UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE:	§	
PAINTEARTH ENERGY SERVICES. LTD.,	§	**CASE NO. 10-39434-H5**
	§	**(Chapter 15)**
Debtor in a foreign proceeding.	§	

DECLARATION IN SUPPORT OF EXPEDITED MOTION FOR APPROVAL OF SALE OF PERSONAL PROPERTY FREE AND CLEAR OF LIENS UNDER 11 U.S.C. § 363

I, Neil Narfason, pursuant to 28 U.S.C. § 1746, hereby declare under penalty of perjury of the laws of the United States of America as follows:

I am a senior vice president with the firm of Ernst & Young Inc., the Receiver over Paintearth Energy Services, Ltd. (the "Debtor") pursuant to the Receivership Order entered in Action No. 1001-14376, in the Court of Queen's Bench of Alberta, Judicial District of Calgary, styled *HSBC Bank Canada, and Paintearth Energy Services, Inc., Paintearth Energy Services Ltd. and PES Subsurface Canada, Inc.* (the "BIA Proceeding"). I have the full authority to execute this Declaration and all statements contained herein are true and correct and based on my personal knowledge.

The Debtor was a corporation formed under the laws of Delaware. The Debtor's registered office is located at 2435 22nd Street NE, Calgary, Alberta, T2E 8K8 Canada. The Debtor conducts a tool and services operation for the oil and gas industry. The majority of the Debtor's operations are conducted from (and a majority of its employees were situated at) its corporate office in Canada. The Debtor has certain operations and assets located in the United States of America.

On September 21, 2006, HSBC Bank Canada ("HSBC") provided an operating loan, a Mastercard loan, a foreign exchange loan, and a demand loan (collectively, the "HSBC Loans") to the Parent Debtor. The total principal amount of the HSBC Loans was $6,334,000. The Debtor guaranteed the loans. HSBC asserts it holds a security interest in all assets of the Debtor. The Debtor defaulted on its obligations under the HSBC Loans.

On September 21, 2010, HSBC engaged the Receiver to evaluate the financial position of the Debtor. The Receiver determined the Debtor was in financial and managerial disarray and that an insolvency proceeding was advisable to preserve the value of the entities.

On September 27, 2010, HSBC filed with the Canadian Court, its Statement of Claim requesting the appointment of a Receiver and commencing Action No. 1001-14376, in the Court of Queen's Bench of Alberta, Judicial District of Calgary styled HSBC Bank Canada, and Paintearth Energy Services, Inc., Paintearth Energy Services Ltd. and PES Subsurface Canada, Inc.

A copy of the Receivership Order entered by the Canadian Court on October 27, 2010 (the "BIA Order") is attached hereto as **Exhibit A**. Ernst & Young Inc. was appointed as the Receiver over the Debtor and pursuant to the Order Recognizing Foreign Main Proceeding entered in this case on November 2, 2010, is the recognized foreign representative of the Debtor.

Pursuant to the BIA Order, the Receiver was authorized and empowered to market any or all of the Debtor's property and to sell, convey, transfer, lease or assign the property out of the ordinary course of business.

The Receiver has taken extensive steps to market and sell the property of the Debtor, as more particularly outlined in the First Report of the Court Appointed Receiver filed in the BIA Proceeding (the "Receiver's Report"), attached hereto as **Exhibit B**.

As a result of the marketing efforts conducted, the Receiver has entered into a Purchase and Sale Agreement on behalf of the Debtor with Oil Lift Technology Inc. (the "Oil Lift PSA"), attached as Appendix C to the Receiver's Report.

An Application by the Receiver, Ernst & Young, Inc., attached as **Exhibit C**, has been filed with the Canadian Court seeking approval of the sale of property and assets of the Debtor pursuant to the Oil Lift PSA.

I make this Affidavit in support of an order approving the sale of the Debtor's property pursuant to the Oil Lift PSA and authorizing the Receiver to enter into any further documentation on behalf of the Debtor to give effect to such sale. The Receiver contemplates bringing a further application in the new year for Canadian Court approval of the distribution of the proceeds from the sale of the Debtor's property.

Exhibit A, **Exhibit B**, and **Exhibit C** are true and correct copies of the respective documents.

Executed this 15th day of December, 2010 in Calgary, Canada

Neil Narfason
Senior Vice President
Ernst & Young Inc.

Sworn to this 15th day of December, 2010 before the undersigned who is duly authorized to witness and attest to the execution of documents of this nature within Canada.

Roxanne Israel

Notary Public in Canada
My commission expires N/A

ROXANNE ISRAEL
BARRISTER & SOLICITOR

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