

**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.**

**AND IN THE MATTER OF SECTION 193 OF
THE ALBERTA *BUSINESS CORPORATIONS ACT*,
R.S.A. 2000, c. B-9**

**AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING DARIAN
RESOURCES LTD., BOWVIEW PETROLEUM INC., BIDCO, AND HOLDERS OF
COMMON SHARES OF DARIAN RESOURCES LTD.**

**SEVENTH REPORT OF THE MONITOR
HARDIE & KELLY INC.
JUNE 22, 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. On May 7, 2010, the Monitor prepared a report for this Honourable Court (the “Fifth Report”) in advance of the Companies’ application for an extension of the stay of proceedings (the “Stay”) provided for in the Initial Order.
4. On May 10, 2010, this Honourable Court granted a further extension of the Stay through to June 25, 2010.
5. On June 2, 2010, the Monitor prepared a supplementary report (the “Sixth Report”) for this Honourable Court providing the Monitor’s comments and recommendation in respect of Darian’s application seeking an Order accepting the filing of a *Plan of Compromise and Arrangement* (the “Plan”) attached as Exhibit “A” to the June 2, 2010 Affidavit of Grant Aulden Bartlett and the establishment of the procedures in respect of the creditors’ meeting to be held to consider the Plan (the “Creditor’s Meeting Order”).
6. The purpose of this seventh report (the “Seventh Report”) is to provide an update to this Honourable Court with respect to the following:
 - a. The Companies’ restructuring activities;
 - b. The Companies’ operations since the date of the Monitor’s Fifth Report;
 - c. The status of the Court directed claims process;
 - d. The Companies’ financial performance since May 1, 2010;
 - e. The Companies’ revised cash flow forecast for the period June 14 - July 5, 2010;
and
 - f. The Companies’ request for an extension of the Stay through to July 5, 2010 and the Monitor’s recommendation with respect thereto.

TERMS OF REFERENCE

7. In preparing this Seventh 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.

RESTRUCTURING EFFORTS

8. In the Sixth Report, the Monitor reported to this Honourable Court that Darian had entered into an agreement (the "Arrangement Agreement") contemplating a corporate transaction under the provisions of the *Business Corporations Act (Alberta)* ("ABCA") that would form the basis of the Companies' restructuring. On June 4, 2010, Darian obtained an Interim Order from this Honourable Court directing it to call a meeting of shareholders to consider a Plan of Arrangement pursuant to the ABCA.
9. On June 21, 2010, Darian advised the Monitor that 100% of the shareholders have executed a resolution approving the Plan of Arrangement. Consequently, Darian has advised they will be issuing notices to shareholders cancelling the shareholders' meeting that had been scheduled to be held on June 28, 2010.
10. On June 4, 2010, this Honourable Court granted an Order (the "Creditors' Meeting Order") accepting the filing of the Plan and directing a meeting of creditors be held on June 28, 2010.
11. The Monitor complied with the notice requirements established in the Creditors' Meeting Order by:
 - a. causing the Meeting Materials (as defined by the Creditors' Meeting Order) to be mailed to each creditor with a proven claim and each alleged creditor with an outstanding disputed claim on June 8, 2010;

- b. sending the Meeting Materials to any person subsequently requesting same within three Court Days of receipt of the request;
 - c. causing the Notice to Creditors attached hereto as Appendix "A" to this Seventh Report to be published in the *Calgary Herald* on June 11, 2010; and
 - d. Posting copies of the Meeting Materials on the Monitor's Website (at www.insolvency.net)
12. Management continues to work with EnCana Corporation ("EnCana") 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). The Monitor is advised that Management anticipates the necessary amending agreements will be finalized this week.
 13. Management, Peters & Co. Ltd. and the Monitor continue to hold regular conference calls with the principal secured creditor, the Shaw Family Group ("SFG"), to provide SFG with updates in respect of the Companies' operations and restructuring activities.

OPERATIONAL UPDATE

14. The Companies have reported total average daily production of 929 BOE/d since the date of the Fifth Report. The average daily production for the week of June 12-18, 2010 was 861 BOE/d.
15. Production has been trending downward since the commencement of the proceedings for the following reasons:
 - a. there has been a natural decline in production as the Companies have limited capital expenditures during the CCAA proceedings to the tie-in of the Vulcan well which came on stream in early April. However, Darian has not experienced the full benefit anticipated by Management as a result of issues between the third party co-owners of the plant facility servicing the Vulcan well. As a result, Darian's production has been curtailed or completely shut-in for extended periods of time; and

- b. a well in the Robin North area has experienced a drop of approximately 60 BOE/d. Management recently determined there is fluid in the hole and are hopeful the well can be swabbed in the upcoming days and previous production levels can be restored.

CLAIMS PROCESS

16. On March 17, 2010, this Honourable Court granted an Order (the “Claims Process Order”) establishing a claims procedure (the “Claims Process”).
17. In the Sixth Report, the Monitor reported to this Honourable Court that the claims of fourteen parties who had filed *Notices of Objection* in accordance with the protocol established by the Claims Process Order remained in dispute.
18. Management, with the assistance of legal counsel and the Monitor, was able to resolve certain of the disputed claims in advance of the June 4, 2010 deadline for claimants who filed *Notices of Objection* to file *Notices of Motion* with this Honourable Court for the determination of their respective unresolved claims.
19. Seven creditors with claims totalling approximately \$800,000 ultimately filed *Notices of Motion* by June 4, 2010. Negotiations and further investigations into the majority of these claims are ongoing. Those disputed claims that are not resolved will be scheduled for hearings on June 24, 2010.
20. A summary of the claims that have now been accepted in whole or in part by the Companies, including those claims filed after the Claims Bar Date as approved by this Honourable Court on June 4, 2010, is as follows:

	Number of Claims	Amount
Unsecured	346	\$9,446,205
Secured	31	64,750,008
Total	377	\$74,196,213

FINANCIAL PERFORMANCE

21. Concurrent with the Companies' May 10, 2010 application for an extension of the Stay, the Companies filed a revised cash flow forecast for the period May 1 – June 25, 2010 attached as Exhibit "A" of the May 7, 2010 Affidavit of Lyle Furber (the "May 1 Forecast").
22. A variance analysis of the Companies' actual receipts and disbursements over the period May 1 – June 13, 2010 versus the corresponding period in the May 1 Forecast is set out in the following table.

	May 1, 2010 – June 13, 2010			
	Actual	Forecast	Variance	Notes
<u>RECEIPTS</u>				
Petroleum and natural gas revenues	1,182,942	1,117,415	65,527	
Less: royalties	(179,414)	(144,007)	(35,407)	
	<u>1,003,528</u>	<u>973,408</u>	<u>30,120</u>	
<u>DISBURSEMENTS</u>				
Operating costs	(479,539)	(1,537,263)	1,057,724	a)
Itemized repairs and maintenance	-	(165,000)	165,000	b)
Contract field operators	(11,810)	(72,000)	60,190	c)
Capital expenditures	-	(78,000)	78,000	d)
Payroll				
Employees & benefits	(169,306)	(173,779)	4,473	
Consultants	(13,166)	(33,000)	19,834	
Lease Payments				
Premises	(44,002)	(50,185)	6,183	
Operating	(10,188)	(10,188)	-	
Land and mineral lease rentals	(96,780)	(63,089)	(33,691)	
General and administrative	(40,273)	(30,000)	(10,273)	
Insurance	(40,515)	(19,083)	(21,432)	
Bank interest and fees	(23,227)	(31,470)	8,243	
Professional fees	(87,360)	(80,000)	(7,360)	
Restructuring costs	(340,759)	(330,000)	(10,759)	
	<u>(1,356,925)</u>	<u>(2,673,057)</u>	<u>1,316,132</u>	
NET CASH FLOW	<u>(353,397)</u>	<u>(1,699,649)</u>	<u>1,346,252</u>	
OPENING – CASH	1,657,519	1,657,519	-	
TOTAL CASH	1,304,122	(42,130)	1,346,252	
Plus: Use of Restricted Funds	-	50,000	(50,000)	e)
CLOSING – CASH	<u>1,304,122</u>	<u>7,870</u>	<u>1,296,252</u>	
Note - "Closing – Cash" excludes the segregated proceeds of the Scollard Funds and the sale of the Non-Core Assets totaling approximately \$4.2 Million.				

23. The Companies experienced a negative cash flow of approximately \$353,000 over the period May 1 – June 13, 2010 versus a forecasted deficit of approximately \$1.7 Million for that same period. The Monitor offers the following comments with respect to significant individual variances:

- a. The favourable variance of approximately \$1.0 Million in *Operating Costs* relates to the following:
 - i. continuing timing differences as a result of suppliers and joint venture partners invoicing the Companies' slower than anticipated; and
 - ii. the closer monitoring of expenditures by the Companies since the initiation of the CCAA proceedings has resulted in a permanent reduction in operating cost/BOE over the last several months such that the previously forecasted cost/BOE which was based on historical results was conservative.

The above is consistent with the Monitor's experience as the Monitor has received only a minimal amount of calls from post-filing suppliers seeking payment which to the Monitor's knowledge have immediately been resolved.

- b. The favourable variance in *Itemized Repairs and Maintenance* relates to Management deferring scheduled work with a view to conserving cash flow.
- c. The favourable variance in *Contract Field Operators* is the result of timing differences and the Companies utilizing significantly fewer consulting hours than had originally been forecast.
- d. The favourable variance in *Capital Expenditures* is the result of the company successfully renewing leases resulting in expenditures forecasted for abandonment not being required at this time.
- e. To date, the Companies' have not required the use of any of the funds from the sale of the shares of Scollard Energy Inc (the "Scollard Funds").

CASH FLOW FORECAST

24. Management, with the assistance of the Monitor, has prepared a cash flow forecast for the period June 14 – July 5, 2010 (the “June 14 Forecast”) which is attached as Appendix “B” to this Seventh Report.
25. The June 14 Forecast reflects negative cash flow of approximately \$983,000 over the period.
26. A summary of the June 14 Forecast is provided in the table below:

June 14 – July 5, 2010		
	Forecast	Notes
<u>RECEIPTS</u>		
P&NG revenues	930,017	a)
Less: royalties	<u>(109,886)</u>	
Total Receipts	820,131	
<u>DISBURSEMENTS</u>		
Operating costs	(876,980)	b)
Repairs and maintenance	(20,000)	
Contract field operators	(48,000)	
Capital expenditures	(70,000)	
Payroll		
Employees & Benefits	(162,782)	
Consultants	(22,000)	
Lease Payments		
Premises	(72,398)	
Operating	(5,094)	
Land/mineral leases	(90,217)	
General and administrative	(20,000)	
Bank interest and fees	(16,484)	
Professional fees	(159,000)	c)
Restructuring costs	<u>(240,000)</u>	d)
Total Disbursements	<u>(1,802,955)</u>	
Net Cash Flow	(982,824)	
Opening Cash (unrestricted)	<u>1,304,122</u>	
Closing Cash (unrestricted)	<u>321,298</u>	

27. Noteworthy observations with respect to the June 14 Forecast are as follows:
- a. *Petroleum and Natural Gas Revenues* include receipts for the production month of May.

- b. *Operating Costs* include a significant accrual in excess of \$400,000, on July 5, 2010, in respect of all estimated post-filing operating expenses incurred through to July 5, 2010 being the projected date of Plan Implementation.
 - c. *Professional Fees* relate to the annual audit and legal costs associated with Energy Resources Conservation Board hearings.
 - d. *Restructuring Costs* relate to the fees and expenses of the Companies' legal counsel, the Monitor and the Monitor's legal counsel.
28. The Monitor is satisfied that the June 14 Forecast is reasonable in the circumstances. However, the Monitor wishes to highlight for this Honourable Court that in the event the anticipated date of Plan Implementation should be delayed for any reason, it is possible the Companies would require access to a portion of the currently authorized proceeds of the Scollard Funds or would potentially seek permission to utilize a portion of the currently restricted Scollard Funds.

RECOMMENDATION

29. The Monitor is satisfied that the Companies have continued to act with due diligence and in good faith and continue to move forwards towards the implementation of a successful restructuring. Consequently, the Monitor is supportive of the Companies' application for a further extension of the Stay through to July 5, 2010 to allow the necessary time for the approval and implementation of the Plan.

All of which is respectfully submitted this 22nd day of June 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"

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 BOWVIEW PETROLEUM INC.

NOTICE TO CREDITORS OF DARIAN RESOURCES LTD. AND BOWVIEW PETROLEUM INC.

NOTICE IS HEREBY GIVEN that Darian Resources Ltd. and Bowview Petroleum Inc. (collectively the "**Darian Group**") has filed with the Alberta Court of Queen's Bench (the "Court") a Plan of Arrangement dated June 4, 2010 (as amended from time to time, the "**Plan**") pursuant to the *Companies' Creditors Arrangement Act* (Canada), as amended (the "**CCAA**").

The Plan contemplates the compromise of rights and claims of certain creditors of the Darian Group (as defined in the Plan, "**Affected Creditors**"). Affected Claims (as that term is defined in the Plan) of Affected Creditors constitute one (1) class as established in the Plan, the "**Affected Creditors Class**".

NOTICE IS ALSO HEREBY GIVEN that a meeting of the Creditors (as that term is defined in the Plan) (the "Creditors' Meeting") will be held at Borden Ladner Gervais LLP, 1000, 400 Third Avenue S.W., Calgary, Alberta T2P 4H2 at 10:00 a.m. on Monday, June 28, 2010 for the purpose of considering and, if thought advisable by the Creditors, voting in favour of, with or without variation, a resolution to approve the Plan and to transact such other business as may properly come before such Creditors' Meeting or any adjournment thereof. The Creditors' Meeting is being held pursuant to the Order of the Court made on June 4, 2010 by the Honourable Madam Justice B.E.C. Romaine (the "**Creditors' Meeting Order**").

The quorum for the Creditors' Meeting has been set by the Creditors' Meeting Order as the presence, in person or by proxy, at the Creditors' Meeting of one (1) Creditor.

To become effective, in respect of the Affected Creditors' Class, the Plan must be approved by a majority in number of Affected Creditors who represent at least two-thirds in value of the Voting Claims (as defined in the Plan) of the Creditors who actually vote on the resolution approving the Plan (in person or by proxy) at the Creditors' Meeting. The Plan must also be sanctioned by a final order of the Court under the CCAA.

NOTICE IS ALSO HEREBY GIVEN that such order will be sought on July 2, 2010 at 1:15 p.m. At that time the Darian Group will also seek the other relief specified in the Plan. Subject to the satisfaction of the conditions to implementation of the Plan, all Affected Claims of Affected Creditors will then receive the treatment set out in the Plan unless otherwise ordered by the Court.

The value of each Affected Claim for voting purposes has or will be determined pursuant to the Creditors' Meeting Order, the Claims Process, the Plan, the CCAA and any further order of the Court.

Any Creditor who is entitled to vote at the Creditors' Meeting but is unable to attend the Creditors' Meeting is requested to date, sign and return a form of proxy which can be obtained from the Monitor's website at www.insolvency.net or by contacting the Monitor directly. In order to be used at the Creditors' Meeting, a proxy must be deposited with the Monitor, at the address below, at anytime prior to 5:00 p.m. on the last Court Day (as that term is defined in the Creditors' Meeting Order) before the Creditors' Meeting, or with the Chair of the Creditors' Meeting prior to the commencement of the Creditors' Meeting or any adjournment thereof.

The Monitor's address for the purpose of filing forms of proxy and for obtaining any additional information or materials related to the Creditors' Meeting is:

**Hardie & Kelly Inc.
Court Appointed Monitor
206, 5800 - 2nd Street SW
Calgary, Alberta T2H 0H2
Attention: Marc Kelly
Telephone: (403) 252-1766
Fax: (403) 640-0591**

This notice is given by the Darian Group pursuant to the Creditors' Meeting Order.

You can view copies of the documents relating to this process on the following website www.insolvency.net.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Plan.

DATED this 11th day of June, 2010.

Hardie & Kelly

APPENDIX "B"

Darian Resources Ltd. and Bowview Petroleum Inc.
Projected Cash Flow - Consolidated
(unaudited)
Submitted on June 18, 2010

	Notes	Week Beginning				TOTAL
		Fcst 14-Jun-10	Fcst 21-Jun-10	Fcst 28-Jun-10	Fcst* 05-Jul-10	
RECEIPTS						
Petroleum and natural gas revenues	1		930,017			930,017
Royalties	1		(109,886)			(109,886)
Subtotal		-	820,131	-	-	820,131
DISBURSEMENTS						
Operating Costs	2	(110,880)	(110,880)	(110,880)	(544,340)	(876,980)
Itemized repairs and maintenance	2	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Contract Field Operators	2	(12,000)	(12,000)	(12,000)	(12,000)	(48,000)
Capital expenditures	3	-	-	(70,000)	-	(70,000)
Payroll						-
Employees & benefits	4	(69,555)		(93,227)	-	(162,782)
Consultants	4	(5,500)	(5,500)	(5,500)	(5,500)	(22,000)
Lease payments						-
Premises	5	-	-	(72,398)	-	(72,398)
Operating	5	-	-	(5,094)	-	(5,094)
Land & mineral lease rentals	5	(90,217)	-	-	-	(90,217)
General & administrative	6	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Insurance	7	-	-	-	-	-
Bank interest and fees	8	(5,245)	(5,245)	(5,245)	(749)	(16,484)
Professional fees	9	-	(44,000)	(115,000)	-	(159,000)
Restructuring costs	10	(60,000)	(60,000)	(60,000)	(60,000)	(240,000)
Subtotal		(363,397)	(247,625)	(559,344)	(632,589)	(1,802,955)
NET CASH FLOW (DEFICIT)		(363,397)	572,506	(559,344)	(632,589)	(982,824)
OPENING CASH		1,304,122	940,725	1,513,232	953,888	1,304,122
From Restricted Funds	11	-	-	-	-	-
CLOSING CASH		940,725	1,513,232	953,888	321,298	321,298
RESTRICTED OPENING CASH		4,206,175	4,206,175	4,206,175	4,206,175	4,206,175
To Current Account	11	-	-	-	-	-
RESTRICTED CLOSING CASH		4,206,175	4,206,175	4,206,175	4,206,175	4,206,175

Notes:

- * Represents one day only due to final day of CCAA Protection.
- 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 contains an accrual due to lag related to vendor invoicing for May.
- 3. Capital expenditures related to installation of a pumpjack for 13-21 tie-in if required.
- 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. Blake Cassels Graydon LLP for ERCB Board Hearing legal fees and KMPG audit and tax 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.