

This is the 1st Affidavit
of Leonard Sojka in this case
and was made on October 13, 2010

No. S088893
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA
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
ADANAC MOLYBDENUM CORPORATION

PETITIONER

AFFIDAVIT

I, Leonard Sojka, of Minneapolis, Minnesota, United States of America, SWEAR THAT:

1. I am the Chief Restructuring Officer of the Petitioner ("Adanac"), and as such have personal knowledge of the facts hereinafter deposed to except where stated to be on information and belief, in which case I verily believe them to be true.

The Plan

2. In accordance with the Restructuring Term Sheet dated June 28, 2010 (the "Term Sheet") among Adanac and certain of the Lenders (as that term is defined in the Petition) (the "Senior Secured Noteholder Parties"), I have been actively working with Adanac's counsel, and with the Senior Secured Noteholder Parties and the Monitor and their respective counsel, to formulate a plan of arrangement (the "Plan") to present to Adanac's creditors. The Plan is generally as contemplated by the Term Sheet, which was approved by this Court on July 8, 2010. Words not otherwise defined herein have the same meanings as those ascribed to them in the Plan.

3. A copy of the Plan is attached hereto as **Exhibit "A"**.
4. A copy of the proposed plan information letter is attached hereto as **Exhibit "B"**.
5. Under and pursuant to the Plan:
 - (a) there are two Affected Creditor Classes, being the Senior Secured Noteholder Class and the Affected Unsecured Creditor Class (the latter includes the Senior Secured Noteholders in relation to the deficiency in their secured claim);
 - (b) there is to be an amendment of the notice of articles and articles of the Petitioner allowing for: (i) the consolidation of the Petitioner's Existing Common Shares at the rate of 150:1; (ii) the issuance of such new shares as are needed to comply with the allocation of shares to the Senior Secured Noteholders (92%) and the Affected Unsecured Creditors (5%) in full and final satisfaction of their Proven Claims (see sub-paragraph (d) below); and (iii) the retention by the Existing Shareholders of 3% of the Outstanding Common Shares;
 - (c) following consolidation of the Petitioner's Existing Common Shares, each Senior Secured Noteholders will receive, in full and final satisfaction of the Senior Secured Noteholders' Allowed Secured Claim in the amount of US\$40 million, their *pro rata* allocation of:
 - (i) the Senior Secured Noteholders' Cash Pool, if any, which cash pool will be established on the Implementation Date in an amount determined by Adanac, in consultation with the Monitor, the Chief Restructuring Officer and the Senior Secured Noteholder Parties, by taking into account the

amount of cash that Adanac will reasonably require for working capital purposes and to fulfil its obligations on the Implementation Date; and

- (ii) 92% of the Outstanding Common Shares on a fully diluted basis;
- (d) each Affected Unsecured Creditor with a Proven Claim having an aggregate value of less than or equal to \$50,000, or reduced (for distribution purposes only) at the election of the Affected Unsecured Creditor to \$50,000, shall receive a cash distribution in an amount equal to the lesser of 10% of the face amount of its Proven Claim and \$5,000 in full and final satisfaction of its Proven Claim, or, if an Affected Unsecured Creditor with a Proven Claim of less than or equal to \$50,000 so elects, it will receive a distribution of shares as described in sub-paragraph (e) below, in full or final satisfaction of its Proven Claim; and
- (e) following the Existing Share Consolidation (referred to above), each Affected Unsecured Creditor with a Proven Claim who does not receive a cash distribution as described in sub-paragraph (d) above, will receive their *pro rata* share of 5% of the Outstanding Common Shares on a fully diluted basis in full and final satisfaction of their Proven Claim.

6. It is my view that the Plan is both fair and reasonable, is in the best interests of Adanac's stakeholders and should be presented to Adanac's creditors. This view is based on the following:

- (a) there would likely be no return to Adanac's unsecured creditors in the event of a receivership, bankruptcy or liquidation of Adanac's assets, and in fact the Lenders would undoubtedly suffer a significant shortfall in realizing on their secured claims against Adanac; and

- (b) despite Adanac's significant marketing and sale efforts over the last two years, it has been unable to find alternative financing or a purchaser for its assets and business in an amount that came remotely close to the secured amount owed to the Lenders.

7. As noted above, at the insistence of Adanac's board of directors and as contemplated by the Term Sheet, the Plan preserves 3% of the emergent company's equity for the existing shareholders of Adanac. While that is, obviously, a significant dilution of the shareholders' equity, given the above-mentioned shortfall in the Lenders' security and the likely alternatives to the Plan, being a receivership or liquidation by other means, the Plan is, in my view, a good result for the existing shareholders.

8. In recognition of the fact that the existing shareholders are in any other scenario "out of the money", it is a requirement of the Term Sheet that Adanac obtain an order of this Court dispensing with the need for the existing shareholders' approval of the Plan, the necessary amendments to Adanac's notice of articles and articles, and the subsequent consolidation and distributions of shares. In my view, considering that absent the Plan, the existing shareholders would receive nothing, and considering the costs and attendant delays of holding a shareholders meeting, I see no reason to take that step and respectfully request that this Court order that it be dispensed with.

9. On October 13, 2010, Adanac issued a press release, a copy of which is attached hereto as **Exhibit "C"**. In the press release, Adanac advises its existing shareholders of its application for the Creditors' Meeting Order and its intention to seek an order of this Court dispensing with

the need for shareholder approval of the Plan and the amendments of Adanac's notice of articles and articles.

10. As to the proposed timing of the restructuring, it is a term of the Term Sheet that it shall terminate automatically if the Plan is not implemented on or before November 30, 2010. Accordingly, the following timeline is contemplated:

- (a) publication of the Notice to Creditors in the Designated Newspapers, publication on the Monitor's Website of the Meeting Materials, distribution by the Monitor of the Creditors' Meeting Materials to the Affected Creditors, and issuing and filing with SEDAR a press release giving notice of the Creditors' Meetings, by October 22, 2010;
- (b) a Voting Record Date of October 25, 2010;
- (c) meetings of the Affected Creditor Classes on November 9, 2010;
- (d) issuing and filing a press release with SEDAR giving notice of the Sanction Hearing by November 10, 2010;
- (e) deadline for the filing of notice of any objections to the Sanction Order of 10:00 a.m. (Vancouver Time) on November 18, 2010; and
- (f) hearing of the application for the Sanction Order on November 19, 2010.

11. Given that the Initial Distribution Date pursuant to the Plan is to be the first Business Day that is five days after the Implementation Date, it is anticipated that the majority of Adanac's creditors would receive distributions, and Adanac will have implemented its Plan, before the end of 2010. This would, in my view, be beneficial for all stakeholders and, accordingly, Adanac

respectfully seeks the necessary orders of this Court to enable the restructuring to occur within the contemplated timeline.

Termination Agreements

12. As contemplated by the Term Sheet, in order to fund working capital, Adanac has terminated certain of its equipment supply contracts where such termination would result in a payment to Adanac.

13. Two such equipment supply contracts are:

(a) the agreement in the form of purchase order No. P-310 dated October 1, 2007, as amended and/or supplemented from time to time, including by purchase order No. P-310 REV1 dated January 22, 2008 (the "**Metso Agreement**") between Adanac and Metso Minerals Canada Inc. ("**Metso**"); and

(b) the agreement in the form of purchase order No. P-323 dated September 17, 2007, as amended and/or supplemented from time to time, including by change order dated October 15, 2008 (the "**Humboldt Agreement**") between Adanac and Humboldt Wedag Inc. ("**Humboldt**").

14. In or around April and May 2010, Kibben Jackson of Fasken Martineau DuMoulin LLP, counsel for Adanac, contacted counsel for Metso and counsel for Humboldt to discuss whether their respective clients wished to enter into agreements with Adanac whereby a portion of the contract price pursuant to the Metso Agreement and the Humboldt Agreement, respectively, would be refunded to Adanac, in exchange for which Metso and/or Humboldt would be free to deal with the relevant equipment in its sole discretion.

15. I am pleased to report that, following negotiations between their respective counsel in the intervening months, in early September 2010, Adanac and Metso reached agreement on the commercial terms for a termination agreement in respect of the Metso Agreement. Metso required the approval and a vesting order of this Court in order to ensure that Metso was able to deal with the equipment that was subject to the Metso Agreement free of any charges and encumbrances (including the Court-ordered Administrative Charge and Directors' and Officers' Charge).

16. Attached hereto as **Exhibit "D"** is a copy of the executed termination agreement between Metso and Adanac (the "**Metso Termination Agreement**").

17. In or around early August 2010, I contacted Tom Cosgrove, Manager – Contract Administration for Humboldt, and counsel for Adanac contacted counsel for Humboldt, to again raise the possibility of the refund by Humboldt to Adanac of part of the contract price in exchange for termination of the Humboldt Agreement. I am pleased to report that, following negotiations in the intervening months, Adanac and Humboldt have concluded a termination agreement (the "**Humboldt Termination Agreement**") with respect to the Humboldt Agreement. Attached hereto as **Exhibit "E"** is a copy of the executed Humboldt Termination Agreement.

18. Adanac seeks this Court's authorization to enter into the Metso Termination Agreement and the Humboldt Termination Agreement and to carry out the transactions contemplated thereby. Adanac also seeks orders vesting the relevant equipment in Metso and Humboldt respectively, as contemplated by the termination agreements.

19. It is anticipated that Adanac may enter into further termination agreements and/or wish to dispose of certain pieces of equipment prior to its emergence from CCAA protection. Given the nature and value of the equipment in question, it is likely that most, if not all, of these transactions would require Court approval as the amounts involved would exceed the monetary limits set out in sub-paragraph 16(b)(i) of the Initial Order. In order to minimize the costs associated with repeated Court applications, it would be helpful if these limits could be eliminated. Given that, pursuant to the Initial Order, Monitor and Lender approval of any asset disposal or termination agreement would be required, it is my view that the interests of Adanac's creditors would be adequately protected, even in the absence of a requirement for Court approval.

Updated Cash Flows

20. Attached hereto as **Exhibit "F"** is a comparison of the projected cash flow to the actual cash flow for the period December 1, 2008 through September 30, 2010 (the "**Cash Flow Comparison**"). As can be seen, Adanac's actual cash balance at September 30, 2010 was more than projected by approximately \$750,000. This positive variance is due primarily to various costs being lower than expected by approximately \$1.6 million, offset by approximately \$851,000 of reduced cash receipts, composed primarily of the British Columbia Mining Exploration Tax Credit refund claim which is being challenged by Canada Revenue Agency.

21. Attached hereto as **Exhibit "G"**, is a copy of an updated cash flow projection for the period from October 1, 2010 to January 31, 2011 (the "**Ninth Cash Flow Projection**"). The Ninth Cash Flow Projection has been reviewed by the Monitor, who has not raised any concerns about it with Adanac. The Ninth Cash Flow Projection indicates that, from October 1, 2010 to

January 31, 2011, Adanac will receive approximately \$2.8 million, of which approximately \$2.7 million relates to realizations pursuant to the Metso Termination Agreement and the Humboldt Termination Agreement.

22. Over the same period, it is estimated that Adanac will require a total of approximately \$1.2 million to fund its day to day business operations and continuing restructuring process to the end of January 2011, including the convening of the Creditors' Meetings and implementation of the Plan and related applications to Court. This all results in a projected net cash inflow of approximately \$1.6 million.

23. Adanac seeks an extension of the Stay to the Final Distribution Date. While Adanac cannot anticipate when exactly that will be, it is hoped that it will be before the end of January 2011, if not sooner.

SWORN BEFORE ME at *SURREY*,)
British Columbia, on October *13*,)
2010)
)
)
)
)
)
A Commissioner for taking Affidavits for)
British Columbia)

Leonard Sojka

LEONARD SOJKA

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"Witnessed as to execution only.
No advice sought or given."

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AFFIDAVIT OF LEONARD SOJKA

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