

Action No: 1001-02216

**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.**

**FOURTH REPORT OF THE MONITOR
HARDIE & KELLY INC.
MARCH 30, 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"). The Court granted an initial stay of proceedings (the "Stay") through to February 19, 2010.
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. On March 17, 2010, this Honourable Court granted a further extension of the Stay through to May 18, 2010.
4. At the Court application on March 17, 2010, the Court also authorized and approved the engagement of Peters & Co. Ltd. ("Peters") as the Companies' financial advisor to undertake a solicitation process, to be determined subsequently (the "Solicitation Process"). The Companies' management ("Management") anticipates that the results of the Solicitation Process will form the basis of a plan of arrangement or compromise.
5. The purpose of this interim report (the "Fourth Report") is to report to the Court with the respect of the following:
 - a. The Companies' application in respect of the Solicitation Process proposed by Peters and the Monitor's recommendation with respect thereto; and
 - b. The Companies' application for approval to use a portion of the proceeds from the sale of the shares of Scollard Energy Inc. ("Scollard") and the Monitor's recommendation with respect thereto.

SOLICITATION PROCESS

6. Subsequent to the March 17, 2010 Court application, Peters, in consultation with Management and the Monitor, developed an action plan and proposed timeline with respect to the Solicitation Process, a summary of which is as follows:
 - a. March 18 – April 2 - work with Management to establish physical and virtual data rooms; prepare a corporate information document (“Teaser”); identify potential interested parties;
 - b. April 5 – 9 - distribute the Teaser and contacting potential interested parties; open data rooms;
 - c. April 12 – May 7 - negotiate confidentiality agreements; facilitate data room viewings and management presentations;
 - d. May 10 – 14 - solicit proposals from interested parties; prepare an analysis off the proposals; deadline for non-binding proposal of May 11, 2010; and
 - e. May 17 – May 28 - negotiate final offer; provide fairness opinion; assist in the negotiation and drafting of appropriate agreements and documents for necessary approvals.
7. Since March 17, 2010, Management has participated in a weekly update conference call with the principal secured creditors, Shaw Family Group (“SFG”), Peters and the Monitor.
8. Shortly after the commencement of their involvement, Peters received an unsolicited, pre-emptive offer (the “Pre-Emptive Offer”). Management, in consultation with Peters, the Monitor and the Independent Committee of Darian's Board of Directors (the “IC”), determined that the Pre-Emptive Offer should not be accepted and that the offeror should be encouraged to participate in the Solicitation Process.

9. Since that time, the party who had made the Pre-Emptive Offer has made further approaches and Peters has advised the Companies that prudent business considerations dictate that the application for the approval of the Solicitation Process should be adjourned for approximately one week to allow for further discussions with the party.
10. Management after consultation with Peters, the Monitor, the IC and SFG has determined it is appropriate to seek an adjournment of the Companies' application to approve the Solicitation Process. The Monitor supports the adjournment of the approval application of the Solicitation Process

CASH FLOW FORECAST & SCOLLARD SHARE PROCEEDS

11. Concurrent with the Companies' March 17, 2010 application for an extension of the Stay, Management prepared and submitted a cash flow forecast for the period March 15, 2010 through to the week of May 17, 2010 (the "March 15 Forecast") included as Exhibit "B" to the March 12, 2010 sworn Affidavit of Grant Aulden Bartlett (the "Bartlett Affidavit").
12. The Monitor previously reported that the March 15 Forecast indicated that the Companies would not require the use of the \$4.1 Million sales proceeds from the Scollard Shares (the "Scollard Funds") access to which is currently restricted subject to further direction from this Honourable Court. However, at the March 17, 2010 Court application, the Monitor's counsel advised that the following two developments had not been provided for in the March 15 Forecast:
 - a. Costs associated with the tie-in of the well in the Vulcan area (the "Vulcan Well"), that was recently approved by the Energy Resources Conservation Board, estimated to be approximately \$300,000 as Management had not yet had the opportunity to discuss the matter with SFG. As set out in the Bartlett Affidavit, Management estimates the incremental gross monthly revenues from the Vulcan Well will be approximately \$400,000; and
 - b. The initial work fee of \$100,000 payable to Peters upon the approval of their engagement as financial advisor which had not been contemplated at that time.

13. Despite the above additional expenditures, the March 15 Forecast indicated that there would still be sufficient funds otherwise available such that the Scollard Funds would still not be required during the period of time contemplated in the March 15 Forecast.
14. Since March 17, 2010, there have been several additional significant developments, such that Management and the Monitor deemed it appropriate for the Companies to file a revised cash flow forecast (the "March 29 Forecast"). Management has prepared a revised cash flow forecast, which is attached as Appendix "A" to this Report.
15. Additional noteworthy observations with respect to the March 29 Forecast are as follows:
 - a. With a view to limiting expenditures, Management had previously determined it would be appropriate to defer the Companies' annual audit; however, Peters has recommended that the availability of audited financial statements is important for purposes of the Solicitation Process. The estimated cost of the audit is approximately \$100,000;
 - b. The party providing gas processing services in respect of the Vulcan Well requested a \$100,000 deposit for the prepayment of processing fees;
 - c. With the approval of the Monitor and SFG, Darian has entered into an agreement to sell a non-core oil and gas asset for \$100,000 (the "Non-Core Proceeds"). The March 29 Forecast contemplates that the Non-Core Proceeds will be set aside until further notice to interested parties, as agreed with SFG; and
 - d. The anticipated receipt of the GST refund of approximately \$511,000 in respect of the last quarter of 2009 has been further delayed as Canada Revenue Agency has now requested the GST return previously filed on a quarterly basis to be refiled on a monthly basis. Management has complied with that request but this is expected to result in a further delay of the anticipated refund. In addition, Management has reduced its previous estimate of anticipated GST refunds associated with the first quarter of 2010 by \$125,000 based on the completion of its accounting for January 2010.

16. Excluding the Non-Core Proceeds, the net effect of the principal revisions incorporated into the March 29 Forecast is an overall decrease in cash totalling approximately \$807,000 as follows:
 - a. A forecasted reduction of unrestricted cash of approximately \$307,000; and
 - b. The requirement to utilize \$500,000 of the Scollard Funds.
17. As discussed above, \$400,000 of this additional funding requirement was previously addressed at the Court application on March 17, 2010.
18. The Companies' application materials seek the authority to access up to \$1 Million of the Scollard Funds. In this regard the Monitor has the following comments:
 - a. The additional expenditures associated with the Vulcan Well are commercially reasonable in light of the upside anticipated from the well coming on-stream. SFG has indicated it is supportive of these expenditures;
 - b. A \$100,000 work fee payable to Peters was previously authorized by way of the approval of the engagement of Peters;
 - c. Given Peters' expertise in these matters, the Monitor is inclined to rely on Peters' advice that the completion of the audit is important for purposes of the Solicitation Process; and
 - d. The Monitor is of the view that the additional incremental costs are justifiable in view of the overall positive progress the Companies are making towards a restructuring.
19. SFG has expressed concern with the Companies' request to access the Scollard Funds and has indicated a desire to see Management reduce expenditures and consider the sale of redundant equipment as another means of addressing the Companies' ongoing cash flow requirements.

20. Management has indicated that since the commencement of the CCAA proceedings, their efforts have been focused on stabilizing operations, addressing the previous receivership application, undertaking a process to retain a financial advisor and assisting Peters with the initial establishment of the Solicitation Process. Notwithstanding, Management has reviewed and discussed SFG's concerns with the Monitor and has replied formally to SFG.
21. The Monitor is of the view that there are not a substantial amount of cost savings to be gained in the short term given the Companies' compressed proposed time frame for the Solicitation Process, particularly in light of the increased demands on Management and staff arising from the CCAA proceedings including assisting with the Solicitation Process and the claims process. The Monitor is however supportive of Management pursuing the liquidation of redundant equipment.
22. In light of the above, the Monitor is of the view that it is appropriate for this Honourable Court to authorize the use of the Scollard Funds, as this would be a more economical alternative than securing debtor in possession financing. However, the Monitor offers the following additional comments in this regard:
 - a. The March 29 Forecast provides that unless the anticipated GST refund of \$511,000 does not materialize until the week of May 17, 2010, the Companies should not require the use of \$1 Million of the Scollard Funds. Consequently, Management has been advised that the Monitor believes it would be appropriate to limit the authorization of the use of the Scollard Funds to a maximum of \$500,000. In the event the GST refund is significantly delayed or is not assessed as filed or the Companies otherwise encounter significant cash flow variances resulting in the need for additional funds, the Monitor is of the view that it would be appropriate for the Companies to make a further application to Court to substantiate the need for additional funding; and

- b. The Scollard Funds are currently on deposit in the Companies' new general operating account. In light of the contentious nature of the Scollard Funds and the restrictions currently imposed on those funds by this Honourable Court, the Monitor believes it would be appropriate for the Scollard Funds that are not authorized to be used at the March 31 application and the Non-Core Proceeds to be segregated in a separate bank account.
23. The Monitor understands the Companies after consulting with certain stakeholders will only be seeking the Court's authority to utilize \$500,000 of the Scollard Funds, not the \$1 Million as set out in the Notice of Motion.

RECOMMENDATION

24. Based on the foregoing, the Monitor recommends to this Honourable Court:
- a. the adjournment of the Solicitation Process;
 - b. authorization for the Companies to utilize up to a maximum of \$500,000 of the Scollard Funds; and
 - c. a direction to the Companies to segregate the balance of the Scollard Funds and the Non-Core Proceeds into a separate bank account with use of these funds subject to the further direction of this Honourable Court.

All of which is respectfully submitted this 30th day of March 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"

Derian Resources Ltd. and Bowriev Petroleum Inc.
 Projected Cash Flow - Consolidated
 (unaudited)
 Submitted on Mar. 29, 2010

Notes	Week Beginning										Fest	Fest	Fest	Fest	Fest	Fest	TOTAL
	22-Feb-10	01-Mar-10	Actual	Actual	Actual	Actual	29-Mar-10	05-Apr-10	12-Apr-10	19-Apr-10							
RECEIPTS																	
Petroleum and natural gas revenues	1	-	1,443,198	-	1,170,076	-	-	-	-	-	1,039,148	-	-	-	-	-	3,652,423
Royalties	1	-	-	(138,320)	(108,514)	(2,749)	-	-	-	-	(83,079)	-	-	-	-	-	(332,662)
		-	1,443,198	(138,320)	(108,514)	1,167,328	-	-	-	-	956,069	-	-	-	-	-	3,319,761
GST Refunds		230,642	14,428	1,126,815	-	-	-	-	-	-	511,000	25,000	-	-	-	-	561,000
Funds released by Monitor		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,371,884
Sale of Scollard Shares and P&NG Assets		230,642	1,457,626	5,089,919	(108,514)	1,167,328	-	-	-	100,000	100,000	25,000	-	-	-	-	4,201,424
Subtotal																	9,454,069
DISBURSEMENTS																	
Operating Costs	2	-	(4,647)	(39,860)	(164,105)	(3,683)	(417,402)	(385,615)	(263,321)	(147,282)	(147,282)	(147,282)	(147,282)	(147,282)	(147,282)	(147,282)	(2,015,043)
Itemized repairs and maintenance	2	-	(9,261)	-	-	-	(51,166)	(61,736)	(61,736)	(61,736)	(61,736)	(61,736)	(61,736)	(61,736)	(61,736)	(61,736)	(341,759)
Contract Field Operators	2	-	(4,594)	(15,434)	(2,176)	(2,179)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(120,383)
Capital expenditures	3	-	-	-	(67,345)	(31,212)	(71,680)	(101,680)	(65,412)	-	-	-	-	-	-	-	(337,329)
Payroll	4	(69,544)	-	(54,735)	(77,003)	-	(120,214)	-	(83,915)	(83,915)	(109,567)	-	-	(83,915)	-	-	(598,893)
Consultants	4	-	-	(11,419)	(10,248)	(4,200)	(5,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(89,866)
Lease payments	5	(68,598)	-	(1,733)	-	18,413	(88,744)	-	-	-	(68,598)	-	-	-	-	-	(209,259)
Operating	5	-	-	(5,094)	-	-	-	(5,094)	-	-	-	-	-	-	-	-	(15,281)
Land & mineral lease rentals	5	-	-	(65,089)	(65,277)	(9,528)	-	-	-	-	(53,934)	-	-	-	-	-	(193,828)
General & administrative	6	-	(7,560)	(28,281)	(13,384)	-	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(89,225)
Insurance	7	-	-	(12,991)	-	-	-	-	(15,833)	(15,833)	(19,500)	-	-	-	-	-	(64,157)
Bank interest and fees	8	-	(807)	(2,40)	(41,213)	(105,000)	(23,439)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(79,177)	
Professional fees	9	-	-	(134,029)	(1,155,598)	-	(279,000)	(110,000)	(7,813)	(7,813)	(40,000)	-	-	-	-	-	(535,241)
Restructuring costs	10	(92,500)	-	-	(115,598)	-	(110,000)	(110,000)	(95,000)	(95,000)	-	-	-	-	-	-	(812,098)
		(230,642)	(26,869)	(368,904)	(556,549)	(137,589)	(1,149,145)	(738,437)	(524,529)	(397,831)	(427,319)	(349,189)	(289,010)	(289,010)	(289,010)	(289,010)	(5,501,540)
Subtotal																	
NET CASH FLOW (DEFICIT)																	
OPENING CASH		19,198	1,430,757	4,721,014	(664,863)	1,029,939	(1,149,145)	(738,437)	(524,529)	(297,831)	1,039,750	(324,189)	(289,010)	(289,010)	(289,010)	(289,010)	3,951,529
Restricted Funds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,198
CLOSING CASH		19,198	1,449,956	2,069,546	1,404,683	2,434,622	1,285,477	547,040	547,040	522,510	124,680	1,164,430	840,241	551,231	551,231	551,231	(3,701,424)

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 with anticipated projects and includes a processing deposit for the Vulcan 13-21 well.
3. Capital expenditures to tie-in 13-21 Vulcan Oil well and to meet anticipated ERCB abandonment obligations.
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. Existing insurance policy for Property, Operators Extra Expense and Boiler and Machinery and Directors' and Officers' Insurance.
8. Includes interest obligations (under existing terms) to secured lender and bank fees. All other debt interest obligations will continue to be accrued.
9. AJM Petroleum Consultants for the Reserve Engineering reports, Station Jordan for the Land Values Report, Blake Cassels Graydon LLP for ERCB Board Hearing legal fees, Peters & Co work fee and KPMG LLP for 2009 audit fees.
10. Costs associated with restructuring including those of the company's legal counsel, the Monitor and counsel for the Monitor, and legal counsel for the Independent Committee.
11. Restricted funds represents the proceeds from the sale of the Scollard shares and the selected P&NG assets and the release of \$500,000 to fund short fall primarily related to timing of 13-21 tie-in, Peters & Co. work fee and KPMG LLP audit fees.

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