPOSED AMENDMENT AGREEMENT

9. Norrep Credit Opportunities Fund, LP ("**Norrep**") filed a Notice of Motion dated February 25, 2013 (the "**Norrep Motion**") seeking an order (the "**Norrep Order**") authorizing and directing Landdrill Mexico to execute and deliver to Norrep a document substantially in the form of the document entitled "Amendment Agreement To Non-Possessory Pledge Agreement dated April 10, 2012" (the "**Proposed Amendment**

Agreement"). The background to the Norrep Motion is set forth in detail in the Johnson Affidavit included in Norrep's motion record.

10. Before commenting on the requested relief, the Monitor thought it might be helpful to the Court for the Monitor to describe the anticipated potential effect of the requested relief on Landdrill's other stakeholders, specifically regarding the $3.5 million of unsecured arms-length debt owed to the creditors of Landdrill Mexico (the "**Unsecured Arms-Length Debt**"), through two demonstrative scenarios.

Scenario 1 – If the Court grants the Norrep Order

11. If the Norrep Order is granted by this Court, Landdrill Mexico's secured debt will be approximately $11.2 million, of which approximately $2.8 million would be owed to Sprott (the "**Sprott Secured Debt**") and approximately $8.4 million[1] would be owed to Norrep (the "**Norrep Secured Debt**" and collectively the "**Total Secured Debt**").

12. Further, Landdrill Mexico's unsecured debt will be approximately $18.9 million comprised of the following:

    (a) Approximately $3.5 million of Unsecured Arms-Length Debt; and

    (b) Approximately $15.4 million of non-arms-length intercompany unsecured debt (the "**Unsecured Related Party Debt**").

13. Under this scenario, unless and until the net amount realized from the sale of Landdrill Mexico's assets and the collections of its accounts receivable less any allocation of costs (collectively the "**Mexican Asset Realizations**") exceeds the Total Secured Debt of $11.2 million, no unsecured creditor of Landdrill Mexico, whether arms-length or non-arms-length, will receive any share of the Mexican Asset Realizations. To the extent the Mexican Asset Realizations exceed the Total Secured Debt, approximately 19% of such excess would be available to repay the Unsecured Arms Length Debt. Attached hereto as

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[1] The Monitor understands that approximately $8.4 million is owing from Landdrill Mexico to Norrep pursuant to Landdrill Mexico's guarantee of Norrep's advances to Landdrill Inc. before any reduction for any net realizations from the sales of the assets of other Landdrill Companies that might accrue for the benefit of Norrep and before any allocation of the costs of these CCAA proceedings.

Confidential Appendix A is a Pro-Forma Estimate of Potential Mexican Asset Realizations.

Scenario 2 – If the Court does not grant the Norrep Order

14. If the Norrep Order is not granted by this Court, Landdrill Mexico's secured debt would be the Sprott Secured Debt of approximately $2.8 million. Landdrill Mexico's unsecured debt would be approximately $27.3 million (the "**Total Unsecured Debt**") comprised of the following:

    (a) The Unsecured Arms-Length Debt of approximately $3.5 million;

    (b) The Unsecured Related Party Debt of approximately $15.4 million; and

    (c) Unsecured debt of approximately $8.4 million owed to Norrep (the "**Unsecured Norrep Debt**").

15. Under this scenario, to the extent that any Mexican Asset Realizations exceed the Sprott Secured Debt, such excess would be allocated 13% to the Unsecured Arms-Length Debt, 56% to the Unsecured Related Party Debt and 31% to the Unsecured Norrep Debt. The percentage of any Mexican Asset Realizations available to repay the Unsecured Arms-Length Debt is relatively small (13%) due to the dilutive effect of the relatively larger Unsecured Related Party Debt and the Unsecured Norrep Debt.

Conclusion

16. The scenario analyses set out above indicate that:

    (a) In Scenario 1, the amount, if any, that might be available to repay the Unsecured Arms-Length Debt is contingent on the actual amount of Mexican Asset Realizations exceeding the amount of the Total Secured Debt. In the event that Mexican Asset Realizations exceed the Total Secured Debt, approximately 19% of any such surplus would be available to repay the Unsecured Arms-Length Debt; and

(b) In Scenario 2, the amount, if any, that might be available to repay the Unsecured Arms-Length Debt is contingent on the actual amount of Mexican Asset Realizations exceeding the amount of the Sprott Secured Debt. In the event that Mexican Asset Realizations exceed the Sprott Secured Debt, approximately 13% of any such surplus would be available to repay the Unsecured Arms-Length Debt.

17. Paragraph 9 of the Initial Order states, *inter alia*, that, except as specifically permitted in the Initial Order or further order of the Court, the Applicants shall *"grant no security interests, trusts, liens, charges or encumbrances upon or in respect of any of their Property"*.

18. Paragraph 14 of the Initial Order states, *inter alia*, that nothing in the Initial Order shall *"prevent the filing of any registration to preserve or protect a security interest"*.

19. The Monitor has reviewed the Johnson Affidavit and the documents attached thereto. It appears to the Monitor that what Norrep is seeking is, in substance, more akin to the registration of a security interest than the grant of a security interest.

FINANCING TERM SHEET

20. On February 25, 2013, while conducting its weekly cash flow monitoring procedures, the Monitor noticed a disbursement of $50,000 from the Landdrill Canada bank account dated February 21, 2013, which had not been projected in the Cash Flow Projection appended to the Sixth Report of the Monitor or otherwise discussed with or made known to the Monitor prior to being disbursed. On February 25, 2013, the Monitor made inquiries of Management and was advised, on February 26, 2013, that Mr. Goguen had signed a term sheet in respect of Landdrill Mexico providing for a non-refundable payment of $50,000.

21. On February 26, 2013, the Monitor requested and received a copy of the term sheet (the "**Term Sheet**") from the Applicants. A copy of the Term Sheet is attached hereto as Confidential Appendix B.

22. The Monitor, through counsel, expressed its concerns that execution of the Term Sheet and payment of the non-refundable deposit represented a breach of the Initial Order, and should be disclosed to the Senior Lenders and the Court. The Monitor was also concerned that payment of the non-refundable deposit had not been included in the Cash Flow Projection disclosed to the Monitor and filed with the Court or otherwise disclosed to the Monitor in advance.

23. Applicants' counsel has advised the Monitor that Landdrill Mexico would be reimbursing Landdrill Canada for the above-mentioned non-refundable payment of $50,000, and that it would disclose the existence of the Term Sheet and the non-refundable payment to the Senior Lenders.

ASSET PURCHASE AGREEMENT WITH MAJOR

24. On November 14, 2012, the Court approved 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, was 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.

Monitor's Certificate for the Canadian Transaction

25. As described more fully in the Fifth Report, the Canadian Transaction closed on November 20, 2012. Paragraph 14 of the Order for Approval of Asset Purchase Agreement issued by this Court and dated November 13, 2012, ordered and directed the Monitor to file with the Court a copy of the Monitor's Canadian Certificate. A copy of the Monitor's Canadian Certificate is attached hereto as Appendix 1.

Monitor's Certificate for the Mongolian Transaction

26. As described more fully in the Sixth Report, the Mongolian Transaction closed on December 21, 2012. Paragraph 14 of the Order for Approval of Asset Purchase Agreement issued by this Court and dated November 13, 2012, ordered and directed the

Monitor to file with the Court a copy of the Monitor's Mongolian Certificate. A copy of the Monitor's Mongolian Certificate is attached hereto as Appendix 2.

Termination of Mexican Transactions

27. As described more fully in the Sixth Report, the Asset Purchase Agreement provides that the Mexican Transaction and the Torex Transaction may be terminated at any time prior to the Mexican Closing Date and the Torex Closing Date if the Mexican Conditions or the Torex Conditions, respectively, are not fulfilled on or before February 15, 2013, or if the closing of the Mexican Transaction or the Torex Transaction, respectively, has not occurred on or prior to February 15, 2013, in accordance with the terms of the Asset Purchase Agreement.

28. As described in the Sixth Report, the Monitor, after consulting with Mexican counsel, identified two potential legal processes to close the Mexican Transaction and the Torex Transaction. Both processes required an extension of the February 15, 2013, termination date. The Monitor approached Major to confirm that the proposed processes would satisfy the conditions of the Asset Purchase Agreement referred to above and that Major was willing to extend the termination date.

29. As reported in the Sixth Report, on February 5, 2013, Major informed the Monitor that it did not intend to extend the termination date. Without such an extension, it was impossible for the Monitor to close the Mexican Transaction. The Monitor continued its discussions with Major in order to determine whether it was possible to preserve the transaction.

30. By letter dated February 20, 2013, the Mexican Purchaser terminated each of the Mexican Transaction and the Torex Transaction pursuant to sections 7.4 and 11.4 respectively of the Asset Purchase Agreement. The Monitor has informed the Senior Lenders and the Applicants of this development.

NON-PAYMENT OF PROFESSIONAL FEES

31. Paragraph 35 of the Initial Order authorizes and directs the Applicants to pay the accounts of the Monitor, the Monitor's counsel and the Applicants' counsel (the **"Professional Firms"**) on a weekly basis. As reported in the Fourth Report and the Sixth Report, the Applicants have failed to make regular payments of the weekly invoices of the Professional Firms. As at November 6, 2012, the date of the Fourth Report, invoices of the Professional Firms totalling $331,889.70 were outstanding. As at February 7, 2013, the date of the Sixth Report, invoices of the Professional Firms totalling $169,152 were outstanding.

32. The Applicants continue to not make regular payments of the weekly invoices of the Professional Firms. The Monitor understands that the following invoices of the Professional Firms totalling $177,627.53 were issued and outstanding as at February 27, 2013, the date at which the Monitor informed Applicants' counsel it would be including a section on the late payment of fees in its next Court report:

(a) Monitor's invoice dated February 11, 2013 for the week ended February 8, 2013 in the amount of $30,987.09;

(b) Monitor's invoice dated February 18, 2013 for the week ended February 15, 2013 in the amount of $23,653.56;

(c) A portion of Monitor's counsel's invoice dated February 1, 2013 for the week then ended in the amount of $25,051.79 of which $14,487.25 was unpaid and outstanding;

(d) Monitor's counsel's invoice dated February 8, 2013 for the week then ended in the amount of $26,647.79;

(e) Monitor's counsel's invoice dated February 15, 2013 for the week then ended in the amount of $37,249.13;

(f) Monitor's counsel's invoice dated February 26, 2013 for the week ended February 22, 2013 in the amount of $23,826.26;

(g) Applicants' counsel's invoice dated February 8, 2013 for the week then ended in the amount of $6,752.43; and

(h) Applicants' counsel's invoice dated February 15, 2013 for the week then ended in the amount of $14,024.02.

33. Since February 27, 2013, the Applicants have made payments by wire transfer totalling $127,153.48, including $54,640.65 to the Monitor, $51,736.38 to its counsel and $20,776.65 to Applicants' counsel in respect of certain of the invoices listed above. The following invoices totalling $50,474.05, which are included in the list above, remain outstanding as at the date of this Eighth Report:

(a) Monitor's counsel's invoice dated February 8, 2013 for the week then ended in the amount of $26,647.79; and

(b) Monitor's counsel's invoice dated February 26, 2013 for the week ended February 22, 2013, in the amount of $23,826.26.

SEALING OF CONFIDENTIAL APPENDICES

34. If considered appropriate by the Court, the Monitor requests that this Court seal Confidential Appendix A and Confidential Appendix B to this Eighth Report.

ALL OF WHICH is respectfully submitted this 5th day of March, 2013.

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

Eighth Report of the Monitor
March 5, 2013
Appendix 1

Monitor's Canadian Certificate

MONITOR'S CANADIAN CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Chief Justice Smith of the Court of Queen's Bench of New Brunswick (the "**Court**") dated August 31, 2012, Ernst & Young Inc. was appointed as the monitor (the "**Monitor**") of, *inter alia*, Landdrill International Inc. (the "**Canadian Vendor**"), Landdrill Mexico S.A. de C.V. (the "**Mexican Vendor**"), Landdrill International LLC (the "**Mongolian Vendor**" and, together with Canadian Vendor and the Mexican Vendor, the "**Vendors**"), Landdrill International Ltd., Landdrill Atlantic Ltd, and Landdrill Contract Mining Ltd.

B. Unless otherwise indicated herein, capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the agreement of purchase and sale made as of November 6, 2012 (the "**Asset Purchase Agreement**") between the Vendors and Major Drilling Group Inc. (the "**Canadian Purchaser**"), Major Drilling de Mexico S.A. de C.V. (the "**Mexican Purchaser**") and Major Drilling Mongolia XXK (the "**Mongolian Purchaser**" and, together with the Canadian Purchaser and the Mexican Purchaser, the "**Purchasers**").

C. Pursuant to an Order of the Court dated November 14, 2012, the Court approved the Asset Purchase Agreement and provided for, among other things, the vesting in the Canadian Purchaser of the Canadian Vendor's right, title and interest in and to the Canadian Assets, which vesting is to be effective with respect to the Canadian Assets upon the delivery by the Monitor to the Canadian Purchaser of a certificate certifying (a) receipt of the Canadian Deposit and the balance of the Canadian Purchase Price by the Monitor; and (b) receipt of confirmation from the Canadian Vendor and the Canadian Purchaser that the Canadian Conditions have been satisfied or waived by the Canadian Vendor and the Canadian Purchaser, as applicable.

THE MONITOR CERTIFIES the following:

1. The Monitor has received the Canadian Deposit and the balance of the Canadian Purchase Price for the Canadian Assets payable on the Canadian Closing Date pursuant to the Asset Purchase Agreement;

2. The Monitor has received written confirmation from the Canadian Vendor and the Canadian Purchaser that the Canadian Conditions have been satisfied or waived by the Canadian Vendor and the Canadian Purchaser, as applicable; and

3. This Monitor's Canadian Certificate was delivered by the Monitor to the Canadian Purchaser on November 20, 2012.

Ernst & Young Inc., in its capacity as the Court-appointed Monitor of Landdrill International Ltd. and not in its corporate or personal capacity, for and on behalf of Landdrill International Ltd.

Per:

Name: Paul D. Hickey
Title: Senior Vice President

Eighth Report of the Monitor
March 5, 2013
Appendix 2

Monitor’s Mongolian Certificate

MONITOR'S MONGOLIAN CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Chief Justice Smith of the Court of Queen's Bench of New Brunswick (the "**Court**") dated August 31, 2012, Ernst & Young Inc. was appointed as the monitor (the "**Monitor**") of, *inter alia*, Landdrill International Inc. (the "**Canadian Vendor**"), Landdrill Mexico S.A. de C.V. (the "**Mexican Vendor**"), Landdrill International LLC (the "**Mongolian Vendor**" and, together with Canadian Vendor and the Mexican Vendor, the "**Vendors**"), Landdrill International Ltd., Landdrill Atlantic Ltd, and Landdrill Contract Mining Ltd.

B. Unless otherwise indicated herein, capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the agreement of purchase and sale made as of November 6, 2012 (the "**Asset Purchase Agreement**") between the Vendors and Major Drilling Group Inc. (the "**Canadian Purchaser**"), Major Drilling de Mexico S.A. de C.V. (the "**Mexican Purchaser**") and Major Drilling Mongolia XXK (the "**Mongolian Purchaser**" and, together with the Canadian Purchaser and the Mexican Purchaser, the "**Purchasers**").

C. Pursuant to an Order of the Court dated November 14, 2012, the Court approved the Asset Purchase Agreement and provided for, among other things, the vesting in the Mongolian Purchaser of the Mongolian Vendor's right, title and interest in and to the Mongolian Assets, which vesting is to be effective with respect to the Mongolian Assets upon the delivery by the Monitor to the Mongolian Purchaser of a certificate certifying (a) receipt of the Mongolian Deposit and the balance of the Mongolian Purchase Price by the

Monitor; and (b) receipt of confirmation from the Mongolian Vendor and the Mongolian Purchaser that the Mongolian Conditions have been satisfied or waived by the Mongolian Vendor and the Mongolian Purchaser, as applicable.

THE MONITOR CERTIFIES the following:

1. The Monitor has received the Mongolian Deposit and the balance of the Mongolian Purchase Price for the Mongolian Assets payable on the Mongolian Closing Date pursuant to the Asset Purchase Agreement;

2. The Monitor has received written confirmation from the Mongolian Vendor and the Mongolian Purchaser that the Mongolian Conditions have been satisfied or waived by the Mongolian Vendor and the Mongolian Purchaser, as applicable; and

3. This Monitor's Mongolian Certificate was delivered by the Monitor to the Mongolian Purchaser on December 20 2012.

Ernst & Young Inc., in its capacity as the Court-appointed Monitor of Landdrill International LLC and not in its corporate or personal capacity, for and on behalf of Landdrill International LLC

Per: ____________________________

Name: Paul D Hickey
Title: Senior Vice President

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