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March 17, 2011

SENT HAND-DELIVERED

The Honourable Justice B.E.C. Romaine
Alberta Court of Queen's Bench
Calgary Courts Centre, Judicial District of Calgary
601 – 5 Street S.W.
Calgary, AB T2P 5P7

Your Ladyship:

Re: ***In the Matter of Companies' Creditors Arrangement Act 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 of Petroflow Energy Ltd., Action No. 1001-13659.***

We are the court-appointed information officer of Petroflow Energy Ltd. in the current application under section 46 and following of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c C-36, as amended, proceedings before your Ladyship.

Please find attached a copy of the information officer's second report as required under the recognition order you granted on September 17, 2010.

Please do not hesitate to contact me with any questions of concerns with respect to the foregoing.

Yours Truly,

ERNSY & YOUNG INC.,
in its capacity as Information Officer of
Petroflow energy Ltd.

Orest Konowalchuk, CA•CIRP
Senior Manager
(403) 206-5698

cc. Scott Watson, *Parlee McLaws LLP*
Paul Wierbicki, *Kirkland & Ellis LLP*

COURT FILE NUMBER	1001-13659	CLERK OF THE COURT Clerk's Stamp MAR 17 2011 CALGARY, ALBERTA
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	**SECOND REPORT OF ERNST & YOUNG INC., IN ITS CAPACITY AS COURT-APPOINTED INFORMATION OFFICER**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**Information Officer** ERNST & YOUNG INC. 1000, 440 – 2nd Avenue S.W. Calgary, AB T2P 5E9 Neil Narfason / Orest Konowalchuk Telephone: (403) 206-5067 / (403) 206-5698 Email: Neil.Narfason@ca.ey.com Orest.Konowalchuk@ca.ey.com **Counsel** 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	

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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 second report of the IO (the "Second Report") is to provide this Honourable Court with an update in respect of the following:

    a) an update on the activities of the U.S. Proceedings since the first report of the IO (the "First Report");

    b) an update on the Debtors' (defined below) claims process (the "Claims Process");

    c) an overview of the Debtors' application to the U.S. Court for an extension to file its Plan (defined below); and

    d) a summary of the Debtors' next steps.

BACKGROUND

4. Petroflow is a Canadian company and the parent company of North American Petroleum Corporation USA ("NAPCUS"), a Delaware corporation and directly owns all of its equity interests. NAPCUS has one wholly-owned subsidiary, Prize Petroleum, LLC ("Prize") which is an Oklahoma limited liability company

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

6. 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.

7. The IO has posted various information regarding the U.S. Proceeding, including the Recognition Order and the September 14th Schott Affidavit, 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 THE DEBTORS

8. Since the First Report, 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.

9. The following is a summary of the main restructuring undertakings since the First Report:

    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 ("CRA") between the Debtors and Enterra and also related to certain liens and property transfers (the "Adversary Proceedings").

i. On January 24, 2011, the U.S. Court entered its findings of fact and conclusions of law regarding the Debtors' pending litigation with Enterra. The findings settled 3 of the 7 counts of complaints by the Debtor against Enterra and the decisions on the remaining counts have been adjourned to June 2011 at the earliest;

ii. On February 15, 2011, the U.S. Court entered an order approving a stipulation between the Debtors and Enterra that resolved outstanding issues otherwise subject to arbitration between the parties, which resulted in a release by Enterra of all claims against the Debtors arising out of the parties' Farmount Agreement. The IO understands that the order followed extensive negotiations between the parties regarding the termination of the Farmout Agreement and related issues; and

iii. As a result, the Debtors, the Debtors pre-petition lenders and Enterra have engaged in extensive discussion regarding how best to move forward with the litigation. The U.S. Court has asked the parties to submit a form of order setting forth respective amounts owed by each party under their now void and terminated CRA and Farmout Agreement;

b) Claims Process administration and review of claims filed by various claimants as discussed further below;

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) Tax planning analysis relating to the preservation of the Debtors' net operating losses.

   i. On November 9, 2010, the U.S. Court entered an order approving the Debtors' proposed notification and hearing procedures for transfers of common stock of Petroflow Energy Ltd (the "Stock Transfer Order". The IO understands that the entry of the Stock Transfer Order will help ensure that the Debtors are able to use their significant net operating loss carry-forwards and other tax credits and attributes;

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

g) Continued development of strategies regarding the Debtors' eventual proposition of a Plan, as further discussed below.

10. As previously discussed in the First Report, the IO understands that the 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.

CLAIMS PROCESS UPDATE

11. As discussed in the First Report, 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").

12. 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.

13. In the table below, the IO has prepared a summary of the creditor claims (with the assistance of Epiq) that describes whether the claims submitted to date are either a secured claim, priority ("preferred") unsecured claim and/or a general unsecured claim within each of the claim types (i.e. governmental and non-governmental claims).

	NAPCUS		PRIZE		PETROFLOW		TOTAL	
	Asserted claims	$ of claims	Asserted claims	$ of claims	Asserted claims	$ of claims	Asserted claims	$ of claims
Governmental Claims								
- Secured claim	1	$ 859	0	$ -	1	$ 2,106	2	$ 2,965
- Priority claim	1	6,672	1	99	0	-	2	6,771
- Unsecured claim	6	171,263	0	-	0	-	6	171,263
	8	$ 178,793	1	$ 99	1	$ 2,106	10	$ 180,998
Non-Governmental Claims								
- Secured claim	7	$ 138,614,031	3	$ 138,609,499	3	$ 138,609,499	13	$ 415,833,030
- Priority claim	3	23,450	0	-	1	11,725	4	35,175
- Unsecured claim	40	1,676,963	2	11,725	8	777,967	50	2,466,654
	50	$ 140,314,444	5	$ 138,621,224	12	$ 139,399,191	67	$ 418,334,859
Total	58	$ 140,493,237	6	$ 138,621,323	13	$ 139,401,297	77	$ 418,515,857

14. To date, approximately 58 POC's were submitted to the Debtors (through Epiq) by Claimants totalling approximately $418,515,857 (including duplication claims). Of these 58 POC's, there were several individual POC's that asserted multiple claims, which total approximately 77 asserted claims.

15. The Debtors, with the assistance of its legal counsel, are at the early stage of reviewing and analyzing each of the POC's claims submitted by the Claimants. Where further review is required to determine the validity and enforceability of certain secured claims, the IO understands that the Debtors legal counsel are

reviewing such claims to ensure this review process is being completed appropriately.

16. The IO further understands that the Debtor and its counsel will continue to review and reconcile each submitted POC in the coming months and will report further the U.S. Court, at a later date, on the results of the claims process.

PLAN EXTENSION APPLICATION

17. On February 24, 2011, the Debtors' filed an application in the U.S. Court to further extend certain filing periods set forth in sections 1121(c)(2) and 1121(c)(3) of the U.S. Bankruptcy Code. The hearing date is scheduled for March 17, 2011.

18. The relief being sought by the Debtors are to extend:

    a) the period during which the Debtors have the exclusive right to file a chapter 11 restructuring plan, sale or other transaction (the "Plan") through and including July 31, 2011 (the "Exclusive Filing Period"), which currently expires on March 31, 2011; and

    b) the Debtors exclusive right to solicit acceptances for that Plan (the "Exclusive Solicitation Period") (collectively, the "Exclusive Periods") through and including September 30, 2011, which currently expires on May 30, 2011.

19. The IO understands that the basis for the relief being sought is based on several factors that the Debtors' believes are present to substantiate the extensions to the Exclusive Periods, namely:

    a) Substantial unresolved contingencies remain outstanding, such as the pending litigation with Enterra, which is set for trial in June 2011. The Debtors believe that until closure is reached on these outstanding key issues, formulation and submission of a Plan before initial filing period of March 31, 2011 is unrealistic;

b) The complexity of the U.S. Proceedings;

c) The Debtors have conducted these U.S. Proceedings consensually and in good faith and have reach significant milestones and accomplished as discussed above;

d) The Debtors are paying their debts as they become due; and

e) The relief requested will not prejudice the rights of creditors or other interested parties.

20. The IO further understands that if the extensions to the Exclusive Periods are granted by the U.S. Court, it will provide the Debtors with additional time to continue their discussions regarding exit alternatives and work with their major constituents to formulate, and ultimately consummate, a Plan in an orderly manner.

21. The Debtors' believe that this strategy will best ensure maximization of value for their estates and creditors and that failure to grant the requested extension likely will cause uncertainty and disruption, resulting in significant loss of value. The Debtors' also believe that a premature filing of competing, non-confirmable Plans would create distraction and unnecessary costs for the estates and, as a consequence, stall their progress achieved to date and delay the Debtors' emergence from bankruptcy protection.

22. The IO will notify this Honourable Court, forthwith, if the U.S. Court does not grant the Exclusive Periods extension on March 17, 2011 and the IO will inform this Honourable Court of its potential impact to the U.S. Proceedings.

SUMMARY OF NEXT STEPS

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

   a) reviewing and analyzing the claims submitted by Claimants, with the assistance of its legal counsel;

   b) preparation for trial in June 2011 in regards to the Adversary Hearing with Enterra;

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

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

   e) finalizing its proposed Plan by July 31, 2011, if the Exclusive Periods are granted by the U.S. Court.

24. 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.

25. 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 March 2011.

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

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

Orest Konowalchuk, CA•CIRP
Senior Manager