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 A PLAN OF COMPROMISE OR ARRANGEMENT OF OILEXCO INCORPORATED AND OILEXCO TECHNICAL SERVICES INC.

SECOND REPORT OF THE MONITOR

ERNST & YOUNG INC.

FEBRUARY 24, 2009

SECOND REPORT OF THE MONITOR

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LISTING OF APPENDICES TO THE SECOND REPORT OF THE MONITOR:

INTRODUCTION

1. On February 5, 2009, Oilexco Incorporated ("Oilexco") and Oilexco Technical Services Inc. ("OTSI") (each an "Applicant" or collectively, "the Applicants") filed 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 of this Honourable Court dated February 5, 2009 (the "Initial Order").

2. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Applicants during these *CCAA* proceedings (the "Monitor").

3. On February 10, 2009, the Monitor issued its first report (the "First Report") for the purpose of reporting to this Honourable Court with the Applicants' motion for approval of the Employee Retention Plan ("ERP").

4. The purpose of this second report of the Monitor (the "Second Report") is to provide this Honourable Court with an update in respect of the following:

   (a) The notices issued to creditors regarding the granting of the Initial Order;

   (b) Status of the sale of the business and assets of Oilexco North Sea Limited ("ONSL") under administration in the United Kingdom;

   (c) The Applicants' request for approval of the Employee Retention Plan;

   (d) Financial performance and operational update since the date of the Initial Order;

   (e) A summary of the financial position of the Applicants;

   (f) The Applicants' restructuring activities to date; and

   (g) The Applicants' request for an extension to the Stay Period.

5. Capitalized terms not defined in this Second Report are as defined in the Initial Order. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

6. In preparing this Second Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Applicants. The Monitor has not performed an audit, review or other verification of such information.

BACKGROUND

7. Background to the Applicants is contained in the materials filed relating to the Initial Order and includes the affidavit of Mr. Arthur Mullholland sworn February 4, 2009 ("Mullholland Affidavit #1) and February 10, 2009 (Mullholland Affidavit #2) and the First Report. These documents, together with other information regarding the CCAA proceeding, including the Initial Order and supporting affidavits have been posted by the Monitor on its website at:

http://www.ey.com/ca/oilexco

NOTICE TO CREDITORS

8. Pursuant to the terms of the Initial Order, by February 13, 2009 the Applicants, with the assistance of the Monitor, mailed a notice to every known creditor of the Applicants having a claim of more than $250, which notified the creditor of the granting of the Initial Order and advised that a copy of the Initial Order was available on the Monitor's website. The notice also advised that if a creditor was unable to obtain a copy of the Initial Order from the Monitor's website, it could request a copy to be delivered to it.

STATUS OF ONSL SALE PROCESS

9. Oilexco is the 100% shareholder of Oilexco North Sea Limited ("ONSL"). 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 Alan Robert Brown, Roy Bailey, Colin Peter Dempster, and Thomas Merchant Burton of Ernst & Young LLP as joint administrators (the "Administrators") of ONSL. The Administrators have retained Morgan Stanley & Co. Limited ("Morgan Stanley") for the sale of ONSL or some or all of its shares or assets in such a way as to maximize the value for all stakeholders, and maintain the business, its employees and system as a going concern (the "ONSL Sale Process").

10. We have been advised by the Administrators that they have received a first round of indicative bids.

11. We have been further advised by the Administrators that they continue to attempt to realize a sale of ONSL or its business and assets; however, the Administrator does not anticipate that an acceptance of a bid(s) will likely take place before the middle of March.

EMPLOYEE RETENTION PLAN

12. The First Report was in connection to the Applicants' motion for approval of an ERP.

13. As indicated in the Mullholland Affidavit #1, the Oilexco Group of Companies had an integrated structure where Oilexco and OTSI provided the accounting, technical, and geophysical support and services to ONSL. In managements' view, it is important to the ongoing operations and management of the restructuring sale process being undertaken by the Administrator that all such services continue to be provided by the Applicants to the Administrator. On January 15, 2009, the Applicants entered into an agreement (the "Service Agreement") with ONSL and the Administrators to continue to provide services to the Administrator until the ONSL Sale Process is completed. The employees are important 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 Service Agreement.

14. The terms of the proposed ERP which had an approximate cost of $4.2 million (the "Proposed ERP") were described in the Mullholland Affidavit #2. The Applicants believed the Proposed ERP was necessary to induce employees to remain with the Applicants in order for it to satisfy the terms of the Service Agreement and continue forward as a viable business.

15. In the First Report, the Monitor indicated it would support a $2 million ERP payment; however, additional time would be required for the Monitor to:

(a) Provide the statutory notice of the Initial Order to all the creditors;

(b) Evaluate the merits of the Proposed ERP;

(c) Assess the business of the Applicant; and

(d) Determine whether the stakeholders of the Applicants would support any additional amounts beyond what was agreed to in the Service Agreement (i.e. the $US 2 million).

16. An application was heard on Wednesday, the 11th of February, 2009 before the Honourable Madam Justice K. M. Horner, at which time an ERP was approved on the following terms:

(a) The Applicants are authorized to implement an employee retention plan in favour of all of their respective Employees provided that the payment of funds under and pursuant to such ERP shall only occur if and when the Success Fee ($US 2 million) is paid by the Administrators.

(b) The Applicants are granted a charge, encumbrance and security interest over the Success Fee as security for the payment of all amounts payable pursuant to the ERP and as authorized by this Order.

(c) The Applicants shall have leave to apply on notice for an Order granting them further relief with respect to the Proposed ERP.

17. The Administrator has advised the Monitor that certain employees of the Applicants may be required to complete the ONSL Sale Process, up to and including possibly 30 to 60 days after the date of a sale in order to complete the administration.

18. At this time, the Monitor is still assessing the merits of the Proposed ERP.

FINANCIAL PERFORMANCE SINCE THE DATE OF THE INITIAL ORDER

19. Attached as Appendix "A" to this Second Report is a summary of the Applicants' actual receipts and disbursements from the date of the Initial Order to February 20, 2009 (the "Reporting Period"). Detailed explanations of the variances are described in the notes to Appendix "A".

20. Receipts for the Reporting Period totalled approximately $1,806 whereas the cash flow forecast filed with the initial application ("Initial Order Projections") forecast $82,000. The negative variance was primarily due to:

(a) The receipt of a GST refund of approximately $82,000 which was not received until after the reporting period; and

(b) The Initial Order Projections were prepared on a monthly basis while the Reporting Period is only from February 5, 2009 to February 20, 2009, resulting in an unequal comparison.

21. Disbursements for the Reporting Period totalled approximately $854,000 representing a favourable variance of $1.4 million. This favourable variance was primarily due to a combination of the following:

(a) Expenses have been incurred; however payment was not made within the reporting period. The positive variance relates to the timing of the receipts and subsequent payment of invoices during the Reporting Period; and

(b) The difference between the length of the Reporting Period and the Initial Order Projections does not allow for an equal comparison.

22. The actual beginning cash balance as of February 5, 2009, the date of the Initial Order was approximately CAD$9.86 million which was approximately $75,000 higher than the beginning cash balance reported on the Initial Order Projections, which was estimated incorrectly at the beginning of the month of February.

CASH FLOW FORECAST THROUGH APRIL 30, 2009

23. Attached as Exhibit "B" to this Second Report is a copy of the consolidated cash flow forecast (the "Forecast") of the Applicants for the period of February 21, 2009 through to April 30, 2009 (the "Forecast Period"). Management has prepared the Forecast based on the most current information available.

24. As summarized in the Forecast, the Applicants are projecting total cash receipts of approximately $7.1 million and cash disbursements of approximately $10.8 million resulting in a net decrease in cash of approximately $3.7 million during the Forecast Period.

25. The Monitor has reviewed the assumptions supporting the Forecast with the Applicants' Management and believes the assumptions to be reasonable.

26. Significant assumptions made by management with respect to the Forecast are:

(a) The Administrator will continue to pay the agreed upon fee per the Service Agreement though to the end of April;

(b) The Bonus Payment pursuant to the Service Agreement will be received in April;

(c) The Proposed ERP (indicated as a retainer bonus in the Forecast) totaling $4.2 million will be approved by the Court. Currently only $2 million has been approved and the remaining $2.2 million is subject to Court approval and further report from the Monitor; and,

(d) Operating costs will remain consistent with the Applicant's original estimates indicated in the Initial Order Projections.

FINANCIAL POSITION

27. The Company had approximately $CAD 9.8 million of cash on hand at the date of the Initial Order. These funds are held in various accounts with the Canadian Western Bank. As per the Initial Order Projections, these cash resources were to be made available to fund the Applicants in order to fulfill the terms of the Service Agreement and allow the Applicants to develop a plan of arrangement.

28. As of the date of the Initial Order, the Applicants had fixed assets with a book value of approximately $20.4 million. Fixed assets mainly consist of a flat in London, England; a corporate jet; office equipment and furniture.

29. As of the date of the Initial Order, the Applicants had known liabilities of approximately CAD $850,000.

30. The Applicants have also provided guarantees of certain debts of ONSL estimated in excess of CAD$1 billion. The guarantees of the Applicants in favor of the Royal Bank of Scotland comprise a majority of the outstanding total guarantees. As the ONSL Sale Process has not been completed, it is not known whether these claims will be satisfied from the realizations of the Administrator.

RESTRUCTURING EFFORTS TO DATE

31. The Applicants have incorporated a wholly owned subsidiary, ONSL Acquisition Company ("Bidco"). Bidco has submitted an indicative bid (the "Indicative Bid") to the Administrators in respect of some of the assets of ONSL.

32. The Applicants, through Bidco, continue to pursue the Indicative Bid; however the Administrator has informed the Applicants that a decision to accept a bid(s) will not likely be made until mid-March.

33. The acquisition of certain assets of ONSL by ONSL Acquisition and the results of the ONSL Sale Process in regards to whether it will generate sufficient realizations to satisfy the claims of creditors holding guarantees, will partly determine whether a viable plan of arrangement can be proposed by the Applicants. Once the ONSL Sale Process is complete, the Applicants will be in a better position to assess their financial position in order to develop a plan of compromise or arrangement.

34. On February 18, 2009, Oilexco arranged to be de-listed from Toronto Stock Exchange and registered on the Toronto Stock Exchange Venture Exchange (the "TSX Venture Exchange"). The Applicants believe that maintaining the registration on the TSX Venture Exchange is necessary in order to raise financing in the future.

APPLICANT'S REQUEST FOR AN EXTENSION TO THE STAY PERIOD

35. Pursuant to the Initial Order, the Stay Period expires at midnight on March 6, 2009. The Applicants are seeking an extension of the Stay Period until, and including, April 30, 2009.

36. An extension to the Stay Period is necessary for the Applicants to allow for a continuation of:

    (a) The ONSL Acquisitions' efforts to acquire certain assets of ONSL from the Administrators; and

    (b) The Applicants' efforts to develop a restructuring plan and a plan of arrangement for the consideration of the creditors.

RECOMMENDATIONS

37. In the Monitor's view, the Applicants are acting in good faith and with due diligence during this CCAA proceeding. The Monitor is of the view that the extension to the Stay Period is appropriate in the circumstances and therefore

recommends that the Applicants' request for an extension of the Stay Period be granted to, and including, April 30, 2009.

All of which is respectfully submitted this 24th day of February 2009.

ERNST & YOUNG INC.
In its capacity as Court Appointed
Monitor of the Applicants

Greg Pollard, CA, CIRP
Senior Vice-President

APPENDIX A

Forecast to Actual Cash Flow Analysis

February 5, 2009 – February 20, 2009

Oilexco Incorporated and Oilexco Technical Services
(Including London)

Forecast to Actual Cash Flow Analysis
(in CAD$)

	Month of Feb. 2009 Budget	Period of Feb. 5-20 Actual	Variance	Notes
Opening Cash in Bank - February 5th	**9,789,849**	**9,864,593**	**74,744**	1
Expected Cash Inflows:				
Fixed Service Fee from ONSL in Administration	-	-	-	
Bonus payment	-	-	-	
Other inflow (mainly estimated GST recovery)	82,000	1,806	(80,194)	2
Total Cash Inflow	**82,000**	**1,806**	**(80,194)**	
Expected Cash Outflows:				
Salaries and related costs	938,459	703,033	235,426	3
Consulting Services	251,502	-	251,502	3
Office Rent, Supplies and related	38,705	26,145	12,560	3
Professional Services	203,400	73,141	130,259	3
Sales Related Professional Services	525,000	-	525,000	3
Travel	61,000	7,782	53,218	3
Other Head Office costs	29,474	43,807	(14,333)	3
10% Contingency	204,754	-	204,754	3
Total Cash Outflow	**2,252,294**	**853,908**	**1,398,386**	
Closing Cash in Bank - end of month	**7,619,555**	**9,012,491**	**1,392,936**	

Notes:

FX rates used:
1.20 CAD/USD
2.00 CAD/GBP

Notes:

1. The actual opening cash was approximately $75k higher than the budged opening cash due to an incorrect estimate of the funds on hand at February 5th.
2. GST refund of approximately $83k was received after the reporting period on February 23, 2009
3. Positive variances on disbursements relate to the timing of the receipt and subsequent payment of invoices as well as the difference in the length of the budgeted and actual reporting period.

APPENDIX B

Cash Flow Forecast to April 30, 2009

Oilexco Incorporated and Oilexco Technical Services
(Including London)

Cash Flow Forecast
As at February 21, 2009

	Feb. 09 CAD	March 09 CAD	April 09 CAD	Feb - April 2009 CAD
Opening Cash in Bank - February 21 / beginning of the month	**9,018,224**	**7,698,641**	**7,576,448**	**9,018,224**
Expected Cash Inflows:				
Fixed Service Fee from ONSL in Administration (as per agreement dated January 15, 2009; Jan payment already received)	-	2,280,000	2,280,000	4,560,000
Bonus payment (as per agreement dated January 15, 2009)	-	-	2,400,000	2,400,000
Other inflow (mainly estimated GST recovery)	82,000	30,000	20,000	132,000
Total Cash Inflow	**82,000**	**2,310,000**	**4,700,000**	**7,092,000**
Expected Cash Outflows:				
Salaries and related costs	240,459	827,581	1,298,831	2,366,871
Retainer bonus	-	-	4,200,000	4,200,000
Consulting Services	231,702	101,180	85,180	418,062
Office Rent, Supplies and related	38,555	294,024	150,817	483,396
Professional Services	183,400	124,800	240,500	548,700
Sales Related Professional Services	525,000	609,300	450,000	1,584,300
Travel	44,650	227,200	227,200	499,050
Other Head Office costs	10,400	27,000	30,874	68,274
10% Contingency	127,417	221,109	248,340	596,865
Total Cash Outflow	**1,401,583**	**2,432,194**	**6,931,743**	**10,765,519**
Closing Cash in Bank - end of the month	**7,698,641**	**7,576,448**	**5,344,705**	**5,344,705**

Notes:

FX rates used: 1.20 CAD/USD
2.00 CAD/GBP