

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL DISTRICT OF CALGARY**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*  
*ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF  
DARIAN RESOURCES LTD.**

**AND IN THE MATTER OF  
BOWVIEW PETROLEUM INC.**

**FIRST REPORT OF THE MONITOR  
HARDIE & KELLY INC.  
FEBRUARY 18, 2010**

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## INTRODUCTION

1. On February 12, 2010, Darian Resources Ltd. (“Darian”) and Bowview Petroleum Inc. (“Bowview”) made application for and obtained protection from their creditors under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended, (the “CCAA”) pursuant to an order (the “Initial Order”) of the Court of Queen’s Bench of Alberta (the “Court”).
2. Pursuant to the Initial Order, Hardie & Kelly Inc. was appointed as monitor (the “Monitor”) of Darian and Bowview (collectively referred to as the “Companies”).
3. The purpose of this first report (the “First Report”) is to provide an update to this Honourable Court with respect to the following:
  - a. The notice issued by the Monitor to the Companies’ creditors;
  - b. The status of the MCC Funds and post-filing banking arrangements;
  - c. The applications of the Shaw Family Group (“SFG”) and Alberta Treasury Branches (“ATB”);
  - d. The Companies’ restructuring activities;
  - e. The Companies’ revised cash flow forecast for the period February 22 - April 30, 2010;
  - f. The Companies’ request for an extension of the stay of proceedings (the “Stay”) and the Monitor’s recommendation with respect thereto;
  - g. The Companies’ application to expand the powers of the Monitor and the Monitor’s recommendation with respect thereto; and
  - h. The Companies’ application seeking permission to sell all or a portion of its shares in Scollard Energy Inc. (“Scollard”) and the Monitor’s recommendation with respect thereto.

### TERMS OF REFERENCE

4. In preparing this First Report, the Monitor has relied upon unaudited financial information, records of the Companies and discussions with the Companies' management ("Management"). The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future-oriented financial information relied upon in this report is based on Management's assumptions regarding future events and actual results achieved may vary from this information and the variations may be significant.

### BACKGROUND

5. Darian is a privately held company that has been in operation since 2005. Bowview is the 100% owned subsidiary of Darian acquired in March 2007. The Companies are engaged in the exploration, development and production of natural gas and crude oil in the Western Canadian Sedimentary Basin.
6. Darian accounts for approximately 93% of the Companies' consolidated revenues. The Companies are the operators of approximately 90% of their oil and gas properties.
7. The Companies' head office is located in Calgary. Darian currently rents a field office in Vulcan, Alberta on a month-to-month basis.
8. Through Darian, the Companies currently employ 19 individuals and engage three consultants on a full-time basis.
9. Additional information in respect of the Companies is contained in the February 11, 2010 sworn Affidavit of Mr. Grant Bartlett (the "February 11 Bartlett Affidavit") which can be found along with other information in respect of this proceeding, including a copy of the Initial Order, on the Monitor's website at [www.insolvency.net](http://www.insolvency.net) (the "Monitor's Website") under the *Current Engagements* link.

### NOTICE TO CREDITORS

10. Pursuant to the terms of the Initial Order, the Monitor issued notice of the CCAA proceedings (the "Creditor Notice") to all known creditors as represented by the Companies. Creditors were directed to the Monitor's Website to obtain a copy of the Initial Order and a listing of the known creditors as represented by the Companies' Management. The Creditor Notice encourages creditors to refer back to the Monitor's Website frequently for updates as to the status of the proceedings. A copy of the Creditor Notice is attached as Appendix "A".
11. Pursuant to the terms of the Initial Order and the CCAA, the Monitor has arranged for notice of the CCAA proceedings (the "Newspaper Notice") to be published in each of the *Calgary Herald* and the *Edmonton Journal* on Friday, February 19, 2010. A copy of the form of the Newspaper Notice is attached as Appendix "B".
12. Pursuant to the terms of the CCAA, the Monitor has filed with the Office of the Superintendent of Bankruptcy (the "OSB") *Forms 1 and 2* containing certain prescribed information regarding the proceedings. The respective *Acknowledgements of Filing* issued by the OSB are attached as Appendix "C".

### MCC FUNDS

13. Pursuant to the terms of the Initial Order, MCC Fund Management Inc. transferred the MCC Funds (as defined by the Initial Order) totalling \$1,371,959 (the "Trust Funds") to the Monitor.
14. As of the date of this First Report, Darian has not submitted any written requests to the Monitor for the release of any funds as the Companies have been unable to make post-filing banking arrangements satisfactory to Management.

15. The Companies will be making application to this Honourable Court, seeking the Court's approval to expand the Monitor's powers to permit the Monitor to make payments, properly authorized by the Initial Order and such further Order as the Court may grant, directly from the Trust Funds pending finalizing satisfactory post-filing banking arrangements. The Monitor is supportive of such a procedure in order to facilitate the Companies being able to demonstrate to suppliers that they have the ability to fund payment of the supply of ongoing goods and services and to allow the Companies to ensure that lease rental payments are made on a timely basis in order to preserve the Companies' asset base.

### **SHAW FAMILY GROUP**

16. At the initial application in these proceedings, held on February 12, 2010, SFG opposed the Companies' CCAA application and advised that they intended on bringing an application for the appointment of a receiver, but had not had sufficient opportunity to prepare the application. The Companies disputed SFG's ability to appoint a Receiver. Consequently, this Honourable Court granted an initial stay of proceedings of seven days to allow SFG to file its application, returnable on February 19, 2010, and to allow for cross-examinations in respect of the CCAA and receivership applications.
17. On February 17, 2010, SFG filed and served its materials in respect of its receivership application. Cross-examinations in respect of both the CCAA and receivership applications had previously been scheduled for February 18, 2010; however, shortly after the receipt of SFG's materials, the Companies advised SFG that there was insufficient time to review the materials and adequately prepare for cross-examinations. Consequently, the Companies are seeking an adjournment of the application.
18. Concurrent with the filing of the receivership application, SFG also filed and served an application seeking an order directing ATB to comply with and accept SFG's offer to acquire ATB's security. The Companies dispute SFG's entitlement to obtain this relief and are seeking an adjournment of the application to again allow sufficient time to properly adjudicate the matter.

### ALBERTA TREASURY BRANCHES

19. ATB is the principal secured creditor in the proceedings. ATB has advised all interested parties that it finds itself in the middle of the dispute between the Companies and SFG. Consequently, ATB has filed a Notice of Motion seeking the Court's advice and direction in respect of its obligations vis-a-vis SFG's efforts to acquire ATB's security.
20. As discussed above, the Companies have not secured post-filing banking arrangements satisfactory to Management. As set out in the February 18, 2010 sworn Affidavit of James W. Hamblin filed as part of these proceedings, ATB has advanced a post-filing bank account agreement (the "Account Agreement") to Darian; however, Management is not satisfied with the Account Agreement having concerns with the potential for ATB to exercise a right of set-off. ATB has filed a Notice of Motion seeking the Court's approval of the Account Agreement

### SCOLLARD SHARES

21. As set out in the February 11 Bartlett Affidavit, Darian owns approximately 12.1% of Scollard which is not a party to these proceedings. Darian holds approximately two million shares of Scollard ("Scollard Shares").
22. The Monitor is advised by Management that Scollard is in the midst of a private placement at a price of \$2 per share and that they have been contacted by an investment firm willing to purchase half of Darian's Scollard Shares.
23. With a view to improving its liquidity position, Darian will be making application to this Honourable Court for approval to sell all or a portion of the Scollard Shares to an investment firm involved in the private placement and/or to existing Darian shareholders at the same price offered through the private placement. The Companies would propose to hold the resulting proceeds in trust pending further order of this Honourable Court. In view of the Scollard Shares being a non-core asset and subject to the Monitor being provided with and reviewing satisfactory information confirming the price and terms of the private placement, the Monitor is supportive of such a course of action as the ultimate availability of these proceeds would prove to be more economical than DIP financing if ultimately required.

### **RESTRUCTURING EFFORTS**

24. Since the commencement of the CCAA proceedings, Management has:
- a. held meetings and discussions with employees and unsecured creditors with a view to stabilizing operations;
  - b. explored the establishment of a post-filing banking facility with ATB and in the alternative another financial institution;
  - c. held preliminary discussions with several investment banking firms regarding strategic options that could form the basis of a plan of arrangement;
  - d. explored alternative sources of potential DIP financing; and
  - e. worked with legal counsel to review materials and prepare for the numerous applications that have been filed since the date of the Initial Order.

### **CASH FLOW FORECAST**

25. As set out above, the Companies have been unable to issue any payments since the date of the Initial Order. Consequently, with the assistance of the Monitor, Management has prepared a revised cash flow forecast for the period February 22 – April 30, 2010 (the “Revised Cash Flow”) which is attached as Appendix “D”.
26. The only difference between the Revised Cash Flow and the original cash flow forecast attached as Exhibit “K” of the February 11 Bartlett Affidavit is that the timing of various expenditures forecast has been rolled forward. The Monitor is satisfied that the Revised Cash Flow is reasonable in the circumstances.

### **RECOMMENDATION**

27. The Monitor is satisfied that Management has been acting with due diligence and in good faith. Since the date of the Initial Order, a substantial amount of Management’s efforts have been devoted to stabilizing operations, beginning to pursue potential restructuring alternatives and reviewing materials filed in respect of the ATB and SFG applications.

28. The Monitor is of the view that a further extension of the Stay is warranted for the following reasons:
- a. To allow sufficient time for the adjudication of the ATB and SFG applications; and
  - b. To allow Management sufficient time to continue to explore and pursue potential restructuring initiatives.
29. As set out above, the Monitor is also supportive of the following:
- a. Increasing the Monitor's powers to allow the Monitor to make appropriate payments on behalf of the Companies from the Trust Funds; and
  - b. Authorizing Darian to sell the Scollard Shares at a price consistent with the private placement upon the Monitor being provided with satisfactory evidence in respect of the pricing of the private placement.

All of which is respectfully submitted this 18<sup>th</sup> day of February 2010.

Hardie & Kelly Inc., in its capacity as Monitor of  
Darian resources Ltd. and Bowview Petroleum Inc.  
and not in its personal capacity

Per: \_\_\_\_\_

Marc Kelly, CA•CIRP  
Senior Vice President

# APPENDIX "A"

February 17, 2010

To the Creditors of Darian Resources Ltd. and Bowview Petroleum Inc.

Dear Sirs:

Re: Proceedings under the *Companies' Creditors Arrangement Act*

On February 12, 2010, Darian Resources Ltd. and Bowview Petroleum Inc. (collectively referred to as the "Companies") made an application for protection under the *Companies' Creditors Arrangement Act* ("CCAA") and an Initial Order (the "CCAA Order") was granted by the Honourable Justice B.E.C. Romaine of the Court of Queen's Bench of Alberta (the "Court"). The Court appointed Hardie & Kelly Inc. as Monitor of the Companies (the "Monitor").

The CCAA Order grants the Companies certain relief including the imposition of an initial *Stay of Proceedings* against the Companies and their assets through to February 19, 2010. Claims against the Companies for payment for goods and services supplied to the Companies prior to February 12, 2010 are suspended and creditors are prohibited from continuing or taking any actions or exercising any rights against the Companies except with leave of the Court.

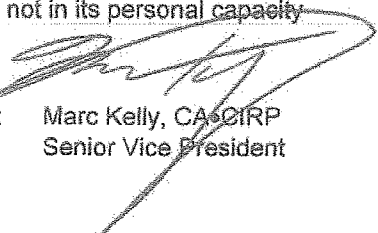
A copy of the CCAA Order and a list of the names and addresses and amounts due to the Companies' creditors as estimated by the Companies' management can be found on the Monitor's website (the "Website") at <http://relieffromdebt.ca/index.php/Darian-Resources-Ltd.-and-Bowview-Petroleum-Inc.html> or by contacting the Monitor directly. You are not required to file a proof of claim at this time.

Additional materials will be posted to the Website from time to time. The next Court application in the proceedings is scheduled for February 19, 2010. Creditors are encouraged to check the Website regularly for updates as to the status of the proceedings.

Should you have any questions or concerns please contact the undersigned at 403-252-1766 or Mr. Lyle Furber, Chief Financial Officer of the Companies, at 403-216-8573.

Yours truly,

Hardie & Kelly Inc., in our capacity  
as Monitor of Darian Resources Ltd.  
and Bowview Petroleum Inc.  
and not in its personal capacity

  
Per: Marc Kelly, CA, CIRP  
Senior Vice President

Hardie & Kelly Inc.  
206, 5800 - 2nd Street SW  
Calgary, Alberta T2H 0H2

Tel 403-252-1766  
Fax 403-640-0591  
[www.insolvency.net](http://www.insolvency.net)

# APPENDIX "B"

Action No.: 1001-02216

IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.  
1985, c. C-36, AS AMENDED

AND IN THE MATTER OF  
DARIAN RESOURCES LTD.

AND IN THE MATTER OF  
BOWVIEW PETROLEUM INC.

On February 12, 2010, upon the application of Darian Resources Ltd. and Bowview Petroleum Inc. (the "Companies") the Court of Queen's Bench of Alberta (the "Court") granted an Order (the "Initial Order") under the *Companies' Creditors Arrangement Act* providing for an initial stay of proceedings through to February 19, 2010. Hardie & Kelly Inc. was appointed as monitor (the "Monitor"). The Initial Order and a list of creditors, as estimated by the Companies, can be accessed by referring to the *Current Engagements* page on the Monitor's website at [www.insolvency.net](http://www.insolvency.net) (the "Website"). Interested parties are encouraged to check the Website frequently for updates as to the status of the proceedings. For further information contact Mr. Marc Kelly, of Hardie & Kelly Inc., at 403-252-1766 or by e-mail at [mkelly@insolvency.net](mailto:mkelly@insolvency.net).

# APPENDIX "C"



Office of the Superintendent  
of Bankruptcy Canada

Bureau du surintendant  
des faillites Canada

An Agency of  
Industry Canada

Un organisme  
d'Industrie Canada

District of Alberta

File Number: 0000021-2010-AB

In the Matter of the *Companies' Creditors Arrangement Act* proceedings of:

Darian Resources Ltd. and Bowview Petroleum Inc.

Debtor

Hardie & Kelly Inc.

Monitor

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Date of the Initial Order: February 12, 2010  
Document Filing Date: February 16, 2010

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**ACKNOWLEDGEMENT OF FILING - FORM 1**

This is to acknowledge receipt of the prescribed Form 1 of the schedule, entitled "Information Pertaining to the Initial Order", in respect of the  
aforenamed debtor, pursuant to the provisions of paragraph 23(1)(f) of the *Companies' Creditors Arrangement Act*.

The aforementioned monitor is required:

to file with the Superintendent of Bankruptcy, the initial application, the initial order and any amendments to that order, within two business  
days after the day on which the monitor receives them.

Note:

Acknowledgement issued on:

February 18, 2010

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Designated Senior Analyst at the Office of the Superintendent of Bankruptcy:

Name of the Senior Analyst: Dan Marshall  
Email address: ccaa\_lacc@ic.gc.ca  
Telephone number: 1-888-952-7137  
Facsimile: 1-877-827-7139

Mailing address: Industry Canada  
Office of the Superintendent of Bankruptcy – CCAA Team  
55 Bay Street, Suite 902  
Hamilton, Ontario, L8R 3P7

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Office of the Superintendent  
of Bankruptcy Canada

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des faillites Canada

Un organisme  
d'Industrie Canada

District of **Alberta**  
File Number: **000021-2010-AB**

In the Matter of the *Companies' Creditors Arrangement Act* proceedings of:

**Darian Resources Ltd. and Bowview Petroleum Inc.**

Debtor

**Hardie & Kelly Inc.**

Monitor

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Date of the Initial Order: February 12, 2010  
Document Filing Date: February 16, 2010

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**ACKNOWLEDGEMENT OF FILING - FORM 2**

This is to acknowledge receipt of the prescribed Form 2 of the schedule, entitled "Debtor Company Information Summary (Commencement of Proceedings)", in respect of the aforementioned debtor, pursuant to the provisions of paragraph 23(1)(f) of the *Companies' Creditors Arrangement Act*.

The aforementioned monitor is required:

- to file with the Superintendent of Bankruptcy, the prescribed Form 3 of the schedule, entitled "Debtor Company Information Summary (Following the Order Discharging the Monitor)", within five business days after the day on which the court makes an order discharging the monitor.

Acknowledgement issued on:

February 18, 2010

# APPENDIX "D"

Darrian Resources Ltd. and Bowview Petroleum Inc.  
 Projected Cash Flow - Consolidated  
 (unaudited)

	Notes	Week Beginning										TOTAL	
		22-Feb-10	01-Mar-10	08-Mar-10	15-Mar-10	22-Mar-10	29-Mar-10	05-Apr-10	12-Apr-10	19-Apr-10	26-Apr-10		
<b>RECEIPTS</b>													
Petroleum and natural gas revenues	1	1,416,464	-	-	-	1,224,944	-	-	-	-	-	-	1,309,011
Royalties	1	(141,783)	-	-	-	(122,582)	-	-	-	-	-	-	(130,950)
GST Refunds		1,274,681	-	-	-	1,102,362	-	-	-	-	-	-	1,178,061
Subtotal		1,774,681	511,000	511,000	-	1,102,362	150,000	-	-	-	-	-	1,178,061
<b>DISBURSEMENTS</b>													
Operating Costs	2	(237,055)	(187,055)	(187,055)	(187,055)	(174,110)	(162,055)	(162,055)	(162,055)	(162,055)	(162,055)	(162,055)	(1,782,605)
Itemized repairs and maintenance	2	(42,000)	(37,013)	(37,013)	(37,013)	(37,013)	(6,431)	(6,431)	(6,431)	(6,431)	(6,431)	(6,431)	(222,207)
Contract Field Operators	2	(24,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(132,000)
Capital expenditures	3	-	-	(300,000)	(70,000)	-	-	-	-	-	-	-	(370,000)
Payroll	4	(133,589)	-	(9,500)	(110,688)	(9,500)	(126,589)	(9,500)	(110,688)	(9,500)	(126,589)	(9,500)	(608,143)
Employees & benefits	4	(19,000)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(104,500)
Consultants	5	(68,111)	-	-	-	(66,461)	-	-	-	-	-	-	(201,033)
Premises	5	(7,593)	-	-	-	(7,593)	-	-	-	-	-	-	(22,779)
Land & mineral lease rentals	5	(51,313)	-	-	-	(55,649)	-	-	-	-	-	-	(160,896)
General & administrative	6	(7,500)	(30,000)	(7,500)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(80,000)
Insurance	7	(12,000)	-	-	-	-	-	-	-	-	-	-	(12,000)
Bank interest and fees	8	(15,626)	(8,313)	(7,813)	(7,813)	(7,813)	(8,313)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(87,443)
Professional fees	9	-	(230,000)	(85,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(385,000)
Restructuring costs	10	(810,287)	(563,881)	(695,881)	(464,069)	(400,139)	(424,888)	(227,799)	(338,487)	(227,799)	(227,799)	(482,876)	(4,636,106)
Subtotal		464,394	(563,881)	(184,881)	(464,069)	702,223	(424,888)	(77,799)	(338,487)	(227,799)	(227,799)	(227,799)	(420,002)
NET CASH FLOW (DEFICIT)		-	464,394	184,881	464,069	702,223	702,223	277,335	199,536	227,799	227,799	227,799	1,115,187
OPENING CASH		-	-	-	-	-	-	-	-	-	-	-	695,185
Funds released by Monitor	11	-	99,487	-	-	-	-	-	-	-	-	-	-
CLOSING CASH		464,394	-	-	-	702,223	277,335	199,536	138,951	227,799	227,799	227,799	695,185

Notes:

1. Revenues (net of transportation charges) and royalties have been estimated based on recent historical results and estimated pricing.
2. Operating costs have been estimated based on recent historical operations and anticipated projects.
3. Capital expenditures to meet seismic commitment under EnCana Stirling Farm-in Agreement and ERCB required abandonment liability contingency.
4. It is assumed that wages, benefits and consulting fees will continue to be paid in the ordinary course.
5. It is assumed lease obligations will be paid in the ordinary course.
6. Estimated general and administrative costs based on recent historical costs.
7. Two month extension of existing insurance policy for Property, Operators Extra Expense and Boiler and Machinery.
8. Includes monthly fees and interest obligations (under existing terms) to Alberta Treasury Branches. All other debt interest obligations will continue to be accrued.
9. AJM Petroleum Consultants for the Reserve Engineering reports, Seaton Jordan for the Land Values Report, Fraser Milner Casgrain LLP for ERCB Board Hearing legal fees.
10. Retainers and costs associated with restructuring including those of the company's legal counsel, the Monitor and counsel for the Monitor.
11. Cash balance of \$1.372 million represents funds held in Trust by Monitor that will be made available upon written request.

ACTION NO: 1001-02216

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IN THE COURT OF QUEEN'S BENCH OF  
ALBERTA  
JUDICIAL DISTRICT OF CALGARY

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IN THE MATTER OF THE *COMPANIES*  
*CREDITORS' ARRANGEMENT ACT, R.S.C. 1985,*  
c. C-36, AS AMENDED

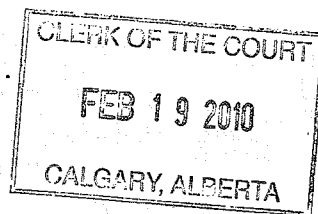
AND IN THE MATTER OF DARIAN  
RESOURCES LTD.

AND IN THE MATTER OF BOWVIEW  
PETROLEUM INC.

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**FIRST REPORT OF THE MONITOR  
HARDIE & KELLY INC.**

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