



**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.

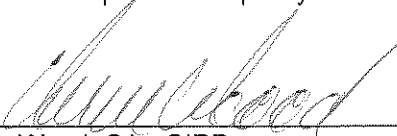
TRUSTEE'S INTENDED COURSE OF ACTION

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