UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

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

EXPEDITED MOTION FOR APPROVAL OF SALE OF PERSONAL PROPERTY FREE AND CLEAR OF LIENS UNDER 11 U.S.C. § 363(F)

A HEARING WILL BE CONDUCTED ON THIS MATTER ON DECEMBER 20, 2010 AT 10:00 A.M. IN COURTROOM 403, 515 RUSK AVENUE, HOUSTON, TEXAS. IF YOU OBJECT TO THE RELIEF REQUESTED, YOU MUST RESPOND IN WRITING SPECIFICALLY ANSWERING EACH PARAGRAPH OF THIS PLEADING. UNLESS OTHERWISE DIRECTED BY THE COURT, YOU MUST FILE YOUR RESPONSE WITH THE CLERK OF THE BANKRUPTCY COURT NOT LATER THAN THE DATE OF THE HEARING. YOU MUST SERVE A COPY OF YOUR RESPONSE ON THE PERSON WHO SENT YOU THE NOTICE; OTHERWISE, THE COURT MAY TREAT THE PLEADING AS UNOPPOSED AND GRANT THE RELIEF REQUESTED.

EXPEDITED RELIEF IS REQUESTED. ANY RESPONSE MUST BE FILED PRIOR TO THE ABOVE HEARING DATE.

Ernst & Young Inc. ("Petitioner" or "Receiver"), in its capacity as Receiver[1] and duly recognized foreign representative of Paintearth Energy Services, Ltd. (the "Debtor"), files this Expedited Motion for Approval of Sale of Personal Property Free and Clear of Liens under 11 U.S.C. § 363(f) (the "Motion").

PRELIMINARY STATEMENT

1. The Receiver seeks this Court's approval of the sale of assets of the Debtor located in the United States. The Debtor and two related entities (jointly, the "Paintearth Entities") are subject to a foreign main insolvency proceeding pending in The Court of the Queen's Bench of Alberta, Judicial District of Calgary (the "Canadian Court"), pursuant to

[1] The Receiver was appointed receiver for the Debtor by interim order entered September 27, 2010 and in a final order entered on October 27, 2010.

section 47 of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3 (the "BIA Proceeding"). After marketing the assets of the Paintearth Entities, the Receiver has entered into an agreement to sell substantially all assets of the Paintearth Entities. The Receiver filed an Application for approval of the sale of assets of the Paintearth Debtors in the BIA Proceeding. The Receiver has requested contemporaneous consideration by this Court of this Motion and by the Canadian Court of the Application.

2. The Receiver requests an order (1) authorizing the Receiver to sell the Debtor's U.S. assets outside of the ordinary course of business pursuant to § 363 of the Code pursuant to a Purchase and Sale Agreement, (ii) waiving the stay imposed by Bankruptcy Rule 6004(h); and (iii) authorizing the Receiver to hold and distribute the net sales proceeds of the U.S. assets pursuant to the orders of the Canadian Court presiding over the BIA Proceeding.

JURISDICTION AND VENUE

3. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(P).

4. Venue is properly located in this District pursuant to 28 U.S.C. § 1410.

BACKGROUND

5. The Debtor conducted a tool and services operation for the oil and gas industry. The majority of the Debtor's operations were conducted from (and a majority of its employees were situated at) its corporate office in Canada. The Debtor's primary corporate, management and strategic functions were undertaken from its main office in Calgary, Alberta, Canada. Additionally, the Debtor has assets located in Midland and Victoria, Texas as well as Oklahoma.

6. The Debtor's sole shareholder is Paintearth Energy Services, Inc., registered in Canada as a private Debtor (the "Parent Debtor"). The Parent Debtor and a related entity, PES Subsurface Canada, Inc., are also subject to the BIA Proceeding.

7. 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 a first priority security interest in all assets of the Parent Debtor and the Debtor.

8. 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 Parent Debtor and the Debtor were in financial and managerial disarray and that an insolvency proceeding was advisable to preserve the value of the entities.

The Canadian BIA Proceeding

9. On September 27, 2010, HSBC filed 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.* An Interim Receivership Order was entered by the Canadian Court on September 27, 2010. On October 27, 2010, the Canadian Court entered the final Receivership Order (the "BIA Order"), attached hereto as **Exhibit A**.

10. On October 22, 2010, the Receiver filed a petition under Chapter 15 of the Bankruptcy Code commencing this case and also filed its Petition for Recognition of the BIA Proceeding as a foreign main proceeding. On November 2, 2010 Court entered the Order

Recognizing Foreign Main Proceeding which recognized Ernst & Young Inc. as the foreign representative of the Debtor.

11. Pursuant to the BIA Order, the Receiver immediately took steps to market and sell the assets of the Debtor and its related entities subject to the BIA Proceeding, excluding the accounts receivable (the "Assets"). The Receiver solicited offers from third parties, and after negotiations with a number of potential purchasers, on December 9, 2010, the Receiver, entered into the Purchase and Sale Agreement (the "Oil Lift PSA") with Oil Lift Technology, Inc. (the "Purchaser"), attached hereto as **Exhibit B, Appendix C**. A detailed description of the marketing process and the proposed transaction is set forth below and in the First Report of the Court-Appointed Receiver filed on December 14, 2010 in the BIA Proceeding, attached as **Exhibit B**.

12. The total purchase price contemplated by the Oil Lift PSA is approximately $2.608,165 million, subject to certain post-closing adjustments for inventory and fixed assets which would reduce the overall purchase price. The Receiver does not expect that these post-closing adjustments will exceed $300,000.

13. An Application by the Receiver, Ernst & Young Inc. seeking approval of the sale pursuant to the Oil Lift PSA, attached hereto as **Exhibit C**, was filed on December 14, 2010 in the BIA Proceeding.

RELIEF REQUESTED

14. The Receiver requests an order (i) authorizing the Receiver to sell the Debtor's U.S. assets out of the ordinary course of business pursuant to § 363 of the Code pursuant to a Purchase and Sale Agreement to be approved in the BIA Proceeding, (ii) waiving the stay imposed by Bankruptcy Rule 6004(h); and (iii) authorizing the Receiver to hold and distribute

the net sales proceeds of the U.S. assets pursuant to the orders of the Canadian court presiding over the BIA Proceeding.

15. The Receiver seeks authority to sell the Debtor's assets free and clear of interests pursuant to Bankruptcy Code §§ 363 and 1520 with liens attaching to the proceeds of the sale in the same order and priority as they had on the petition date.

16. Section 1520(a)(2) of the Bankruptcy Code provides that upon recognition of a foreign main proceeding, § 363 applies to transfers of the debtor's interest in property "within the territorial jurisdiction of the United States to the same extent that the sections would apply to property of the estate." Section 363(b) provides that, after notice and hearing, property of the estate may be sold outside the ordinary course of business and free and clear of any interest pursuant to § 363(f). Certain inventory and equipment of the Debtor is located in the United States. The Receiver requests authority to sell these Assets to the Purchaser pursuant to the Oil Lift PSA. The Receiver requests authority to disburse funds from the liquidation of the Debtor's assets pursuant to orders of the Canadian Court.

Waiver of Stay

17. The Debtor continues to incur obligations for payroll and pay rent at the Victoria, Odessa and Oklahoma City locations. The Debtor also continues to have obligations to insure and maintain the Assets. In order to promptly consummate the proposed sale and relieve the estate of these ongoing obligations and risk, the Receiver requests that the Court waive the stay imposed by Bankruptcy Rule 6004(h) and allow the Receiver to immediately consummate the transactions contemplated herein. No party will be prejudiced by the requested waiver.

Accordingly, the Receiver requests that the Court (i) approve the sale of the Assets free and clear of liens, claims, interests and encumbrances under 11 U.S.C. § 363(f) as set forth above; (ii) authorize the Receiver to execute all documents necessary to effectuate the sale; (iii) waiving the stay of Bankruptcy Rule 6004(h); (iv) authorizing the Receiver to hold and distribute the net sales proceeds of the U.S. assts pursuant to the orders of the Canadian court presiding over the BIA Proceeding, and (v) grant the Receiver other just relief.

Dated: December 15, 2010.

Porter & Hedges, L.L.P.

By: __*Elizabeth Freeman*____
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing pleading was served on all ECF participants via email or via first class mail, properly addressed, with postage pre-paid on the parties on the attached service list December 15, 2010:

/s/ *Elizabeth Freeman*
Elizabeth Freeman