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.

SEVENTH REPORT OF THE MONITOR

ERNST & YOUNG INC.

JULY 15, 2009

ERNST & YOUNG

SEVENTH REPORT OF THE MONITOR

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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 an Order of this Honourable Court dated May 21, 2009, a Claims Process Order was granted approving the claims process and setting a Claims Bar date of July 31, 2009. The Monitor has caused a Claims Package to be sent to each Known Creditor, as well as caused a Newspaper Notice to be published in the Globe and Mail, the Calgary Herald and in Aberdeen.

3. Pursuant to an Order of this Honourable Court dated July 7th, 2009 (Extension of Stay), the Stay Period was extended to July 17, 2009.

PURPOSE

4. The purpose of this seventh report of the Monitor (the "Seventh Report") is to report to this Honourable Court with respect to the following:

   (a) A summary of the current financial position of the Applicants;

   (b) Financial performance since the date of the Initial Order;

   (c) Cash flow forecast for the period July 13 to December 31, 2009;

   (d) An update of the Claims Process;

   (e) Proposal for Liquidation Plan;

   (f) Request for an Extension of the Stay Period; and

   (g) Recommendations.

TERMS OF REFERENCE

5. In preparing this Seventh 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.

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

BACKGROUND

7. Information regarding the CCAA proceeding, including the Initial Order and subsequent Orders, supporting affidavits and the Reports of the Monitor have been posted by the Monitor on its website at http://www.ey.com/ca/oilexco .

FINANCIAL POSITION

8. The remaining assets of the Applicants include:

   (a) Estimated cash of $8,941,415 as at July 13, 2009;

   (b) The Applicants have advised the Monitor they have received the final sale documentation with respect to the sale of the Flexjet Interest and are awaiting cash receipt of an estimated $9.3 million.

   (c) The apartment in London, England is currently listed for sale. The asking price is £2,200,000 ($4 million). There are currently 4 offers on this London Flat and the Applicants continue to seek a buyer for the flat.

   (d) Certain other office furniture and equipment expected to be of nominal value.

9. As of the date of the Initial Order, the Applicants had known primary liabilities of approximately $800,000.

10. The Applicants had also provided guarantees of certain debts of ONSL, estimated in the Monitor's Third Report at approximately $1.6 billion. This amount included the unsecured guarantee of the Applicants in favour of the Royal Bank of Scotland ("RBS"), as well as guarantees given in favour of certain trade creditors of ONSL.

11. The following table summarizes the Monitor's estimate of the largest creditors of the Applicants, including amounts due under the above noted guarantees (net of any payments which may be made by the Administrators). These calculations are based on the amounts submitted for the purposes of voting rights in the Company Voluntary Arrangement ("CVA"), as revised for information received subsequent to that date, and do not in any way prejudice the quantum of any of the unsecured creditors' claims, nor consider the validity of the creditors' claims under their respective guarantees, nor any mitigation the creditors may have undertaken to reduce the amount of their respective claims.

	Total Claim ($)	**CVA Payment ($)**	**Net Claim ($)**	**% of Total**
Oilexco Inc. Creditors				
29 creditors, largest $269,000	798,298		798,298	0.1%
ONSL Guarantee Creditors				
Agr Peak Well	639,294	(22,311)	616,983	0.1%
The Royal Bank of Scotland	868,000,000	(563,580,000)	304,420,000	29.6%
Diamond Offshore	405,461,983	(1,476,630)	403,985,352	39.2%
Schlumberger Offshore	13,737,026	(405,858)	13,331,168	1.3%
Sevan Marine	305,948,920	(238,317)	305,710,603	29.7%
CNR International UK	546,795	(12,699)	534,097	0.1%
	1,594,334,019	(565,735,816)	1,028,598,203	99.9%
Total	1,595,132,317	(565,735,816)	1,029,396,501	100.0%

12. The Applicants have filed 2008 Tax Returns for Oilexco Incorporated and Oilexco Technical Services. The Applicants have informed the Monitor that based on the returns filed, Oilexco Inc. has $49.2 million of non-capital losses carried forward and $3.3 million of capital losses as at December 31, 2008; the loss on investment in UK will be recognized for tax purposes in 2009 and will result in further capital losses of approximately $420 million.

13. Oilexco Technical Service has $0.5 million of non-capital losses carried forward.

14. There are presently 20 employees employed with the Applicants including 2 employees in London.

15. The Claims Process is proceeding in accordance with the Order of this Honourable Court dated May 21, 2009, with a Claims Bar Date of July 31, 2009. See below for further update on the Claims Process.

FINANCIAL PERFORMANCE SINCE THE DATE OF THE INITIAL ORDER

16. Attached as Appendix 1 is a summary of the Applicants' actual receipts and disbursements from the date of the Initial Order to July 13, 2009 (the "Reporting Period"). Detailed explanations of the variances are described in the notes to Appendix 1.

17. The cash balance at July 13, 2009 is $8.9 million, versus the previous projection of $11 million or an unfavourable variance of $2.1 million.

18. Receipts for the Reporting Period totalled approximately $9.7 million whereas the previous cash flow projections forecast $19.1 million or a difference of $9.5 million. This unfavourable variance was primarily due to:

    (a) The cash receipt of $9.3 million from the sale of interest in Flexjet is not expected until the end of July.

19. Disbursements for the Reporting Period totalled approximately $10.8 million whereas the previous cash flow projections forecast $18.2 million or a variance of $7.4 million. This favourable variance was primarily due to a combination of the following:

(a) Salaries and related London payroll costs in the sum of $.9 million were paid directly by the UK Administrator, a portion of which was withheld from the Service Fee as noted above.

(b) The ERP retainer bonus, originally forecast at $4.2 million was settled at $2.3 million, for a favourable variance of $1.9 million

(c) Only $.1 million of the sales/restructuring related professional services, originally forecast at $1.8 million, have been incurred, for a positive variance of $1.7 million;

(d) The $1.3 million contingency amount has not been incurred; and

(e) There is a $.7 million favourable variance with respect to the Monitor's estimated costs.

CASH FLOW FORECAST – JULY 13 TO DECEMBER 31, 2009

20. Attached as Appendix 2 to this Seventh Report is a copy of the consolidated cash flow forecast (the "Forecast") of the Applicants for the period of July 13 to December 31, 2009 (the "Forecast Period"). Management has prepared the Forecast based on the most current information available and incorporation of proposed liquidation plan as discussed below.

21. As summarized in the Forecast, the Applicants are projecting total cash receipts of approximately $13.5 million and cash disbursements of approximately $1.8 million resulting in a net increase in cash of approximately $11.7 million during the Forecast Period.

22. The average monthly general and administrative and Monitor costs for the four months ended April 30, 2009 (prepared on an accrual not a cash basis) have been estimated at $1.8 million per month. The July 13 to December 31, 2009 forecast with respect to Total Cash Outflow projects an outlay of $1.8 million or $.4 million per month. The variance is due to the Applicants' proposed liquidation plan.

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

(a) Implementation of liquidation plan and termination of all employees effective July 31, 2009;

(b) Receipt at end of July 2009 of $9.3 million with respect to the sale of the Flexjet interest;

(c) Receipt in September of $4.0 million with respect to the sale of the London flat; and,

(d) Certain operating costs, including office rent, travel and restructuring/sales related professional services have been reduced from the Applicants' original estimates indicated in the Initial Order Projections due to proposed liquidation plan.

24. The Monitor has reviewed the assumptions supporting the Forecast with the Applicants' Management and believes the assumptions to be reasonable, subject to the following items:

(a) Payment in the amount of $ 9.3 million is received with respect to the sale of the Flexjet interest; and

(b) Payment in the amount of $4.0 million is received with respect to the London flat.

UPDATE ON THE PROOF OF CLAIMS PROCESS

25. The Monitor undertook the Claims Process which was approved by this Honourable Court (the "Claims Process Order") on May 21, 2009.

26. As at the date of this Report, 10 Proofs of Claim ("Proof of Claim") were submitted by Claimants to the Monitor. The Submitted Claims total approximately $13,363,277. The most significant claim received of £6,186,260 ($13.2 million) is from Schlumberger Offshore Services Ltd and Schlumberger Oilfield UK PLC, an ONSL Vendor with an Oilexco Incorporated guarantee.

27. The Monitor has not yet initiated the process of reconciling the claims to the accounting records.

PROPOSAL FOR LIQUIDATION PLAN

28. The Applicants have advised the Monitor they have had discussions with the three largest creditors, Royal Bank of Scotland, Diamond Offshore and Sevan Marine to discuss a plan of compromise and arrangement.

29. It is the Monitor's understanding that the three largest creditors are not willing to accept a distribution in anything other than cash. The Applicants are seeking an Order to put a Plan of Compromise and Arrangement (the "Liquidation Plan") to its unsecured creditors on or before August 25, 2009.

30. The proposed Liquidation Plan will provide that unsecured creditors with proven distribution claims will receive their pro rata share of a distribution fund (the "Distribution Fund").

31. The Distribution Fund shall be comprised of the Applicants' current cash on hand plus the proceeds of disposition of the Applicants' remaining property, less the aggregate of all costs (a) incurred by the Applicants to July 31, 2009 and (b) associated with finalizing the liquidation and implementing the Liquidation Plan including all professional fees of the Applicants, the Monitor

and the Monitor's counsel associated with the preparation and dissemination of the Liquidation Plan. The realization to creditors from proposed Liquidation Plan will to be designed to be equivalent to that which creditors would receive in bankruptcy.

32. One benefit of a liquidating CCAA application, as opposed to a bankruptcy, will be that the capital losses in the estimated amount of $423 million and estimated non-capital in the amount of $49.2 million may be preserved for the benefit of Oilexco on a go forward basis.

33. Oilexco will undertake to cease active business operations and terminate its employees and to cease incurring general and administrative expenses as of close of business July 31, 2009, with the exception of rent for its Calgary office premises for month of August, 2009 and such other expenses that may be incurred in furtherance of the Liquidation Plan and as are otherwise specifically approved by the Monitor.

34. The Applicants propose to enhance the powers of the Monitor to permit the Monitor to receive all proceeds of liquidation and to control distribution of cash including approving all expenses and control over Oilexco's bank accounts by requiring that the Monitor be a signatory to cheques and instruments in relation to withdrawals.

35. The Applicants further propose to hire on a contract basis, on terms to be approved by the Monitor, such of the Applicants' former employees to provide such assistance with the Liquidation Plan as is determined necessary or advisable.

36. The Applicants will repudiate the office lease in respect of its Calgary premises on or before August 31, 2009 or to otherwise make arrangements satisfactory to the Monitor that lease payments for such premises on a go-forward basis from and after September 1, 2009 will be made through funds other than the Distribution Fund.

REQUEST FOR AN EXTENSION OF THE STAY PERIOD

40. The Initial Order provided for a Stay Period expiring on March 6, 2009. Pursuant to an Order of this Honourable Court dated July 7, 2009 (Extension of Stay), the Stay Period was extended to July 17, 2009.

41. The Applicants are seeking an extension to the Stay Period to September 30, 2009 in order to allow for sufficient time to allow the Applicants to disseminate the Liquidation Plan under the CCAA (such plan to be approved by the Monitor) and to call and hold a meeting of unsecured creditors for the purpose of considering and passing resolution to approve the Liquidation Plan.

RECOMMENDATIONS

42. Given the course of action proposed by the Applicants, the Monitor recommends that the Court provide such enhanced powers to the Monitor as appropriate.

43. 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 Applicant's request for an extension of the Stay Period be granted to, and including, September 30, 2009.

All of which is respectfully submitted this 15th day of July, 2009.

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

Greg Pollard, CA, CIRP
Senior Vice-President

APPENDIX 1

Forecast to Actual Cash Flow Analysis

February 5 to July 13, 2009

Oilexco Incorporated and Oilexco Technical Services
(Including London)

Cash Flow Forecast - Variance analysis
As at July 13, 2009

	FORECAST					ACTUAL	VARIANCE	
	Feb - April 09 Original Forecast as at February 4th Adjusted by Monitor costs CAD	**May 09** Forecast for Court as at April 19th CAD	**June 09** Forecast for Court as at May 22nd CAD	**July 09** Forecast for Court as at May 22nd CAD	**Feb - June 09** Total CAD	**Feb - June 09** Actual Cash Flow as at July 13th CAD	**Variance** as at June 29th CAD	
Opening Cash in Bank (February 4th)	**10,045,669**	**4,276,438**	**4,452,281**	**2,711,301**	**10,045,669**	**10,045,669**		
Expected Cash Inflows:								
Fixed Service Fee from ONSL in Administration	4,560,000	2,280,000	-	-	6,840,000	6,326,325	(513,675)	London payroll was deducted from Service fee
Retainer Bonus payment	2,400,000	-	-	-	2,400,000	2,220,326	(179,674)	Bonus payment was reduced by 2009 benefits re London
Sales of interest in Flex Jet	-	-	-	9,720,000	9,720,000	-	(9,720,000)	Payment expected at the end of July
Refunds of some 2008 payments	-	-	-	-	-	314,932	314,932	Item not budgeted for
VAT recovery from HMRC in UK					-	573,670	573,670	Item not budgeted for
GST recovery	132,000	20,000	15,000	10,000	177,000	173,044	(3,956)	
Other inflow (mainly interest and other recharged costs)	-	-	-	-	-	65,297	65,297	Item not budgeted for
Total Cash Inflow	**7,092,000**	**2,300,000**	**15,000**	**9,730,000**	**19,137,000**	**9,673,594**	**(9,463,406)**	
Expected Cash Outflows:								
Salaries and related costs	3,064,871	827,362	425,000	625,000	4,942,233	4,052,223	(890,010)	London payroll was deducted from Service fee
Retainer bonus	4,200,000	-	-	-	4,200,000	2,309,652	(1,890,348)	Actual payment was calculated at USD 2 million at 1.15
Consulting Services	437,862	79,300	115,000	115,000	747,162	256,124	(491,038)	Paid 2m of Schlumberger maintenance (12m in the budget)
Office Rent, Supplies and related	483,546	148,966	272,600	120,000	1,025,112	1,062,316	37,204	
Insurance	-	-	335,000	-	335,000	344,750	9,750	
Professional Services	718,700	160,400	100,000	100,000	1,079,100	972,779	(106,321)	
Sales/Restructuring Related Professional Services	1,584,300	200,000	50,000	50,000	1,884,300	171,168	(1,713,132)	The costs did not occur as it was expected
Travel	515,400	224,000	200,000	200,000	1,139,400	904,962	(234,438)	There is still approx. $280k of Flex Jet fees to be paid
Other Head Office costs	87,349	121,074	70,000	70,000	348,423	250,334	(98,089)	Budget included cost re AGM
Contingency (10% or 5%)	1,109,203	88,055	78,380	64,000	1,339,638	19,169	(1,320,469)	
FX differences	-	-	-	-	-		-	
Monitor estimated costs (E&Y plus Fraser Milner)	660,000	275,000	110,000	110,000	1,155,000	434,371	(720,629)	Budgeted per initial Monitor estimation at 50k per week
Total Cash Outflow	**12,861,231**	**2,124,157**	**1,755,980**	**1,454,000**	**18,195,368**	**10,777,848**	**(7,417,520)**	
Closing Cash in Bank - end of the month/ July 13th	**4,276,438**	**4,452,281**	**2,711,301**	**10,987,301**	**10,987,301**	**8,941,415**	**(2,045,886)**	
Under budget - Net of Retainer Bonus, Flex Jet and Contingency					4,406,939	9,049,910	**4,642,971**	
							(700,000)	estimated remaining July costs
							3,942,971	**Net savings as compared to original forecast**

Notes:

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

Oilexco Incorporated and Oilexco Technical Services - **Orderly Liquidation**
(Including London)

Cash Flow Forecast
As at July 15, 2009

	July	August	September	October	November	December	July - December	
		Orderly Liquidation						
	CAD	CAD	CAD	CAD	CAD	CAD	CAD	
Opening Cash in Bank - July 13th	**8,941,415**	**17,839,415**	**17,429,415**	**21,194,415**	**20,999,415**	**20,804,415**	**8,941,415**	
Expected Cash Inflows:								
Sales interest in of Flex Jet (net of fees, previously in Travel)	9,348,000	-	-	-	-	-	9,348,000	Payment confirmed; expected end of July
Sales of London Flat (expected at GBP 2 million)	-	-	4,000,000	-	-	-	4,000,000	Assumes sale in September
Sales of office equipment	-	-	75,000	-	-	-	75,000	Based on Century Services valuation in Calgary and estimation in London
Other inflow (mainly estimated GST recovery)	10,000	10,000	5,000	5,000	5,000	5,000	40,000	
							-	
Total Cash Inflow	9,358,000	10,000	4,080,000	5,000	5,000	5,000	13,463,000	
Expected Cash Outflows:								
Earned but not used 2009 holiday re Oilexco's employees	110,000	-	-	-	-	-	110,000	All employment will be terminated effective July 31
							-	
Management/Accounting - all consulting basis	40,000	70,000	70,000	40,000	40,000	40,000	300,000	July costs have been incurred - balance assumes 9 persons working 5-10 days in August and September then
							-	6 persons working 5-10 days per month
Office Rent, Supplies and related	30,000	120,000	-	-	-	-	150,000	July costs have been incurred. Last rent payment for Caglary premises for August
							-	
Professional services	50,000	50,000	50,000	10,000	10,000	10,000	180,000	Estimated costs for legal services only
							-	
Liquidation directly related costs		30,000	30,000	-	-	-	60,000	Estimated IT, valuation, transportation, telephone, preparation of meeting materials, postage
							-	Creditors' meetings etc.
Travel	30,000	-	15,000	-	-	-	45,000	July costs have been incurred. One trip1o London (re closing of flat sale)
							-	
Other costs	30,000	-	-	-	-	-	30,000	
							-	G&A for July that has been incurred
Monitor estimated costs (E&Y plus Fraser Milner)	170,000	150,000	150,000	150,000	150,000	150,000	920,000	
Total Cash Outflow	460,000	420,000	315,000	200,000	200,000	200,000	1,795,000	
Closing Cash in Bank - end of the month	17,839,415	17,429,415	21,194,415	20,999,415	20,804,415	20,609,415	20,609,415	

Notes:

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

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SEVENTH REPORT OF THE MONITOR ERNST & YOUNG INC.
July 15, 2009

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