

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

IN BANKRUPTCY AND INSOLVENCY

**IN THE MATTER OF THE PROPOSAL OF THE DIAMOND BULLET
CORPORATION, PREMIERE MANUFACTURING LTD., HAT BIT SUPPLY LTD.,
DBC INTERNATIONAL INC., DUNN TRUCKING LTD.,
AND R ENVIRONMENTAL LABS LTD.**

OF THE TOWN OF TABER, IN THE PROVINCE OF ALBERTA

NOTICE OF MOTION

TAKE NOTICE that an application will be made on behalf of HSBC Bank Canada ("HSBC") before the Honourable Justice McDonald, in Chambers, at the Calgary Court House, 601 5th Street SW, in the City of Calgary, in the Province of Alberta, on Wednesday the 25th day of February, 2009, at 3:00 p.m. or so soon thereafter as counsel may be heard for an Order in the form attached hereto as Schedule "A":

1. Declaring that service of notice of this application is good and sufficient and abridging the time for service of this application to the time actually given, if necessary;
2. Leave to proceed with an application to appoint Meyers Norris Penny Limited ("MNP") as Receiver and Manager over the property, assets and undertakings of The Diamond Bullet Corporation ("Diamond"), Premiere Manufacturing Ltd. ("Premiere"), Hat Bit Supply Ltd. ("Hat Bit"), DBC International Inc. ("DBC"), and R Environmental Labs Ltd. ("Labs") (collectively referred to as the "Debtor Companies");
3. Such further and other relief as counsel may seek and this Honourable Court deems just.

AND TAKE FURTHER NOTICE THAT in support of this application, HSBC will rely upon the following: the Report of MNP to the Official Receiver pursuant to section 50.4(7)(b)(i) of the *Bankruptcy and Insolvency Act*, dated February 24, 2009 (the "Trustee's Report"), attached hereto as Schedule "B"; the Third Report of MNP to the Court dated February

19, 2009, attached hereto as Schedule "C"; the Second Report of MNP in its role as Interim Receiver of Premiere, dated February 19, 2009, attached as Schedule "D"; section 13(2) of the *Judicature Act*, R.S.A. 2000, c.J-2, section 99(a) of the *Business Corporations Act*, R.S.A. 2000, c.B-9, and section 65(7) of the *Personal Property Security Act*, R.S.A. 2000, c.P-7; and such further and other materials counsel may advise and this Honourable Court may permit.

AND TAKE FURTHER NOTICE THAT the grounds upon which this application is made include the following:

- (i) HSBC is a secured creditor of the Debtor Companies pursuant to various forms of security arrangements entered into between HSBC and the Debtor Companies (the "Security");
- (ii) The Debtor Companies are operating under a Notice of Intention to Make a Proposal under the *Bankruptcy and Insolvency Act*, dated October 27, 2008 appointing MNP as proposal trustee;
- (iii) Pursuant to an Order dated December 4, 2008 (the "Interim Receivership Order") MNP was appointed interim receiver of all of the current and future assets, property and undertakings of Premiere;
- (iv) Orders were granted by the Court extending the time for the Debtor Companies to file a proposal to their creditors on November 25, 2008, January 9, 2008 and February 20, 2009 (the "Extension Orders"). HSBC did not consent to the Extension Orders;
- (v) The February 20, 2009 Order extended the time for the Debtor Companies to file a proposal to their creditors to March 2, 2009 in order to allow MNP, in its capacity as interim receiver, and a third party a period of time to finalize an agreement for the sale of the assets and shares of Premiere (the "Agreement") in an effort to payout the HSBC indebtedness;

(vi) The Trustee's Report confirms that the Debtor Companies have caused a material adverse change in its financial circumstances, the particulars of which include:

- (a) management of DBC paid an amount of \$5,000.00 to two Premiere employees;
- (b) management of DBC paid an amount of \$87,684.62. to Rick Souther, principal of DBC;

the above transactions totalling approximately \$98,000.00 were not included in management's revised statements of projected cash flows.

(vii) The Trustee's Report confirms that Premier sold assets out of the ordinary course of business contrary to the Interim Receivership Order;

(viii) HSBC is of the view that:

- (a) the Debtor Companies are not operating in a manner that is consistent with the revised statement of projected cash flows;
- (b) the Agreement will not be executed between MNP, in its capacity as interim receiver of Premiere, and the third party;
- (c) the Debtor Companies are disposing of assets that may be subject to the Security;
- (d) HSBC will suffer material prejudice in the event a Receiver and Manager is not appointed over the assets, property and undertakings of the Debtor Companies;
- (e) the Debtor Companies are not acting in good faith and with due diligence;
- (e) the Debtor Companies are not likely able to make a viable proposal before March 2, 2009.

- (ix) It is just, convenient and appropriate for the appointment of a Receiver and Manager over the property, assets and undertakings of the Debtor Companies, given the insolvency of the Debtor Companies, the uncertainty surrounding the assets and management of the Debtor Companies, and the uncertainty of HSBC's ability to recover the collateral subject to the Security;
- (x) MNP has executed a consent to the appointment as Receiver and Manager of the property, assets and undertakings of the Debtor Companies.

DATED at the City of Calgary, in the Province of Alberta, this 25th day of February, 2009.

FRASER MILNER CASGRAIN LLP,
solicitors for HSBC Bank Canada

Per:


David W. Mann/Robert Kennedy

TO: THE CLERK OF THE COURT

AND TO: GOWLING LAFLEUR HENDERSON LLP
1400 Scotia Centre
700 - 2nd Street S.W.
Calgary, Alberta
T2P 4V5

Attention: Tom Cumming

TORRY LEWIS ABELLS LLP
110, 220 - 4th Street South
Lethbridge, Alberta
T1J 4J7

Attention: Greg K. Norman

Schedule "A"

Action No.:

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

BETWEEN:

HSBC BANK CANADA

Plaintiff

- and -

**THE DIAMOND BULLET CORPORATION, PREMIERE MANUFACTURING LTD.,
DBC INTERNATIONAL INC., HAT BIT SUPPLY LTD.,
R ENVIRONMENTAL LABS LTD., and RICK SOUTHER**

Defendants

BEFORE THE HONOURABLE) AT THE CALGARY COURTS CENTRE IN
JUSTICE _____) THE CITY OF CALGARY, PROVINCE OF
IN CHAMBERS) ALBERTA ON DAY, THE DAY OF
) FEBRUARY, 2009

RECEIVERSHIP ORDER

UPON the application of HSBC Bank Canada in respect of The Diamond Bullet Corporation, Premiere Manufacturing Ltd., Hat Bit Supply Ltd., DBC International Inc., and R Environmental Labs Ltd. (collectively referred to as the "Debtor") for an order abridging the time of service of the Notice of Motion and for an Order appointing Meyers Norris Penny Limited as receiver and manager over the assets, undertakings and properties of the Debtor;

AND UPON having read the Report of Meyers Norris Penny Limited to the Official Receiver pursuant to section 50.4(7)(b)(i) of the *Bankruptcy and Insolvency Act*; **AND UPON** reading the consent of Meyers Norris Penny Limited to act as receiver and manager of the Debtor; **AND UPON** hearing submissions of counsel for HSBC and other parties that may be affected by this Order;

IT IS HEREBY ORDERED AND DECLARED THAT:

SERVICE

1. The time for service of the notice of application for this order is hereby abridged and service thereof is deemed good and sufficient.

APPOINTMENT

2. Pursuant to section 13(2) of the *Judicature Act*, R.S.A. 2000, c.J-2, Meyers Norris Penny Limited is hereby appointed Receiver, without security, of all of the Debtor's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property").

RECEIVER'S POWERS

3. The Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:
 - (a) to take possession and control of the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
 - (b) to receive, preserve, protect and maintain control of the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
 - (c) to manage, operate and carry on the business of the Debtor, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part other business, or cease to perform any contracts of the Debtor;

- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the powers and duties conferred by this Order;
- (e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtor or any part or parts thereof;
- (f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;
- (g) to settle, extend or compromise any indebtedness owing to or by the Debtor;
- (h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;
- (i) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtor;
- (j) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding, and provided further that nothing in this Order shall authorize the Receiver to defend or settle the action in which this Order is made unless otherwise directed by this Court.
- (k) to market any or all the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate.

(l) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,

(i) without the approval of this Court in respect of any transaction not exceeding \$100,000.00, provided that the aggregate consideration for all such transactions does not exceed \$250,000.00; and

(ii) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause,

and in each such case notice under subsection 60(4) of the *Personal Property Security Act*, R.S.A. 2000, c. P-7 shall not be required.

(m) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;

(n) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

(o) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;

(p) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtor;

(q) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtor, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtor;

(r) to exercise any shareholder, partnership, joint venture or other rights which the Debtors may have; and

- (s) to take any steps reasonably incidental to the exercise of these powers;

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtor, and without interference from any other Person.

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

4. (i) The Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property (excluding Property subject to liens the validity of which is dependant on maintaining possession) to the Receiver upon the Receiver's requests.
5. All Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtor, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "Records") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 5 or in paragraph 6 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or documents prepared in contemplation of litigation or due to statutory provisions prohibiting such disclosure.
6. If any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons

in possession or control of such Records shall forthwith give unfettered access to Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

NO PROCEEDINGS AGAINST THE RECEIVER

7. No proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTOR OR THE PROPERTY

8. No Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court, provided, however, that nothing in this Order shall prevent any Person from commencing a proceeding regarding a claim that might otherwise become barred by statute or an existing agreement, if such proceeding is not commenced before the expiration of the stay provided by this paragraph 8.

NO EXERCISE OF RIGHTS OF REMEDIES

9. All rights and remedies (including, without limitation, set-off rights) against the Debtor, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that nothing in

this paragraph shall (i) empower the Receiver or the Debtor to carry on any business which the Debtor is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtor from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

10. No Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtor, without written consent of the Receiver or leave of this Court. Nothing in this Order shall prohibit any party to an "eligible financial contract" (as defined in section 11.1(1) of the Companies' Creditors Arrangement Act) with the Debtor from terminating such contract or exercising any rights of set-off, in accordance with its terms.

CONTINUATION OF SERVICES

11. All Persons having oral or written agreements with the Debtor or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtor are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtor's current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtor or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

RECEIVER TO HOLD FUNDS

12. All funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source

whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further order of this Court.

EMPLOYEES

13. All employees of the Debtor shall remain the employees of the Debtor until such time as the Receiver, on the Debtor's behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including wages, severance pay, termination pay, vacation pay, and pension or benefit amounts, other than such amounts as the Receiver may specifically agree in writing to pay, or such amounts as may be determined in Proceeding before a court or tribunal of competent jurisdiction.
14. Pursuant to clause 7(3)(c) of the *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

15. (a) Notwithstanding anything in any federal or provincial law, the Receiver is not personally liable in that position for any environmental condition that arose or environmental damage that occurred:
- (i) before the Receiver's appointment; or
 - (ii) after the Receiver's appointment unless it is established that the condition arose or the damage occurred as a result of the Receiver's gross negligence or wilful misconduct.
- (b) Nothing in sub-section (a) exempts a Receiver from any duty to report or make disclosure imposed by a law referred to in that sub-section.
- (c) Notwithstanding anything in any federal or provincial law, but subject to sub-section (a) hereof, where an order is made which has the effect of requiring the Receiver to remedy any environmental condition or environmental damage affecting the Property, the Receiver is not personally liable for failure to comply with the order, and is not personally liable for any costs that are or would be incurred by any person in carrying out the terms of the order,
- (i) if, within such time as is specified in the order, within ten days after the order is made if no time is so specified, within ten days after the appointment of the Receiver, if the order is in effect when the Receiver is appointed, or during the period of the stay referred to in paragraph (i), the Receiver:
 - (A) complies with the order, or
 - (B) on notice to the person who issued the order, abandons, disposes of or otherwise releases any interest in any real property affected by the condition or damage;

- (ii) during the period of a stay of the order granted, on application made within the time specified in the order referred to in paragraph (i), within ten days after the order is made or within ten days after the appointment of the Receiver, if the order is in effect when the Receiver is appointed, by,
 - (A) the court or body having jurisdiction under the law pursuant to which the order was made to enable the Receiver to contest the order; or
 - (B) the court having jurisdiction in bankruptcy for the purposes of assessing the economic viability of complying with the order; or
- (iii) if the Receiver had, before the order was made, abandoned or renounced or been divested of any interest in any real property affected by the condition or damage.

Nothing in this Order shall derogate from the protection afforded to the Receiver by Section 14.06 of the BIA or any other applicable legislation.

RECEIVER'S ACCOUNTS

16. Any expenditure or liability which shall properly be made or incurred by the Receiver, including the fees of the Receiver and the fees and disbursements of its legal counsel, incurred at the standard rates and charges of the Receiver and its counsel, shall be allowed to it in passing its accounts and shall from a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person (the "Receiver's Charge").
17. The Receiver and its legal counsel shall pass their accounts from time to time.
18. Prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including the legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

FUNDING OF THE RECEIVERSHIP

19. The Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$100,000.00 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge.
20. Neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.
21. The Receiver is at liberty and authorized to issue certificates substantially in the form annexed as Schedule "A" hereto (the "Receiver's Certificates") for any amount borrowed by it pursuant to this Order.
22. The monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a pari passu basis, unless otherwise agreed to by the holders of any prior issued Receiver's Certificates.

ALLOCATION

23. Any interested party may apply to this Court on notice to any other party likely to be affected, for an order allocating the Receiver's Charge and Receiver's Borrowings Charge amongst the various assets comprising the Property.

GENERAL

24. The Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.
25. Nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.
26. The aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.
27. The Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

28. The Plaintiff shall have its costs of this motion, up to and including entry and service of this Order, provided for by the terms of the Plaintiff's security or, if not so provided by the Plaintiff's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.
29. Any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

J.C.C.Q.B.A.

ENTERED this ____ day of _____,
2008.

CLERK OF THE COURT

SCHEDULE "A"

RECEIVER CERTIFICATE

CERTIFICATE NO. _____

AMOUNT \$ _____

1. THIS IS TO CERTIFY that Meyers Norris Penny Limited, the receiver and manager (the "Receiver") of all of the assets, undertakings and properties of the Debtor, appointed by Order of the Court of Queen's Bench of Alberta (the "Court") dated the ____ day of February, 2009 (the "Order") made in action _____, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$ _____, being part of the total principal sum of \$ _____ which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily] [monthly not in advance on the ____ day of each month] after the date hereof at a notional rate per annum equal to the rate of ____ per cent above the prime commercial lending rate of HSBC Bank Canada from time to time.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property (as defined in the Order), in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at _____*.
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the

Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property (as defined in the Order) as authorized by the Order and as authorized by any further or other order of the Court.
7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the _____ day of _____, 2009.

Meyers Norris Penny Limited solely in its capacity as Receiver of the Property (as defined in the Order), and not in its personal capacity

Per: _____
Name:
Title:

Court No. 25-1124515
Estate No. 25-1124515

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

IN BANKRUPTCY AND INSOLVENCY

**IN THE MATTER OF THE PROPOSAL
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INC., DUNN TRUCKING LTD., AND R
ENVIRONMENTAL LABS LTD.**

**OF THE TOWN OF TABER, IN THE
PROVINCE OF ALBERTA**

RECEIVERSHIP ORDER

FRASER MILNER CASGRAIN LLP
Barristers and Solicitors
30th Floor, Fifth Avenue Place
237 – 4th Avenue S.W.
Calgary, Alberta
T2P 4X7

Solicitor: David Mann / Robert J. Kennedy
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District of Alberta
Division No: 02-Calgary
Court/Estate No: 25-1124515 (Consolidated Estate) MEYERS NORRIS PENNY LIMITED

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

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
THE DIAMOND BULLET CORPORATION, HAT BIT SUPPLY LTD., PREMIERE
MANUFACTURING LTD., R ENVIRONMENTAL LABS LTD., DBC INTERNATIONAL INC.,
AND DUNN TRUCKING LTD.,**

**TRUSTEE'S REPORT TO THE OFFICIAL RECEIVER
ADVISING OF MATERIAL ADVERSE CHANGE
(Subsection 50.4(7)(b)(i) of the *Bankruptcy and Insolvency Act*)**

INTRODUCTION AND BACKGROUND

1. The Diamond Bullet Corporation ("Diamond") and its wholly owned subsidiaries, Hat Bit Supply Ltd. ("Hat Bit") and Premiere Manufacturing Ltd. ("Premiere"), and related companies, R Environmental Labs Ltd. ("Labs"), DBC International Inc. ("DBC"), and Dunn Trucking Ltd. ("Dunn"), (collectively, the "Debtor Companies"), filed a Notice of Intention to Make a Proposal ("NOI") on October 27, 2008 (the "Filing Date") and Meyers Norris Penny Limited consented to act as Trustee (the "Trustee").
2. On November 25, 2008 an Order was granted by the Court of Queen's Bench of Alberta (the "Court") extending the time for the Debtor Companies to file Proposals to January 9, 2009.
3. Pursuant to an Order granted by the Court on December 4, 2008, Meyers Norris Penny Limited was appointed as Interim Receiver (the "Receiver") of all of the current and future assets, undertakings and property of Premiere.
4. On January 9, 2009 an Order was granted by the Court extending the time for the Debtor Companies to file Proposals to February 23, 2009.
5. On February 20, 2009 an Order was granted by the Court extending the time for the Debtor Companies to file Proposals to March 2, 2009.
6. The purpose of this report is to advise the Official Receiver of a material adverse change in the Debtor Companies' projected cash-flow and financial circumstances.
7. This report should be read in conjunction with the Trustee's reports to the Court dated November 24, 2008, January 9, 2009 and February 19, 2009.

MATERIAL ADVERSE CHANGE

8. As discussed in the Trustee's Third Report to the Court dated February 19, 2009, management prepared and filed Revised Statements of Projected Cash Flow for the period to April 25, 2009.



9. The Trustee reviewed the Debtor Companies' cash disbursements for the period to February 21, 2009 and provides the following comments:
- On February 19, 2009, management paid from the DBC account, via certified cheque, an amount of \$5,000 each to two Premiere employees (total payments of \$10,000). Management advises that these payments represent bonuses paid for services provided by the Premiere employees to DBC. The Trustee had previously been advised that DBC did not have any employees.
 - On February 19, 2009, management paid from the DBC account, via certified cheque, an amount of \$87,694.62 to Rick Souther. Management advises that this amount represented reimbursement for payment of certain legal fees paid by Rick Souther and commissions (at a rate of 25%) due to Rick Souther on DBC sales for the period up to February 19, 2009. The Trustee has not yet been provided with the necessary documentation to support this payment including copies of the legal invoices and sales documentation to support the commissions claimed.
10. The above transactions, totaling approximately \$98,000, were not included in management's Revised Statements of Projected Cash Flow.
11. The Trustee is of the view that these payments constitute a material adverse change in DBC's projected cash flow and financial circumstances.

SALE OF ASSETS OUT OF THE ORDINARY COURSE OF BUSINESS

12. Management advises that on February 19, 2009, it sold a vehicle registered to Premiere for a selling price of approximately \$3,500 without the knowledge, consent or approval of the Receiver. The selling price is less than half of the Canadian Black Book wholesale value.
13. Pursuant to paragraph 2(l) of the Order granted December 4, 2008, only the Receiver is empowered to sell property of Premiere out of the ordinary course of business.

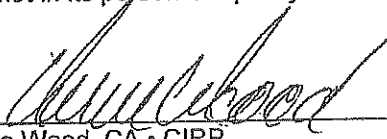
TRUSTEE'S INTENDED COURSE OF ACTION

14. Pursuant to the Order granted February 20, 2009, the Debtor Companies must file Proposals no later than March 2, 2009.
15. The Trustee is of the view that:
- (a) The Debtor Companies, specifically DBC, are not operating in a manner consistent with the Revised Projected Statements of Cash Flow;
 - (b) There have been material changes to the Debtor Companies' operations, specifically DBC, since the Filing Date; and
 - (c) Management is no longer acting in good faith and with due diligence in its effort to restructure the Debtor Companies' affairs.
16. It is the Trustee's intended course of action to distribute this report to the following affected parties: Rick Souther, management of the Debtor Companies; Gowling Lafleur Henderson LLP as legal counsel to the Debtor Companies; and Fraser Milner Casgrain LLP as legal counsel to HSBC Bank Canada, a secured creditor.

Dated at Calgary, Alberta this 24th day of February 2009.

MEYERS NORRIS PENNY LIMITED

In its capacity as Trustee of the Notice of Intention to Make a Proposal of
The Diamond Bullet Corporation, Hat Bit Supply Ltd.,
Premiere Manufacturing Ltd., R Environmental Labs Ltd.,
DBC International Inc. and Dunn Trucking Ltd. Insolvent Person
And not in its personal capacity



Verne Wood, CA • CIRP
Senior Vice President



District of Alberta
Division No: 02-Calgary
Court/Estate No: 25-1124515 (Consolidated Estate)

MEYERS NORRIS PENNY LIMITED

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

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
THE DIAMOND BULLET CORPORATION, HAT BIT SUPPLY LTD., PREMIERE
MANUFACTURING LTD., R ENVIRONMENTAL LABS LTD., DBC INTERNATIONAL INC.,
AND DUNN TRUCKING LTD.,

TRUSTEE'S THIRD REPORT TO THE COURT
(Subsection 50.4(7)(b)(ii) of the *Bankruptcy and Insolvency Act*)

INTRODUCTION AND BACKGROUND

1. The Diamond Bullet Corporation ("Diamond") and its wholly owned subsidiaries, Hat Bit Supply Ltd. ("Hat Bit") and Premiere Manufacturing Ltd. ("Premiere"), and related companies, R Environmental Labs Ltd. ("Labs"), DBC International Inc. ("DBC"), and Dunn Trucking Ltd. ("Dunn"), (collectively, the "Debtor Companies"), by way of predecessors, have been operating since 1986. The Debtor Companies manufacture, distribute, sell and repair tri-cone rock bits and poly-crystalline diamond compact rock bits for use in the oil and gas industry. The head office of the Debtor Companies is located in Taber, Alberta.
2. Diamond, Hat Bit, and Premiere have outstanding credit facilities owing to HSBC Bank Canada ("HSBC") in the approximate amount of \$3.05 million as at September 22, 2008 (the "HSBC Debt"). The HSBC Debt is secured by a general security agreement registered by HSBC and by unlimited guarantees of related companies, namely DBC and Labs. On September 24, 2008, HSBC issued demands with respect to the HSBC Debt and the guarantees. It is unknown at this time whether the HSBC Debt will be paid in full by the Debtor Companies.
3. On July 31, 2008, a Statement of Claim was filed against the Debtor Companies by Lorna Moores and Three Cloud Properties Ltd., a shareholder of Diamond. Management advises that the Debtor Companies have filed a Statement of Defense.
4. The Debtor Companies filed a Notice of Intention to Make a Proposal ("NOI") on October 27, 2008 (the "Filing Date") and Meyers Norris Penny Limited consented to act as Trustee (the "Trustee").
5. On November 25, 2008 an Order was granted by the Court of Queen's Bench of Alberta (the "Court") extending the time for the Debtor Companies to file Proposals to January 9, 2009. On January 9, 2009 an Order was granted by the Court extending the time for the Debtor Companies to file Proposals to February 23, 2009.
6. On November 25, 2008 and December 4, 2008, the Court granted Orders to procedurally consolidate the Debtor Companies' NOI filings into one Estate.



7. Pursuant to an Order granted by the Court on December 4, 2008, Meyers Norris Penny Limited was appointed as Interim Receiver (the "Receiver") of all of the current and future assets, undertakings and property of Premiere.
8. This report constitutes the Trustee's third report to the Court and should be read in conjunction with the Trustee's reports to the Court dated November 24, 2008 (the "First Report") and January 9, 2009 (the "Second Report").

FINANCIAL POSITION

9. The most recent financial information available from the Debtor Companies is the internally prepared, unaudited financial statements as at January 31, 2009. Copies of the Debtor Companies' balance sheets as at January 31, 2009 are attached hereto as Schedule 1.
10. A list of assets and the net book values is summarized below:

	Premiere	DBC	Net Book Value (Note 1)		Diamond	Total
	(Note 2)		Labs	Dunn		
	\$	\$	\$	(Note 3)	\$	\$
Cash on Hand	77,409	78,862	15,163	-	-	171,434
Accounts Receivable	475,279	264,434	557,769	-	1,038	1,298,520
Prepays and Deposits	41,226	9,859	107,966	-	20,705	179,756
Due from Related Companies	-	592,041	-	-	-	592,041
Inventory	2,462,201	52,717	541,217	-	-	3,056,135
Land and Building	75,899	-	434,966	34,234	-	545,099
Equipment (Note 4)	1,710,342	-	109,914	85,000	-	1,905,256
Vehicles (Note 4)	56,130	-	-	-	9,709	65,839
Computer Hardware and Software	6,434	-	-	-	5,311	11,745
Furniture and Fixtures	628	-	1,184	-	764	2,576
Investments in Related Companies (Note 5)	1,490,245	-	-	-	6,000,000	7,490,245
	<u>6,395,793</u>	<u>997,913</u>	<u>1,768,179</u>	<u>119,234</u>	<u>6,037,527</u>	<u>15,318,646</u>

NOTES:

1. The source of information is the Debtor Companies' internally prepared, unaudited balance sheets as at January 31, 2009.
 2. The operations of Hat Bit were wound up into Premiere prior to the Filing Date. As such, all of the transactions related to Hat Bit are included in Premiere's internally prepared, unaudited balance sheet as at January 31, 2009.
 3. Management has been unable to provide any financial statements for Dunn. The source of information is Dunn's corporate tax return for the year ended October 31, 2006.
 4. Certain of the equipment and vehicles are subject to security agreements. The value of Premiere's equipment includes drill bit rental fleet inventory of \$13,607,284 less depreciation.
 5. The investments in related companies represent Premiere's investment in Hat Bit and Diamond's investment in Premiere and Hat Bit. As the Debtor Companies have filed NOIs, the value of the investments in related companies is unknown.
11. From a review of the balance sheets there have been no material changes to the Debtor Companies' assets since the Second Report, except for adjustments made with respect to Labs' equipment and inventory as discussed in further detail in paragraphs 12 and 13 below.
 12. The net book value of Labs' equipment was increased by approximately \$15,000 to account for an asset purchase in the prior fiscal year that had not been recorded correctly.
 13. As noted in the Second Report, the Debtor Companies do not record inventory adjustments on their balance sheets until year end. Labs has now converted from a periodic inventory system to an automated inventory system and, as a result, inventory on the balance sheet is now adjusted monthly. The net book value of Labs' inventory has been adjusted to reflect actual current inventory (\$541,217) from the previously reported amount (\$116,242), an increase of \$424,975.

14. Premiere continues to use a manual inventory system and, although inventory adjustments are tracked manually in real time, adjustments are not recorded on the balance sheet until year end. Management advises that the year end adjustments with respect to Premiere's inventory have not been made for the past two fiscal years.
15. The Trustee has not conducted physical inventory counts for the Debtor Companies.
16. Management advises that in December 2008 and January 2009 Premiere's inventory decreased by a total of approximately \$29,000.
17. As noted on Labs' Report on Cash Flow Statement dated November 6, 2008, Labs projected cash flow was based on the probable assumption that it would collect sales proceeds (\$9,200) arising from the disposition of a vehicle prior to the Filing Date. Labs was unable to collect the sales proceeds and the vehicle has been returned to Labs. Labs has not yet made the required adjusting entry to the balance sheet to reflect this transaction.
18. As noted in the Second Report, the Debtor Companies commissioned appraisals of Premiere and Labs' land and buildings as at October 6, 2006 which indicated resale market values of approximately \$375,000, and \$475,000, respectively. The Debtor Companies commissioned current appraisals as at January 15, 2009 which indicated current resale market values of \$460,000 and \$675,000, respectively.

OPERATIONS

19. The Debtor Companies have continued operations on a business as usual basis. Results of the Debtor Companies' operations since the Second Report are discussed below in the monitoring section of this report.
20. Sales in January 2009 were higher than projected. Total sales for Premiere and DBC were approximately \$243,000 (including approximately \$48,000 of sales that have not yet been recorded) compared to the total projected sales of \$238,000.

MONITORING

21. The Debtor Companies' actual cash receipts and disbursements for the period January 4, 2009 to February 14, 2009 are summarized below:

Premiere

	Actual	Projected	Variance
	\$	\$	\$
Opening Cash Position	112,007	112,007	-
Cash Receipts	213,750	334,404	(120,654)
Cash Disbursements	(253,793)	(239,043)	(14,750)
Net Cash Flow	(40,043)	95,361	(135,404)
Closing Cash Position	71,964	207,368	(135,404)

Note: Diamond is a holding company that holds the shares of Premiere and Hat Bit. The operations of Hat Bit were wound up into Premiere prior to the Filing Date. As such, Management has included any disbursements relating to the operations of Diamond and Hat Bit in Premiere's actual cash receipts and disbursements.

DBC

	Actual	Projected	Variance
	\$	\$	\$
Opening Cash Position	35,184	35,184	-
Cash Receipts	57,433	108,397	(50,964)
Cash Disbursements	(24,805)	(88,850)	64,045
Net Cash Flow	32,628	19,547	13,081
Closing Cash Position	67,812	54,731	13,081

Labs

	Actual	Projected	Variance
	\$	\$	\$
Opening Cash Position	1,953	1,953	-
Cash Receipts	27,218	60,000	(32,782)
Cash Disbursements	(24,744)	(32,844)	8,100
Net Cash Flow	2,474	27,156	(24,682)
Closing Cash Position	4,427	29,109	(24,682)

Dunn

	Actual	Projected	Variance
	\$	\$	\$
Opening Cash Position	-	-	-
Cash Receipts	-	349	(349)
Cash Disbursements	-	(349)	349
Net Cash Flow	-	-	-
Closing Cash Position	-	-	-

Note: Management advises that during the period to February 14, 2009 there were no cash receipts or disbursements.

22. Summaries of actual cash receipts and disbursements for the period January 4, 2009 to February 14, 2009 are attached as Schedule 2.
23. The Trustee reviewed the Debtor Companies' cash receipts for the period January 4, 2009 to February 14, 2009 and provides the following comments:
 - The actual collection of accounts receivable and bit sale and repair revenue was less than forecast. Management advises that customers have extended payment time by approximately 15 days and believes that this is due to the economic downturn. Management advises that it is actively seeking payment on past due amounts from customers and that all receivables remain collectible.

- DBC will not collect the GST receivable of approximately \$7,100 included in its forecast. Management advises that DBC is unable to provide documentation to Canada Revenue Agency ("CRA") for the refund related to adjustments made by the Debtor Companies' former accountant and certain inter-company transactions processed through the Debtor Companies' previous accounting system.
24. The Trustee reviewed the Debtor Companies' cash disbursements for the period January 4, 2009 to February 14, 2009 and provides the following comments:
- Commissions are higher than forecast as a result of higher than forecast sales in December 2008.
 - Cash disbursements relating to the purchase of materials and supplies are less than forecast as the Debtor Companies have been relying on existing stock on hand.
 - Cash disbursements relating to professional fees are less than forecast. Currently, the outstanding professional fees total approximately \$108,000 (included in accounts payable as discussed in paragraph 25 of this report).
 - Management, in conjunction with Premiere's Receiver, paid the pre Filing Date amount due to Young Parkyn McNab of approximately \$1,700 in order to secure future accounting services including preparation of the Debtor Companies' 2008 T4s.
25. Management advises that there is approximately \$135,000 in post Filing Date accounts payable (excluding inter-company amounts) that has not yet been paid. This is comprised mainly of outstanding professional fees of \$108,000 (as discussed above).
26. Although Premiere and Labs have not achieved Management's projected cash flow, the Trustee did not note any material adverse change in the Debtor Companies' projected cash flow that would impair the Debtor Companies' ability to carry on operations.
27. A recent CRA trust audit for the 2008 taxation year indicates that Premiere owes approximately \$55,000 in unpaid source deductions and penalties. This is approximately \$20,000 more than the October 2008 CRA audit as Premiere neglected to remit source deductions for September and October 2008.
28. A recent CRA trust audit for the 2008 taxation year indicates that Labs owes approximately \$16,000 in unpaid source deductions and penalties.
29. Management advises that all of the Debtor Companies' post Filing Date remittances relating to GST, source deductions, WCB, and PST are up to date.

CASH FLOW FORECASTS

30. Management previously filed weekly projected statements of cash flow for the period ending March 28, 2009 (refer to Schedule 3 of the Second Report). Management has now prepared projections up to, and including April 25, 2009.
31. Attached as Schedule 3 are copies of the Debtor Companies' internally prepared, unaudited weekly projected statements of cash flow for the period ending April 25, 2009 (the "Revised Projected Statements of Cash Flow").
32. Management advises that there have been no changes to the significant assumptions used in preparing the Revised Projected Statements of Cash Flow, summarized as follows:

- Continue to provide supplies and materials, distribute, sell and provide bit repair services to domestic and international customers in the ordinary course of business;
- No inter-company transactions except within the normal course of business represented by the actual sale of product or services between the Debtor Companies;
- Continue to collect accounts receivable in the ordinary course of business;
- No payment of pre Filing Date accounts payable; and
- Projected expenses based on average historical expenses from past fiscal year.

33. A summary of the Debtor Companies' Revised Projected Statements of Cash Flow are provided below:

	Premiere (Note 1)	DBC	Labs	Dunn	Total
	\$	\$	\$	\$	\$
Opening Cash Position (Note 2)	112,007	35,184	1,963	-	149,144
Estimated Cash Receipts	775,614	236,397	120,000	1,122	1,133,133
Estimated Cash Disbursements	(699,081)	(160,340)	(78,854)	(1,122)	(939,397)
Estimated Closing Cash Position	<u>188,540</u>	<u>111,241</u>	<u>43,099</u>	<u>-</u>	<u>342,880</u>

Notes:

1. Diamond is a holding company that holds the shares of Premiere and Hat Bit. The operations of Hat Bit were wound up into Premiere in September 2006. As such, Management has included any disbursements relating to the operations of Diamond and Hat Bit in Premiere's Projected Statement of Cash Flow.
2. Opening cash position as at January 4, 2009.

34. The Revised Projected Statements of Cash Flow are based on the following monthly projected sales as summarized below:

	Premiere	DBC	Labs	Total
	\$	\$	\$	\$
February	198,070	40,000	30,000	268,070
March	198,070	40,000	30,000	268,070
April	144,070	88,000	30,000	262,070
	<u>540,210</u>	<u>168,000</u>	<u>90,000</u>	<u>798,210</u>

35. Management anticipates that there will be sufficient cash flow during the period from January 4, 2009 to April 25, 2009 to meet the Debtor Companies' on-going expenses and to pay the costs of restructuring.

36. Using the actual closing cash balance as at February 14, 2009 (refer to paragraph 21) as the revised opening cash balance, the Revised Projected Statements of Cash Flow for the period February 15, 2009 to April 25, 2009 are set out below:

	Premiere \$	DBC \$	Labs \$	Dunn \$	Total \$
Opening Cash Balance	71,964	67,812	4,427	-	144,203
Estimated Cash Receipts	441,210	128,000	60,000	773	629,983
Estimated Cash Disbursements	(460,038)	(71,490)	(46,009)	(773)	(578,310)
Estimated Closing Cash Position	<u>53,136</u>	<u>124,322</u>	<u>18,418</u>	<u>-</u>	<u>195,876</u>

SALE OF ASSETS

37. Premiere owns a significant portion of the Debtor Companies' assets. The Receiver of Premiere commenced a sales process with respect to Premiere's assets. The Receiver's marketing efforts and sales process is outlined in the Receiver's First Report to the Court dated January 8, 2009 and the Receiver's Second Report to the Court dated February 19, 2009 (the "Receiver's Second Report").

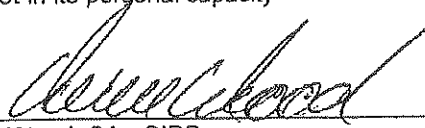
EXTENSION OF STAY PERIOD

38. Pursuant to the Order of January 9, 2009, the Debtor Companies must file Proposals no later than February 23, 2009. The Trustee understands that the Debtor Companies will be applying for an extension of time to file the Proposals for a period of 45 days to April 6, 2009.
39. The Debtor Companies are operating in a manner consistent with the Revised Projected Statements of Cash Flow and there have been no material changes to the operations since the Filing Date.
40. The Trustee is of the view that Management is acting in good faith and with due diligence in its effort to restructure the Debtor Companies' affairs. Although Mr. Souther has been diligently working with several interested parties, to date, his efforts have not resulted in any arrangements that would indicate to the Trustee that Proposals to the Debtor Companies' creditors would be likely. It is unknown whether further discussions with these parties will result in an arrangement that would facilitate the Debtor Companies' Proposals.
41. The Debtor Companies' Proposals are dependent on the outcome of the sales process under the receivership of Premiere. As discussed in the Receiver's Second Report, the Receiver received 10 Offers to Purchase and/or Expressions of Interest (collectively, the "Expressions"). The Expressions received varied from the purchase of all assets, auction proposals for all assets, interest in the drill bit inventory and/or interest in the real property. However, none of the Expressions have materialized into any form of offer that could be accepted by the Receiver and thereby presented to the Court for its approval. Although the Receiver has carried on a dialogue with a party that expressed an interest to not only purchase all of Premiere's assets but assets of certain of the other Debtor Companies, at this time it is unknown whether the current negotiations will lead to an offer to purchase that is acceptable to the Receiver or that will be in substance an offer that will permit the Debtor Companies to make viable Proposals to their creditors.
42. Accordingly, the Trustee is of the view that an extension of the period for filing the Proposals is not appropriate in the circumstances.

Dated at Calgary, Alberta this 19th day of February 2009.

MEYERS NORRIS PENNY LIMITED

In its capacity as Trustee of the Notice of Intention to Make a Proposal of
The Diamond Bullet Corporation, Hat Bit Supply Ltd.,
Premiere Manufacturing Ltd., R Environmental Labs Ltd.,
DBC International Inc. and Dunn Trucking Ltd. Insolvent Person
And not in its personal capacity



Verne Wood, CA • CIRP
Senior Vice President

SCHEDULE 1

Premiere Manufacturing Ltd
Balance Sheet As at 01/31/2009

ASSET

Assets		
Petty Cash- Office	87.08	
Petty Cash- Rick Souther	515.35	
Petty Cash- Paul Karl	1,228.77	
HSBC Operating Account	10,290.00	
HSBC Bank - Hat Bit	-3,455.99	
HSBC Operating Acct US\$	-9.00	
HSBC US\$ - Hat Bit	-17.16	
Scotiabank Operating Account	162.15	
MNP Bank Account (In Trust)	68,608.11	
A/P Clearing	0.00	
Total Cash		77,409.31
Accounts Receivable (CAD)	342,013.27	
Other Accounts Receivable	114,269.77	
Employee Receivable - Ross Math	17,541.21	
Agents Clearing Account--LL	752.71	
Agents Clearing Account--GP	385.47	
Agents Clearing Account--RD	316.42	
Total Receivables		475,278.85
Deposits - Prepaid Orders	0.00	
Prepaid Insurance - Hat Bit	18,105.57	
Prepaid W.B.C.	5,533.36	
Prepaid WCB - Hat Bit	-2,874.32	
Prepaid Taxes	7,888.24	
Prepaid Other	5,415.97	
Prepaid Deposits	898.43	
Prepays - Hat Bit	6,258.37	
Total Prepaid Expenses		41,225.62
Mastercard Clearing Account		3,839.33
Inventory Raw Materials	488,264.00	
Inventory Bits-Tooth-Bulton	872,658.00	
Inventory--PDC Bits	434,501.14	
Inventory Out of Service Bits	179,900.00	
Inventory--W.I.P.	486,880.00	
Total Inventory		2,462,201.14
Due (to) from Renviron		-772,655.36
Due (to) from Renviron - Hat Bit		258,118.72
Due (to) from DBC Int'l		203,010.53
Due (to) from DBC Int'l - Hat Bit		-300,289.35
Due (to) Hat Bit Supply Ltd.		11,066,513.83
Due (to) Premiere - Hat Bit		-11,067,296.68
Due (to) Diamond Bullet		-12,458,310.01
Due (to) Diamond Bullet - Hat Bit		11,875,466.15
Due To Shelby Recycling - Hat Bit		1,072.00
Due from Sleawzone		58.69
Total Current Assets		1,865,642.77
Property, Plant and Equipment		
Land	5,047.19	
Building	187,167.45	
Equipment	1,239,651.00	
Vehicles	201,466.18	
Computer Hardware	51,565.88	
Furniture & Fixtures	36,736.51	
PDC Rentals	9,497,990.00	
Other PDC Rental Bits	2,082,240.00	
Tooth & Bulton Bits	2,027,054.00	
Accum Depm Buildings	-116,315.98	
Accum Depm Equipment	-1,090,023.65	
Acc um Depm Equip - Hat Bit	-476.45	
Accum Depm Vehicles	-84,069.53	
Accum Depm Vehicles - Hat Bit	-499.58	
Accum Depm Computers	-45,132.32	
Accum Depm Furniture	-38,108.23	
Accum Depm PDC Rentals	-7,207,702.00	

Accum Dep'n Other	-1,863,817.00	
Accum Dep'n Toth	<u>-1,569,606.00</u>	
Net P'perty, Plant and Equipment		<u>3,295,168.47</u>
Total Capital Assets		<u>3,295,168.47</u>

Investments		
Investments Marketable		-1,670.58
Investment in Hat Bit		<u>1,491,916.00</u>
Total Investments		<u>1,490,245.42</u>

TOTAL ASSET **6,651,056.66**

LIABILITY

Liabilities

Accounts Payable Pre Oct 27, 2008		15,096.58
Accounts Payable After Oct 27, 2008	114,312.26	
Trade Accounts Payable	607,310.14	
Accrued Payroll	<u>23,848.94</u>	
Total Accounts payable		745,471.34
GST Charged on Sales	4,251.31	
GST Charged on Sales - Hat Bit	-348.96	
GST Purchases ITC Credits	-3,154.66	
GST Purchases ITC's - Hat Bit	990.86	
GST Clearing	<u>-11,584.02</u>	
Net GST Payable (Receivable)		-9,845.47
PST Sask Payable		-351.20
Vacation Payable		-3,578.11
CPP Payable	21,455.23	
EI Payable	7,741.90	
Tax Payable (PAYROLL)	<u>33,726.60</u>	
Payroll remittance payable		62,923.73
Provincial Health Payable		-2,495.55
Health Insurance Payable		-5,574.77
Other Payable		-249.74
Future Income Tax payable		282,256.71
M/C Payable R.Souther		22.99
M/C Payable C Daub		2,942.46
M/C Payable P.Karl		<u>1,986.87</u>
Temp A/P		<u>0.00</u>
Total Current Liabilities		<u>1,088,605.84</u>

Long Term Debt

Long Term Equipment Loans	1,384,969.15	
Bank Loan # 600 - Vehicle	3,650.83	
GMAC Loan #701	49,844.78	
Toyota Loan - Unit 102	2,365.75	
Due (to) Dunn Trucking	13,175,155.50	
Due (to) Dunn Trucking - Hat Bit	-36,100.14	
Shareholder Loan - Rick Souther	<u>-7,478.63</u>	
Total Liabilities		<u>14,572,407.24</u>

TOTAL LIABILITY **15,661,013.08**

EQUITY

Owners Equity		
Common Shares		2.00
Common Shares - Hat Bit		190.00
Retained Earnings	-11,342,102.53	
Retained Earnings - Hat Bit	2,392,265.40	
Current Earnings	<u>-60,311.29</u>	
Total Owners Equity		<u>-9,009,956.42</u>

TOTAL EQUITY **-9,009,956.42**

LIABILITIES AND EQUITY **6,651,056.66**

Generated On: 02/06/2009

DBC International Inc.
Balance Sheet As at 01/31/2009

ASSET

Assets	
Petty Cash	871.61
Petty Cash US	194.74
Petty Cash- Rick	3.36
Scotiabank Operating Account	74,846.27
Scotiabank Operating Account US\$	2,945.90
Accounts Receivable (CAD)	264,442.17
Accounts Receivable (USD)	-8.05
Prepaid Other	-140.63
Prepaid Deposits	10,000.00
Inventory Bits-Tooth-Button	30,997.88
Inventory Other PDC Bits	14,204.00
Due (to) from Renviron	44,077.14
Due (to) Hat Bit Supply Ltd.	460,184.28
Due (to) Premiere Manufacturing Ltd	-335,544.76
Due (to) Diamond Bullet	423,324.63
PDC Rentals	<u>7,515.00</u>
Total Assets	<u><u>997,913.54</u></u>
 TOTAL ASSET	 <u><u>997,913.54</u></u>

LIABILITY

Liabilities	
Accounts Payable	46,838.04
Accounts Payable Pre 10/27/08	0.00
Accounts Payable US	1,248.27
GST Charged on Sales	355.00
GST Purchases ITC Credits	-3,226.47
Shareholder Loan - Rick Souther	<u>18,391.99</u>
Total Liabilities	<u><u>63,606.83</u></u>
 TOTAL LIABILITY	 <u><u>63,606.83</u></u>

EQUITY

Owners Equity and Retained Earnings	
Share Capital	100.00
Retained Earnings	811,382.87
Current Earnings	<u>122,823.84</u>
Total Owners Equity and Retained	<u><u>934,306.71</u></u>
 TOTAL EQUITY	 <u><u>934,306.71</u></u>
 LIABILITIES AND EQUITY	 <u><u>997,913.54</u></u>

Generated On: 02/06/2009

Diamond Bullet Corporation
Balance Sheet As at 01/31/2009

ASSET

Assets	
HSBC Operating Account	-1,651,256.31
Accounts Receivable (CAD)	1,036.31
Deposits	1,743.69
Prepaid insurance	18,981.21
Prepaid W.B.C.	-262.97
Due (to) from Renviron	688,764.59
Due (to) from DBC Int'l	-276,307.03
Due (to) Hat Bit Supply Ltd.	-11,897,516.15
Due (to) Premiere Manufacturing Ltd	12,485,292.27
Vehicles	51,109.43
Computer Hardware	75,357.14
Computer Software	42,401.02
Furniture & Fixtures	16,921.19
Accum Deprn Vehicles	-31,949.61
Accum Deprn Computers	-72,137.78
Accum Deprn Computer Software	-40,309.87
Accum Deprn Furniture	-16,157.02
Investment in Hat Bit	3,000,000.00
Investment in Premiere	3,000,000.00
Total Assets	<u>5,395,692.11</u>
TOTAL ASSET	<u>5,395,692.11</u>

LIABILITY

Liabilities	
Accounts Payable	7,859.04
Accrued Payables	18,961.21
Accrued Payroll	6,071.32
Asset Clearing Account	-6,071.32
GST Charged on Sales	-41.88
GST Purchases ITC Credits	-3,455.42
Vacation Payable	3,092.53
CPP Payable	0.20
Provincial Health Payable	-348.52
Health Insurance Payable	1,316.44
GMAC Loan - Unit 917	9,450.54
Due (to) Dunn Trucking	255,076.53
Due (to) Three Cloud Properties	641,048.42
Total Liabilities	<u>932,959.09</u>
TOTAL LIABILITY	<u>932,959.09</u>

EQUITY

Owners Equity	
Class C - Common Shares	100.00
Class D- Common Shares	100.00
Class H - Common Shares	3,000,000.00
Retained Earnings	1,455,296.82
Current Earnings	7,236.20
Total Owners Equity	<u>4,462,733.02</u>
TOTAL EQUITY	<u>4,462,733.02</u>

LIABILITIES AND EQUITY	<u>5,395,692.11</u>
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Court/Estate No. 25-1124515
(Consolidated Estate)

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

IN BANKRUPTCY

IN THE MATTER OF THE NOTICE OF
INTENTION TO MAKE A PROPOSAL OF
THE DIAMOND BULLET
CORPORATION, HAT BIT SUPPLY
LTD., PREMIERE
MANUFACTURING LTD., R
ENVIRONMENTAL LABS LTD., DBC
INTERNATIONAL INC.,
AND DUNN TRUCKING LTD.

TRUSTEE'S THIRD REPORT TO THE
COURT

McCARTHY TÉTRAULT LLP
Barristers & Solicitors
Suite 3300, 421 - 7th Avenue S.W.
Calgary, Alberta
T2P 4K9

Sean F. Collins
Phone: (403) 260-3531
Fax: (403) 260-3501
File No.: 205805-409257

Schedule "D"

District of Alberta
Division No: 02-Calgary
Court/Estate No: 25-1124515 (Consolidated Estate)



MEYERS NORRIS PENNY LIMITED

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

IN THE MATTER OF THE RECEIVERSHIP OF
PREMIERE MANUFACTURING LTD.

RECEIVER'S SECOND REPORT TO THE COURT

INTRODUCTION AND PURPOSE OF REPORT

1. Premiere Manufacturing Ltd. ("Premiere"), by way of its predecessors, has been operating since 1986. Premiere manufactures, distributes, sells and repairs tri-cone rock bits and poly-crystalline diamond compact rock bits throughout Western Canada for use in the oil and gas and mining industries. Premiere's head office is located in Taber, Alberta.
2. Premiere and related companies, namely The Diamond Bullet Corporation, Hat Bit Supply Ltd., R Environmental Labs Ltd., DBC International Inc., and Dunn Trucking Ltd. (collectively, the "Debtor Companies") filed a Notice of Intention to Make a Proposal on October 27, 2008 and Meyers Norris Penny Limited consented to act as Trustee.
3. Pursuant to an Order of the Court of Queen's Bench of Alberta (the "Court") granted December 4, 2008, Meyers Norris Penny Limited was appointed as Interim Receiver (the "Receiver") of all of the current and future assets, undertakings and property of Premiere (the "Property").
4. The purpose of this report is to provide an update to the Court of the Receiver's marketing and sales process to solicit offers for the purchase of the Property.
5. This report constitutes the Receiver's second report to the Court and should be read in conjunction with the Receiver's First Report to the Court dated January 8, 2009 (the "First Report").

SUMMARY OF MARKETING AND SALES PROCESS

6. As noted in the First Report, the Receiver commenced its marketing program to solicit offers for the purchase of the Property on or about December 15, 2008. The Receiver prepared the Invitation for Offers to Purchase which was distributed to 28 prospective purchasers that had expressed an interest in part or all of the Property who had been identified by a review of the Receiver's internal resources and a list provided by Premiere's management including those parties identified at paragraph 41(c) of Rick Souther's November 20, 2008 Affidavit.



7. The Receiver placed advertisements in the Calgary Herald on December 19 and 20, 2008 and the Lethbridge Herald on December 20 and 22, 2008. The Receiver posted a notice of sale on the Receiver's website.
8. The Receiver contacted all of the prospective purchasers via telephone to ensure that the prospective purchasers had received the Invitation for Offers to Purchase and to answer any questions with respect to the sales process.
9. The Receiver made arrangements to provide access to the Property to prospective purchasers who made requests to view the Property.
10. The terms and conditions of sale attached to the Invitation for Offers to Purchase required prospective purchasers to submit offers to the Receiver by 2:00 pm MST on Monday, January 12, 2009.

SUMMARY OF OFFERS TO PURCHASE AND EXPRESSIONS OF INTEREST

11. The Receiver received ten Offers to Purchase and/or Expressions of Interest (collectively, the "Expressions").
12. The Expressions received varied from the purchase of all assets, auction proposals for all assets, interest in the dill bit inventory and/or interest in the real property. However, none of the Expressions have materialized into any form of offer that could be accepted by the Receiver and thereby presented to the Court for its approval.
13. Although the Receiver has carried on a dialogue with a party that expressed an interest to not only purchase all of Premiere's assets but assets of certain of the other Debtor Companies, at this time it is unknown whether the current negotiations will lead to an offer to purchase that is acceptable to the Receiver or that will be in substance an offer that will permit the Debtor Companies to make viable Proposals to their creditors.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

14. The Receiver's Interim Statement of Receipts and Disbursements for the period December 4, 2008 to February 14, 2009 is attached hereto as Schedule 1.

Respectfully submitted this 19th day of February, 2009.

Meyers Norris Penny Limited
In its capacity as Interim Receiver of
Premiere Manufacturing Ltd.
And not in its personal capacity,



Verne Wood, CA • CIRP
Senior Vice President

Premiere Manufacturing Ltd. - In Receivership ("Premiere")
Interim Statement of Receipts and Disbursements
For the Period December 4, 2008 to February 14, 2009

	\$	\$
Receipts		
Cash on Hand		34,712.34
Collection of Accounts Receivable		
Pre-Receivership Accounts Receivable	356,957.66	
Post-Receivership Accounts Receivable	<u>13,230.00</u>	<u>370,187.66</u>
Total Receipts		<u>404,900.00</u>
Disbursements		
Filing Fees (Note 1)		-
Stocktaking and Possession		504.50
Advertising		667.60
Bank Charges		10.00
Operating Expenses		
Rent	11,428.56	
Payroll	80,495.03	
Commissions	97,665.90	
Insurance	16,671.37	
Telephone	4,311.03	
Utilities	126.18	
Courier	105.53	
Computer Services	261.40	
General Operating Expenses	13,391.47	
Maintenance and Repair	2,500.00	
Materials and Supplies	<u>16,685.52</u>	<u>243,641.99</u>
GST Paid (Net)		8,924.96
Professional Fees (Note 2)		
Notice of Intention to Make a Proposal		
Legal Fees and Disbursements	45,000.00	
Trustee's Fees and Disbursements	7,762.64	
Receivership		
Receiver's Fees and Disbursements (Note 3)	<u>37,237.36</u>	<u>90,000.00</u>
Total Disbursements		<u>343,749.05</u>
Excess of Receipts over Disbursements Represented by Cash on Hand		<u><u>61,150.95</u></u>

NOTES**1. Filing Fees**

Filing fees were paid to the Official Receiver and the Court pursuant to Premiere's Notice of Intention to Make a Proposal ("NOI").

2. Professional Fees

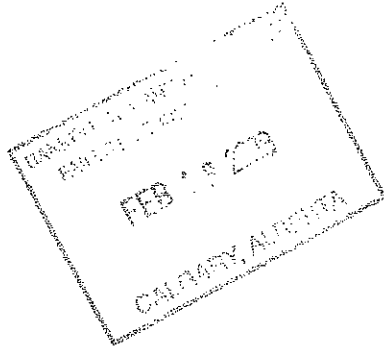
Professional fees include the fees and disbursements of Meyers Norris Penny Limited ("MNP") as Trustee under the NOI, Gowling Lafleur Hendersen LLP as Premiere's legal counsel under the NOI, MNP as Receiver and McCarthy Tetrault LLP as the Receiver's legal counsel.

3. Receiver's Fees and Disbursements

The Receiver's fees and disbursements represent the professional services rendered by the Receiver for the period ended January 13, 2009. A schedule of the Receiver's invoices is attached as Schedule 1(a).

Premiere Manufacturing Ltd. - In Receivership
Summary of Interim Receiver's Fees and Disbursements
For the Period December 4, 2008 to February 14, 2009

Invoice #	Invoice Date	Fees \$	Disbursements \$	Subtotal \$	GST \$	Total \$
5802103	15-Dec-08	21,270.00	1,416.90	22,686.90	1,134.34	23,821.24
5809834	14-Jan-09	13,604.00	946.46	14,550.46	727.52	15,277.98
		<u>34,874.00</u>	<u>2,363.36</u>	<u>37,237.36</u>	<u>1,861.86</u>	<u>39,099.22</u>



Court/Estate No. 25-1124515 A.D. 2009
(Consolidated Estate)

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

IN BANKRUPTCY

IN THE MATTER OF THE
RECEIVERSHIP OF
PREMIERE MANUFACTURING LTD.

RECEIVER'S SECOND REPORT
TO THE COURT

McCARTHY TÉTRAULT LLP
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T2P 4K9

Sean F. Collins
Phone: (403) 260-3531
Fax: (403) 260-3501
File No.: 205805-409257

Court No. 25-1124515

Estate No. 25-1124515

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

**IN BANKRUPTCY AND INSOLVENCY
IN THE MATTER OF THE PROPOSAL
OF THE DIAMOND BULLET
CORPORATION, PREMIERE
MANUFACTURING LTD., HAT BIT
SUPPLY LTD., DBC INTERNATIONAL
INC., DUNN TRUCKING LTD., AND R
ENVIRONMENTAL LABS LTD.**

**OF THE TOWN OF TABER, IN THE
PROVINCE OF ALBERTA**

NOTICE OF MOTION

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