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)

THIRD REPORT OF THE MONITOR

October 31, 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.

PURPOSE

3. This Third Report of the Monitor (the "**Third Report**") is filed for the purpose of providing information to this Court with respect to the following:

   a. Applicants' Updated Cash Flow Projection; and

   b. Update on the Sale Process.

TERMS OF REFERENCE

4. In preparing this Third 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 this Third Report or relied upon by the Monitor in preparing this Third 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.

5. This Third Report is based on updated cash flow information made available to the Monitor by the Companies

6. All references to monetary amounts in this Third Report are in Canadian dollars unless otherwise noted.

7. Capitalized terms not defined in this Third Report are as defined in the Initial Order.

8. Copies of this Third 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**").

APPLICANTS' UPDATED CASH-FLOW PROJECTION

9. The Applicants, with the assistance of the Monitor, have prepared an updated consolidated fifteen-week cash flow projection (the "**Updated Projection**") for the purpose of projecting the estimated results of the Companies' 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 Third Report.

10. 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.

11. 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.

12. 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.

13. 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**").

14. 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.

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

16. 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 Third 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.

17. 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 Third Report, or relied upon by the Monitor in preparing this Third Report.

SALES PROCESS

18. As discussed in the First Report and the Second Report, several written non-binding EOIs were received by Clarus on or prior to the September 21, 2012 deadline, including an EOI submitted by Blue Chip Investments (a company affiliated with Mr. Goguen).

19. In paragraph 22 of the Second Report of the Monitor, the Monitor reported:

> Upon becoming aware of the involvement of a member of Management in an EOI, the Monitor asked all members of Management to disclose the extent of their involvement, if any, in the Blue Chip EOI or any other EOI. Based on the responses received, and as reported in the First Report, the Monitor, in consultation with Clarus and the Senior Lenders, determined it was prudent to exclude Management from further consideration of the EOIs due to concerns regarding their potential participation as bidders in the Sale Process. The Monitor later received satisfactory confirmation from each member of Management as to their participation in the Sale Process and the Monitor again permitted members of Management to participate in the consideration of EOIs where no conflict existed.

20. The date on which each member of Management provided the confirmation to the Monitor referred to in paragraph 22 of the Second Report was October 4, 2012.

21. Further information regarding the conduct of the Sale Process since the Second Report, is attached hereto as **Confidential Appendix "B"**. The Monitor requests that the Court seal the Confidential Appendix in order to preserve the integrity of the Sale Process.

22. As discussed in the Second Report, on October 15, 2012, the Monitor entered into exclusivity arrangements with respect to the assets located in Canada, Mexico and Mongolia, which exclusivity expired on October 26, 2012. The Monitor has agreed to extend the exclusivity period until November 2, 2012 while the parties continue to negotiate acceptable asset purchase agreements.

23. The Monitor will report to this Court on the status of the negotiations as appropriate.

ALL OF WHICH is respectfully submitted this 31st day of October, 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,
Vice President