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.

THIRD REPORT OF THE MONITOR

ERNST & YOUNG INC.

APRIL 27, 2009

THIRD 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 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. On February 26, 2009, the Monitor issued its second report (the "Second Report") for the purpose of reporting to this Honourable Court with the Applicants' motion for approval of the Applicants' request for an extension to the Stay Period. The Second Report provided 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. Pursuant to an order of this Honourable Court dated February 26, 2009 (the "Extension of Stay Period"), the Stay Period (as such term is defined in the Initial order) was extended to April 30, 2009.

PURPOSE

6. The purpose of this third report of the Monitor (the "Third Report") is to report to this Honourable Court with respect to the following:

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

   (b) An application for a Vesting Order with respect to the sale of the shares of ONSL;

   (c) The estimated pre-filing creditor claims of the Applicants;

   (d) The Applicants' motion for approval of the sale of their fractional interest in two aircraft (the Flexjet Interest);

   (e) The status of the Employee Retention Plan ("ERP");

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

   (g) Cash flow forecast for the period April 20 to May 31, 2009;

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

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

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

TERMS OF REFERENCE

7. In preparing this Third 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.

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

BACKGROUND

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

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

STATUS OF ONSL SALE

10. 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.

11. The Administrators, following appointment in the UK Administration Proceedings, continued the engagement of Oilexco's investment bankers, Morgan Stanley & Co. Ltd ("Morgan Stanley"), for the purposes of marketing ONSL and/or its assets (the "ONSL Sales Process"), largely so as to leverage off Morgan

Stanley's existing knowledge of Oilexco, its subsidiaries, and the various potential bidders who had expressed an interest to date and so as to minimise the disruption of the ONSL Sales Process.

12. The Administrators have received two acceptable offers from Premier Oil Group Limited ("Premier"):

    (a) An offer to Oilexco for the entire issued share capital of ONSL coupled with a Company Voluntary Arrangement under Part I of the Insolvency Act 1986 (UK) of ONSL ("the Share Sale"); and

    (b) An offer for all the business and assets of ONSL ("the Asset Sale").

13. The Administrators have advised they anticipate the sale of either the shares of ONSL or the underlying petroleum and natural gas assets in ONSL to Premier will close some time between May 15 and May 31, 2009.

14. The Administrators proposed on March 26, 2009 a Company Voluntary Arrangement under Part I of the Insolvency Act 1986 (UK) (the "CVA") to the creditors of ONSL.

Asset Sale

15. If the Asset Sale proceeds, it will result in a payment to ONSL of US$478,000,000.

16. The Asset Sale will realize insufficient funds to satisfy in full the liability of ONSL to its Secured Creditors. That would mean the only amount available for distribution to the unsecured creditors of ONSL would be the Prescribed Part of £600,000 (US$909,000), which is the maximum amount required to be set aside for the benefit of unsecured creditors under the Insolvency Act 1986 (UK).

17. The Prescribed Part is a proportion of floating charge realizations set aside for unsecured creditors pursuant to section 176A of the Insolvency Act 1986 (UK).

Share Sale

18. Under the Share Purchase Agreement ("SPA") a total of US$505,000,000 (plus or minus any adjustments) will be raised for the benefit of the secured and unsecured creditors of ONSL, with an additional obligation to reimburse ONSL for the US$63 million provided in relation to decommissioning of the Balmoral, Stirling and Glamis fields (a total of US$568 million).

19. Pursuant to the terms of the Share Sale the Purchaser will only agree to the purchase of the shares of ONSL if the CVA is implemented.

20. The Administrators have made a proposal to ONSL and its creditors for a CVA to be implemented pursuant to Part I of the Insolvency Act (UK) in respect of ONSL in full and final settlement of the CVA claims against ONSL.

21. A CVA is a company voluntary arrangement under Part I of the Insolvency Act (UK). It is a formal procedure which enables a company to agree with its creditors a composition in satisfaction of its debts or a scheme of arrangements of its affairs which can determine how its debts should be paid and in what proportions.

22. The CVA requires the approval of a majority in excess of 75 per cent in value of the CVA creditors present in person or by proxy and voting at a meeting on the resolution to approve the CVA.

23. The sale of the shares, and resultant payment under the CVA, will allow for greater recovery by the unsecured creditors, as there is a total of US$27.0 million being made available to contribute toward claims made by unsecured creditors compared to the Prescribed Part of £600,000 (US$909,000) that would be distributed to the unsecured creditors in the assets sale as mentioned above.

24. In order to finance the cash flow needs of ONSL while the sale process was undertaken, it was necessary for the Administrators to cause ONSL to borrow further funds from certain banks in syndicate of its secured lenders (the "Administration Expense Loan"). These borrowings were required, *inter alia*, to:

(i) Meet the ordinary operating cash flow of ONSL;

(ii) Regularise ONSL's position under joint operating agreements (avoiding forfeiture of ONSL's interest in jointly-owned licences);

(iii) Fund the costs of the Services Agreement with the Applicants;

(iv) Meet the costs of the Administration process itself (e.g., the Administrators' and their legal advisers' fees);

(v) Fund settlements reached with those of ONSL's pre-Administration creditors that were able to exert commercial leverage on ONSL to obtain full or part payment of their claims in return for continued cooperation (e.g., sole suppliers of critical and/or health and safety-related goods and services); and

(vi) Have access to sufficient funds generally to satisfy the requirements of the UK's Department of Energy and Climate Change (which had the power revoke ONSL's licences to operate the oil fields) and Health & Safety Executive (which could order the cessation of operations if it considered the Administration posed a risk to safety).

25. The amount from the Share Sale, if it occurs, that is expected to be paid by the Purchaser to ONSL will be:

(a) Approximately US$131.8 million to the Security Trustee for application by the Security Trustee in accordance with the Administration Expense Loan (being the estimated balance of that loan at the time of completion);

(b) Approximately US$346.2 million to the Security Trustee in accordance with the Secured Finance Documents; and

(c) The amount of US$90.0 million into the Fund Account, to be distributed as follows:

	US$ million
Fund Amount	90.0
Less: CVA costs & expenses	(5.0)
Available for distribution	85.0
To BBF Fund	(59.5)
To Unsecured Fund	(25.5)
Balance	Nil

Share Sale vs. Asset Sale

26. It is the Administrators' belief that a CVA will be to the advantage of the CVA creditors, as the Share Sale would result in a greater distribution to CVA creditors than the Asset Sale. Accordingly, the Administrators recommended that the CVA creditors vote in favour of the CVA proposal.

27. Regardless of the option chosen, the sale of assets or shares will generate insufficient funds to satisfy total creditor claims of US$1.7 billion. There is an estimated shortfall of US$1 billion, with the claims of Secured Creditors of US$883.3 million not being fully recovered as set forth in the following table.

	Assets sale (US$)	**Share sale (US$)**
Estimated Proceeds:	**478,000,000**	**568,000,000**
Total Claims:		
Secured Creditors (including interest and fees		
Administration Expense Loan	(131,800,000)	(131,800,000)
Super Senior Loan Original BBF Loan	(599,900,000)	(599,900,000)
Subordinated PDF Loan (£100,000,000)	(151,600,000)	(151,600,000)
Total Secured Creditors Claims	**(883,300,000)**	**(883,300,000)**
Unsecured Non-Preferential Creditors:		
General body of unsecured creditors	(91,419,027)	(91,419,027)
Oilexco	(26,531,981)	(26,531,981)
ONSEL	(14,300,966)	(14,300,966)
PDF Creditor	(153,091,630)	(153,091,630)

Major Creditors	(489,241,110)	(489,241,110)
Total Unsecured Non-Preferential Creditors Claims	(774,584,714)	(774,584,714)
Total Claims	(1,657,884,714)	(1,657,884,714)
Shortfall of Proceeds	(1,179,884,714)	(1,089,884,714)

Estimated of Distribution to Creditors

28. The following table provides an estimate of the anticipated distribution under an Asset Sale or a Share Sale, based on the information provided by the Administrators.

	Assets Sale (US$)	Share Sale (US$)
Estimated proceeds	**478,000,000**	**568,000,000**
Less:		
Administration Expense Loan	(131,800,000)	(131,800,000)
Estimated costs of CVA	n/a	(5,000,000)
Estimated net proceeds	**346,200,000**	**431,200,000**
To be distributed to:		
Secured creditors		
Super Senior and Original BBF Loans	345,291,000	405,700,000
Subordinated PDF Loan (Note 1)	0	5,000,000
	345,291,000	**410,700,000**
Unsecured non-preferential creditors (Note 1)	909,000	20,500,000
	346,200,000	**431,200,000**

Notes:

1. The Subordinated PDF Loan will be permitted to rank for distribution with the unsecured non-prederential creditors so will receive an element of the estimated £25.5m allocated to this class of creditors in the CVA

(a) As noted above, approximately US$405.7 million of the proceeds of the Share Sale will be used to settle the Secured Creditors, excluding the Subordinated PDF Loan.

(b) In the Share Sale, approximately US$25.5 million will be distributed to the Unsecured Fund Creditors. The Unsecured Fund Creditors includes all CVA creditors with allowed CVA claims, including the PDF creditor for the amount of their allowed CVA claim (US$5,000,000), but excludes the BBF creditors.

The PDF creditor is the Secured Creditor with the Pre-Development Credit Facility Agreement, with the Secured Creditor providing ONSL with a £100,000,000 credit facility.

The BBF creditor is the Secured Creditor with the Senior Credit Facility Agreement, with the Secured Creditor providing ONSL with a US$500,000,000 credit facility.

29. On April 15, 2009, the Administrators advised that 99.82% of voting CVA creditors approved the Administrators' CVA proposals without modification. Creditors voted 74 in favour and 1 against such that the CVA proposals were duly approved.

30. Subject to any appeal to the CVA vote over the next 28 days, it is expected the Share Sale to Premier will close in the latter half of May 2009.

Estimated Recovery by Unsecured Creditors

31. It is the Administrators' belief that a CVA will be to the advantage of the CVA creditors as the Share Sale would result in a greater distribution to CVA creditors than the Asset Sale. Accordingly, the Administrators recommended that the CVA creditors vote in favour of the CVA proposal. The following table provides an estimate of the amount distributable to the various unsecured creditor groups.

	Claims (US$)	%	Assets sale (US$)	Share sale (US$)
Unsecured creditors - general	91,419,027	12%	133,798	3,009,594
Oilexco	26,531,981	3%	38,831	873,456
ONSEL	14,300,966	2%	20,931	470,800
PDF creditors	153,091,630	20%	-	5,039,909
Major creditors	489,241,110	63%	716,040	16,106,241
Total	**774,584,714**	**100%**	**909,600**	**25,500,000**
Recovery			**0.12%**	**3.29%**

32. The Administrators have advised the Monitor the Applicants' unsecured claim (US$26,531,981) is pledged to RBS. Accordingly, any potential CVA distribution will flow to the secured creditors, and not to the Applicants. The Monitor has not reviewed the validity of this pledge as at this date.

THE ONSL SALE PROCESS

33. The Monitor has reviewed the sales process undertaken by the Administrators (the "ONSL Sale Process"), including:

    (a) Selection of Marketing Agent;

    (b) Marketing Process Development and Bid Solicitation;

    (c) Potential Purchaser Development;

    (d) Offer Analysis and Response;

34. The information provided herein is based on:

    (a) The discussions with Morgan Stanley held by the Monitor on February 26, 2009 in London, UK;

    (b) Various materials provided to the Monitor by the Administrators; and

(c) Discussions held with the Administrators and other parties, including the Applicants, who participated in or had knowledge of the ONSL Sales Process.

Selection of Marketing Agent

35. Oilexco had been attempting to raise additional funding and/or market Oilexco and some or all of its assets since November 2008, some two months before the commencement of the UK Administration Process on January 7, 2009.

36. Oilexco had retained Morgan Stanley in late 2008 to assist it with its marketing efforts.

37. As mentioned above, the Administrators, following appointment in the UK Administration Proceedings, continued the engagement of Morgan Stanley for the purposes of marketing ONSL and/or its assets in part to accelerate the time frame for sale, and to capitalize on the knowledge gained by Morgan Stanley during the two month period it had marketed ONSL before the commencement of the UK Administration Process.

Marketing Process Development and Bid Solicitation

38. Morgan Stanley exposed ONSL and its assets to a wide range of potential interested buyers, including engaging in discussions with their offices in Calgary, Tokyo, Houston, New York City, Europe and others.

39. The ONSL Sales Process essentially continued from that conducted by Oilexco over a period of a further eight weeks, followed by a further period of two weeks as detailed contractual negotiations with final stage bidders were undertaken.

40. Morgan Stanley had initially identified approximately 34 potential bidders for an acquisition of the shares of ONSL or an acquisition of the business and assets of ONSL. Over the course of the ONSL Sales Process, a total of 20 parties signed confidentiality agreements and ultimately nine bidders submitted indicative bids

for the whole of the business and assets, with a further four bidders making indicative offers for selected assets.

41. The Administration process, by its nature, is a public process (as compared with the exclusivity that might come with private deals) as it imposes a duty upon the debtor to openly shop for purchasers to maximize value for all of the creditors.

Potential Purchaser Development

42. Six parties were invited to submit final bids and, after review of the final round bids delivered on March 6, 2009, the Administrators proceeded to negotiate contractual terms with the four highest bidders.

Offer Analysis and Response

43. On March 19, 2009, having largely completed contractual negotiations and re-confirming its bid, Premier was granted a short period of exclusivity to complete negotiations and confirm availability of funding.

44. On March 25, 2009, contracts were exchanged for a sale of the shares in ONSL to Premier. A fall-back sale and purchase agreement of the business and assets of ONSL was entered into with Premier in the event a Share Sale could not be concluded.

45. The Effective Date of both the Asset Sale and the Share Sale is March 1, 2009.

46. The Administrators have represented to the Monitor that the ONSL Sales Process was conducted in a fair and commercially reasonable manner and the purchase price for the shares of ONSL represents the best possible realizable value in the present circumstances.

INDEPENDENT SECURITY REVIEW

47. The Monitor's independent legal counsel, Fraser Milner Casgrain LLP, has performed an independent review of the validity and enforceability of the Royal Bank of Scotland's security over the shares of ONSL.

48. Based on this review, and the usual and ordinary assumptions and qualifications granted in connection with reviews of this nature, the Monitor is of the view that:

(a) The Senior Credit Facility Agreement, the Pre-Development Credit Facility Agreement, the Super Senior Credit Facility Agreement (all as defined in the Affidavit of Mr. Roy Bailey filed in these proceedings, and collectively defined as the "Facility Agreements"), and the related Charge over Shares Agreements dated concurrently with each Facility Agreement (collectively, the "Charge over Shares Agreements") were: (i) properly authorized, executed and delivered by Oilexco, and (ii) were not contrary to the prohibited financial assistance provisions of the Business Corporations Act (Alberta);

(b) The validity and enforceability of the security interests in, and the priority to, the Oilexco Shares is governed by the laws of the United Kingdom; and

(c) To the extent the laws of the Province of Alberta apply, the security interests created in the shares of ONSL in favour of Royal Bank of Scotland, as agent and trustee under the Charge over Shares Agreements, are valid and enforceable interests in and to the ONSL Shares in priority to interests of Oilexco and those claiming as creditors of Oilexco.

Conclusion

49. The Monitor is of the opinion that the ONSL Sales Process was, in all material respects, adequate considering the constraints within which it was conducted. Further, it is in the best interests of the creditors of the Applicants as the Share Sale will significantly increase the sale proceeds realized within the UK Administration, thereby reducing the claims of certain creditors as against the Applicants arising from the Applicants' guarantees of such amounts. It is the recommendation of the Monitor that the Vesting Order be granted.

SALE OF FRACTIONAL AIRCRAFT INTEREST (THE FLEXJET INTEREST")

50. The Applicants, through Wilmington Trust Company (Owner Trustee under a Trust Agreement for the benefit of Oilexco), entered into two purchase agreements ("Purchase Agreements") with Bombardier Aerospace Corporation ("Flexjet") for the purchase of their undivided percentage property interests ("Interests") in two Challenger 605 aircraft as follows:

Serial Number	**5723**	**5719**
Interest in the aircraft	12.5%	31.25%
Purchase Price	US$3,350,000	US$8,375,000
Date of Purchase	June 5, 2008	September 25, 2007
Closing Date	July 14, 2008	January 18, 2008
Monthly Management Fee	US$26,080	US$62,500

51. The Applicants are considering options to generate maximum value from the Interests. One option is for the Applicants to request that Flexjet repurchase the Interests at the current fair market value ("FMV"), less liquidated damages and any amounts owed to Flexjet. A second option would be to sell the Interests to a third party, which would not be subject to the liquidated damages deduction in arriving at net proceeds, but which would incur a brokerage fee.

52. The Purchase Agreements provide for the repurchase of the Interests by Flexjet at the request of Oilexco within the 60 month period after the closing date of the purchase at the FMV of the aircraft multiplied by the percentage equivalent of the Interests ("Repurchase Price") less a remarketing fee (zero per Monitor discussion with Flexjet) and any amounts owing to Flexjet, to arrive at the net proceeds ("Net Funds Due"). Flexjet is also entitled to liquidated damages based on the number of months that have elapsed after the Closing Date if the repurchase is made within the first 24 months following the Closing Date. Deposits previously paid to Flexjet, net of amounts owing, would be refunded to Oilexco on the repurchase.

53. If a sale to a third party is contemplated by the Applicants, Flexjet is entitled to a 10 day right of first refusal to purchase the Interests at the Net Funds Due amount.

There would be a US$5,000 transfer fee that would be payable to Flexjet by the Applicant under a third party sale but no payment for liquidated damages would be required. A transfer of the Interests and assignment of the Purchase Agreements to a transferee that is not an affiliate is technically not allowed within the first 24 months from the Closing Date under the Purchase Agreements, unless all or substantially all of the assets and business of the Customer are transferred to a transferee pursuant to a merger, acquisition, or other reorganization of the Customer. However, Flexjet has advised both the Applicants and the Monitor that it is not in their interest to use this provision of the Purchase Agreement to prevent a sale of the Interests by the Applicants to a third party. as they believe they would have to hold the repurchased Interests given the current market conditions.

54. In order to assess the potential recovery of value on behalf of the stakeholders through a Flexjet repurchase, the Applicants have approached Flexjet regarding the current Repurchase Price. On April 15, 2009, Flexjet provided Oilexco with written confirmation of Fair Market Value (prior to liquidated damages) which is valid for 30 days. Flexjet has advised that the base rates are based on Bluebook and VRef (an aircraft digest like Bluebook) values with current market adjustments for how many CL 604/605 aircraft are on the market and what they are selling for. There is also an adjustment for airframe hours. Liquidated damages are on sliding scale as follows, based on time elapsed after the Closing Date:

1-12 months:	20%
12-18 months:	15%
18-24 months:	10%
After 24 months:	0%

55. If the Applicants provided Flexjet 90 days notice as of today's date of a request to repurchase its Interest, the repurchase date would result in the liquidated damages rate being reduced to the next level on the sliding scale, which is reflected in the analysis of the Net Funds Due below:

Serial Number	**5723**	**5719**
Interest in the aircraft	12.5%	31.25%
FMV	US$2,693,348	US$6,623,462
Liquidated damages - rate	15%	10%
Liquidated damages – US$	US$404,002	US$662,346
Net Funds Due	US$2,289,346	US$5,961,116
Refundable deposit	US$45,324	US$101,338

56. The Applicants have advised the Monitor they made enquiries with Jet Advisors, LLC ("Jet") regarding the current value of the aircraft on the open market. They were advised that Jet has made no sales over the last 7 months and that it would be difficult to better the quoted FMV from Flexjet on the open market.

57. The Monitor has reviewed various websites for aircraft sale listings to gauge the current aircraft sale environment. There were 14 listings identified for Challenger 605 aircraft, with only two quoted list prices for used models. The two listings for used Challenger 605 aircraft had list prices of US$25.5 million (1,275 hours) and US$26.495 million (210 hours). The average list price of these two sample listings would be approximately US$26 million (742.5 hours), which would provide approximate values of US$8.125 million and US$3.25 million for the 31.25% and 12.5% fractional interests, respectively. These approximate values are approximately 22% and 20% higher than the April 15 quoted FMV from Flexjet, respectively.

58. In order to assess the reasonableness of any offers received by the Applicants for the Interests (whether through repurchase or third party sale), the Monitor engaged John Hopkinson & Associates Ltd., a third party appraisal firm to provide a desktop appraisal of the Interests. The estimated value of these two planes would be approximately US$20.9 million (#5719-31.25%) and US$21.0 million (#5723-12.5%), which would provide approximate values of US$6.5 million and US$2.6 million for the 31.25% and 12.5% fractional interests, respectively. These approximate values are approximately 98.6% and 97.4% of the April 15 quoted FMV from Flexjet, respectively.

59. In considering whether the Applicant should conclude the sale of its Interests either to Flexjet or to a third party, the Monitor has also considered the following factors:

(a) The FMV of the two Interests at the time of any future repurchase or third party sale would depend on market conditions at that time, the airframe hours on each aircraft, and other factors which could cause the FMV to be higher or lower than the FMV quotes received on April 15, 2009; and

(b) The Applicant would continue to incur monthly Management Fees on the Interests, which are US$26,080 on the N340FX and US$62,500 on the N339FX, or US$88,580 per month in total.

Conclusion

60. The Monitor supports the Applicants' motion for approval of the sale of fractional aircraft interest (the Flexjet Interest) to Bombardier Aerospace Corporation or its nominee and the related relief necessary to facilitate such sale.

EMPLOYEE RETENTION PLAN

61. 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 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.

62. The terms of a proposed ERP which had an approximate cost of CAD$4.2 million (the "Proposed ERP") were described in the Millholland 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.

63. In the Monitor's First Report, the Monitor indicated it would support a US$2 million ERP payment; however, with respect to the Proposed ERP 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).

64. The Administrators have confirmed they will pay to the Applicants the Success Fee of US$ 2 million (CAD$ 2.4 million) upon completion of the sale to Premier (or within 5 days thereof).

65. After reviewing the current situation, and following discussions between the Monitor and the Applicants, the Monitor understands the Applicants will not be bringing a further application for approval by this Honourable Court of the Proposed ERP.

FINANCIAL PERFORMANCE SINCE THE DATE OF THE INITIAL ORDER

66. Attached as Appendix 1 is a summary of the Applicants' actual receipts and disbursements from the date of the Initial Order to April 19, 2009 (the "Reporting Period"). Detailed explanations of the variances are described in the notes to Appendix 1.

67. The cash balance at April 30 is forecast at CAD$10.7 million, versus an original projection of CAD$4.3 or a favourable variance of CAD$6.4 million.

68. Receipts for the Reporting Period totalled approximately CAD$4.7 million whereas the cash flow forecast filed with the initial application ("Initial Order Projections") forecast CAD$7.1 million or a difference of CAD$2.4 million. The negative variance was primarily due to:

    (a) The bonus payment as per the Service Agreement of CAD$2.4 million has not been received.

69. Disbursements for the Reporting Period totalled approximately CAD$4.0 million whereas the Initial Order Projections forecast CAD$12.9 million or a variance of CAD$8.9 million. This favourable variance was primarily due to a combination of the following:

    (a) The ERP (retainer bonus) in the projected amount of CAD$4.2 million has not been paid;

    (b) Consulting services and professional services paid to date total CAD$.6 million or a favourable variance of CAD$.5 million (originally forecast to total CAD$1.1 million);

    (c) Only CAD$.1 million of the sales/restructuring related professional services, originally forecast at CAD$1.6 million, have been incurred;

    (d) The CAD$1.1 million contingency amount has not been incurred;

(e) There is a CAD$.5 million favourable variance with respect to the Monitor's estimated costs; and

(f) The difference between the length of the Reporting Period and the Initial Order Projections does not allow for an equal comparison of certain costs. We note a favourable variance of CAD$.9 million with respect to salaries. A portion of this amount will be paid in the April month end payroll.

CASH FLOW FORECAST - APRIL 20 TO MAY 31, 2009

70. Attached as Appendix 2 to this Third Report is a copy of the consolidated cash flow forecast (the "Forecast") of the Applicants for the period of April 20 to May 31, 2009 (the "Forecast Period"). Management has prepared the Forecast based on the most current information available.

71. As summarized in the Forecast, the Applicants are projecting total cash receipts of approximately CAD$5.2 million and cash disbursements of approximately CAD$5.8 million resulting in a net decrease in cash of approximately CAD$.6 million during the Forecast Period.

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

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

(a) While the Administrators have not extended the Service Agreement beyond the end of April, April's payment of CAD$2.280 million is forecast to be received in May 2009;

(b) The CAD$2.4 million Bonus Payment pursuant to the Service Agreement will be received in May and the ERP in an equal amount will be paid in May; and,

(c) Certain operating costs, including restructuring/sales related professional services have been reduced from the Applicants' original estimates indicated in the Initial Order Projections.

FINANCIAL POSITION

74. The Applicants had approximately CAD$9.0 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.

75. As of the date of the Initial Order, the Applicants had fixed assets with a book value of approximately CAD$20.4 million. Fixed assets mainly consist of an apartment (or flat) in London, England; an interest in the two corporate jets described above; office equipment and furniture.

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

77. The Applicants have also provided guarantees of certain debts of ONSL, estimated in the Monitor's Second Report at in excess of CAD$1 billion. This amount included the guarantee of the Applicants in favor of the Royal Bank of Scotland (which was assumed at that time to comprise a significant majority of the outstanding total guarantees), as well as guarantees given in favour of certain trade creditors of ONSL.

78. The CVA does not compromise, release or otherwise affect any person's right to bring claims against the Applicants pursuant to any Oilexco guarantees or other guarantee or indemnity arrangement entered into by Oilexco in favour of any person in respect of the liabilities of ONSL.

79. 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 made by the Administrators). These calculations are based on the amounts submitted for the purposes of voting rights in the CVA 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. The following amounts are in Canadian dollars, therefore do not agree to amounts expressed in this report in $US.

	Total Claim (CAD$)	CVA Payment (CAD$)	Net Claim (CAD$)	% 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	1,121,693,621	(509,268,000)	612,425,621	45.8%
Diamond Offshore	405,461,983	(1,476,630)	403,985,352	30.2%
Schlumberger Offshore	13,737,026	(405,858)	13,331,168	1.0%
Sevan Marine	305,948,920	(238,317)	305,710,603	22.9%
CNR International UK	546,795	(12,699)	534,097	0.0%
	1,626,673,245	(431,443,816)	1,195,229,429	99.9%
Total	1,627,471,543	(431,443,816)	1,196,027,727	100.0%

RESTRUCTURING EFFORTS TO DATE

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

81. In the Monitor's Second Report, we noted Bidco's success in acquiring certain assets of ONSL, and whether the ONSL Sale Process would generate sufficient funds to satisfy the claims of creditors holding guarantees as against the Applicants, would partly determine whether a viable plan of arrangement could be

proposed, and that once the ONSL Sale Process was complete, the Applicants would be in a better position to assess their financial position in order to develop a plan of compromise or arrangement.

82. The Administrators have informed the Applicants that Bidco's offer in respect of some of the assets of ONSL was not successful.

83. As noted herein, there remains a significant shortfall to certain ONSL creditors having claims against the Applicants arising from guarantees given by the Applicants.

84. As set forth in the affidavit of Arthur Millholland sworn February 4, 2009 in support of the application for the Initial Order (Exhibit K), the Applicants entered into a Services Agreement dated January 15, 2009 with ONSL and the Administrators to provide certain accounting and other services.

85. The Administrators have advised they anticipate the current Services Agreement to lapse on April 30, 2009, and to not be renewed by the Administrators.

86. The Monitor is in receipt of a letter dated April 22, 2009 from Premier addressed to the Applicants confirming as follows:

(a) Premier is likely to desire the services of the Applicants in order to assist in the transition process prior to and immediately following the completion of their purchase of ONSL; and

(b) Premier would support any application to the Court which would enable the Applicants to supply such services, at least until June 30, 2009.

87. It is our understanding based on discussions with the Applicants' legal counsel, that while the anticipated fee will not cover the forecast cash requirements for the Applicants' entire operation, the fee paid by Premier will attempt to approximate the cost of services provided by the Applicants to Premier.

88. In the event the Applicants are unable reach an agreement to extend in whole or in part the Service Agreement, and thereby fund all or a part of the cost of operations of the Applicants, the net effect will be a diminution of assets otherwise available to the unsecured creditors of approximately CAD$2.1 million in the month of May. This projected amount has been calculated as follows:

Total cash inflow (CAD$)	$4,700,000
Total cash outflow	(4,524,158)
Cash surplus	175,842
April Service fee received in May	(2,280,000)
Net deficiency (CAD$)	($2,104,158)

APPLICANTS' REQUEST FOR AN EXTENSION TO THE STAY PERIOD

89. The Initial Order provided for a Stay Period expiring on March 6, 2009, which was extended pursuant to the Extension of Stay Period Order until, and including, April 30, 2009.

90. As previously reported to the Court, the Applicants' primary activity during the period to date has been to fulfill its obligations under the Services Agreement. The Administrators in their letter dated April 8, 2009 addressed to Oilexco Inc., advised the Company the Administrators did not intend to extend the Services Agreement beyond April 30, 2009.

91. The Administrators and the Applicants have also agreed that effective April 8, 2009 financial accounting and joint venture billings after February 2009 will be undertaken in Aberdeen, allowing the Applicants personnel to focus on the transfer of records to the Administrators in the UK during the month of April. The Administrators expect such transfer will be completed on or before April 30, 2009.

92. The remaining assets of the Applicants include:

(a) CAD$10,737,485 in cash as at April 20, 2009;

(b) The Flexjet Interest as noted above, with an estimated net realizable value of US$8.25 million;

(c) A flat (apartment) in London, England. We have been advised by the Applicants the flat was soft listed January 13, 2009. The asking price is £2,200,000 (CAD$4 million) and the agent's commission is 2.5% + VAT. It is the Applicants' understanding the flat has received three viewings and that while the real estate market in London is slow, prices in the Belgravia and Chelsea seem to be holding steady.

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

93. The only significant ongoing costs forecast by the Applicants are salaries, professional fees including those of the Monitor and legal counsel, general and administration costs and rent.

94. As of this date, the Monitor is unaware of any formal plan of arrangement or compromise having been formulated by the Applicants.

95. The Monitor understands that the Applicants will be seeking an extension to the Stay Period to allow for sufficient time to allow the Applicants and the various stakeholders sufficient time to evaluate the most appropriate course of action. The Monitor understands that the proposed Stay Period would extend to May 29, 2009.

96. In the view of the Monitor:

(a) The Applicants have acted and continue to act in good faith and with due diligence executing their obligations under the Services Agreement; and

(b) The remaining assets of the Applicants can be recovered as efficiently in this CCAA proceeding as in a bankruptcy.

97. Given the sizeable financial interest of RBS and certain other significant guarantee creditors in the assets of the Applicants, the Monitor believes that consideration should be given to their views as to the appropriateness of continuation of these proceedings under the CCAA.

RECOMMENDATIONS

98. The Monitor supports the Applicants' motion for approval of the sale of fractional aircraft interest (the Flexjet Interest) to Bombardier Aerospace Corporation or its nominee and the related relief necessary to facilitate such sale;

99. The Monitor supports the application for the approval of the ONSL Shares and the related Vesting Order.

100. In the Monitor's view, the Applicants have been acting in good faith and with due diligence during this CCAA proceeding and, as such, supports the Applicants' motion for an extension of the Stay Period to May 29, 2009.

All of which is respectfully submitted this 27th day of April, 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, 2009 – April 19, 2009

Oilexco Incorporated and Oilexco Technical Services
(Including London)

Cash Flow Forecast - Variance analysis
As at April 20, 2009

	Original Forecast as at February 4th Adjusted by Monitor costs Feb - April 09 CAD	Actual Cash Flow as at April 20 Feb - April 09 CAD	as at April 20 Variance CAD	
Opening Cash in Bank (February 4th)	10,045,669	10,045,669		
Expected Cash Inflows:				
Fixed Service Fee from ONSL in Administration	4,560,000	4,287,177	(282,823)	London payroll is deducted from Service fee
Bonus payment (as per agreement dated January 15, 2009)	2,400,000		(2,400,000)	
Other inflow (mainly estimated GST/VAT recovery)	132,000	353,644	221,644	
Total Cash Inflow	7,092,000	4,650,821	(2,441,179)	
Expected Cash Outflows:				
Salaries and related costs	3,064,871	2,189,917	(874,954)	London payroll was deducted from Service fee plus London April still not paid
Retainer bonus	4,200,000	-	(4,200,000)	
Consulting Services	437,862	120,783	(317,079)	Paid only for 2m of Schlumberger software maintenance (12m whole in the budget)
Office Rent, Supplies and related	483,546	489,293	5,747	
Professional Services	718,700	514,663	(204,037)	Legal less than expected
Sales/Restructuring Related Professional Services	1,584,300	74,502	(1,509,798)	The costs did not occur as it was expected
Travel	515,400	264,450	(250,950)	Still need to pay FlexJet for March and April (240k)
Other Head Office costs	87,349	79,767	(7,582)	
10% Contingency	1,109,203	-	(1,109,203)	
FX differences		59,125	59,125	
Monitor estimated costs (E&Y plus Fraser Milner)	660,000	166,505	(493,495)	Budgeted per Monitor estimation at 50k per week
Total Cash Outflow	12,861,231	3,959,005	(8,902,226)	
Closing Cash in Bank - end of the month/ April 20th	4,276,438	10,737,485	6,461,047	
Under budget - Net of Retainer Bonus and Contingency	7,185,641	10,737,485	3,551,844	
			(950,000)	estimated other April costs (may not be paid in April but were budgeted for April
			2,601,844	**Cost savings as compared to original forecast**

Notes:

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

APPENDIX 2

Cash Flow Forecast

April 20, 2009 to May 31, 2009

Oilexco Incorporated and Oilexco Technical Services
(Including London)

Cash Flow Forecast
As at April 19, 2009

	April 09 CAD	May CAD	April - May 2009 CAD
Opening Cash In Bank - April 19 / beginning of the month	**10,737,485**	**10,031,873**	**10,737,485**
Expected Cash Inflows:			
Fixed Service Fee from ONSL in Administration	-	2,280,000	2,280,000
(as per agreement dated January 15, 2009; Last payment for April to be received in May)			-
Bonus payment (as per agreement dated January 15, 2009)		2,400,000	2,400,000
Other inflow (mainly estimated GST/VAT recovery)	530,860	20,000	550,860
Total Cash Inflow	**530,860**	**4,700,000**	**5,230,860**
Expected Cash Outflows:			
Salaries and related costs	238,817	827,362	1,066,179
Retainer bonus	-	2,400,000	2,400,000
Consulting Services	25,000	79,300	104,300
Office Rent, Supplies and related	49,801	148,966	198,767
Professional Services	229,700	160,400	390,100
Restructuring Related Professional Services	200,000	200,000	400,000
Travel	115,000	224,000	339,000
Other Head Office costs	19,274	121,074	140,349
5% Contingency	43,880	88,055	131,935
			-
Monitor estimated costs (E&Y plus Fraser Milner)	315,000	275,000	590,000
Total Cash Outflow	**1,236,472**	**4,524,158**	**5,760,630**
Closing Cash in Bank - end of the month	**10,031,873**	**10,207,715**	**10,207,715**

Notes:

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

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.

THIRD REPORT OF THE MONITOR
ERNST & YOUNG INC.
April 27, 2009

FRASER MILNER CASGRAIN LLP
Barristers & Solicitors

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CLERK OF THE COURT
APR 27 2009
CALGARY, ALBERTA

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