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)**

# THIRTEENTH REPORT OF THE MONITOR

May 29, 2013

## INTRODUCTION

1. On August 31, 2012, Landdrill International Inc., a British Columbia corporation ("**Landdrill BC**"), Landdrill International Ltd., a New Brunswick corporation ("**Landdrill NB**"), 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**"), 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. By Court Order dated April 8, 2013, the Stay Period was further extended until and including May 31, 2013.

**PURPOSE**

3. This Thirteenth Report of the Monitor (the "**Thirteenth Report**") is filed in connection with the motion filed by Norrep on May 24, 2013, returnable May 30, 2013, (the "**Termination Motion**") seeking an order, among other things:

(a) Distributing the proceeds of the sale of the assets of the Applicants in the possession of the Monitor;

(b) Approving the reports and activities of the Monitor;

(c) Approving the fees and disbursements of the Monitor and its counsel;

(d) Discharging the Monitor;

(e) Terminating the remaining Court-ordered super-priority Charges provided for in the Initial Order;

(f) Terminating these CCAA Proceedings; and

(g) Transitioning each of Landdrill NB and Landdrill BC from these CCAA Proceedings to a bankruptcy.

4. The Thirteenth Report is organized as follows:

   (a) Introduction;

   (b) Purpose;

   (c) Terms of Reference;

   (d) Operational Update;

   (e) Update on Sale of and/or Collection on Remaining Assets;

   (f) Senior Lender Update;

   (g) Request for Termination of the CCAA Proceedings;

   (h) Distributions;

   (i) Applications for Bankruptcy Orders; and

   (j) Monitor's Conclusions.

**TERMS OF REFERENCE**

5. In preparing the Thirteenth 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 Thirteenth 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 Thirteenth Report or relied upon by the Monitor in preparing the Thirteenth 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 Thirteenth Report are in Canadian dollars unless otherwise noted.

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

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

## OPERATIONAL UPDATE

9. As of the date of this Thirteenth Report, Landdrill Canada continues to employ four head office employees. The manager of Landdrill Mexico's drilling operations and the other employees working in Mexico, all of whom were employed by Landdrill Canada, have been terminated and re-hired by Landdrill Mexico. The employment of all employees of Landdrill BC and Landdrill NB will be automatically terminated should this Court issue an order placing those companies into bankruptcy pursuant to the applications for bankruptcy orders filed by Norrep and described more fully below.

10. Landdrill Mexico has seven drills operating on customer sites in Mexico. No rigs are operating in any other country.

11. As discussed in the Sixth and Tenth Reports, Landdrill Russia currently employs three staff in its offices in Russia. Landdrill BC utilizes the services of a consultant to travel to Russia to liaise with Landdrill Russia's staff and to assist with various business matters. The Monitor not aware of any ongoing drilling operations in Landdrill Russia.

## UPDATE ON SALE OF AND/OR COLLECTION ON REMAINING ASSETS

Notre Dame Building

12. The Monitor, on behalf of Landdrill NB, and the Purchaser entered into a binding promise to purchase (as amended, the "**Purchase Agreement**") on March 22, 2013, which contemplated that the Seller would sell and the Purchaser would purchase Landdrill NB's real property located at 75 Chemain Ontario, Notre Dame-du-Nord, Quebec, J0Z 3B0 and the building located thereon (collectively, the "**Notre Dame Building**") (the "**Transaction**"). By Order dated April 29, 2013, this Court approved the sale of the Notre Dame Building (the "**Notre Dame Order**").

13. Following the issuance of the Notre Dame Order, the Monitor, with the assistance of counsel, has worked with the real estate agent and the Purchaser to close the Transaction. Subsequent to the receipt of the Notre Dame Order and despite having a binding offer, the Purchaser attempted to impose an additional condition on the Transaction. Since delivering a demand letter on the Purchaser, the Monitor has continued to work with the Purchaser, counsel and the real estate agent in an attempt to close the Transaction.

The Canadian Trade Accounts Receivable

14. The remaining book value of the Canadian Trade Accounts Receivable is approximately $400,000 comprised entirely of potentially uncollectible pre-filing amounts. The Monitor understands from discussions with Management that the trade account debtors either dispute the validity of the invoices or do not have adequate liquidity to pay the invoices.

The Mongolian Tender Process

15. The Mongolian Transaction was scheduled to close on March 14, 2013. Immediately prior to the time of the scheduled closing and notwithstanding that the deadline for the Purchaser to conduct due diligence had expired and that the Purchaser had agreed to purchase the Shares on an "as-is, where-is" basis, the Purchaser advised the

Monitor it would not close the transaction until it was aware of and satisfied with the results of an ongoing tax audit in Mongolia.

16. On March 28, 2013, the Monitor, in order to resolve the impasse, agreed with the Purchaser that upon receipt of the Purchase Price, the Monitor would place US$25,000 of the Purchase Price in escrow until the earlier of the completion of the tax audit and two months following closing.

17. If the tax audit is concluded within such two month period and results in a finding of liability in respect of Landdrill Mongolia then the Seller and the Purchaser will share such liability 50/50, subject to a cap of US$25,000 on any obligation of the Seller, which shall be paid from the escrowed funds. Any amount remaining in escrow following satisfaction of any such liability will be released to the Monitor. Any liability over US$50,000 shall be the sole responsibility of the Purchaser. If the tax audit is not completed within such two month period then the escrowed funds shall be released to the Monitor.

18. On March 28, 2013, the Purchaser informed the Monitor that he would wire the Purchase Price to the Monitor's trust account but the wires were not received by the Monitor, as described in the Eleventh Report. On April 27, 2013, the Monitor received a wire for US$697,250. Contrary to the revised Share Purchase Agreement, the Purchaser has not yet sent the final US$200,000 wire pending completion of the tax audit. Management has been actively working with certain of Landdrill Mongolia's former employees to facilitate completion of the tax audit and the Monitor, in consultation with the Applicants and Norrep, has continued its efforts to complete the Transaction.

Russian Equipment & Inventory

19. The Monitor understands that Landdrill Russia has realized approximately $5,000 from the sale of equipment and inventory and Management is continuing to work with Landdrill Russia to attempt to sell the remaining equipment and inventory, in small lots if necessary.

<u>Russian Trade Accounts Receivable</u>

20. As previously reported to the Court, the Monitor understands that Landdrill Russia and the Applicants have negotiated the terms of a settlement of the Russian Trade Accounts Receivable of approximately US$500,000 (the "**Prognoz Agreement**") owing from Prognoz, a Russian subsidiary of Silver Bear Resources Inc., a Canadian company listed on the TSX Venture Exchange ("**Silver Bear**"). The Monitor understands that this transaction has not yet closed, but that Prognoz has executed the Prognoz Agreement and that Landdrill Russia will be counter-signing it on or about May 31, 2013.

<u>Russian Judgment</u>

21. As previously reported, on August 30, 2012, Landdrill Russia obtained a US$1,744,512 court award relating to a dispute with PDRUS, a customer of Landdrill Russia (the "**Russian Judgment**"). Currently the award stands at approximately US$1,605,000 of which approximately $3,300 is for VAT on the demobilization portion of the claim.

22. The Monitor previously reported that Landdrill Russia applied for a Writ of Execution and the Execution Office confirmed that PDRUS has only seven bank accounts in Russia. The Execution Order was presented to the bank in Khabarovsk, Russia which holds four of PDRUS's seven bank accounts. There was less than US$6,000 on deposit in those four accounts which has been transferred to Landdrill Russia's bank account.

23. The Monitor understands that Landdrill Russia presented the Execution Order to the bank holding the other three PDRUS bank accounts in St. Petersburg, Russia, the location of PDRUS's head office, and received payment of US$1,538,604.

24. The Monitor further understands that an employee of Landdrill Russia and the Canadian consultant assisting the Applicants with its administration of Landdrill Russia were paid a combined bonus of US$165,500 in respect of the collection of this amount.

25. In addition to the funds received through the execution process described above, Landdrill Russia may also seek a cash award from PDRUS in lieu of the court-ordered requirement that PDRUS return certain assets to Landdrill Russia.

**SENIOR LENDER UPDATE**

26. In the weeks immediately following the granting of the Initial Order, the Senior Lenders negotiated a formula for the allocation of any amounts secured by the super-priority Court-ordered Charges against the Property, which is also subject to the Senior Lenders' security. The formula is set forth in the Comeback Order dated September 27, 2012.

27. Subsequent to the granting of the Comeback Order and the sale of the Canadian Assets to Major on November 20, 2012 and the sale of the Mongolian Assets on December 21, 2012, a dispute arose between Norrep and GE regarding:

    (a) The entitlement of Norrep and GE to the sale proceeds of the Canadian Assets and the Mongolian Assets; and

    (b) The allocation of the Charges and the costs of the CCAA proceedings between Norrep and GE.

28. On February 15, 2013, Norrep purchased the Sprott Secured Debt and all security held by Sprott in relation to the Sprott Secured Debt thereby reducing the number of Senior Lenders to two, i.e., Norrep and GE.

29. On April 5, 2013, Norrep filed a motion, returnable April 19, 2013, seeking an Order that the Monitor be directed to prepare a report setting out the recommendations of the Monitor regarding a methodology for allocating the costs of the CCAA proceedings among the Senior Lenders (the "**Norrep Allocation Motion**").

30. On April 12, 2013, GE filed a motion (the "**GE Distribution Motion**"), returnable April 19, 2013, seeking, inter alia, an Order of this Court:

(a) Allocating the sum of $3,673,500 from the Canadian Proceeds to the GE Collateral and directing the Monitor to distribute, free and clear of any and all liens, claims and charges including the charges created by the Initial Order, to GE Canada from:

   (i) The Canadian Proceeds;

   (ii) The proceeds from the sale of the assets/shares of Landdrill Mongolia whether now or hereafter held by the Monitor; and

   (iii) The proceeds to be realized by the Monitor from the sale of the assets of Landdrill Russia;

   an amount sufficient to satisfy, in full, the GE Debt;

(b) Declaring that Norrep and Landdrill Inc. are entitled to share rateably, relative to the amount of their respective unsecured claims, in the "Mongolian Proceeds and the Russian Proceeds; and

(c) Declaring that the security interest of GE Canada in the accounts receivable and other intangible assets of Landdrill Inc. ranks in priority to the interest of Norrep, if any, in such assets.

31. The Norrep Allocation Motion was heard on April 19, 2013. On the same date, the GE Distribution Motion was adjourned until May 30, 2013. On May 10, 2013, this Honourable Court directed the Monitor to "*file a written report to the Court with all the pros and cons of granting Norrep's Motion and providing the Court with a recommendation*" (the "**Allocation Report**").

32. Subsequent to the Court's direction to the Monitor to prepare the Allocation Report, the Monitor initiated discussions with the Senior Lenders to provide its views on the process the Monitor would have to undertake to prepare the Allocation Report including the potential costs and temporal and other implications thereof.

33. The Monitor also began negotiations with the two Senior Lenders in an attempt to resolve the outstanding distribution and allocation disputes. As a result of these negotiations, undertaken between the Monitor and the Senior Lenders and their counsel in good faith, and an offer by the Monitor and its counsel to provide a fee

reduction in order to bridge the remaining gap between the parties, the Monitor was able to facilitate a settlement between Norrep and GE whereby an agreement (the "**Norrep/GE Agreement**") was reached in respect of an amount that would be paid to GE, from the proceeds of sales held by the Monitor, in full and final settlement of the Applicants' obligations to GE. The settlement is proposed to be implemented through the Termination Motion.

34. As a result of the Norrep/GE Agreement, the Norrep Allocation Motion, the GE Distribution Motion and the Allocation Report have been rendered moot.

35. The sales of the operating assets of Landdrill Canada and Landdrill Mongolia have been completed. The only Landdrill entity still operating is Landdrill Mexico.

36. Significant difficulties have been experienced attempting to complete a sale of the operating assets of Landdrill Mexico within the context of an insolvency proceeding. The Monitor understands that Norrep and the Applicants have reached an agreement to seek the approval of this Court to terminate the CCAA Proceedings, including in respect of Landdrill Mexico, on the basis described more fully below.

**REQUEST FOR TERMINATION OF THE CCAA PROCEEDINGS**

37. The Termination Motion seeks an Order from the Court, inter alia, providing for the termination of these CCAA Proceedings, a transition from these CCAA Proceedings to a bankruptcy of Landdrill NB and Landdrill BC, and the following consequential relief (the "**Termination and Transition Order**"):

    (a) "Authorizing and directing Ernst & Young Inc., the court-appointed monitor of the Applicants (the "**Monitor**"), to distribute the proceeds of sale of the assets of the Applicants in the possession of the Monitor;

    (b) Approving certain proposed Stalking Horse Agreements and Bid Processes for the sale of certain of the assets of Landdrill International Ltd. ("Landdrill NB") and Landdrill International Inc. ("Landdrill BC");

    (c) Approving the reports and activities of the Monitor;

(d) Approving the fees and disbursements of the Monitor;

(e) Discharging the Monitor;

(f) Terminating the remaining court-ordered Charges provided for in the Initial Order;

(g) Terminating these CCAA proceedings; and

(h) Providing for a transition from these CCAA proceedings to the bankruptcy of Landdrill NB and the bankruptcy of Landdrill BC."

38. To facilitate the granting of the approval of the fees and expenses of the Monitor, including the fees and expenses of its counsel, as required by Paragraph 36 of the Initial Order, the Monitor and its counsel have sworn the affidavits of Paul D. Hickey and Ashley John Taylor, respectively, which have been filed with the Court.

39. Should the Termination and Transition Order be granted, the Monitor understands that the status of each of the Applicants and certain of their subsidiaries will be as follows:

(a) Landdrill BC and Landdrill NB – These Applicants will transition into bankruptcy proceedings. The Monitor understands that Norrep intends to enforce its rights with respect to the related party inter-company accounts receivable of Landdrill BC under its security pursuant to the New Brunswick *Personal Property Security Act*, SNB, 1993, c P 7.1 (the "**PPSA**") rather than through the mechanism of a stalking horse process, as contemplated by the Termination Motion;

(b) Landdrill Mongolia – The shares of this Applicant are owned by Landdrill NB and subject to the Mongolian Share Purchase Agreement which has not yet closed. The Termination and Transition Order provides that the trustee in bankruptcy of Landdrill NB may assume the rights and obligations of the Monitor set out in the Order of this Court dated February 15, 2013 re the Approval of Mongolian Share Purchase Agreement;

(c) Landdrill Barbados – The shares of this Applicant are owned by Landdrill NB. The Monitor understands that Norrep intends to enforce its rights with respect to these shares under its security pursuant to the PPSA rather than through the mechanism of a stalking horse process, as contemplated by the Termination Motion;

(d) Landdrill Netherlands - Fifty percent of the shares of this company, which is not an Applicant, are owned by Landdrill NB. The Monitor understands that Norrep intends to enforce its rights under its security pursuant to the PPSA. The remaining 50% of the shares of Landdrill Netherlands are owned by Landdrill Barbados (which is 100% owned by Landdrill NB as noted above);

(e) Landdrill Russia - This company is not an Applicant but is 100% owned by Landdrill Netherlands whose shares will be dealt with as referred to above. The Monitor understands that Landdrill Russia will continue to maintain a minimal level of administrative activity to facilitate repatriation of the approximately net US$1.5 million recently collected in respect of the Russian Judgment and to continue its efforts to realize and or collect on the remaining assets as discussed above;

(f) Landdrill Mexico – This Applicant will continue to operate pursuant to an arrangement which it has negotiated with Norrep; and

(g) Landdrill Atlantic & Landdrill Contract Mining – These Applicants are inactive companies with nominal or no assets and presumably will ultimately be struck from the record.

**DISTRIBUTIONS**

Overview

40. Attached hereto as Appendix "**A**" is a consolidated Statement of Receipts and Disbursements prepared by the Monitor for the period August 31, 2012 to May 27, 2013 (the "**SRD**").

41. The SRD shows total receipts of $6,582,045.55 which is comprised of:

(a) $5,654,498.07 being the proceeds from the completed sales of the Property of the Applicants plus $23,766.97 of interest earned thereon. The composition of this amount is provided below;

(b) $803,269.97 being the proceeds from the pending sale of the shares of Landdrill Mongolia plus $206.71 of interest earned thereon; and

(c) $100,000.00 received by the Monitor from the Applicants pursuant to Court Order dated November 15, 2012 with respect to the Gold Canyon dispute plus $303.83 of interest earned thereon.

42. As noted above, as of May 27, 2013, the total amount of realizations received by the Monitor from the completed sales of the Property was $5,678,265.04 including interest earned thereon and is comprised of the following:

(a) Sale of Landdrill Canada's assets to Major including HST and QST: $4,619,655.90;

(b) Sale of Landdrill Mongolia's assets to Major including VAT: $906,864.05;

(c) Moncton Auction Proceeds including HST: $127,978.12; and

(d) Interest earned: $23,766.97.

43. The Monitor has disbursed the following amounts as authorized and directed by this Court or as a result of bank charges incurred in relation to the operation of the Monitor's trust accounts:

(a) The Monitor disbursed $100,285.08 to Gold Canyon pursuant to the Court Order dated February 15, 2013;

(b) The Monitor paid $272,778.44 and $303,774.30 to Landdrill NB in respect of QST and HST, respectively, for remittance to the appropriate tax authorities. The HST was comprised of the $257,776.60 paid by Major to the Monitor, for and on behalf of the Applicants, in relation to its purchase of Landdrill Canada's assets and $15,001.84 collected by the Monitor, for and on behalf of the Applicants, in relation to the Moncton Auction. The QST was paid by Major to the Monitor, for and on behalf of the Applicants, in relation to its purchase of Landdrill Canada's assets. The Monitor understands that the Applicants are in the process of making these remittances but had not completed that process at the time of issuance of this Report;

(c) The Monitor paid $83,539.00 to Landdrill Mongolia in respect of VAT for remittance to the appropriate tax authority. This amount was initially paid by Major to the Monitor, for and on behalf of the Applicants, in relation to its purchase of Landdrill Mongolia's assets;

(d) As directed and authorized by Court Order dated April 29, 2013, the Monitor disbursed $165,892.19, inclusive of HST, to Clarus in respect of its sale commissions arising from the sales of Landdrill Canada's and Landdrill Mongolia's operating assets to Major; and

(e) The Monitor has incurred and paid bank charges totalling $68.99 in relation to the operation of the Monitor's trust accounts.

<u>Proceeds held by the Monitor as at May 27, 2013</u>

44. As at May 27, 2013, the Monitor had a total of $5,655,707.55 in its trust accounts (including interest earned less bank charges and less HST, QST and Mongolian VAT which amounts have been disbursed by the Monitor to the Applicants for remittance to the appropriate tax authorities) which is comprised of the following:

(a) Net proceeds from completed sales of Property totalling the net amount of $4,852,231.62 (the "**Landdrill Asset Sale Proceeds**"):

(i) Net proceeds from the sale of Landdrill Canada's assets to Major: $3,941,041.70;

(ii) Net proceeds from the sale of Landdrill Mongolia's assets to Major: $797,975.85; and

(iii) Net Moncton Auction Proceeds: $113,214.07; and

(b) Non-distributable proceeds from the Mongolian Share Sale Transaction in progress:

(i) Non-refundable Deposit: $100,605.00;

(ii) Partial payment from Purchaser in respect of the Mongolian Share Sale: $702,664.97; and

(iii) Interest earned less bank charges thereon: $205.96.

Proposed Distributions

45. As outlined in the proposed Termination and Transition Order, the relief being sought includes the distribution of the Landdrill Asset Sale Proceeds, in the aggregate amount of $4,852,231.62, free and clear of any and all claims, liens and encumbrances, including the Charges, to the following parties in the following amounts, namely:

(a) To GE the amount of $3,018,500 (the "**GE Payment Amount**") from and out of the Landdrill Asset Sale Proceeds on account of all obligations of the Applicants owed to GE;

(b) To Ally Credit Canada Limited ("**Ally**") the amount of $240,301.73 (the "**Ally Payment Amount**") on account of the amounts owing to Ally by Landdrill NB, Landdrill BC and Landdrill Atlantic Ltd. ("**Landdrill Atlantic**") pursuant to various conditional sale contracts between Ally (on the one hand) and Landdrill NB, Landdrill BC and Landdrill Atlantic (on the other hand) (the "**Ally Conditional Sale Contracts"**);

(c) To De Lage Landen Financial Services Canada Inc. ("**De Lage**") the amount of $11,346.73 (the "**De Lage Payment Amount**") on account of amounts owing to De Lage by Landdrill NB and Landdrill BC pursuant to a lease contract between De Lage (on the one hand) and Landdrill NB and Landdrill BC (on the other hand) in regard to a Hyundai Forklift (the "**De Lage Lease**");

(d) To First Insurance Funding of Canada Inc. ("**First Insurance**") the amount of $58,076.69 pursuant to a settlement reached by the Senior Lenders, the Applicants and the First Insurance, subject to approval by this Court;

(e) To the employees of Landdrill BC, Landdrill NB and Landdrill Atlantic all wages, salaries, commissions and compensation for services rendered, including all statutory remittances related thereto, during the CCAA proceedings (but not including, for greater certainty, any severance or termination payments), and for such purposes the Monitor shall create and hold a reserve in the amount of $75,000.00. The balance of such reserve, following payment of such amounts to the employees of Landdrill BC, Landdrill NB and Landdrill Atlantic, shall be paid to Norrep;

(f) To the Canada Revenue Agency ("CRA") an amount equal to the HST collected of $272,778.74 and to Revenu Quebec an amount equal to the QST collected of $303,774.30 in connection with the asset sales conducted by the Monitor, for and on behalf of the Applicants, and for such purposes the Monitor shall create and hold a reserve in the amount of $576,552.74. The balance of such reserve, following payment of such amounts to CRA and Revenu Quebec by the Applicants before May 30, 2013, otherwise, by the Monitor on or after May 30, 2013, shall be paid to Norrep;

(g) To Ernst & Young Inc., in its capacity as the Court-appointed Monitor of the Applicants, the amount of $59,882.03 (the "**Monitor's Unpaid Fees Amount**") on account of professional fees and disbursements of the Monitor incurred prior to May 24, 2013, which remain unpaid, and on account of an estimate of professional fees and disbursements of the Monitor to be incurred to complete its duties under the Termination and Transition Order;

(h) To Stikeman Elliott LLP, in its capacity as counsel to the Monitor, the amount of $83,999.57 (the "**Monitor Counsel's Unpaid Fees Amount**") on account of professional fees and disbursements of the Monitor's counsel incurred prior to May 24, 2013, which remain unpaid, and on account of an estimate of professional fees and disbursements of Stikeman Elliott LLP to be incurred to complete its duties under the Termination and Transition Order;

(i) To Ernst & Young Inc., in its capacity as the Court-appointed Monitor of the Applicants, the amount of $24,181.41 on account of professional fees and disbursements of the legal firms other than Stikeman Elliott LLP who have assisted the Monitor in these CCAA Proceedings;

(j) To any unpaid suppliers ("**Unpaid Suppliers**") who supplied goods and/or services subsequent to the Initial Order and remain unpaid, and for such purposes the Monitor shall create and hold a reserve in the amount of $50,000.00. The balance of such reserve, following payment of such amounts to Unpaid Suppliers, shall be paid to Norrep; and

(k) To Norrep, the remainder of the Landdrill Asset Sale Proceeds (the "**Norrep Remainder Amount**"), estimated to be $654,390.72, on account of the indebtedness owed to Norrep by the Applicants.

46. In preparation for the Termination Motion the Monitor sought information from the Applicants as to whether they are aware of any claims against the Applicants that might enjoy priority over the claims of the Senior Lenders. Based upon the information received as of the time of this report, the Monitor is not aware of any claims by any party that rank in priority to those parties who will receive a distribution should the Termination and Transition Order be granted. In addition, the Monitor worked with Norrep in an attempt to create an expanded service list for the Termination Motion that included all of the entities that might have a priority claim.

47. As previously reported, there are no amounts owing under the DIP Loan approved by this Court. Also, no person filed a claim with the Monitor against the Directors and

Officers pursuant to the D&O Claims Process. The Monitor is informed by the Applicants that they are not aware of any party asserting such a claim and the Monitor has not been notified of any party asserting such a claim.

**APPLICATIONS FOR BANKRUPTCY ORDERS**

48. As discussed above, on May 24, 2013, Norrep served a Notice of Motion returnable on May 30, 2013, seeking an Order from the Court, inter alia, providing for the termination of these CCAA Proceedings and a transition from these CCAA Proceedings to bankruptcies of Landdrill NB and Landdrill BC.

49. The Monitor understands that Grant Thornton Limited, of Saint John, New Brunswick, a trustee duly licensed under the provisions of the *Bankruptcy & Insolvency Act*, R.S.C., 1985, c. B-3, has consented to act as Trustee of the estates in bankruptcy of Landdrill NB and Landdrill BC should this Court issue bankruptcy orders against either or both of them.

**MONITOR'S CONCLUSIONS**

50. The Termination Motion represents the process for the implementation of a negotiated settlement of and compromise on numerous contentious issues that previously existed or have arisen among the Applicants and their stakeholders. In the opinion of the Monitor, the Termination Motion and the actions contemplated thereby provide for an efficient, cost-effective manner of terminating these CCAA Proceedings and transitioning to enforcement processes. The Termination Motion should also allow the operations of Landdrill Mexico to continue to the benefit of its employees, customers and suppliers, and hopefully, in the fullness of time, its creditors and shareholders. The Monitor supports the Termination Motion and the issuance of the Termination and Transition Order.

ALL OF WHICH is respectfully submitted this 29th day of May, 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

Steven McLaughlin CA, CIRP
Manager

**Thirteenth Report of the Monitor**
**May 29, 2013**
**Appendix A**

**Landdrill International Inc. *et. al.***
**CONSOLIDATED STATEMENT OF RECEIPTS AND DISBURSEMENTS**
**Funds held in trust by the Monitor for and on behalf of the Applicants**
**Dated May 27, 2013**

| | | |
|---|---|---|
| **RECEIPTS** | | |
| Gold Canyon Reserve | $ | 100,000.00 |
| Landdrill Canada Sale of Operating Assets to Major including HST & QST | | 4,619,655.90 |
| Landdrill Mongolia Sale of Operating Assets to Major | | 906,864.05 |
| Moncton Auction | | 127,978.12 |
| Pending Mongolian Share Sale Transaction | | 803,269.97 |
| Interest earned | | 24,277.51 |
| **TOTAL RECEIPTS** | **$** | **6,582,045.55** |
| **DISBURSEMENTS** | | |
| Gold Canyon Settlement (including interest) | $ | 100,285.08 |
| HST Paid to Landdrill International Ltd (a New Brunswick Corporation) for remittance to CRA related sale of Canadian operating asset to Major | | 303,774.30 |
| QST Paid to Landdrill International Ltd (a New Brunswick Corporation) for remittance to Revenu Quebec related to the sale of Canadian operating assets to Major | | 257,776.60 |
| VAT Paid to Landdrill International LLC (a Mongolian Corporation) for remittance to Mongolian tax authority related to the sale of Mongolian operating assets to Major | | 83,539.00 |
| HST Paid to Landdrill International Inc. (a British Columbia Corporation) for remittance to CRA related to the Moncton Auction | | 15,001.84 |
| Clarus Fees | | 165,892.19 |
| Bank Charges | | 68.99 |
| **TOTAL DISBURSEMENTS** | **$** | **926,338.00** |
| **EXCESS OF RECEIPTS OVER DISBURSEMENTS (Bank balance as at May 27, 2013)** | **$** | **5,655,707.55** |