



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
AND
IN THE MATTER OF
ADANAC MOLYBDENUM CORPORATION

MONITOR'S TENTH REPORT

October 8, 2010

**IN THE MATTER OF
ADANAC MOLYBDENUM CORPORATION**

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1.0 INTRODUCTION

- 1.1 On December 19, 2008, Adanac Molybdenum Corporation (“Adanac” or the “Company”) filed an application pursuant to the provisions of the *Companies’ Creditors Arrangement Act* (“CCAA”) in the Supreme Court of British Columbia (the “Court”) and the Court granted an order (the “Initial Order”) which, among other things, appointed KPMG Inc. as Monitor (the “Monitor”) of Adanac.
- 1.2 This is the Monitor’s Tenth Report in these proceedings (the “Proceedings”). It is intended to provide information to the Court and to Adanac’s stakeholders regarding the affairs of the Company generally since the Monitor issued its Ninth Report and, in particular, with respect to Adanac’s application seeking Court approval to file a plan of compromise and arrangement dated October 8, 2010 (“the Plan”), hold meetings of creditors to vote on the Plan and the proposed restructuring contemplated thereby, and obtain an extension of the Stay of Proceedings to December 31, 2010.

2.0 SCOPE LIMITATIONS AND RESTRICTIONS

- 2.1 The information contained in this report has been obtained from the records of the Company and is based upon discussions with, and representations made by, Adanac's Management and other professional advisors retained in this matter. The accuracy and completeness of the financial information contained herein has not been audited or otherwise verified by the Monitor or KPMG LLP nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about the Company. Accordingly, the Monitor does not express an opinion or any other form of assurance on the information presented herein. The Monitor reserves the right to refine or amend its comments and/or findings as further information is obtained or is brought to its attention subsequent to the date of this report.
- 2.2 Cash flow forecasts and financial projections prepared by Management have been relied upon by the Monitor in the preparation of this report. Such information is based on Management's assumptions regarding future events. Adanac's actual operating results and cash flow will vary from the future oriented financial information contained herein and readers are cautioned that such variation may be material.
- 2.3 The Monitor assumes no responsibility or liability for any loss or damage suffered by any party as a result of the circulation, publication, reproduction or use of this report. Any use which any party makes of this report, or any reliance on or decisions to be made based on it, is the responsibility of such party.

Note: All dollar amounts identified in this report are expressed in Canadian dollars, unless otherwise specified.

3.0 BACKGROUND

- 3.1 As indicated above, on December 19, 2008 (the “Filing Date”), Adanac applied to the Court and the Court granted the Initial Order. Relevant information and documentation related to the Proceedings, including the Initial Order and subsequent Orders, affidavits and the Monitor’s Reports, may be obtained from the Monitor’s website (www.kpmg.ca/adanac).
- 3.2 We refer readers to the Monitor’s Second through Ninth Reports for details about the Proceedings as a whole, and, in particular, the prior extensions to the Stay of Proceedings up to June 30, 2010.
- 3.3 On June 30, 2010, Adanac applied to the Court seeking, among other things, a further extension of the Stay of Proceedings. The Company also sought the Court’s approval of a restructuring term sheet dated June 28, 2010 (the “Restructuring Term Sheet”) between Adanac, substantially all of the Lenders (as that term is defined in the Monitor’s First Report) and, in respect of certain terms only, the Monitor. The Court’s approval to engage a chief restructuring officer (“CRO”) and to make additional key employee retention plan (“KERP”) payments was also sought by Adanac in this application. Two affidavits in support of Adanac’s application were filed with the Court: Affidavit #4 of Paul F. Nelson, Chief Executive Officer, sworn June 28, 2010, and Affidavit #1 of Eric Colandrea, representative for the Lenders who executed the Restructuring Term Sheet, sworn June 29, 2010. Copies of these two affidavits are attached hereto as Appendices A and B, respectively.
- 3.4 On June 30, 2010, the Court granted an Order (the “June 30 Order”) extending the Stay of Proceedings to October 29, 2010, approving the Restructuring Term Sheet and authorizing Adanac to engage a CRO. The June 30 Order also approved the KERP payments sought by Adanac and authorized the Company to make further KERP payments without Court approval, subject to those payments being approved by the Lenders. A copy of the June 30 Order is attached hereto as Appendix C.

4.0 OUTOTEC APPLICATION

- 4.1 As noted in the Monitor’s Third Report, one of Adanac’s long-lead equipment suppliers, Outotec (Canada) Ltd. (“Outotec”), attended at the April 3, 2009 Court Hearing and opposed the extension sought by the Company and asked to be excluded from the Stay of Proceedings. Outotec was unsuccessful in its application.
- 4.2 Outotec subsequently attended at the June 30, 2010 Court Hearing and again sought to lift the Stay of Proceedings as against Outotec and opposed any further extensions to the Stay of Proceedings generally. In support of its motion, Outotec relied on the unfiled Affidavit of Heikki Laurila, Outotec’s President, Minerals Processing North America, sworn June 29, 2010, a copy of which is attached hereto (without exhibits, due to the volume of same) as Appendix D. Interested readers are directed to the Monitor’s website should they wish to view this affidavit in its entirety.

- 4.3 This matter was not heard at the June 30, 2010 Court Hearing but was instead, by agreement, deferred until July 16, 2010. Adanac filed the Affidavit #5 of Paul F. Nelson, sworn July 12, 2010 (a copy of which is attached hereto as Appendix E) in response to Outotec's application.
- 4.4 On July 16, 2010, counsel for Adanac advised the Court that negotiations for a consensual resolution were ongoing between Adanac and Outotec. The Monitor is advised by Adanac's counsel that, as of the date of this report, the parties have yet to finalize any such agreement, although they remain in discussions.

5.0 MAN DIESEL EQUIPMENT TRANSACTION

- 5.1 Further to the discussion provided in the Monitor's Ninth Report, Adanac signed a termination agreement dated July 6, 2010 (the "Termination Agreement") with MAN Diesel Canada Ltd. ("MAN Diesel"), one of its long-lead equipment suppliers. The Termination Agreement provided for a cash payment to Adanac in the amount of approximately \$4.0 million upon termination of the equipment contract between Adanac and MAN Diesel. These proceeds should provide Adanac with additional funding to assist it in working towards completion of the restructuring.
- 5.2 As required, Adanac applied to the Court on July 16, 2010 seeking approval of the Termination Agreement. In support of its application, Adanac filed the Affidavit #6 of Paul F. Nelson, sworn July 13, 2010 (a copy of which is attached hereto as Appendix F).
- 5.3 On July 16, 2010, the Court granted an Order (a copy of which is attached hereto as Appendix G) approving the Termination Agreement, and Adanac received the proceeds from this transaction in September 2010.

6.0 CASH FLOW

- 6.1 Attached hereto as Appendix H is a copy of the Company's eighth cash flow projection covering the period from June 16 to October 31, 2010 (the "Eighth Cash Flow Projection") which Adanac filed with the Court as an appendix to the aforementioned Affidavit #4 of Paul F. Nelson.
- 6.2 Tabled below is a summary of actual cash flows to September 30, 2010 compared to those estimated by Management in the first eight cash flow projections that have been filed with the Court to date. Attached hereto as Appendix I is a copy of Adanac's Variance Analysis of Cash Flow Projection dated September 30, 2010. Also summarized below is the most recent Management prepared version of a ninth cash flow projection covering the period from October 1, 2010 to January 31, 2011 (the "Ninth Cash Flow Projection").

\$000's	December 1, 2008 to September 30, 2010			October 1, 2010 to January 31, 2011
	Actual	Prior Cash Flow Projections ¹	Variance	Ninth Cash Flow Projection
Receipts:				
GST and other refunds	\$ 903	890	13	48
Interest income	125	33	92	1
BC Mining Exploration Tax Credit	-	1,064	(1,064)	75
Asset sales ²	4,887	4,779	108	2,695
	5,915	6,766	(851)	2,819
Disbursements:				
Employment costs	1,402	1,505	103	126
Consulting, legal and accounting	2,275	3,016	741	820
Office	868	850	(18)	132
Interest expense	3,742	3,781	39	-
Travel	18	102	84	14
Directors' fees	16	29	13	5
Demobilization	-	50	50	-
Equipment storage	702	689	(13)	137
Shipping	20	81	61	-
Actual payments to Dec 8/08	215	386	171	-
Asset selling costs (IB)	113	235	122	-
Contingency	-	250	250	-
Payments to note holders	10,000	10,000	-	-
	19,371	20,974	1,603	1,234
Net Cash Flow	(13,456)	(14,208)	752	1,585
Opening cash	17,617	17,617	-	4,161
Closing cash	\$ 4,161	3,409	752	5,746

Note 1: Comprised of the prior cash flow projections dated December 18, 2008, January 7, 2009, March 31, 2009, June 30, 2009, August 28, 2009, November 24, 2009, March 1, 2010 and June 28, 2010.

Note 2: At Adanac's request, the above Prior Cash Flow Projections amount has been reduced by \$130,000 for Asset Sales to correct for the double counting of the forecast disposition of marketable securities in that amount, which was included in two cash flow projections (dated November 24, 2009 and March 1, 2010).

- 6.3 We have the following comments on the above table with respect to actual results compared to those projected to September 30, 2010:
- In aggregate, there was a positive variance of approximately \$750,000 for the period from December 1, 2008 to September 30, 2010, with ending cash of \$4.2 million instead of the forecast \$3.4 million;
 - There is a \$1.1 million negative variance in respect of expected BC Mining Exploration Tax Credit ("BCMETS") refunds. Management expects that a portion of these refunds will be received; however, the final quantum and timing of these receipts is unknown. Readers are also referred to our discussion of this variance in the Monitor's Fifth and Ninth Reports;
 - As noted above, Adanac received approximately \$4.0 million in proceeds from the Termination Agreement with MAN Diesel during September 2010 and has a \$108,000 positive variance in Asset Sales;

- d) Further to the discussions in prior Monitor's Reports, professional fees continue to be lower than expected and, accordingly, there is a positive variance in the amount of \$741,000 for Consulting, Legal and Accounting;
 - e) There is a \$122,000 permanent positive variance for Asset Selling Costs. Pursuant to the terms of a letter received in July 2010 from Canaccord Capital Corporation ("Canaccord"), Adanac issued a payment to Canaccord for services rendered in accordance with the terms of an engagement letter between the Company and Canaccord (as discussed in the Monitor's Second Report). The Monitor is advised by Adanac's counsel that, with this payment, Adanac has no further obligations in respect of its agreement with Canaccord; and
 - f) The variances for the other disbursement categories are generally unchanged as compared with those discussed in the Monitor's Ninth Report. Readers are referred to discussion of these items in the Monitor's Ninth, Seventh and Fifth Reports.
- 6.4 The Ninth Cash Flow Projection covering the period from October 1, 2010 to January 31, 2011 forecasts a net cash inflow of approximately \$1.6 million after \$2.7 million of proceeds expected to be received during October 2010 in respect of two equipment contract termination agreements which were recently entered into (as subsequently discussed). Also included in the Ninth Cash Flow Projection is a \$140,000 provision for completing the audit and corporate tax reporting in respect of Adanac's fiscal years ended April 30, 2009 and April 30, 2010. As disclosed to the Court at the initial application, prior to the Proceedings, KPMG LLP acted as Adanac's auditor and has now been asked by the Company to assume that role again.

7.0 RESTRUCTURING ACTIVITIES

Restructuring Term Sheet

- 7.1 Readers are directed to the Monitor's Ninth Report for discussion of the background to and general terms of the Restructuring Term Sheet. The steps taken to date by Adanac, the Lenders and the Monitor pursuant to the Restructuring Term Sheet are discussed further below.

Engagement of CRO

- 7.2 Pursuant to the Restructuring Term Sheet and the June 30 Order, Adanac announced on July 20, 2010 that it had engaged Mr. Leonard J. Sojka as CRO to assist in the implementation of the restructuring and perform cash management and financial reporting services. Mr. Sojka was selected by the Lenders for this role and his appointment was approved by both Adanac and the Monitor.
- 7.3 Upon Mr. Sojka's appointment as CRO, Mr. Paul Nelson stepped down as President and Chief Executive Officer but continues as a member of Adanac's Board of Directors.

Equipment Contract Terminations

- 7.4 In accordance with the Restructuring Term Sheet, Adanac finalized a list of equipment contracts and purchase orders to be terminated (the “Terminated Contracts”) and obtained approval of this list from the Lenders. Adanac issued notices of termination to the 29 parties on that list (the “Termination Letters”).
- 7.5 As required by the Court order pronounced March 2, 2010 (the “Claims Process Order”), the Monitor delivered claims packages to each of the counterparties to the Terminated Contracts on August 16, 2010. By agreement with Adanac and the Lenders, the Monitor also delivered the Company’s Termination Letters with the claims packages.

Asset Monetization Efforts

- 7.6 Adanac is pursuing other opportunities to dispose of assets in order to try and provide additional cash that may be used to reduce the Lenders’ debt as well as to try and ensure that the Company has adequate funding to implement the Plan and, thereafter, carry on business. In this respect, the Company has entered into an agreement with Mine Source Inc. (“Mine Source”), a mining equipment marketing firm, whereby the latter is actively soliciting interest in certain of Adanac’s equipment (including some of which is still in the possession of equipment suppliers where Adanac has not terminated the related equipment contract). Management has confirmed that no equipment dispositions will be completed pursuant to this agreement without the requisite Lender, Monitor and/or Court approvals.
- 7.7 The Company has also had discussions with certain equipment suppliers (with which contracts are still in place) with a view to negotiating equipment termination agreements similar to that entered into with MAN Diesel. Two such additional agreements were recently finalized, one with Humboldt Wedag Inc. and one with Metso Minerals Canada Inc., from which Adanac expects to receive total cash proceeds of approximately \$2.7 million upon completion. These transactions are both subject to receipt of Court approval and have already been consented to by the Lenders and the Monitor.
- 7.8 To facilitate a quick approval process to deal with any further offers that may be received to purchase its assets, and to avoid repeated applications to the Court, the Monitor is advised that Adanac intends to ask the Court to revise the individual equipment and the aggregate dollar limits (currently \$500,000 and \$2.0 million, respectively) stipulated in the Initial Order so that only Lender and Monitor approval would be required for Adanac to complete any future asset dispositions. In order to minimize expenses associated with Court applications that would otherwise be required, the Monitor supports this application.

8.0 PLAN OF COMPROMISE AND ARRANGEMENT

8.1 Since the Restructuring Term Sheet was signed and approved by the Court, Adanac has been working with the Lenders to develop the Plan, a copy of which is attached hereto as Appendix J, with a view to seeking a Court order permitting it to file the Plan and hold meetings of creditors. Included as part of the Company's Plan disclosure documents to be delivered to its creditors in advance of the creditors' meetings will be a Plan Information Letter which, among other things, may include some possible valuation scenarios.

8.2 Readers are directed to the attached Plan for complete details as to its terms and conditions. However, the following is a brief summary of certain key aspects of the Plan:

- Claims have been divided into two classes, the first being the Lenders in respect of a portion (US\$40 million) of their total secured claim (the "Senior Secured Noteholder Class") and the second being the unsecured creditors (the "Affected Unsecured Creditor Class"), including the Lenders in respect of the US\$64.2 million balance of their total claim of US\$104.2 million as at March 31, 2010. The final quantum of the Lenders' claim is, pursuant to the terms of the Plan, to be adjusted on or before the date on which the Plan is implemented;
- Adanac's existing common shares will be consolidated at the rate of 150:1;
- Upon Plan implementation, the Senior Secured Noteholder Class will receive that number of shares representing 92% of the issued and outstanding shares of Adanac in satisfaction of their allowed secured claim;
- Creditors in the Affected Unsecured Creditor Class will have the option (by way of an election form that can be filed with the Monitor prior to the Creditors' Meetings) as to whether their claim is satisfied by way of a cash distribution or by shares of Adanac as follows:
 - (i) If the amount of their allowed claim is \$50,000 or less, each creditor in the Affected Unsecured Creditor Class will receive a cash distribution in the amount of 10% of their allowed claim up to a maximum of \$5,000, unless they elect to receive their *pro rata* share of that number of shares representing 5% of the issued and outstanding shares of Adanac (as discussed below)
 - (ii) Creditors in the Affected Unsecured Creditor Class whose allowed claims are in excess of \$50,000 may elect to reduce their claims for distribution purposes only, by filing an election notice with the Monitor, and thereby receive a cash distribution in the amount of \$5,000
 - (iii) Unsecured creditors who do not receive a cash distribution pursuant to the above two paragraphs will receive their *pro rata* share of that number of shares representing 5% of the issued and outstanding shares of Adanac;
- The remaining 3% of the issued and outstanding shares of Adanac will be held by Adanac's existing shareholders;

- The Plan also contemplates a possible cash distribution to the Lenders on the date of implementation of the Plan. The quantum of any such distribution to the Lenders will be determined by the Company, in consultation with the Monitor and the Lenders, by taking into account the amount of cash that Adanac will reasonably require for working capital purposes and to fulfill its obligations on the date of implementation of the Plan.
- 8.3 There are a number of conditions which must be satisfied (but may be waived by the Lenders) before the Plan can be implemented, including but not limited to the following:
- Receipt of requisite creditor (two thirds of value and a majority in number of both the Senior Secured Noteholder Class and the Affected Unsecured Creditor Class) and Court approval of the Plan;
 - Listing of Adanac's shares on a stock exchange acceptable to the Lenders; and
 - Receipt of all consents and approvals from government and third parties necessary to implement the Plan.
- 8.4 The Company takes the position that a meeting of Adanac's existing shareholders is not required under the *British Columbia Business Corporations Act* for approval, implementation or completion of the Plan, and the Company will be seeking a Court Order to that effect. However, as the Company has previously advised the Court, the existing shareholders' equity interests will be diluted by operation of the Plan and they are stakeholders for purposes of these Proceedings. Accordingly, the Company has advised that it will provide notice to its existing shareholders of the Plan and proposed restructuring by way of press releases to be issued in advance of:
- a) its upcoming application for a Court Order dispensing with the requirement for a meeting of shareholders, and permitting it to file the Plan and hold meetings of creditors; and
 - b) the Court application for final approval and sanctioning of the Plan (assuming the Plan is accepted by the requisite majority of creditors).
- 8.5 Given the shortfall faced by the Lenders and the likelihood that there would be no recovery for unsecured creditors in a liquidation scenario, the current shareholders appear to have no economic interest in the Company's assets. Accordingly, the Monitor is supportive of the proposition that a meeting of shareholders should not be required for approval, implementation or completion of the Plan.
- 8.6 Neither the Monitor nor the Company has obtained appraisals to provide an analysis of the potential liquidation value of Adanac's assets. In part, this is due to the fact that the Company's interest in certain mineral rights, as well as in equipment that has been partially paid for, is not necessarily readily determinable. However, as noted in previous reports, the Monitor did obtain an independent legal opinion from Borden Ladner Gervais indicating that the Lenders' security was valid and enforceable and there appears to be a number of factors to demonstrate that the value of Adanac's assets is currently insufficient to retire the secured claim, including:
- the Company's significant yet unsuccessful efforts (including, but not limited to, the retention of Canaccord) over the last two years to find a purchaser for its business at a value that came remotely close to the amount owed to the Lenders; and

- the quantum (US\$64.2 million as at March 31, 2010) of the proof of claim filed by the Lenders in the Affected Unsecured Creditor Class.
- 8.7 Based upon the foregoing, the Monitor believes that the Plan is likely to provide a better potential return to both creditors and equity stakeholders than would be achieved in the event that the Lenders simply chose to enforce their security, liquidate Adanac's assets and experience a potentially significant shortfall on the amounts owed to them.
- 8.8 In the information to be provided to stakeholders, Adanac intends to provide some indication of what the Company's shares may be worth under different theoretical scenarios should members of the Affected Unsecured Creditor Class choose to take equity as opposed to cash in settlement of their claims. The Monitor provides no comments on this analysis other than to note that the amount of cash proceeds to be received, if that election is chosen, should be readily determinable whereas the value of shares taken, if that option is selected, may be significantly more difficult to quantify. However, either option is likely preferable to a simple liquidation scenario in which the Affected Unsecured Creditor Class and existing shareholders would likely receive nothing.

9.0 OTHER MATTERS

Claims Process

- 9.1 In accordance with the requirements of the Claims Process Order, and pursuant to its review of the proofs of claim, Adanac has disallowed all or portions of twelve unsecured creditor claims. As directed by the Claims Process Order, the Monitor sent notification of these disallowances to the twelve claimants on September 27, 2010 by way of email and/or facsimile.
- 9.2 The Claims Process Order requires that any claimant wishing to object to a disallowance of their claim must deliver a notice of dispute to the Monitor within ten days of delivery of the disallowance notice. As at the date of this report, the Monitor has received one notice of dispute which the Company is currently considering with a view to determining whether this dispute may be resolved by agreement with the creditor.

Insurance

- 9.3 Details of insurance coverage were provided in the Monitor's First and Second Reports. The Monitor understands that the Directors' and Officers' Liability Coverage, which expired on February 28, 2009, was extended to October 29, 2010 and that the insurer is agreeable to a further extension in accordance with such further extension to the Stay of Proceedings as may be granted by the Court. Management advises that the Company's other insurance policies are current.

Creditor Matters

- 9.4 Management advises that all statutory withholding accounts are current and that all post-filing creditor claims are being paid promptly.

10.0 CONCLUSION AND RECOMMENDATIONS

10.1 As noted earlier in this report, the Plan appears to provide both equity and creditor stakeholders with some return that is greater than might be expected in a liquidation scenario in which the Lenders would likely face a significant shortfall on their loans and no realizations would be available for distribution to other parties. Additionally, the Plan provides creditors with the option of choosing to monetize their claim immediately, where the amount expected to be received should be readily determinable, or selecting the option of receiving shares of Adanac, the value of which may be significantly more difficult to quantify. Finally, unlike a simple liquidation, the Plan preserves the possibility that Adanac's operations will continue at some time in the future and afford the opportunity for continued business with stakeholders. Having taken these factors into consideration, the Monitor respectfully recommends that creditors vote in favour of the Plan and supports an extension of the Stay of Proceedings to December 31, 2010 to continue with the restructuring.

All of which is respectfully submitted this 8th day of October, 2010.

KPMG Inc.

In its capacity as Court Appointed
Monitor of Adanac Molybdenum Corporation

Per: Peter D. Gibson

Mark Kemp-Gee