Affidavit of Arthur Millholland sworn
February 4, 2009.

Action No. 0901- 01613

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 THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000 c.B-9, AS AMENDED;

AND IN THE MATTER OF OILEXCO INCORPORATED AND OILEXCO TECHNICAL SERVICES INC.

AFFIDAVIT

I, ARTHUR MILLHOLLAND, of the City of Calgary, in the Province of Alberta, **MAKE OATH AND SAY THAT**:

1. I am the Chairman, President and Chief Executive Officer of Oilexco Incorporated ("Oilexco") and Oilexco Technical Services Inc. ("OTSI"), the Applicants (the "Applicants") herein, and as such have a personal knowledge of the matters herein and facts hereinafter deposed to, except where stated to be upon information and belief, and where this is indicated in this Affidavit, I verily believe such information to be true.

Introduction

2. This Affidavit is made in support of an application by the Applicants for an Order pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended ("CCAA") granting certain relief, including the following:

   (a) A declaration that the Applicants are corporations to which the CCAA applies;

   (b) A stay of all proceedings and remedies taken or that might be taken with respect to the Applicants, their respective property and undertaking, without leave of the Court (excepting only such rights and remedies available to The Royal Bank of Scotland plc ("RBS") under and pursuant to charges over shares dated January 25, 2006 and February 26, 2007 as confirmed by a deed of confirmation dated December 17, 2008 over the present and future shares in the share capital of ONSL);

(c) Authorizing the Applicants to carry on business in a manner consistent with the preservation of their property and to make certain payments in connection with their business in the proceedings herein;

(d) Appointing Ernst & Young Inc. as Monitor of the Applicants in these proceedings; and

(e) Permitting the Applicants to file with the Court a plan or plans of compromise or arrangement.

Overview of Oilexco

3. Oilexco is an Alberta corporation that carries on business and maintains an office in Calgary, Alberta, as well London, England. Oilexco is a publicly-traded company listed on the Toronto Stock Exchange (the "TSX") and the London Stock Exchange ("LSE"). Oilexco, by and through its wholly-owned subsidiaries (collectively, the "Oilexco Group"), is an oil and gas exploration and production company and is the 100% shareholder of Oilexco North Sea Limited ("ONSL") and OTSI. Oilexco provides (in its own right and through OTSI) management and the preponderance of the administrative, technical, production and accounting support services to ONSL.

4. ONSL is a United Kingdom company incorporated under the laws of England and Wales and OTSI is an Alberta corporation incorporated under the laws of the Province of Alberta. ONSL is the 100% shareholder of Oilexco N.S. Exploration Limited ("ONSEL"), a United Kingdom company incorporated under the laws of the England and Wales. Attached hereto and marked as Exhibit "A" is a copy of the organizational chart of Oilexco as at January 1, 2009.

5. The Oilexco Group is involved in the exploration, development and production of oil and natural gas assets owned by ONSL in the UK North Sea, primarily in the Outer Moray Firth Basin, which Oilexco has been developing and exploring since 2002. From 2004 to present, Oilexco has been the most active operator of exploration/appraisal wells in the UK North Sea. These oil and natural gas wells presently produce approximately 15,000 barrels of oil per day.

Financing of Oilexco

6. Oilexco's North Sea production and exploration operations are capital intensive and require substantial expenditures on account of its capital investment plans and to meet its various contractual and debt obligations. In order to finance these operations, Oilexco has raised capital through the issuance of equity on the TSX and LSE and through credit facilities provided by both RBS and a syndicate of lenders led by RBS (the "Syndicate").

7. ONSL has the following bank facilities in place, all (except where otherwise noted) with RBS and the Syndicate (all amounts in this my Affidavit shall, unless otherwise indicated, be expressed in U.S. dollars):

		Total Available		Outstanding as at December 31, 2008	Original Interest rate per annum	Maturity Date
Senior Facility	$	500,000,000	$	500,000,000	LIBOR + 1.5%	Dec. 31, 2012
Pre-Development Facility	$	145,000,000	$	145,000,000	LIBOR +3.0-5.5%	Jan. 31, 2009
Super Senior Facility	$	47,500,000	$	47,500,000	LIBOR +8.0%	Jan. 31, 2009
Overdraft	$	3,000,000	$	3,000,000	LIBOR + 1.5%	On demand

Senior Facility

8. On October 19, 2007, an Amendment and Restatement Agreement in respect of the senior credit facility (the "Senior Facility") was signed with RBS on behalf of the Syndicate. The agreement extended both the available amount from $275 million to $500 million and the maturity date to December 31, 2012. The interest rates were then based on LIBOR plus a margin of 1.5%. The Senior Facility is secured by a first floating charge over the assets of ONSL, a guarantee from Oilexco, supported by charges over Oilexco's shares of ONSL, assignment of insurance proceeds from the Brenda, Nichol and Balmoral fields, and a first charge over ONSL's bank accounts.

Pre-Development Facility

9. On February 26, 2007, a Pre-Development Credit Facility ("Pre-Development Facility") was signed with RBS for £40 million. The Pre-Development Facility is subordinate to the Senior Facility and the Super Senior Facility (as hereinafter defined) and is secured by a third ranking charge over the assets of ONSL, a guarantee from Oilexco and a third ranking charge over Oilexco's shares of ONSL.

10. On July 6, 2007, an Amendment and Restatement Agreement in respect of the Pre-Development Facility was signed with RBS. The agreement extended both the amount of funds under this facility

up to £100 million and the maturity date until January 31, 2009. The interest rates are based on LIBOR plus a margin and the margin is applied as follows:

- the first £40 million at 3% per annum
- the next £40 million - £70 million at 4% per annum
- the next £70 million - £100 million at 5.5% per annum

11. On November 12, 2008, Oilexco announced that an agreement had been reached with RBS whereby the maturity date with respect to £70 million of the Pre-Development Facility had been extended to November 30, 2009.

Overdraft

12. ONSL has a multi-currency overdraft facility of £1.5 million (approximately $3.0 million) with RBS, repayable on demand.

Super Senior Facility

13. On December 17, 2008, RBS granted an additional $47.5 million in credit facilities (the "Super Senior Facility") to ONSL, repayable on demand with a maturity date of January 31, 2009. In connection with the Super Senior Facility, the interest charged on the Senior Facility increased by 5% per annum and the interest charged on the Pre-Development Facility increased by 10% per annum. Additionally, Oilexco granted RBS a special fee consisting of a warrant to purchase 24.9% of the equity of Oilexco following any change of control (as that term is defined in the Alberta *Business Corporations Act*) of Oilexco or sale of shares or assets of ONSL.

Events Leading to Filing of CCAA

14. The contraction of available debt and equity financing combined with the dramatic decrease in commodity prices, particularly oil, from July 2008 to December 2008 over the same time period are the root cause of the current liquidity problems facing Oilexco.

15. On July 4, 2008, Oilexco announced that ONSL entered into an engagement letter with RBS with respect to refinancing Oilexco's Senior Credit Facility and Pre-Development Facility that would have increased Oilexco's total debt available from $700,000,000 to $1,000,000,000. The increased credit facilities would have been sufficient to provide the necessary funding to permit ONSL to continue with its North Sea production and development of the North Sea assets and were to be underwritten by a group of banks led by RBS, subject to certain standard internal credit

approval and due diligence. To put matters in perspective, during July, 2008, Oilexco's shares were trading at approximately CAD$19.50 per share and Oilexco had a market capitalization of approximately CAD$4.5 billion.

16. By October 3, 2008, it became evident that the increased financing from RBS was in doubt due to the unprecedented liquidity and volatility issues facing world-wide credit markets.

17. The capital generated from the Pre-Development and the Senior Facility, along with ONSL's cash flow from operating activities, were insufficient to satisfy its then current obligations and requirements of its capital investment programs. Additional financing was needed for ONSL to continue its capital investment and business plans.

18. During this same time period, Oilexco and its subsidiaries undertook a series of measures to decrease its costs including: a reduction in capital expenditures, a focus on projects that would produce near term cash flow, and working with creditors to extend the term of or time for repayment of indebtedness.

19. On November 19, 2008, Oilexco announced that it had filed an amended and restated preliminary prospectus in respect of a $150 million offering of convertible senior unsecured convertible bonds and up to CAD $45 million of common shares. The offering was subsequently cancelled and Morgan Stanley & Co Limited and Merrill Lynch International were engaged to provide evaluation of a variety of additional financing options and alternatives including potential investment in Oilexco, the acquisition of ONSL and/or the sale of some of ONSL's assets.

20. On December 16, 2008, Oilexco received a written expression of interest from a private equity fund to provide equity financing to Oilexco in the amount of up to $1 billion through the issuance of convertible preferred shares. Oilexco notified the Syndicate of this expression of interest. Oilexco and the party who had indicated the interest agreed that a final, binding offer would be submitted by January 15, 2009.

21. On December 17, 2008, RBS and the Syndicate provided ONSL the Super Senior Facility to be utilized as a bridge loan. The draws under the Super Senior Facility occurred on December 17 and 22, 2008 and were intended as a temporary solution, it then being evident that further financing would be required by ONSL to satisfy its current obligations and the requirements of its capital

investment programs. At the time, Oilexco believed that the Syndicate were prepared to make further advances and the Syndicate had agreed, to the extent further advances were made, that no additional fees (including by way of issuance of equity) would be charged.

22. On December 30, 2008, Oilexco was advised by RBS on behalf of the Syndicate that the Syndicate was not prepared to advance further funding to ONSL. Oilexco did not then have any other source of funding and concluded that the most advisable course of action was to pursue administration in the United Kingdom in respect of ONSL, particularly having regard to the need to continue operations with a priority on heath, safety and environmental issues which became increasingly difficult in light of the accrued accounts payables in ONSL.

23. At the same time, on or about December 31, 2008, Oilexco received a demand letter from Diamond Offshore Drilling (UK) Limited ("Diamond"), a company that provides drilling services to ONSL pursuant to the terms of a drilling agreement between Diamond and ONSL. The letter states that ONSL was then in breach of the drilling agreement by failing to make timely payments for amounts invoiced. The letter also notes that Oilexco is the guarantor of ONSL's obligations under and pursuant to the drilling agreement. Pursuant to the letter, Diamond demanded of Oilexco to ensure ONSL's breaches of the drilling agreement were remedied. Alternatively, Diamond has sought to have Oilexco perform the obligations under the drilling agreement which include payment of arrears in the amount of $10,769,952. Attached hereto and marked as Exhibit "B" is a copy of the December 31, 2008 letter from Diamond.

24. On January 7, 2009, ONSL applied for and was granted an Order in the High Court of Justice, Chancery Division, Companies Court, London, United Kingdom, for an Order appointing Alen Robert Bloom, Roy Bailey, Colin Peter Dempster and Thomas Merchant Burton of Ernst & Young LLP as joint administrators (the "Administrators") of ONSL. I am advised that the Administrators retained Morgan Stanley & Co. Limited ("Morgan Stanley") for the sale of ONSL or some of its assets in such a way as to maximize the value of the assets for all stakeholders, and maintain the business, its employees and systems as a going concern (the "ONSL Sales Process"). By the close of trading on January 9, 2009, the shares of Oilexco were trading at CAD $0.19 with an accompanying market capitalization of approximately CAD $42.5 million.

25. Attached hereto and marked as Exhibit "C" is a true copy of a Statement of Affairs (without schedules) submitted to the Administrators in connection with the administration dated January 29,

2009 signed by myself indicating, among other things, that the estimated realizable value of the assets of ONSL as at January 7, 2009 is £1,140,031,530.

26. On January 7, 2009, the Listing Committee of the TSX held a meeting with Oilexco to consider whether the common shares of Oilexco would be delisted. As a consequence of such delisting meeting, the TSX determined to delist Oilexco's shares effective February 9, 2009 on the condition that Oilexco undertake in favour of the TSX that it would seek in any insolvency order a provision exempting the TSX from any stay of proceedings insofar as the delisting is concerned. At the time, Oilexco determined it advisable to provide the TSX with the requested undertaking in preference to Oilexco's common shares then being immediately suspended from trading on the TSX. Attached hereto and marked as Exhibit "D" is a true copy of the undertaking of Oilexco granted to the TSX. Accordingly, Oilexco seeks as part of any order this Court may make a provision exempting the TSX from the stay of proceedings to permit the TSX to delist the shares of Oilexco on or after February 9, 2009.

Indebtedness of Oilexco

27. In addition to the guarantee provided in favour of Diamond and in favour of RBS, Oilexco has guaranteed the obligations of ONSL to several oilfield service contractors. On January 26, 2009, Oilexco received a demand letter dated January 14, 2009 from Schlumberger Offshore Services Limited ("Schlumberger") wherein Schlumberger demanded payment by Oilexco under and pursuant to a guarantee in the amount of £ 7,201,152.72. Attached hereto and marked as Exhibit "E" is a true copy of the demand letter issued by Schlumberger.

28. RBS issued separate demands, both dated January 28, 2009, in respect of Oilexco's guarantee of the obligations of ONSL under and pursuant to the Senior Facility and the Pre-Development Facility. Copies of the demand were delivered to Oilexco's office and copied to Oilexco's counsel late in the day on February 3, 2009. Attached hereto and marked as Exhibits "F" and "G" are true copies of the demand letters issued by RBS.

29. Attached hereto and marked as Exhibit "H" are the audited consolidated financial statements of Oilexco as at and for the year ended December 31, 2007 (the 2008 financial statements have not yet been prepared and are not required to be filed with securities regulatory authorities in Canada until March 31, 2009). Additionally, attached hereto and marked as Exhibit "I" is a true copy of

Oilexco's unaudited interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2008.

Insolvency of Oilexco

30. Oilexco does not have sufficient liquidity available to it to continue operations and to meet the obligations arising under and pursuant to the Diamond guarantee, the Schlumberger guarantee and the guarantees granted to RBS.

The Monitor

31. Ernst & Young Inc. has consented to be appointed as Monitor (the "Monitor") for Oilexco. Attached hereto and marked as Exhibit "J" is a copy of the consent endorsed by Ernst & Young Inc.

Restructuring and Activities to be Undertaken During Restructuring

32. Oilexco carries on its business as an integrated business unit through its various subsidiaries. As a consequence, the vast majority of accounting, technical and geophysical support and services are provided to ONSL through and by Oilexco and OTSI. It is critically important to the ongoing operation and management of restructuring sales process being undertaken by the Administrators that all such services continue to be provided by Oilexco to the Administrators. To this end, the Administrators and the Applicants have negotiated a commercial agreement setting out the basis upon which Oilexco and OTSI will continue to provide services to the Administrators. Attached hereto and marked as Exhibit "K" is a true copy of a services agreement (the "Services Agreement") entered into among Oilexco, OTSI and the Administrators.

33. The fee for services to be paid to the Applicants under and pursuant to the Services Agreement represents fair value for the services being provided by Oilexco and OTSI to the Administrator through approximately 38 employees based in Calgary, Alberta and in London, United Kingdom.

34. Given the importance of the employees who are employed by the Applicants to the ongoing operations and marketing process surrounding ONSL, and the ability of the Applicants to perform the services called for under and pursuant to the Services Agreement, it is anticipated that the Applicants will, in the immediate near future, develop an employee retention plan to incent the employees to remain in the employ of the Applicants during the currency of the restructuring

proceedings and that an application will be made in the immediate near future to seek this Honourable Court's approval of such employee retention plan.

35. Management believes that the ability of Oilexco to carry on business will add value in restructuring of the business as a going concern. Time is required to stabilize operations and to work in conjunction with the Administrators in connection with the restructuring or sale of some or all of the assets of ONSL. To this end, Oilexco is in discussions with Merrill Lynch International (now Bank of America) ("Merrill Lynch") as it pertains to the terms and conditions upon which Oilexco might retain Merrill Lynch as financial advisor to assist it in seeking strategic alternatives.

36. The ONSL Sales Process mandated that interested parties were to submit a non-binding, preliminary offer for the acquisition of assets or shares of ONSL on January 30, 2009. Oilexco has incorporated a wholly-owned subsidiary, ONSL Acquisition Company Limited ("Bidco"). Bidco has submitted a confidential indicative bid (the "Indicative Bid") in respect of some of the assets of ONSL. It is proposed that Oilexco, through Bidco and as monitored by the Monitor, continue to pursue the Indicative Bid and such other acquisition proposals that may be advised in accordance with the terms of any Order the Court may make.

37. Although the Indicative Bid and other restructuring alternatives are in a process of development, management expects over the coming 8 to 10 weeks to pursue a plan that will involve one or more of the following:

(a) a sale of Oilexco's shares of ONSL;

(b) a refinancing; and/or

(c) recapitalization of Oilexco and a purchase of some (pursuant to the Indicative Bid, or otherwise) or all of the assets of ONSL.

38. The Administrators have communicated through their United Kingdom counsel by letter dated February 2, 2009 to Oilexco's counsel, and directly to the directors of ONSL by letters dated February 3, 2009, the Administrators' expressed need to put in place arrangements to facilitate the transfer of ONSL's assets in possession of Oilexco to ONSL and a request on the part of Oilexco to confirm the arrangements in place to address the Administrators' stated concern that a conflict exists between Bidco and Oilexco's obligations under the Services Agreement. Unfortunately, the letter

from counsel to the Administrators contains numerous misstatements of fact and a level of invective that heretofore did not exist between the Administrators and Oilexco, including as recently as meetings on January 28, 2009, between one of the Administrators, myself and other members of the Applicants' management.

39. Oilexco has instructed its counsel to respond to counsel to the Administrators by indicating the fact that Oilexco will, of course, deliver any property in its possession owned by ONSL over to the Administrators. Oilexco and the Administrators are completely aligned in interest in this regard. It may be, however, that given the integrated nature of the Oilexco Group, certain of the property claimed by the Administrators may, in fact, be owned by Oilexco. The Applicants will seek to consensually resolve any issues that may arise in this regard but, to the extent issues cannot be resolved, it will be important to the Applicants' stakeholders that such matters be determined expeditiously and the Applicants will thus seek the assistance of this Honourable Court to resolve such disputes. In its response to counsel to the Administrators, counsel to the Applicants will also provide a copy of an internal screen adopted by and between Bidco and Oilexco. The timing of the receipt of the letter from counsel to the Administrators and completion of this my Affidavit precluded Oilexco's counsel from responding to counsel to the Administrators prior to the swearing of this my Affidavit. Further detail in respect of these issues will be provided to the Court as circumstances may require.

40. In addition to its obligations to beneficiaries of guarantees, its employees and to OTSI on account of services provided by OTSI to Oilexco, other significant creditors with an interest in these proceedings include the landlords of the offices leased by Oilexco in Calgary, Alberta and London, UK. The rent is current in respect of both leases and it is premature to determine the extent to which, if any, either or both office leases will be dealt with by Oilexco in any restructuring.

41. Attached hereto and marked as Exhibit "L" is a consolidated pro forma cash flow of the Applicants covering the ensuing ninety day period. The pro-forma cash flow statement does not include an amount on account of the cost of the anticipated employee retention plan. The effect the proposed employee retention plan will have on the cash flow of the Applicants will be provided in connection with the anticipated court application to approve the proposed employee retention plan.

Administrative, Directors' and Officers' Charges

42. The proposed Order contains a charge against property of the Applicants for the professional fees and disbursements incurred by the Applicants, the Monitor and counsel to the Monitor, both prior to and after the making of this Order, in connection with all things undertaken related to and in furtherance of the within proceedings. Given the financial position of the Applicants, I believe these measures are appropriate and necessary to complete a restructuring.

43. The proposed Order also contains a charge for an indemnity claim of the directors and officers arising after the date of the Initial Order. There are seven directors and seven officers of Oilexco, three of whom are executive directors and four of whom are outside directors. The directors and officers have been working diligently in an attempt to resolve Oilexco's financial difficulties and in an attempt to develop a viable restructuring of Oilexco's affairs. It will be important to the success of any restructuring of Oilexco for its directors and officers to continue to serve in such capacity and as such I verily believe that it is appropriate that the requested indemnity in favour of the directors and officers be granted.

44. Alberta Personal Property Registry debtor name searches in respect of Oilexco and OTSI dated February 3, 2009 are attached hereto and marked collectively as Exhibit "M".

Conclusion

45. I make this Affidavit in support of an application by Oilexco and OTSI under the provisions of the CCAA for an Order substantially in the form of the draft order which is appended to the Petition filed concurrently with this Affidavit.

SWORN BEFORE ME at the City of Calgary, in the Province of Alberta this 4 day of February, 2009.

Dallas Romeril

A Commissioner for Oaths in and for the Province of Alberta

Dallas S. Romeril
Student-at-Law

ARTHUR MILLHOLLAND

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CLERK OF THE COURT
FEB - 5 2009
CALGARY, ALBERTA

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