

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	§	
	§	Case No. 10-39434
Paintearth Energy Services, Ltd.	§	
	§	Chapter 15
Debtor in a foreign proceeding	§	

STATUS REPORT

**To the Honorable Karen K. Brown,
United States Bankruptcy Judge:**

Ernst & Young Inc. (the "Receiver"), in its capacity as Receiver and recognized foreign representative of the Debtor, Paintearth Energy Services, Ltd. files this Status Report. On November 16, 2010, the Receiver filed 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 Status Update of Paintearth Energy Services, Ltd., attached as **Exhibit A**

Dated: November 16, 2010.

Respectfully submitted,

Porter & Hedges, LLP

/s/ Elizabeth Freeman_____

David R. Jones

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Action No.: 1001-14376

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

BETWEEN:

HSBC BANK CANADA

Plaintiff

- and -

**PAINT EARTH ENERGY SERVICES INC.,
PAINT EARTH ENERGY SERVICES LTD.
and PES SUBSURFACE CANADA INC.**

Defendants

STATUS UPDATE OF PAINT EARTH ENERGY SERVICES, LTD. (Debtor(s))

U.S. Court Case No 10-39434

INTRODUCTION

1. On September 27, 2010, Ernst & Young Inc. was appointed Interim Receiver of the current and future assets, undertakings and properties (the "Assets") of every nature and kind whatsoever, and wherever situate of Paintearth Energy Services Inc., Paintearth Energy Services Ltd. and PES Subsurface Canada Inc. (collectively "Paintearth") pursuant to an Order (the "Interim Receivership Order") of the Honourable Court of Queen's Bench of Alberta, Judicial District of Calgary (the "Canadian Court"). The Interim Receivership Order was granted for a 30 day period.
2. On October 27, 2010, an Order granted by the Canadian Court (the "Receivership Order") appointed Ernst & Young Inc. as Receiver of Paintearth pursuant to these same proceedings.

3. The Receivership Order authorized the Receiver, amongst other things, to carry on the business of Paintearth and to solicit offers to purchase the Assets, with any such transaction exceeding \$500,000 requiring the approval of the Canadian Court.
4. On November 2, 2010, pursuant to an application by the Receiver, the United States Bankruptcy Court, Southern District of Texas, Houston Division (the "US Court") granted an order recognizing the above proceedings in the Canadian Courts as the foreign main proceeding as defined by chapter 11 of the United States Bankruptcy Code ("U.S.C.") (the "US Order"). § 101(24) and Ernst & Young Inc. as the foreign representative as defined by 11 U.S.C. § 101(24).
5. As part of granting the US Order, the US Court requested a report on the status of the proceedings every two weeks from the Receiver. As such, the purpose of this first update of the Receiver (the "First Update") is to provide an update to the US Court with respect to the activities of the Receiver and the status of the above Canadian and US proceedings.

ACTIVITIES OF THE RECEIVER

6. Continuing from the date of its appointment as Interim Receiver, the Receiver has continued to work with current management and employees of Paintearth in order to prepare the business for a sales process and maximize potential value to stakeholders, including *inter alia*:
 - (a) reducing staffing levels as appropriate while retaining a core group of employees;
 - (b) preparing inventory and asset lists for inclusion in a sales process;
 - (c) corresponding with various suppliers, utility providers and landlords with respect to continuing services to ultimately consummate a sale transaction (as discussed below); and
 - (d) completing ongoing sales on an ad hoc basis where inventory is available and favourable shipment terms can be arranged.

SALES PROCESS

7. As a result of the ongoing carrying costs of the business, the most significant of which being salaries and occupancy costs of the six locations containing inventory, the Receiver implemented an expedited sales process to identify, approach and solicit letters of intents for a sale of the Assets as an ongoing business as opposed to as an auction liquidation scenario.
8. The deadline set by the Receiver for receipt of letters of intent was Friday November 12, 2010 and the Receiver is in receipt of several letters of intent for all or a portion of the Assets.
9. The Receiver is currently reviewing the letters of intent received together with obtaining clarifications from potential purchasers. The Receiver expects to have a short list of potential purchasers selected by November 19, 2010 and will be in a position to negotiate a purchase and sale agreement ("PSA") with the ultimate purchaser. All PSA's will be subject to approval from either or both the Canadian and US Courts.

SUMMARY

10. A more fulsome report from the Receiver will be prepared in due course which will form part of the application for approval of a PSA(s).

All of which is respectfully submitted this 16th day of November, 2010.

ERNST & YOUNG INC.
in its capacity as Court Appointed Receiver of
Paintearth Energy Services Inc., Paintearth Energy Services Ltd. and
PES Subsurface Canada Inc.



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



Kevin Meyler CA•CIRP
Vice-President