Action No.: 1001-14376
Affidavit of Neil Narfason
Sworn October 21, 2010

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

BETWEEN:

HSBC BANK CANADA

Plaintiff

- and -

PAINTEARTH ENERGY SERVICES INC.,
PAINTEARTH ENERGY SERVICES LTD.
and PES SUBSURFACE CANADA INC.

Defendants

AFFIDAVIT

I, Neil Narfason, of the City of Calgary, in the Province of Alberta, Chartered Accountant, MAKE OATH AND SAY AS FOLLOWS:

Background

1. I am the Senior Vice President, Transaction Advisory Services at Ernst & Young Inc. ("E&Y") and am presently responsible for the administration of the interim receivership of Paintearth Energy Services Inc. ("Paintearth Inc."), Paintearth Energy Services Ltd. ("Paintearth Ltd.") and PES Subsurface Canada Inc. (sometimes collectively referred to in this Affidavit as the "Debtors"). As such, I have personal knowledge of the matters and facts hereinafter deposed to, except where stated to be based on information and belief and, where so stated, I verily believe the same to be true.

2. Having regard to the concerns outlined in an Affidavit of Karla McCarthy of HSBC Bank Canada ("HSBC"), HSBC made application for and obtained the Order of this Honourable Court dated September 27, 2010 appointing E&Y as the Interim Receiver of the Debtors (the "Interim Receivership Order").

3. The Interim Receivership Order expires pursuant to its terms on October 27, 2010 and it is the opinion of the Interim Receiver that it is in the best interests of the estates of the Debtors and their stakeholders, that the Interim Receivership Order be extended beyond the expiry date and expanded to include all of the normal powers and authorities conferred upon a receiver.

Activities of E&Y

4. Upon its appointment, E&Y attended at the Debtors' offices in various locations to take possession of the Debtors' assets, property and undertaking, to meet with employees and to coordinate the completion of an inventory and fixed asset count. We continue to reconcile the inventory lists for inclusion in a formal sales process.

5. There continues to be a complete paralysis of management at Paintearth Inc.. The Receiver has reduced the number of employees in the Debtors' operations from 11 employees and 4 contractors to 4 employees and 2 contractors, including the core operational and administrative management group.

6. Further, it became apparent that a significant amount of inventory had been removed by suppliers prior to the granting of the Interim Receivership Order. As a result, E&Y has engaged certain representatives of the Debtors to identify and quantify the removed inventory ("Removed Inventory").

7. E&Y has also engaged in discussions with various lessors under lease agreements with the Debtors and continues to assess the impact of such lease agreements in terms of the future operations of the Debtors and any sales process.

8. In addition, E&Y has contacted the relevant utility service providers with a view to implementing post-receivership accounts (the "Post-Receivership Accounts") for the continuation of services where necessary as part of the restructuring of the Debtors or any sale of assets.

9. To the extent possible and where it made good business sense, E&Y has continued the Debtors' operations with a view to maximizing recovery for the estate and

its stakeholders, including effecting the payment of critical suppliers for their goods and services.

10. Because Paintearth Ltd. is a U.S. corporation and the Debtors had business dealings out of various locations in the United States, E&Y has commenced an application to have the within Canadian insolvency proceedings against the Debtors recognized under Chapter 15 of the United States Bankruptcy Code (the "US Proceedings").

Powers of E&Y

11. In order to recover the Removed Inventory and to realize upon the property, assets and undertaking of the Debtors in a commercially reasonable and prudent manner, an extension and expansion of the Interim Receivership Order is necessary. This would assist the Receiver in preventing an uncontrolled dissipation of assets to the prejudice of certain creditors and would enable the Receiver to effectively market and if deemed advisable, value and sell the property, assets and undertaking of the Debtors on a commercially reasonable basis.

12. I believe that it is necessary and in the best interests of the estate and its stakeholders, for this Honourable Court to extend and broaden the powers of E&Y under the circumstances to include the normal powers and authorities of a receiver appointed under the *Judicature Act* of Alberta and the federal *Bankruptcy and Insolvency Act* ("BIA"). Such would include but not be limited to the power and authority to:

(a) carry on the business of the Debtors;

(b) commence and conclude a sales process or processes of the assets, property and/or undertaking of the Debtors, subject to further Order of this Honourable Court; and

(c) to act as foreign representative in respect of the US Proceedings.

Appointment of Receiver

13. Based upon the information available to E&Y by virtue of its activities as Interim Receiver of the Debtors, discussions with certain of the employees and principals of the Debtors and discussions with the key stakeholders of the Debtors, including HSBC as the principal secured lender of the Debtors, it is clear to me that ongoing steps must be taken in order to prevent further dissipation of the assets, property and undertaking of the Debtors. Under the circumstances it is essential and in the best interests of the estate and stakeholders that E&Y be appointed as receiver of the Debtors, with all of the normal powers and authorities.

14. E&Y has consented to act as receiver of the Debtors.

15. Notice of the appointment of the Interim Receiver was served on or about October 6, 2010 upon all known creditors listed in the books and records of the Debtors in the form prescribed under sections 245(1) and 246(1) of the BIA. With respect to service of notice of the within application, I advise that there are a plethora of creditors, many with relatively small claims. These parties were notified by the posting of the within Notice of Motion and this Affidavit on the website maintained the Receiver at www.ey.com/ca/paintearth. In addition, I am advised by Marlee Code of Borden Ladner Gervais LLP and do verily believe that those parties revealed by a search of Paintearth Inc., the Canadian parent company, at the Personal Property Registry were duly served with a copy of the within Notice of Motion and Affidavit on or before October 22, 2010.

16. I make this Affidavit in support of an order of this Honourable Court extending and broadening the powers and authorities of E&Y under the Interim Receivership Order and appointing E&Y as full receiver over the property, assets and undertaking of the Debtors.

SWORN BEFORE ME at the City of Calgary, in the Province of Alberta, this 21st day of October, 2010	)))	
	))))	NEIL NARFASON
A Commissioner of Oaths and for the Province of Alberta MATT LEMMENS Barrister & Solicitor	))	

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AFFIDAVIT OF
NEIL NARFASON
SWORN OCTOBER 21st, 2010

CLERK OF THE COURT
OCT 2 2 2010
CALGARY, ALBERTA

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
1900, 520 – 3rd Avenue S.W.
Calgary, AB T2P 0R3

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File No. 400500-000805