Clerk's Stamp:

COURT FILE NUMBER	1001-14376
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	HSBC BANK CANADA
DEFENDANTS	PAINTEARTH ENERGY SERVICES INC.,
	PAINTEARTH ENERGY SERVICES LTD., AND
	PES SUBSURFACE CANADA INC.

AND IN THE MATTER OF THE RECEIVERSHIP OF PAINTEARTH ENERGY SERVICES INC., PAINTEARTH ENERGY SERVICES LTD., AND PES SUBSURFACE CANADA INC.

DOCUMENT	FIRST REPORT OF THE COURT-APPOINTED RECEIVER December 14, 2010

RECEIVER
Ernst & Young Inc.
1000, 440 - 2nd Avenue SW
Calgary, AB T2P 5E9
Attn: Neil.Narfason
Telephone: (403) 206-5067
Email: neil.narfason@ca.ey.com

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

COUNSEL
Borden Ladner Gervais LLP
1900, 520 – 3rd Avenue S.W.
Calgary, AB T2P OR3
Attn: John.Ircandia
Telephone: (403) 232-9406
Email: jircandia@blg.com

This is Exhibit " B " referred to in the Affidavit of
Neil Narfason
Sworn before me this 15th
Day of December A.D. 2010
Roxanne Israel
A Commissioner for Oaths in and for the Province of Alberta

ROXANNE ISRAEL
BARRISTER & SOLICITOR

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Appendix A	Order recognizing Foreign Main Proceeding
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INTRODUCTION

1. Ernst & Young Inc. was appointed as interim receiver of the assets, undertakings and properties of every nature and kind (the "Property") of Paintearth Energy Services Inc., Paintearth Energy Services Ltd., and PES Subsurface Canada Inc. (collectively "Paintearth" or the "Company") on September 27, 2010 pursuant to the Order of the Honourable Justice G.E.C. Hawco, of Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court").

2. On October 27, 2010, Ernst & Young Inc. was appointed as Receiver (the "Receiver") of Paintearth pursuant to a further order of the Court (the "Appointment Order").

3. The Appointment Order authorized the Receiver, among other things, to carry on the business of the Company and to solicit offers to purchase the Property of the Company subject to the approval of the Court for transactions in excess of $500,000.

4. The purpose of this first report (the "First Report") of the Receiver is to provide the Court with:

    a) an update with respect to the activities of the Receiver for the period of September 27, 2010 to the present date;

    b) an update with respect to the Receiver's marketing efforts to solicit offers for the Property;

    c) an outline of a purchase and sale agreement dated December 9, 2010 (the "Oil Lift PSA") as between the Receiver and Oil Lift Technology Inc. ("Oil Lift") for the purchase of substantially all of the Property of the Company (excluding accounts receivable) subject to the approval of the Court; and

    d) the Receiver's recommendations with respect to the Oil Lift PSA.

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

TERMS OF REFERENCE

6. In preparing this First Report, the Receiver has relied upon unaudited financial information, the books and records of Paintearth and discussions with employees of Paintearth. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of such information contained in this First Report. Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook, has not been performed. Future orientated financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

BACKGROUND

7. Paintearth is an oilfield services company that operates in the United States ("US") and Canada through Paintearth Energy Services Inc. ("Paintearth Corporate") and its subsidiaries Paintearth Energy Services Ltd. ("Paintearth US") and PES Subsurface Canada ("Paintearth Canada").

8. The Company was headquartered from their Canadian location in Calgary, Alberta with sales and stocking points in Edmonton and Lloydminster, Alberta. In addition, the company operated in the United States through a main location in Victoria, Texas with sales and stocking points in Odessa, Texas and Oklahoma City, Oklahoma. The premises of Paintearth at all locations were subject to third party leases.

9. Paintearth has two main operating divisions, one division with respect to the manufacturing and selling of subsurface tools and a second division with respect to

the provision of protective coating services on downhole tool products. The subsurface tools division is focused primarily on the distribution and manufacturing of an array of downhole tool products, including artificial lift tools, completion tools and flow control tools. The protective coating division is focused on the boronizing process of steel coating.

ACTIVITIES OF THE RECEIVER SINCE SEPTEMBER 27, 2010

Custody and Control

10. As outlined in the Affidavit of Neil Narfason, sworn October 21, 2010, (the "Narfason Affidavit") representatives of the Receiver attended at Paintearth's offices in the various locations to take possession of the Property of the Company and to coordinate the completion of an inventory count by Paintearth employees and to arrange for custody controls over the Property.

Correspondence with landlords and consolidation of inventory

11. As outlined above, the Company operated through six leased locations and was also subject to an additional lease and sublease arrangement for a Nisku, Alberta location.

12. Primarily as a result of the carrying and administration costs of the multiple locations and dealing with multiple landlords, the Receiver consolidated the Canadian inventory and fixed assets in the Paintearth Calgary location and arranged for the termination of the remaining Canadian lease and sublease agreements.

13. As a result of the pending sales process, the geographical distances and the respective rent amounts, the Receiver did not terminate or alter any of the US real property leases on behalf of the Company.

Employees and contractors

14. The Narfason Affidavit outlined that the Receiver had reduced the number of employees in Paintearth Canada to four employees and two contractors. As of the date of this First Report, this staffing level has been further reduced to three employees and one contractor.

15. The staffing level in Paintearth US has been reduced from a staffing level of 11 employees prior to September 27, 2010 to the current staffing level of two employees.

16. The Receiver has continued to experience support and assistance from the Paintearth employees throughout the period of the Receivership.

Statutory Mailing

17. The Receiver has sent out the required Notices under sections 245 and 246 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 and has subsequently responded to numerous inquiries from creditors of Paintearth.

Discussions with Royalty Agreement Counterparty

18. Paintearth is subject to a License Agreement (the "License Agreement") with Integrated Production Services Ltd. ("IPS") regarding certain rights and obligations including the payment of a royalty on sales of certain products as described within the License Agreement which was entered into concurrently with an asset purchase agreement also between IPS and Paintearth (the "APA").

19. The Receiver understands that the terms of both the License Agreement and the APA require the consent of IPS to the assignment of either agreement and as such, the Receiver has been in discussions with both its legal counsel and IPS with respect to a potential assignment of these agreements to Oil Lift in accordance with the Oil Lift PSA terms and conditions (discussed further below).

BOOKS AND RECORDS OF PAINTEARTH

20. Although the inventory, accounts receivable, accounts payable and fixed asset subledgers are considered by Paintearth to be complete, the overall financial statements have not been completed and include several amounts related to intercompany balances that have not been adjusted since the sale of an operating subsidiary that occurred prior to these insolvency proceedings. The following is a high level overview of assets and liabilities of Paintearth. The amounts are a combined total of the assets and liabilities as disclosed in the statutory notices issued by the Receiver for Paintearth Corporate, Paintearth U.S. and Paintearth Canada, excluding the assets not deemed to be realizable through the sales process such as intercompany amounts.

	Net Book Value as at August 31, 2010
Accounts Receivable	3,590,875
Inventory	6,542,666
Prepaids	442,816
Fixed Assets	1,427,939
Intangible	1,258,836
Goodwill	1,879,557
Total	15,142,689

Notes

1. Net book value is based on the unaudited books and records of the Company.

2. Amounts represent combined asset values of Paintearth Corporate, Paintearth U.S. and Paintearth Canada and have not been adjusted for intercompany amounts.

3. US denominated amounts have been translated at a rate of $1.03 as a proxy for the exchange rate in effect as of September 27, 2010.

Assets

21. Accounts Receivable consist of amounts owing from a large number of customers in Canada, the United States and internationally. As of the date of this report, the

Receiver continues work on collection of outstanding accounts receivable with the assistance of the remaining Paintearth employees.

22. Inventory consists of a large number of relatively small value items for sale primarily in the subsurface tools division. The Receiver understands from discussions with Paintearth management that a portion of the inventory held may be considered slow-moving and held as a result of previous purchases of inventory in large quantities to obtain favourable pricing. In addition, the Receiver understands that a portion of the sale of this inventory may be subject to the License Agreement as discussed above.

23. Prepaid expense balances are not expected to have material value to the realization efforts by the Receiver, however, some balances of prepaid rent will be of use in the recovery efforts.

24. Fixed Assets consist of tools, machinery and equipment and capital improvements in the six sales and stocking locations.

25. Intangibles relate primarily to the value assigned to customer relationships, drawings and designs.

26. Goodwill relates to a historical balance as a result of a previous business acquisition and would have minimal value in a realization scenario.

Liabilities - Secured Creditors

27. The unaudited books and records of Paintearth indicate three secured creditors as follows:

a) HSBC Bank of Canada ("HSBC") in the amount of $4,773,836;

b) IPS in the amount of $2,000,000; and

c) A syndicated loan from Vengrowth III Investment Fund Inc., VG Mezzanine I Limited Partnership and The Vengrowth Traditional Industries Fund Inc. in the amount of $4,064,810.

28. It would appear that HSBC is the priority security lender, however, the Receiver is in the process of retaining counsel to have an independent security opinion obtained on the security position of HSBC in anticipation of a future distribution application before this Honourable Court.

Liabilities - Statutory / Preferred Creditors

29. The Receiver has not yet completed its review of Paintearth's books and records for the existence of statutory or preferred creditors and is also consulting with its Canadian and US counsel with respect to determination of same.

Security position of secured creditors and requirements for a claims process

30. As at the date of this First Report it is anticipated that the secured creditors will suffer a shortfall on their security position, therefore it is not contemplated that the Receiver will undertake a claims process.

Liabilities – Unsecured creditors

31. The unaudited books and records of Paintearth Corporate do not show any unsecured creditors.

32. The unaudited books and records of Paintearth Canada show unsecured creditors at September 27, 2010 of approximately $1,446,530.

33. The unaudited books and records of Paintearth US show unsecured creditors at September 27, 2010 of approximately $512,628 in Canadian dollars resulting from the translation of US denominated amounts at a rate of $1.03 as per the foreign exchange rate in effect on September 27, 2010 as per the Bank of Canada.

US CHAPTER 15 PROCEEDINGS

34. Pursuant to an application made by the Receiver, an Order was granted on November 2, 2010 by the Honourable Judge Karen K. Brown of the United States Bankruptcy Court, Southern District of Texas, Houston Division (the "US Court"), ordering that, *inter alia*:

    a) Ernst & Young Inc. is recognized as the foreign representative as defined by 11 U.S.C. § 101(24);

    b) the Canadian Proceedings are recognized as the foreign main proceeding as defined by 11 U.S.C. § 101(24); and

    c) the provisions of 11 U.S.C. § 1520, including but not limited to the automatic stay under § 362 of the Bankruptcy Code, are effective upon entry of the Order.

35. A copy of the Order granted by the US Court is attached as Appendix A.

SALES PROCESS

Marketing Process

36. Upon the granting of the Appointment Order, the Receiver immediately took steps to market and sell all the Property of Paintearth excluding the accounts receivable.

37. As outlined in the Affidavit of Karla McCarthy sworn September 27, 2010 (the "McCarthy Affidavit"), the resignation of the directors of Paintearth, together with the inability of the current management to sign operational documents deemed critical to ongoing operations resulted in operational paralysis prior to the appointment of the Receiver.

38. The Receiver undertook to continue the business of the Company to the extent possible, however given the impact of the uncertainty of the Receivership on key employees, customers and suppliers, it was determined that an expedited sales

process was in the best interest of the stakeholders. As a result, a tentative letter of intent bid deadline was set of November 12, 2010.

39. The key steps in the marketing process included:

a) A list of potential interested parties was developed by combining entities that had previously contacted Paintearth management with respect to an acquisition as well as identification of other entities in the oilfield services industry that may be considered to be interested in acquiring the Property,

b) 29 entities were sent a marketing brochure of which 15 executed a confidentiality agreement and received a copy of additional diligence materials together with access to management, employees and site inspections. A copy of the marketing brochure sent is attached as Appendix B;

c) Receipt and evaluation of seven indicative offers of interest, which as a result of the disparity in the nature and format of expressions of interest, resulted in negotiations with a short list of interested parties;

d) Entering into the Oil Lift PSA on December 9, 2010.

PURCHASE AND SALE AGREEMENT WITH OIL LIFT

40. The offer submitted by Oil Lift represents the best offer resulting from the Receiver's marketing effort and negotiations with the interested parties, as it contemplates a purchase price materially higher than the other offers, and provides an opportunity for employment by Oil Lift of the Paintearth employees.

41. The purchase price contemplated by the Oil Lift PSA is approximately $2.608 million, subject to certain post-closing adjustments for inventory and fixed asset which would reduce the overall purchase price. The Receiver does not expect that these post-closing adjustments will exceed $0.3 million.

42. The Oil Lift PSA is also subject to the following material conditions:

    a) Assignment by the Receiver of all right, title and interest in patents and intellectual property rights;

    b) Assignment of the License Agreement; and

    c) Approval of this Honourable Court and the US Bankruptcy Court, if required through the Chapter 15 Proceedings.

43. HSBC, as principal secured lender, is in favour of the sale of the Property to Oil Lift.

RECOMMENDATIONS

44. Based on the results of the marketing process described above, together with the nature and condition of the Paintearth business and Property, the Receiver believes the Oil Lift PSA to be commercially reasonable in the circumstances and respectfully recommends that the Oil Lift PSA be approved by this Honourable Court.

All of which is respectfully submitted the 14th day of December, 2010.

ERNST & YOUNG INC.
in its capacity as Court Appointed Receiver of
Paintearth Energy Services Inc., Paintearth Energy Services Ltd.,
PES Subsurface Canada Inc. and not in its personal capacity.

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Kevin Meyler, CA•CIRP
Vice-President

APPENDIX A

ENTERED
11/02/2010

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

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

ORDER RECOGNIZING FOREIGN MAIN PROCEEDING

The Petition for Recognition of the foreign main proceeding filed by Ernst & Young Inc. is **GRANTED**. It is

ORDERED THAT:

1. 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.* is recognized as the foreign main proceeding as defined by 11 U.S.C. § 101(24).

2. Ernst & Young Inc. is recognized as the foreign representative as defined by 11 U.S.C. § 101(24).

3. The provisions of 11 U.S.C. § 1520, including but not limited to the automatic stay under § 362 of the Bankruptcy Code, are effective upon entry of this Order.

4. This Court shall retain jurisdiction with respect to the enforcement, amendment or modification of this Order and with regards to any additional relief or request by any entity properly commenced and within the jurisdiction of this Court.

SIGNED this 2nd day of Nov, 2010.

UNITED STATES BANKRUPTCY JUDGE

APPENDIX B

ERNST & YOUNG
Quality In Everything We Do

Acquisition Opportunity

Paintearth Energy Services Group

SUMMARY

Ernst & Young Inc., in its capacity as Interim Receiver (the "Receiver") of Paintearth Energy Services Inc., Paintearth Energy Services Ltd. and PES Subsurface Canada Inc. (collectively "Paintearth" or the "Company"), is seeking a divestiture of the business as a whole or as separate divisions.

The Company operates primarily through two divisions: Subsurface Tools and Protective Coating. The Subsurface division is focused primarily on the distribution and manufacturing of an array of downhole tool products, including artificial lift tools, completion tools and flow control tools. The Protective Coating division is focused on the boronizing process of steel coating. The artificial lift service line is subject to certain royalty and license agreements which are currently being reviewed by legal counsel for possible assignment to a purchaser.

The Receiver has retained a core group of individuals with extensive and experienced operational management. The Company has created a competitive advantage though extensive proprietary technologies and strategic customer networks and is well positioned for future growth.

The Company is operated through one main location in both Canada (Calgary, Alberta) and the United States (Victoria, Texas) and three sales and stocking points in Lloydminster, Alberta, Odessa, Texas and Oklahoma City, Oklahoma. The US business is conducted through a wholly owned subsidiary, Paintearth Energy Services Ltd.

KEY INVESTMENT ATTRIBUTES

Commitment and Continuity of Experienced Management Team
A committed group of core employees have expressed a willingness to remain with the Company. Senior management believes that there are continued growth opportunities for the business and are willing to stay with the Company to help execute growth initiatives through a reasonable transition period, if the business is purchased as a whole.

Significant Synergistic Value
Purchasers will be able to capture immediate synergies through manufacturing scale, distribution consolidation and cross selling opportunities to the existing customer base.

Geographic Diversification
Revenues are derived primarily from North American customers, with a growing internationally diversified revenue stream. The company's product lines have historically been focused on servicing the natural gas market in both the US and Canada, though sales and marketing channels that are being established internationally.

Blue Chip Client List with Opportunity for Growth
The Company maintains a client list of well known and reputable players in the oil & gas industry. Through establishing solid relationships, obtaining preferred supplier status and delivering excellent service, the Company is positioned to prosper as industry spending levels increase.

RATIONALE AND PROPOSED TRANSACTION

Paintearth has faced financial difficulties in recent months and in September 2010, the Company's senior secured lender appointed the Receiver in order to realize on its security. Any proposed transaction would be subject to approval by the Court of Queen's Bench of Alberta pursuant to the terms of the Interim Receivership Order granted by the Honourable Court.

Potential transaction options include acquisition of the business as a whole or one of the divisions separately. Purchasers will receive a dedicated operations team, existing customer base, intellectual property and immediate growth opportunities.

CONFIDENTIALITY

The information contained in this Overview is submitted to parties on a confidential basis for use solely in connection with their consideration of the acquisition opportunity described herein. By its acceptance hereof, the recipient agrees that neither it nor any of its employees or advisors shall use the information for any purpose other than the evaluation of the business opportunity, nor shall it divulge the information or distribute this Overview to any other party, in whole or in part, at any time without the prior written consent of the Company through EY.

NEXT STEPS

Prospective purchasers should direct all inquiries to the Receiver who will arrange all contacts for the appropriate due diligence. **Prospective purchasers are requested not to contact former employees/consultants of Paintearth other than as directed by the Receiver.** Upon expressing interest in these properties, the interested parties will be sent (and will be required to sign) a confidentiality agreement ("CA"). Once the CA is executed interested parties will receive access to further information and ability to conduct diligence on the opportunity. **The letter of intent bid deadline for this opportunity will be November 12, 2010.**

ERNST & YOUNG INC. – INTERIM RECEIVER OF PAINTEARTH
1000, 440 2nd Avenue SW, Calgary, Alberta, Canada T2P 5E9

Jeff Scott	*Kevin Meyler*
Senior Associate	*Vice President*
403.206.5619	*403.206.5096*
jeff.scott@ca.ey.com	*kevin.e.meyler@ca.ey.com*

APPENDIX C

PURCHASE AND SALE AGREEMENT

THIS AGREEMENT (hereinafter called the "**Agreement**"), dated effective the 9th day of December, 2010.

BETWEEN:

OIL LIFT TECHNOLOGY INC.,
a corporation incorporated
pursuant to the laws of Alberta,
(the "**Purchaser**")

- and -

ERNST & YOUNG INC.,
in its capacity as receiver of
PAINTEARTH ENERGY SERVICES INC., PES SUBSURFACE CANADA INC. and **PAINTEARTH ENERGY SERVICES LTD.**
and not in its personal capacity (the "**Vendor**")

(the Vendor and the Purchaser are hereinafter individually referred to as a "**Party**" and collectively referred to as the "**Parties**")

WHEREAS:

A. Pursuant to an order of the Court of Queen's Bench of Alberta dated October 27, 2010 (the "**Receivership Order**"), the Vendor was appointed as receiver of Paintearth Energy Services Inc., PES Subsurface Canada Inc. and Paintearth Energy Services Ltd. (collectively, the "**Debtor**").

B. The Vendor was empowered by the Receivership Order to conduct a sales process with respect to some or all of the property of the Debtor, including the Purchased Assets (as defined herein), and to negotiate an agreement of purchase and sale with respect thereto, subject to the approval of the Court.

C. In accordance with the Receivership Order, the Vendor desires to sell the Purchased Assets and the Purchaser desires to purchase the Purchased Assets, as more particularly set out herein, subject to the terms and conditions hereof.

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT, in consideration of the mutual covenants and agreements herein contained, the Parties hereto agree as follows:

ARTICLE 1
INTERPRETATION

Section 1.1 Definitions

Where used in this Agreement, or any amendment, the following terms shall have the following meanings respectively:

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(a) **"Agreement"** means this Agreement of sale and purchase and all instruments supplemental to or in amendment or confirmation of this Agreement, except as otherwise herein provided;

(b) **"Applicable Law"** means the laws of the Province of Alberta and the laws of Canada applicable therein;

(c) **"Approval and Vesting Order"** has the meaning set out in Section 4.3;

(d) **"Business Day"** means any day except a day that is Saturday, a Sunday or a statutory holiday in Calgary, Alberta;

(e) **"Calgary Lease"** means the lease for the Calgary, Alberta premises located at 2435 – 22nd Street NE, Calgary, Alberta (legally described as Lot 3, Block 1, Plan 8310180 excepting thereout all mines and minerals);

(f) **"Closing"** means the successful completion of the Transaction on the Closing Date pursuant to the terms of this Agreement;

(g) **"Closing Date"** means December 21, 2010 or such other date as the Parties may mutually agree in writing;

(h) **"Court"** means the Court of Queen's Bench of Alberta;

(i) **"Debtor"** means Paintearth Energy Services Inc., PES Subsurface Canada Inc. and Paintearth Energy Services Ltd.;

(j) **"Deposit"** has the meaning specified in Section 2.4(a);

(k) **"ETA"** means the *Excise Tax Act* (Canada);

(l) **"GST"** means all goods and services taxes payable under the ETA;

(m) **Licence Agreement** means the Licence Agreement between the Debtor and Integrated Production Services Ltd. dated October 31, 2006, and the Royalty Agreements and Assignments referred to therein;

(n) **"Purchase Price"** has the meaning set out in Section 2.3;

(o) **"Purchased Assets"** include, without limitation, all of the right, title and interest in the assets and undertakings of the Debtor as vested in the Vendor, including, without limitation, the equipment, inventory (including boronizing powder used in the Hard Kote process), fixed assets, books and records and intellectual property, including patents and trademarks registered in Canada and the United States, and Miscellaneous Interests used in connection with the business of Paintearth Energy Services Inc., PES Subsurface Canada Inc. and Paintearth Energy Services Ltd. wherever located in Canada and the United States of America;

(p) **"Miscellaneous Interests"** means the Debtor's entire interest in the purchased assets or any rights relating thereto, including, without limitation of the generality of the foregoing, the entire interest of the Debtor in all contracts, agreements, leases, royalty agreements or documents to the extent they relate directly to the equipment, inventory,

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fixed assets and intellectual property, including, without limiting the generality of the foregoing, the Calgary Lease and the License Agreement;

(q) **"Receivership Order"** has the meaning set out in the Recitals;

(r) **"Taxes"** means all federal, provincial, municipal, foreign or other taxes, charges, duties, or levies imposed by Applicable Law, including sales, use, GST, value added, including income, capital gains taxes or taxes on profits, transfer, withholding, payroll, employer health, excise, real property, and any other taxes, customs duties, fees, assessments or similar charges in nature of tax including Canada Pension Plan and provincial pension plan contributions, unemployment insurance payments and workers compensation premiums, imposed by any governmental authority;

(s) **"Time of Closing"** means 5:00 p.m. (Calgary time) on the Closing Date or such other time on the Closing Date as the parties may mutually agree;

(t) **"Transaction"** means a transaction of purchase and sale contemplated by this Agreement; and

(u) **"U.S. Court"** means the United States Bankruptcy Court, Southern District of Texas, Houston Division.

Section 1.2 Headings

The division of this Agreement into articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. Unless something in the subject matter or context is inconsistent therewith, references in this Agreement to articles or sections are to articles or sections of this Agreement.

Section 1.3 Currency

Except where otherwise expressly provided, all payments contemplated in this Agreement shall be paid in Canadian funds, and all references in this Agreement to dollar amounts are references to dollars in lawful currency of Canada.

Section 1.4 Day Not a Business Day

If any day on or before which any action is required to be taken under this Agreement is not a Business Day, then that action shall be required to be taken on or before the requisite time on the next succeeding day that is a Business Day.

Section 1.5 Extended Meanings

Words importing the singular include the plural and *vice versa*. Words importing gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations, corporations and governmental authorities. Wherever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation".

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ARTICLE 2
PURCHASE AND SALE OF PURCHASED ASSETS

Section 2.1 "As is, Where is"

The Purchaser acknowledges that the Vendor is selling the Purchased Assets on an "as is, where is" basis as of the Closing Date. The Purchaser further acknowledges that it has conducted such inspections of the Purchased Assets as it deemed appropriate and has satisfied itself with regard to these matters. No representation, warranty or condition is expressed or can be implied as to title, encumbrances, description, fitness for purpose, merchantability, condition, quantity or quality or in respect of any other matter or thing whatsoever concerning the Purchased Assets or the right of the Vendor to sell or assign same save and except as expressly represented or warranted herein. Without limiting the generality of the foregoing, any and all conditions, warranties or representations expressed or implied pursuant to the *Sale of Goods Act* (Alberta) or similar legislation in Alberta or other jurisdictions do not apply hereto and have been waived by the Purchaser. The description of the Purchased Assets hereto is for the purpose of identification only. No representation, warranty or condition has or will be given by the Vendor or any other party concerning completeness or the accuracy of such descriptions or with respect to any data room set up by the Vendor or the information contained therein.

Section 2.2 Agreement to Purchase

The Purchaser hereby agrees to purchase the Purchased Assets and the Vendor hereby agrees to sell the Assets for a Purchase Price, as determined pursuant to Article 2, subject to any post-closing adjustment that the parties may mutually agree upon in writing (plus, subject to Section 2.5 hereof, exigible goods and services tax if this Transaction is subject to GST under the ETA).

Section 2.3 Purchase Price

The total Purchase Price for the Purchased Assets shall be a total of TWO MILLION SIX HUNDRED AND EIGHT THOUSAND ONE HUNDRED AND SIXTY FIVE ($2,608,165) DOLLARS.

Section 2.4 Payment of Purchase Price

Subject to this Agreement, on or prior to the Closing Date, the Purchaser shall pay the Purchase Price to the Vendor as follows:

(a) by paying a deposit in the amount of SIX HUNDRED FORTY THOUSAND ($640,000) DOLLARS (the "Deposit"), which shall be paid by the Purchaser upon acceptance of this Agreement by the Vendor, to be held by the Vendor's solicitors in an interest bearing trust account until the Closing Date and credited toward the Purchase Price upon Closing; and

(b) by paying ONE MILLION NINE HUNDRED SIXTY EIGHT THOUSAND ONE HUNDRED SIXTY FIVE ($1,968,165) DOLLARS, an amount representing the balance of the Purchase Price after crediting the Deposit, and subject to all other adjustments, including but not limited to employee payroll adjustments, on the Closing Date.

Unless otherwise agreed, all amounts payable to the Vendor shall be paid to the Vendor by wire transfer or a solicitor's trust cheque issued by a Canadian chartered bank.

Section 2.5 Taxes

The Purchaser shall pay upon Closing, in addition to the Purchase Price, all applicable Taxes exigible in connection with the purchase and sale of the Purchased Assets, including GST provided that the Purchaser is, in the opinion of its tax advisors, eligible for an input tax credit equal to the amount of such GST under the ETA. In addition, if applicable, the Purchaser shall have the option to furnish the Vendor with appropriate exemption certificates and/or to require that the Purchaser and the Vendor shall jointly make the election provided for under subsection 167(1.1) of the ETA such that no GST will be payable in respect of the Transaction contemplated by this Agreement. In such event, the Purchaser and the Vendor shall jointly complete the election form (more particularly described in form GST-44) in respect of such election and the Purchaser hereby irrevocably appoints the Vendor (or its authorized representatives) as its agent to file the said election form not later than the due date for the Purchaser's GST returns for the first reporting period in which GST, as applicable, would, in the absence of such election, become payable in connection with the Transaction contemplated by this Agreement.

Subject to the foregoing, the Purchaser agrees to indemnify and save the Vendor harmless from and against all claims and demands for payment of the above-mentioned Taxes including penalties and interest thereon and any liability or costs incurred as a result of any failure to pay such Taxes when due.

Section 2.6 Conveyance, Assignment and Transfer

This Agreement is intended to and shall operate as an actual conveyance, assignment and transfer of the Purchased Assets from the Vendor to the Purchaser. The Purchaser shall own the legal and beneficial right, title and interest in and to the Purchased Assets as at the Closing Date. If any further general or specific conveyances are required by the Purchaser, in order to convey, assign, and transfer the Purchased Assets to the Purchaser and to novate the Purchaser or such nominee in the place and stead of the Debtor with respect to the Purchased Assets, the Vendor will supply such documents at Closing or at such later date at the request of the Purchaser.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Section 3.1 Purchaser's Representations

The Purchaser represents and warrants to the Vendor that:

(a) the Purchaser is a corporation duly continued, organized and subsisting under the laws of Alberta;

(b) the Purchaser has all necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations, and the execution and delivery of this Agreement and the consummation of the Transaction contemplated have been duly authorized by all necessary corporate action on the part of the Purchaser;

(c) the Purchaser is not a party to, bound or affected by or subject to any indenture, agreement, instrument, charter or by-law provision, order, judgment or decree which would be violated, contravened or breached by the execution and delivery by it of this Agreement or the performance by it of any of the terms contained herein;

(d) there is no suit, action, litigation, arbitration proceeding or governmental proceeding, including appeals and applications for review, in progress, pending or, to the best of the Purchaser's knowledge, threatened against or relating to the Purchaser or any judgment, decree, injunction, rule or order of any court, governmental department, commission,

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agency, instrumentality or arbitrator which, in any case, might adversely affect the ability of the Purchaser to enter into this Agreement or to consummate the Transaction contemplated and the Purchaser is not aware of any existing ground on which any action, suit or proceeding may be commenced with any reasonable likelihood of success;

(e) this Agreement and all other documents contemplated hereunder to which the Purchaser is or will be a party have been or will be, as at the Time of Closing on the Closing Date, duly and validly executed and delivered by the Purchaser and constitutes or will, as at the Time of Closing on the Closing Date, constitute legal, valid and binding obligations of the Purchaser, as the case may be, enforceable in accordance with the terms hereof or thereof.

Section 3.2 Vendor's Representations

The Vendor hereby represents and warrants to the Purchaser as follows:

(a) the Vendor has been validly appointed by the Court as Receiver of the Debtor;

(b) the Vendor has the right to enter into this Agreement and to complete the Transaction, subject to the granting of the Approval and Vesting Order by the Court; and

(c) the Vendor is not a non-resident of Canada within the meaning of that term as used in the Income Tax *Act* (Canada).

ARTICLE 4
CONDITIONS

Section 4.1 Conditions – Purchaser

The obligation of the Purchaser to complete the Transaction on the Closing Date is subject to the following conditions being fulfilled or performed at or prior to the Time of Closing, or earlier as otherwise provided for herein, as applicable:

(a) all representations and warranties of the Vendor contained in this Agreement shall be true as of the Closing Date with the same effect as though made on and as of that date;

(b) the Vendor shall have performed each of its obligations under this Agreement to the extent required to be performed on or before the Closing Date;

(c) all right, title and interest of the Vendor in patents and intellectual property rights shall be assigned to the Purchaser at Closing, to the extent that the Vendor has the power to assign those rights;

(d) the License Agreement shall be assigned to the Purchaser at Closing; and

(e) the Vendor will make best efforts to enter into an agreement with the Landlord for the Calgary Lease so that the Purchaser may continue to use, occupy and rent the premises described in the Calgary lease for a three month term commencing January 1, 2011, renewable for a further three months, with a two months notice period for termination by either party.

The foregoing conditions are for the exclusive benefit of the Purchaser. Any condition may be waived by the Purchaser in whole or in part. Any such waiver shall be binding on the Purchaser only if made in writing.

Section 4.2 Conditions – Vendor

The obligation of the Vendor to complete the Transaction is subject to the following conditions being fulfilled or performed at or prior to the Time of Closing on the Closing Date:

(a) all representations and warranties of the Purchaser contained in this Agreement shall be true as of the Closing Date with the same effect as though made on and as of that date;

(b) the Purchaser shall have performed each of its obligations under this Agreement to the extent required to be performed on or before a Closing Date; and

(c) no action or proceedings with a reasonable likelihood of success (as determined by the Vendor's and the Purchaser's counsel, acting reasonably) shall be pending or threatened to restrain or prohibit the completion of the Transaction contemplated by this Agreement.

The foregoing conditions are for the exclusive benefit of the Vendor. Any condition may be waived by the Vendor in whole or in part. Any such waiver shall be binding on the Vendor only if made in writing.

Section 4.3 Approval and Vesting Order

The obligations of the Vendor and the Purchaser hereunder are subject to the conditions that:

(a) an Order shall have been made by the Court and the U.S. Court, if required, prior to Closing, approving this Agreement and the Transaction and vesting in the Purchaser all the right, title and interest of the Debtor in the Purchased Assets free and clear of all claims, liens, security interests and other encumbrances (the "Approval and Vesting Order"); and

(b) the Approval and Vesting Order shall not have been stayed, varied, vacated, or appealed, and no application to stay, vary, appeal or vacate the Order shall have been filed, and no application shall have been made or order shall have been issued which restrains or prohibits the completion of the Transaction.

The Parties hereto acknowledge that the foregoing conditions are for the mutual benefit of the Vendor and the Purchaser.

Section 4.4 Non-Satisfaction of Conditions

If any condition set out in this section is not satisfied or performed prior to the time specified therefore, the Party for whose benefit the condition is inserted may:

(a) waive compliance with the condition in whole or in part, in its sole discretion by written notice to the other Party and without prejudice to any of its rights of termination in the event of non-fulfilment of any other condition in whole or in part; or

(b) on or prior to the Closing Date, elect on written notice to the other Party to terminate this Agreement before Closing or, with the agreement of the other Party, terminate a portion of this Agreement.

If no such written notice is given at or prior to the Closing Date, the Party for whose benefit the condition is inserted shall be deemed to have elected to proceed with Closing.

ARTICLE 5
RISK

Section 5.1 Allocation of Risk

Prior to the Closing Date, the Purchased Assets shall be and remain at the risk of the Vendor. After Closing, the Assets shall be and remain at the risk of the Purchaser.

ARTICLE 6
CLOSING

Section 6.1 Vendor's Closing Deliveries

On the Closing Date, the Vendor shall deliver to the Purchaser:

(a) an assignment, assumption and novation of lease for the Calgary Lease, based on the Vendor's best efforts to obtain same on the terms as described in Article 4.1(e);

(b) an assignment and/or transfer of any and all patents and intellectual property rights as described in Article 4.1(c);

(c) as assignment, assumption and novation of the Licence Agreement; and

(d) all other documents which are reasonably requested by the Purchaser to give effect to the proper transfer and assignment of Purchased Assets by the Vendor to the Purchaser.

Section 6.2 Purchaser's Closing Deliveries

The Purchaser shall deliver to the Vendor on the Closing Date the following:

(a) the balance of the Purchase Price;

(b) the registration number of the Purchaser for purposes of the GST together with the covenant and indemnity of the Purchaser to make appropriate filings with respect to this transaction as it relates to GST as required by the ETA or payment or evidence of payment of applicable federal or provincial Taxes or alternatively, appropriate exemption certificates, as required by Section 2.5;

(c) a certificate, dated as of the Closing Date, confirming that all of the representations and warranties of the Purchaser contained in this Agreement are true as of the Closing Date, with the same effect as though made on and as of the Closing Date;

(d) an acknowledgement addressed to the Vendor dated the Closing Date, that each of the conditions precedent in Sections 4.1 of this Agreement have been fulfilled, performed or waived as of the Closing Date;

(e) such further and other documentation as is referred to in this Agreement or as the Vendor may reasonably require to give effect to this Agreement; and

(f) each of the Vendor and Purchaser shall retain separate legal counsel to complete the agreement of purchase and sale of the Purchased Assets.

Section 6.3 Possession of Assets

The Vendor shall remain in possession of the Purchased Assets until the Time of Closing on the Closing Date. Upon Closing, the Purchaser shall take possession of the Purchased Assets where situated at the Time of Closing on the Closing Date. The Purchaser acknowledges that the Vendor has no obligation to deliver physical possession of the Purchased Assets to the Purchaser. In no event shall the Purchased Assets be sold, assigned, transferred or set over to the Purchaser until the conditions set out in the Approval and Vesting Order have been satisfied and the Purchaser has satisfied all delivery requirements outlined in Section 6.2.

Section 6.4 Termination

If either the Vendor or the Purchaser elect to terminate this Agreement pursuant to the provisions of Section 4.4:

(a) all of the obligations of both the Vendor and the Purchaser pursuant to this Agreement shall be at an end in respect of the Transaction;

(b) subject to the exception contained in Section 6.5 herein, the Purchaser shall be entitled to have the Deposit and all the monies paid hereunder to the Vendor returned with interest and without deduction; and

(c) neither Party shall have any right to specific performance or other remedy against, or any right to recover damages or expenses from, the other.,

Section 6.5 Breach by Purchaser

If Closing does not occur due in whole or in part to the Purchaser's breach of its obligations under this Agreement, which breach has not been waived by the Vendor, the Vendor may, by notice to the Purchaser, elect to treat this Agreement as having been repudiated by the Purchaser. In that event, the Deposit shall be forfeited to the Vendor and the Parties shall have no further liabilities or obligations to one another with respect to this Agreement or the Transaction contemplated hereby. The Parties agree that the amount of the Deposit constitutes their genuine estimate of all damages that will be suffered by the Vendor as a result of the Closing not occurring and that the Vendor's retention of the Deposit shall constitute liquidated damages to, and be the sole remedy of, the Vendor as a result of the Closing not occurring.

Section 6.6 Books & Records

The Purchaser shall store and secure the books and records of the Debtor until the date on which the Vendor advises the Purchaser that the same are no longer needed. During such time, the Purchaser shall provide to the Vendor unfettered access to the books and records, as required and requested by the Vendor in its sole discretion, so that the Vendor may fulfill its duties and obligations as receiver.

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ARTICLE 7
GENERAL PROVISIONS

Section 7.1 Time of the Essence

This Agreement, when executed by both Parties shall constitute a binding contract of purchase and sale, and time shall in all respects be of the essence hereof.

Section 7.2 Entire Agreement

It is agreed that there is no representation, warranty, collateral agreement or condition affecting this Agreement or the Lands or supported thereby other than as expressed in writing in the Price Allocation and Adjustment Agreement and in this Agreement.

Section 7.3 Severability

If any provision contained herein shall be found to be unenforceable, such provision shall be severed from the Agreement, and the remainder of this Agreement shall continue to be in full force and effect.

Section 7.4 Notices

Any notice or communication required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been sufficiently given if sent by registered mail or hand delivered to the applicable addresses for the Parties as set forth below. Any notice or communication delivered personally shall be deemed to be received by and given to the addressee thereof on the day of delivery. Any notice or communication delivered by registered mail shall be deemed to be received by and given to the addressee three (3) days following the date on which the same is posted by registered mail, except in the event of a disruption in postal service, in which event such notice or communication shall be delivered personally:

To the Vendor:

Ernst & Young Inc.
1000, 440 2nd Avenue S.W.
Calgary, Alberta T2P 5E9

Fax: (403) 206-5075
Attention: Mr. Neil Narfason and Mr. Kevin Meyler

Email: neil.narfarson@ca.ey.com and kevin.e.meyler@ca.ey.com

To the Purchaser:

Oil Lift Technology Inc.
#3, 1820 30th Avenue NE
Calgary, Alberta T2B 7M5
Fax: (403) 291-5301

Attention: Mr. Vern Hult

Email: vern.hult@oillifttechnology.com

Any such notice or other communication, if given by personal delivery, will be deemed to have been given on the day of actual delivery thereof and, if transmitted by electronic mail before 5:00 p.m. (Calgary time) on a Business Day, will be deemed to have been given on the Business Day, and if

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transmitted by electronic mail after 5:00 p.m. (Calgary time) on a Business Day, will be deemed to have been given on the Business Day after the date of the transmission. A Party may change its address for service hereunder by specifying such change and new address in a written notice delivered to the other Parties in accordance with the terms of this Agreement.

Section 7.5 Successors and Assigns

This Agreement shall enure to the benefit of and be binding upon the Parties hereto and their respective successors and assigns. The Purchaser shall have the right to assign this Agreement to an affiliate or subsidiary upon notice to the Vendor provided that the assignee executes an acknowledgment addressed to the Vendor that it assumes all of the Purchaser's obligations and liabilities under this Agreement and such acknowledgment is delivered to the Vendor. Notwithstanding the foregoing, the Purchaser shall remain liable for all obligations and liabilities of the assignee under this Agreement.

Section 7.6 Applicable Law

This agreement shall be interpreted in accordance with the laws of the province of Alberta and the laws of Canada applicable thereto.

Section 7.7 Further Assurances

Except as provided herein, each of the Parties shall, at the cost and expense of the other Party, execute and deliver all such further documents and do such further acts and things that the other Party may reasonably request from time to time to give full effect to this Agreement.

Section 7.8 Survival

All representations, warranties, covenants and agreements contained in this Agreement shall survive the completion of the Transaction and shall not merge on Closing.

Section 7.9 Amendment and Waiver

No amendment or waiver of any provision of this Agreement shall be binding on any Party unless consented to in writing by such Party. No waiver of any provision of this Agreement shall constitute a waiver of any other provision, nor shall any waiver constitute a continuing waiver unless otherwise expressly provided.

Section 7.10 Commission

The Vendor acknowledges that there are no agent or broker fees or other commissions payable by the Vendor on the Purchase Price or otherwise in connection with the Transaction. The Purchaser acknowledges that there are no agent or broker fees or other commissions payable by the Purchaser on the Purchase Price or otherwise in connection with the Transaction.

Section 7.11 Receiver's Capacity

The Receiver acts in its capacity as Receiver of the Debtors and shall have no personal or corporate liability under this Agreement.

Section 7.12 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement. Transmission by e-mail in Portable Document Format (PDF) of an executed counterpart of this Agreement shall be deemed to constitute due and sufficient delivery of such counterpart.

IN WITNESS WHEREOF the Parties have executed this Agreement effective as of the date first written above.

OIL LIFT TECHNOLOGY INC.

Per: VHult
Title: President
Name: Vern Hult

Per:
Title:
Name:

ERNST & YOUNG INC., in its capacity as receiver of **PAINTEARTH ENERGY SERVICES INC., PES SUBSURFACE CANADA INC., PAINTEARTH ENERGY SERVICES LTD.** and not in its personal capacity

Per: Kevin Meyler
Title: Vice-President
Name: Kevin Meyler

Per:
Title:
Name: