

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.**

**SECOND REPORT OF THE MONITOR  
HARDIE & KELLY INC.  
MARCH 16, 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 February 18, 2010, the Monitor prepared a report to this Honourable Court (the “First Report”) in advance of the Companies’ application for an extension of the Stay and with respect to several other applications scheduled to be heard on February 19, 2010.
4. On February 19, 2010, this Honourable Court granted an order extending the Stay through to March 17, 2010 (the “Stay Extension Order”).
5. The purpose of this second report (the “Second Report”) is to provide an update to this Honourable Court with respect to the following:
  - a. The receivership application of the Shaw Family Group (“SFG”) and SFG’s acquisition of the security of Alberta Treasury Branches (“ATB”);
  - b. The disposition of the MCC Funds (as defined in the Initial Order);
  - c. The disposition of Darian’s holdings of Scollard Energy Inc. (“Scollard”);
  - d. The Companies’ operations since the date of the Monitor’s First Report;
  - e. The Companies’ request for the establishment of a claims process and the Monitor’s recommendation with respect thereto;
  - f. The Companies’ financial performance since the date of the Initial Order;
  - g. The Companies’ revised cash flow forecast for the period March 15 – May 21, 2010;
  - h. The Companies’ restructuring activities; and
  - i. The Companies’ request for an extension of the Stay through to May 18, 2010 and the Monitor’s recommendation with respect thereto.

### TERMS OF REFERENCE

6. In preparing this Second 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.

### SHAW FAMILY GROUP

7. At the initial application in these proceedings, held on February 12, 2010, SFG, a significant group of secured creditors, opposed the Companies' CCAA application and advised that they intended on bringing an application for the appointment of a receiver. The matter was adjourned to February 19, 2010 to allow for the filing of materials and cross-examinations in respect of the CCAA and receivership applications. SFG filed the receivership application on February 17, 2010.
8. On February 19, 2010, given the abundance of materials filed by SFG and the Companies and the significant disputed factual issues that required additional evidence and examination, this Honourable Court further adjourned the matter to March 17, 2010 to allow the parties an appropriate period of time to review all materials and adequately prepare for cross-examinations so that the matter could be properly adjudicated.
9. Concurrent with its receivership application, SFG had also filed and served an application seeking an order directing ATB, the first secured creditor, to comply with and accept SFG's offer to acquire ATB's security. The Companies disputed SFG's entitlement to obtain this relief and sought an adjournment of the application to again allow sufficient time to properly adjudicate the matter.

10. On February 19, 2010, this Honourable Court granted an order permitting SFG to redeem ATB's security. ATB has confirmed that the transaction has now concluded.
11. Since having acquired ATB's security, SFG and the Companies have had numerous discussions and positive communications such that the Monitor is advised that SFG has agreed to adjourn the receivership application *sine die*.

### MCC FUNDS

12. In the First Report, the Monitor previously advised the Court that MCC Fund Management Inc. had transferred the MCC Funds (as defined in the Initial Order) totalling \$1,371,959 (the "Trust Funds") to the Monitor pursuant to the terms of the Initial Order.
13. The Companies experienced an extended delay in the establishment of their post-filing banking facility such that at the request of the Companies, the Monitor issued certain approved payments directly from the Trust Funds as provided for in the Initial Order and the Stay Extension Order.
14. On March 11, 2010, in accordance with the terms of the Stay Extension Order, the Monitor transferred the remaining balance of the Trust Funds, totalling approximately \$1.1 Million, into Darian's new bank account. An accounting of the Trust Funds is attached as Appendix "A".

### SCOLLARD SHARES

15. In the First Report, the Monitor reported to this Honourable Court that Darian held approximately two million shares of Scollard (the "Scollard Shares").
16. On February 19, 2010, this Honourable Court authorized a sales process permitting Darian to sell the Scollard Shares at a price not less than \$2 per share with the approval of the Monitor.

17. Darian has now sold all of the Scollard Shares for total sales proceeds of \$4,101,224. These funds are currently being held in the Companies' new operating account pending further order of this Honourable Court.

#### **OPERATIONAL UPDATE**

18. The Companies have reported total average daily production of 1,077 BOE/d from the operations since the date of the Initial Order, which is slightly lower than Management's projections of 1,097 BOE/d.
19. Since the commencement of these proceedings, Darian and Bowview have deferred capital expenditures and have worked to limit discretionary spending.
20. On March 12, 2010, Darian received approval from the Energy Resources Conservation Board ("ERCB") to tie-in a well located in the Vulcan area which Management estimates could result in gross monthly revenues of approximately \$400,000. The potential revenue and associated capital expenditures required, estimated to be approximately \$300,000, are not included in the cash flow forecast discussed below as Management had not at the time had the opportunity to review these expenditures with SFG.
21. To date, Management, with the assistance of the Monitor, has been able to communicate with suppliers and make mutually satisfactory arrangements to ensure the uninterrupted supply of goods and services to the Companies.
22. Management has had ongoing positive discussions with EnCana Corporation with a view to amending the terms of the EnCana Farm In (as defined in the February 11, 2010 sworn Affidavit of Grant Aulden Bartlett) with a view to preserving asset value while the Companies work their way through these CCAA proceedings.

**CLAIMS PROCESS**

23. In order to advance the development of a plan of compromise or arrangement, the Companies will be seeking the Court's approval for the initiation of a claims process as described in the Notice of Motion filed March 12, 2010 and the March 12, 2010 sworn Affidavit of Grant Aulden Bartlett.
24. The Monitor has reviewed the proposed claims process and associated materials and is supportive of the Companies' application to commence a claims process in light of the anticipated adjournment of the application for the appointment of a receiver.

**FINANCIAL PERFORMANCE**

25. Concurrent with the Companies' February 19, 2010 application for an extension of the Stay, the Companies filed a revised cash flow forecast through to the week ending April 26, 2010 attached as Exhibit "B" of the February 18, 2010 Affidavit of Grant Aulden Bartlett (the "Revised Initial Forecast"). The Revised Initial Forecast was prepared to reflect the fact that the Companies were unable to issue any payments between the granting of the Initial Order and the February 19, 2010 Court application as a result of difficulties encountered in establishing a new bank account.
26. A variance analysis of the Companies' actual receipts and disbursements over the period February 12 – March 12, 2010 versus the corresponding period in the Revised Initial Forecast is set out in the following table.

February 12 – March 12, 2010				
	Actual	Forecast	Variance	Notes
<b><u>RECEIPTS</u></b>				
Petroleum and natural gas revenues	1,443,198	1,416,464	26,734	
Less: royalties	(138,320)	(141,783)	3,463	
	1,304,878	1,274,681	30,197	
GST refunds	-	511,000	(511,000)	a)
MCC Funds released by Monitor	1,371,885	284,368	1,087,517	b)
Sale of Scollard shares	4,101,424	-	4,101,424	c)
	<u>6,778,187</u>	<u>2,070,049</u>	<u>4,708,138</u>	
<b><u>DISBURSEMENTS</u></b>				
Operating costs	(44,507)	(611,165)	566,657	d)
Repairs and maintenance	(9,261)	(116,026)	106,765	e)
Contract field operators	(20,028)	(48,000)	27,972	
Capital expenditures	-	(300,000)	300,000	f)
Payroll				
Employees & benefits	(124,279)	(133,589)	9,310	
Consultants	(11,419)	(38,000)	26,581	
Lease Payments				
Premises	(70,330)	(68,111)	(2,219)	
Operating	(5,094)	(7,593)	2,499	
Land and mineral lease rentals	(65,089)	(51,313)	(13,776)	
General and administrative	(35,841)	(45,000)	9,159	
Insurance	(12,991)	(12,000)	(991)	
Bank interest and fees	(1,047)	(31,752)	30,705	
Professional fees	(134,029)	(315,000)	180,971	g)
Restructuring costs	(92,500)	(292,500)	200,000	g)
	<u>(626,415)</u>	<u>(2,070,049)</u>	<u>1,443,634</u>	
NET CASH FLOW	6,151,772	-	6,151,772	
OPENING – CASH	19,198	-	19,198	h)
TOTAL CASH	6,170,970	-	6,170,970	
Less: Restricted Funds	(4,101,424)	-	(4,101,424)	c)
CLOSING – CASH	<u>2,069,546</u>	<u>-</u>	<u>2,069,546</u>	

27. As a result of several extraordinary items, the Companies experienced a positive cash flow of approximately \$6.2 Million for the period February 12 – March 12, 2010. The Monitor offers the following comments with respect to significant individual variances:

- a. The anticipated GST refund of \$511,000 has not yet been received. Management has now estimated that these funds will now be received by the end of March;

- b. At the time the Revised Initial Forecast was prepared, it was assumed the Companies would only have access to the MCC Funds being held by the Monitor as necessary; however, the Order granted by this Honourable Court on February 19, 2010, authorized the Monitor to transfer the balance of the MCC Funds into the Companies' new bank account. As reported above, the Monitor has done so, resulting in a positive cash flow variance of approximately \$1.1 million;
- c. The Revised Initial Forecast had not contemplated the receipt of \$4.1 Million of proceeds from the sale of the Scollard shares. These funds are now noted as being restricted, as the Companies are not permitted to utilize them without further order of this Honourable Court;
- d. The favourable variance in *Operating Costs* relates principally to timing differences resulting from Management being able to arrange regular commercial terms with most ongoing suppliers rather than having to issue substantial prepayments as had been originally provided for in the Revised Initial Forecast;
- e. The favourable variance in *Repairs and Maintenance* can also be primarily attributed to the negotiation of ordinary trade terms with suppliers;
- f. The favourable variance in *Capital Expenditures* is a result of Management being able to negotiate a deferral of the forecasted capital expenditures in respect of the EnCana Farm In;
- g. The favourable variances in respect of *Professional Fees* and *Restructuring Costs* are the result of timing differences with the related expenditures having now been provided for in the Companies' revised cash flow forecast discussed below; and
- h. As a result of the Companies' operating accounts being frozen at the commencement of the CCAA proceedings certain outstanding cheques were returned NSF effectively creating the opening cash balance of approximately \$19,000.

### CASH FLOW FORECAST

28. Management, with the assistance of the Monitor, has prepared a cash flow forecast for the period March 15 – May 21, 2010 (the “March 15 Forecast”) which is attached as Appendix “B”.
29. The March 15 Forecast reflects negative cash flow of approximately \$1.5 million over the period. However, in isolation, this figure is somewhat misleading. As noted in the section above, from the period February 12 – March 12, 2010 the Companies experienced a significant favourable variance of approximately \$1.4 million in respect of operational disbursements arising principally as a result of timing differences. These timing differences have been recaptured in the current forecast accounting for the majority of the projected variance.
30. A summary of the March 15 Forecast is provided in the table below:

<u>March 15 – May 21, 2010</u>		
	<u>Forecast</u>	<u>Notes</u>
<b><u>RECEIPTS</u></b>		
P&NG revenues	2,276,549	a)
Less: royalties	<u>(201,343)</u>	b)
	2,066,206	
GST refunds	686,000	
<b>Total Receipts</b>	<b><u>2,752,206</u></b>	
<b><u>DISBURSEMENTS</u></b>		
Operating costs	(1,870,537)	
Repairs and maintenance	(332,498)	
Contract field operators	(120,000)	
Capital expenditures	(32,249)	c)
Payroll		
Employees & Benefits	(551,557)	
Consultants	(75,000)	
Lease Payments		
Premises	(138,928)	
Operating	(10,188)	
Land/mineral leases	(109,583)	
General and administrative	(50,000)	
Insurance	(51,166)	
Bank interest and fees	(78,130)	
Professional fees	(170,000)	d)
Restructuring costs	<u>(654,857)</u>	e)
<b>Total Disbursements</b>	<b><u>(4,244,693)</u></b>	
<b>Net Cash Flow</b>	<b>(1,492,487)</b>	
<b>Opening Cash (unrestricted)</b>	<b><u>2,069,546</u></b>	
<b>Closing Cash (unrestricted)</b>	<b><u>577,059</u></b>	f)

31. Noteworthy observations with respect to the March 15 Forecast are as follows:
- a. Petroleum and natural gas revenues include receipts for both the February and March production months;
  - b. As is the practice in the industry, royalty payments are paid in arrears and relate principally to the production months of January and February;
  - c. The Companies have limited forecasted capital expenditures to include only forecasted abandonment obligations;
  - d. Professional fees relate to the preparation of reserve evaluation reports, land value reports and legal costs associated with ERCB hearings;
  - e. Restructuring fees relate to the fees and expenses of the Companies' legal counsel, the Monitor and the Monitor's legal counsel and the legal counsel of the independent committee of the Board of Directors of Darian; and
  - f. The March 15 Forecast projects that the Companies will not require the use of the proceeds from the Scollard shares access to which is currently restricted subject to further direction from this Honourable Court.

32. The Monitor is satisfied that the March 15 Forecast is reasonable in the circumstances.

### **RESTRUCTURING EFFORTS**

33. 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. established a post-filing banking facility;

- c. held discussions with several investment banking firms with a view to engaging a financial advisor to administer a solicitation process intended to form the basis of a plan of arrangement. As of the date of this report, Management had not settled on the party that it will ultimately bring forth to this Honourable Court for approval;
- d. held continuing discussions with EnCana with a view to amending the terms of the EnCana Farm In;
- e. worked with their third party petroleum and natural gas consultants to advance the completion of the engineering reserve evaluation and land value report necessary for the pending solicitation process;
- f. made substantial progress towards establishing a cooperative mutually beneficial working relationship with SFG;
- g. worked to establish a claims process with a view to attempting to advance the development of a plan of arrangement or compromise; and
- h. kept the Monitor apprised of ongoing issues and developments and participated in regularly scheduled weekly update meetings with the Monitor.

### **RECOMMENDATION**

34. The Monitor is satisfied that the Companies have been acting with due diligence and in good faith in working towards a successful restructuring. Consequently, the Monitor is supportive of the Companies' application for a further extension of the Stay through to May 18, 2010 for the following reasons:

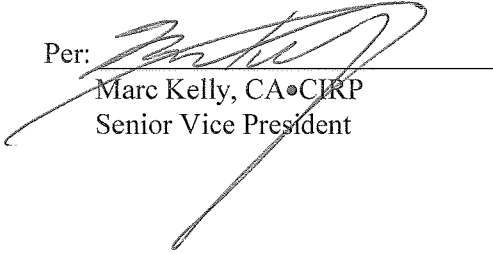
- a. to allow adequate time to advance the pending solicitation process, from which Management intends on formulating a plan of arrangement or compromise; and
- b. to allow sufficient time for the substantial completion of the claims process.

35. The Monitor is also of the view that the Companies' request to initiate a claims process is appropriate and recommends the approval of same.

All of which is respectfully submitted this 16<sup>th</sup> 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•CRP  
Senior Vice President

# APPENDIX "A"

**Darian Resources Ltd.**  
**Accounting of MCC Funds**

**Receipts**

Funds transferred from MCC	\$ 1,371,959.00	
		1,371,959.00

**Disbursements**

Wages - net	69,543.56	
Rent	68,597.96	
Retainer - Independent Committee's counsel	50,000.00	
Retainer - Monitor and Monitor's counsel	42,500.00	
Operating costs	14,427.53	
		<u>245,069.05</u>
Funds transferred to Darian		<u><u>\$ 1,126,889.95</u></u>

# APPENDIX "B"

Darrian Resources Ltd. and Bowview Petroleum Inc.  
 Projected Cash Flow - Consolidated  
 (unaudited)  
 Submitted on Mar. 12, 2010

Notes	Actual		Fest		Fest		Fest		Fest		Fest		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	03-May-10	10-May-10	
<b>RECEIPTS</b>													
1	-	1,443,198	-	-	1,159,436	-	-	-	-	1,108,113	-	-	3,710,747
1	-	-	(138,520)	-	(113,732)	-	-	-	-	(87,611)	-	-	(339,663)
	-	1,443,198	(138,320)	-	1,045,704	-	-	-	-	1,020,502	-	-	3,371,084
	230,642	14,428	1,126,815	-	-	511,000	-	-	150,000	-	-	-	686,000
	-	-	4,101,424	-	-	-	-	-	-	-	-	-	1,371,884
	230,642	1,457,626	5,089,919	-	1,045,704	511,000	-	-	150,000	1,020,502	-	-	4,101,424
													9,530,392
<b>DISBURSEMENTS</b>													
2	-	(4,647)	(39,860)	(130,000)	(285,615)	(285,615)	(285,615)	(147,282)	(147,282)	(147,282)	(147,282)	(147,282)	(1,915,044)
2	-	(9,261)	-	(93,166)	(51,166)	(51,166)	(13,625)	(13,625)	(13,625)	(13,625)	(27,500)	(27,500)	(341,759)
2	-	(4,594)	(15,434)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(140,028)
3	-	-	-	(2,249)	(30,000)	-	-	-	-	-	-	-	(32,249)
4	(69,544)	-	(54,735)	(77,003)	-	(126,589)	-	(110,688)	-	(126,589)	-	(110,688)	(675,836)
4	-	-	(11,419)	(5,500)	(5,500)	(5,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(86,419)
5	(68,598)	-	-	-	(70,331)	-	-	-	-	(68,598)	-	-	(209,259)
5	-	-	-	-	(5,094)	-	-	-	-	(5,094)	-	-	(15,281)
5	-	-	-	-	(65,089)	-	-	-	-	(53,934)	-	-	(174,672)
6	-	(7,560)	(28,281)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(85,841)
7	-	-	(12,991)	-	(12,991)	-	-	-	(19,500)	(19,500)	-	-	(64,157)
8	-	(807)	(240)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(7,813)	(79,177)
9	(92,500)	-	-	(100,000)	(10,000)	-	-	-	(60,000)	(60,000)	-	-	(304,029)
10	(230,642)	(26,869)	(368,904)	(722,588)	(658,074)	(493,683)	(321,741)	(321,741)	(309,720)	(444,341)	(309,189)	(315,783)	(747,357)
	-	1,430,757	4,721,014	(722,588)	387,630	17,317	(363,647)	(321,741)	(159,720)	576,161	(309,189)	(315,783)	4,659,285
	19,198	19,198	1,449,956	2,069,546	1,346,958	1,734,588	1,751,905	1,388,258	1,066,517	906,797	1,482,958	1,173,770	19,198
	19,198	1,449,956	2,069,546	1,346,958	1,734,588	1,751,905	1,388,258	1,066,517	906,797	1,482,958	1,173,770	857,987	(4,101,424)
													577,059
													577,059

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 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, Seaton Jordan for the Land Values Report, Blake Cassels Graydon LLP for ERCB Board Hearing legal fees.
10. Costs associated with restructuring including those of the company's legal counsel, the Monitor, and legal counsel for the Independent Committee.
11. Restricted funds represents the proceeds from the sale of the Scollard shares.