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CALGARY, ALBERTA

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COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
IN THE MATTER OF	The Companies' Creditors Arrangement Act, RSC 1985, c C-36, as amended, and
AND IN THE MATTER OF	An Application under section 46 and following of the Companies Creditors Arrangement Act, RSC 1985, c C-36, as amended
DOCUMENT	**FIRST REPORT OF ERNST & YOUNG INC., IN ITS CAPACITY AS COURT-APPOINTED INFORMATION OFFICER**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**Scott Watson** **PARLEE McLAWS LLP** **3400, 150 – 6TH Avenue SW** **Calgary, Alberta T2P 3Y7** **Phone: 403-294-7038** **Fax: 403-265-8263** **Email: swatson@parlee.com** **File: 68789-3**

TABLE OF CONTENTS OF THE FIRST REPORT

INTRODUCTION

1. On September 17, 2010, Petroflow Energy Ltd. ("Petroflow") obtained an order from the Alberta Court of Queen's Bench (the "Canadian Court") recognizing the bankruptcy proceedings commenced by Petroflow in the United States Bankruptcy Court for the District of Delaware (the "U.S. Court"), pursuant to a chapter 11 of the United States Bankruptcy Code (the "U.S. Bankruptcy Code") and administered with Petroflow's related debtor' proceedings (the "U.S. Proceedings"), as a "foreign main proceeding" for the purposes of section 47 of the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended, (the "CCAA") (the "Recognition Order").

2. Pursuant to the Recognition Order, Ernst & Young Inc. was appointed information officer ("IO") of Petroflow during these CCAA proceedings.

3. The purpose of this first report of the IO (the "First Report") is to provide this Honourable Court with an update in respect of the following:

    a) an overview of Petroflow and its related debtors' in the U.S. Proceedings;

    b) an update on the activities of the U.S. Proceedings since the granting of the Recognition Order;

    c) an overview of an order granted by this Honourable Court recognizing an order entered by the U.S. Court dated October 12, 2010 (the "U.S. Bar Date Order"); and

    d) Petroflow and its related debtors' next steps.

BACKGROUND

4. Petroflow was incorporated pursuant to the laws of Canada, as Atlantic Gold Mines Limited on July 26, 1994. Its registered office is located in Calgary, Alberta and its principal place of business, head office and the location of its books and records is in Tulsa, Oklahoma.

5. Petroflow is the parent company of North American Petroleum Corporation USA ("NAPCUS") and directly owns all of its equity interests. NAPCUS is a Delaware Corporation that was incorporated in the State of Delaware in April 2005, with its principal place of business in Tulsa, Oklahoma and registered office in Wilmington, Delaware.

6. NAPCUS has one wholly-owned subsidiary: Prize Petroleum, LLC ("Prize"). Prize is an Oklahoma limited liability company (incorporated in Oklahoma in September 2006), with its principal place of business and head office located in Tulsa, Oklahoma and its registered office located in Edmond, Oklahoma.

7. Petroflow's assets consist predominately of its equity interest in NAPCUS.

8. Petroflow, NAPCUS and Prize (collectively, the "Debtors") operate an independent exploration and production company that predominately engages in unconventional well drilling operations for natural gas extraction in certain locations in Oklahoma.

9. A series of unforeseen events placed significant strain on the Debtor's ability to comply with certain financial covenants pursuant to its credit agreement.

10. As a result of these financial challenges, on May 25, 2010, each of NAPCUS and Prize filed a voluntary petition for relief under chapter 11 of Title 11 of the U.S. Bankruptcy Code (the "First Filed Petitions") and on May 28, 2010, the U.S. Court entered an order directing the joint administration and procedural consolidation of the First Filed Petitions.

11. Following the First Filed Petitions, the Debtors and their advisors subsequently determined that in order to fully restructure the Debtor's debt obligations, Petroflow should file for chapter 11. On August 20, 2010, Petroflow filed a voluntary petition with the U.S. Court under chapter 11 of the U.S. Bankruptcy Code (the "Petroflow Petition").

12. On September 10, 2010, a joint motion was ordered by the U.S. Court, that certain orders entered in respect of the First Filed Petition be made applicable to the Petroflow Petition in an effort to eliminate the filing of duplicative applications and motions ("Joint Filing").

13. As discussed above, on September 17, 2010, this Honourable Court granted the Recognition Order Additional background may be found in materials filed relating to the Recognition Order including the September 14, 2010 affidavit of Mr. Louis G. Schott (the "September 14th Schott Affidavit").

14. These documents, together with additional information regarding the U.S. Proceeding, including the Recognition Order and the September 14th Schott Affidavit, have been posted by the IO on its website at: www.ey.com/ca/petroflow . Further information may also be obtained from the debtors' website relating to the U.S. Proceedings at: http://dm.epiq11.com/NAP/Project/default.aspx .

ACTIVITIES OF PETRFLOW

15. Petroflow and its related debtors, with the assistance of their counsel, Kirkland & Ellis LLP ("K&E"), have continued restructuring efforts of their operations since the granting of the Recognition Order.

16. The following is a summary of the main restructuring undertakings to date:

a) Arbitration and litigation matters with Enterra Energy Corp. ("Enterra") and the Debtors' pre-petition secured bank lenders relating to the joint operating and capital recovery agreements between the Debtors and Enterra and also related to certain liens and property transfers. Enterra is a partner with the Debtors in a farmout agreement, where the Debtors' agreed to provide certain drilling services to Enterra, in return for a 70% interest in Enterra's working interest in the underground natural reserves, as discussed in the September 14th Schott Affidavit;

b) Reviewing and assessing potential pre-filing transfers of certain assets;

c) Managing and analyzing various ongoing operational issues and cost-saving initiatives, such as developing and revising a business strategy surrounding its drilling operations and managing insurance issues;

d) Analysis and preparation of financial statements, cash flow projections and operating reports for the United States Trustee ("US Trustee") in the U.S. Proceedings and to satisfy current debtor-in-possession financing obtained prior to the Recognition Order;

e) Preparing various documents surrounding a claims procedure order recently granted by the U.S. Court (as discussed further below);

f) Tax planning analysis and equity trading procedures to assist in preserving certain of the Debtors' tax attributes and net operating losses;

g) Analyzing and strategizing the assumption and rejection of the Debtors' executory contracts and unexpired leases of non-residential real property; and

h) Development of strategies regarding the Debtors' eventual proposition of a plan of reorganization.

17. The IO understands that Petroflow and its related debtors continue to work on the above tasks and have identified certain key timelines to address these and other

issues within the U.S. Proceedings that are discussed further below and are located in the materials found on the Debtors' website.

U.S. BAR DATE ORDER

18. On September 22, 2010, an application was brought forward within the U.S. Proceedings by Petroflow and its related debtors seeking an order establishing, among other things, certain claims bar dates (the "U.S. Bar Date Order").

19. On October 8, 2010, the U.S. Bar Date Order was entered by the U.S. Court in the U.S. Proceedings and on October 12, 2010, the U.S. Bar Date Order was recognized by the Canadian Court in the CCAA proceedings, which established a claims process for creditors to file claims against Petroflow and its related debtors (the "Claims Process").

20. The U.S. Bar Date Order can be located on the IO's website.

Claims Process and Claims Bar Date

21. As discussed in the U.S. Bar Date Order, the Claims Process establishes that all entities (the "Claimants"), holding or wishing to assert a claim that arose or is deemed to have arisen prior to the date of the First Filed Petition or the Petroflow Petition, shall file a proof of claim ("POC") pursuant to certain procedures established in the U.S. Bar Date Order on or before certain deadlines (the "Bar Dates"), as discussed further below.

Notice to File POC's

22. The Claims Process follows the timeline identified below:

Milestone	Date
Post forms on Debtors' website	October 15, 2010
Mail to all known Claimants a Bar Date Notice and Bar Date Package	October 15, 2010
Published notice of claims bar date in Wall Street Journal (national edition), the Tulsa World, and the Calgary Herald	October 20, 2010
Deadline for Claimants to file a Non-Governmental POC by Epiq	November 22, 2010 at 5:00 pm (EST)
Deadline for Claimants to file Governmental Claims asserted against: - NAPCUS - Prize	November 22, 2010 at 5:00 pm (EST)
Deadline for Claimants to file a Governmental Claims asserted against: - Petroflow	February 17, 2011 at 5:00 pm (EST)
Deadline of Claimant to file an objection to a Rejection Notice.	No later than 10 calendar days after the Debtors' service of the Rejection Notice
Deadline for Claimant to file a POC in connection with the Rejection Notice	Later of the General Bar Date or 30 days after the applicable Rejection Date.

23. The Debtors, with the assistance of their notice and claims agent, Epiq Bankruptcy Solutions, LLC ("Epiq"), mailed notice of the bar date and the POC package (collectively, the "Bar Date Package") to all known Claimants in the format proposed in the U.S. Bar Date Order.

24. The advertisement, in the format attached to the U.S. Bar Date Order, was published in the Wall Street Journal (national edition), the Tulsa World and the Calgary Herald prior to October 22, 2010.

Claims Bar Date

25. The U.S. Bar Date Order requested that all Claimants, other than governmental units, holding or wishing to assert a claim against any of the Debtors that arose or is deemed to have arisen prior to the First Filed Petition or the Petroflow Petition,

as applicable, (collectively, the “Non-Governmental Claims”) file a proof of such Non-Governmental Claim so as to be actually received by Epiq by November 22, 2010 at 5:00 pm (EST) (the “General Bar Date”).

26. Each and every governmental unit asserting a claim against NAPCUS or Prize was also required to submit its POC by the General Bar Date.

27. Each and every government unit asserting a claim against Petroflow is required to submit its POC by February 17, 2011 at 5:00 pm (the “Petroflow Governmental Bar Date”).

28. Any Claimant that does not file a Claim with the Debtor / Epiq on or before the applicable bar date shall be forever, stopped and enjoined from asserting such Claim against the Debtors, and the Debtors’ property shall be forever discharged from any and all indebtedness or liability with respect to such Claim.

Disputed Claims

29. In the event that the Debtors amend or supplement their schedules of assets and liabilities to reduce, delete or change the classification of a Claim, the Debtors shall give notice of any such amendment to the Claimants affected and such holders shall be afforded the later of thirty (30) days from the date on which such notice is given or the General Bar Date or Petroflow Governmental Bar Date, to submit a POC with respect to such amended Claim or be forever barred from doing so.

30. Claimants shall also file a POC arising from the Debtors’ rejection of any executory contract or unexpired lease by the later of

   a) the General Bar Date or the Petroflow Governmental Bar Date, as applicable; or

   b) 30 days after the rejection date.

SUMMARY OF NEXT STEPS

31. Petroflow and its related debtors' next steps include:

a) reviewing the claims submitted by Claimants in accordance with the U.S. Bar Date Order;

b) litigation and arbitration matters with Enterra;

c) continued analysis and cost-cutting of the Debtors' operations;

d) finalizing its tax planning analysis to assist in preserving Petroflow and its related debtors tax attributes and net operating losses;

e) finalizing its proposed exclusive plan of reorganization by March 31, 2011, provided that no further extensions are granted by the U.S. Court; and

f) preparation for the Debtors' adversary hearing scheduled for April 2011.

32. As required under the Recognition Order, the IO will report to this Honourable Court on the status of the U.S. Proceedings within the next three months.

33. In the IO's view, Petroflow and its related debtors, together with its counsel, are acting in good faith and with due diligence during these U.S. and Canadian Proceedings.

All of which is respectfully submitted this 17h day of December 2010.

ERNST & YOUNG INC.
in its capacity as Information Officer
Petroflow Energy Ltd.

Neil Narfason, CA•CIRP, CBV
Senior Vice-President