

District of Alberta
Division No: 02-Calgary
Court No: 25-1124511
Estate No: 25-1124511



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
DBC INTERNATIONAL INC.**

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

INTRODUCTION AND BACKGROUND

1. DBC International Inc. ("DBC") has been operating since 2004. DBC sells drill bits and provides drill bit repair services to customers outside of Canada. It purchases drill bits, materials and supplies from related companies, namely, Premiere Manufacturing Ltd. ("Premiere") and R Environmental Labs Ltd. ("Labs"). Its head office is located in Taber, Alberta.
2. DBC guaranteed the indebtedness of two related companies, The Diamond Bullet Corporation ("Diamond") and Premiere in respect of obligations owing to HSBC Bank Canada ("HSBC") in the approximate amount of \$3.05 million as at September 22, 2008 (the "HSBC Debt"). The guarantee is secured by a general security agreement registered by HSBC. On September 24, 2008, HSBC issued demands with respect to the HSBC Debt and the guarantee. It is unknown at this time whether the HSBC Debt will be paid in full by Diamond and Premiere. Accordingly, DBC is unable to determine its exposure pursuant to its guarantee.
3. On October 27, 2008 DBC filed a Notice of Intention to Make a Proposal ("NOI") and Meyers Norris Penny Limited consented to act as Trustee (the "Trustee"). Related companies, namely Diamond, Premiere, Hat Bit Supply Ltd., Dunn Trucking Ltd. and Labs also filed NOIs on the Filing Date.

FINANCIAL POSITION

4. The most recent financial information available from DBC is its internally prepared, unaudited financial statements as at September 30, 2008. A copy of DBC's balance sheet as at September 30, 2008 (the "Balance Sheet") is attached as Schedule 1.
5. DBC's fiscal year end is September 30; however, DBC has not yet closed its year end on its accounting system and is waiting for certain adjusting entries from its external accountant. Management advises that adjusting entries from prior years (fiscal years ending September 30, 2007 and 2008) have not yet been made.

6. The primary assets of DBC are accounts receivable and amounts due from related companies. A list of assets and the net book values is summarized below:

Description	Net Book Value (Note 1)
	\$
Cash on Hand (Note 2)	18,346
Accounts Receivable	183,868
Prepays and Deposits	4,109
Due From Related Companies	574,995
Inventory	59,586
	<u>840,905</u>

NOTES:

1. The source of information is DBC's internally prepared, unaudited balance sheet as at September 30, 2008.
 2. US dollar amounts have not been converted to Canadian funds.
7. All of DBC's assets are subject to the security held by HSBC. The Trustee has not obtained a legal opinion as the validity and enforceability of the HSBC security.
8. A significant portion of DBC receivables (approximately 70%) are greater than 90 days; however, Management advises that all accounts receivables are expected to be collected.
9. The related companies, namely Diamond, Premiere, Hat Bit Supply Ltd. and Labs have also filed NOIs. As such, the amount due to DBC from related companies may be compromised as part of the related companies' Proposals.
10. Management advises that DBC does not own any inventory and that the amount for inventory reflected on the Balance Sheet relates to prior period adjusting entries. Management expects to receive an adjusting entry from its external accountant to eliminate this amount.
11. The Balance Sheet indicates total liabilities, excluding inter-company debt, contingent claims and shareholders' loans, of approximately \$400. Management advises that there were no outstanding liabilities as at the Filing Date, excluding DBC's exposure pursuant to its guarantee of the HSBC Debt.

OPERATIONS

12. DBC does not have any employees. All work is performed by employees of Premiere. Salaries, wages and commissions are paid by Premiere.
13. DBC sales are in US dollars and receipts are deposited into a US dollar bank account and then transferred to a Canadian dollar bank account. Therefore, DBC is exposed to foreign exchange gains and losses.
14. DBC has continued operations on a business as usual basis. Operational results since the Filing Date are discussed below in the monitoring section of this report.

15. Management advises that DBC's actual sales since the Filing Date total approximately \$42,000, higher than the projected sales of \$37,000. Management advises that all sales have been invoiced to customers.
16. As a result of these increased sales, Management advises that the cost of materials will also increase slightly (from projected amount of \$12,000 to approximately \$15,000).

MONITORING

17. Attached as Schedule 2 is a copy of the DBC's internally prepared, unaudited weekly projected statement of cash flow for the period ending January 3, 2009 (the "Projected Statement of Cash Flow").
18. The significant assumptions used in preparing the Projected Statement of Cash Flow are summarized as follows:
 - Continue to sell bits and provide bit repair services to international customers in the ordinary course of business;
 - Continue to purchase supplies and materials from Premiere Manufacturing Ltd. and R Environmental Labs Ltd. 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 companies;
 - Continue to collect accounts receivable in the ordinary course of business (historical average collection period of 30 to 60 days);
 - No payment of pre Filing Date accounts payable;
 - Projected expenses based on average historical expenses from past fiscal year; and
 - The foreign exchange rate will remain constant and is projected based on the foreign exchange rate (1.15) as at November 5, 2008.
19. A summary of DBC's Projected Statement of Cash Flow is provided below:

	\$
Opening Cash Position	2,828
Estimated Cash Receipts	102,892
Estimated Cash Disbursements	<u>(44,138)</u>
Estimated Closing Cash Position	<u><u>61,582</u></u>

20. Management anticipates that there will be sufficient cash flow generated from operations to meet DBC's on-going expenses and to pay restructuring costs.

21. The actual net cash flow for DBC for the period October 27, 2008 to November 22, 2008 is summarized below:

	Actual	Projected	Variance
	\$	\$	\$
Opening Cash Position	2,834	2,828	6
Cash Receipts	37,189	54,546	(17,357)
Cash Disbursements	(15,547)	(20,038)	4,491
Net Cash Flow	<u>21,642</u>	<u>34,508</u>	<u>(12,866)</u>
Closing Cash Position	<u>24,476</u>	<u>37,336</u>	<u>(12,860)</u>

22. A summary of actual cash receipts and disbursements for the period October 27, 2008 to November 22, 2008 is attached as Schedule 3.

23. The Trustee reviewed DBC's cash receipts for the period and provides the following comments:

- The actual collection of accounts receivable was less than projected. The difference relates to one specific account (\$15,690) that was not collected as projected. Management advises that this accounts receivable is still collectible.

24. The Trustee reviewed DBC's cash disbursements for the period and provides the following comments:

- Because DBC's fiscal year ending September 30, 2008 has not been closed on the accounting system cheques are not processed via the accounting system. Management has provided the Trustee with a manual spreadsheet of cheques issued subsequent to the Filing Date.
- Actual professional fees were less than projected because the retainer to legal counsel, Gowling Lafleur Henderson LLP, in the amount of \$10,000 was paid by Premiere.
- DBC paid an additional retainer to separate legal counsel, Davison Worden LLP, in the amount of \$5,000 that was not projected. Management advises that it retained separate legal counsel on the advice of Gowling Lafleur Henderson LLP.
- Freight and brokerage charges incurred represents delivery charges incurred in the ordinary course of business and were not projected.

25. The Trustee did not note any material adverse change in DBC's projected cash flow that would impair its ability to carry on operations.

EXTENSION OF PERIOD FOR FILING PROPOSAL

26. The initial period for DBC to file its Proposal expires on November 26, 2008. The Trustee understands that DBC will be applying for an extension of time to file its Proposal for a period of 45 days to January 10, 2009.

27. An extension is necessary for DBC to continue to develop a Proposal. DBC's Proposal is dependent upon the Proposal to be filed on behalf of Diamond, Premiere and Hat Bit Supply Ltd. Accordingly, all Proposals must be filed concurrently.
28. The Trustee is of the view that Management is acting in good faith and with due diligence in its effort to restructure DBC's affairs. DBC is operating in a manner consistent with its Projected Cash Flow Forecast and there have been no material changes to its operations since the Filing Date.
29. The Trustee is of the view that no creditor would be materially prejudiced should an extension of the period for filing the Proposal be granted.
30. The Trustee is of the view that an extension of the period for filing the Proposal is appropriate in the circumstances and respectively recommends that the Court approve an extension of the period for filing the Proposal for a period of 45 days to January 10, 2009.

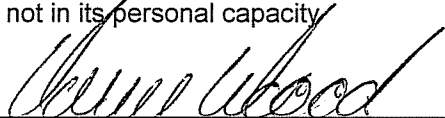
OTHER

31. Nothing has been brought to the attention of the Trustee that would indicate the existence of any fraudulent transactions as defined under subsections 91 to 101 of the *Bankruptcy and Insolvency Act*.
32. The Trustee does not require further advice, direction or assistance from the Court at this time.

Dated at Calgary, Alberta this 24th day of November 2008.

MEYERS NORRIS PENNY LIMITED

In its capacity as Trustee of the Notice of Intention to Make a Proposal of
DBC International Inc., Insolvent Person
And not in its personal capacity



Verne Wood, CA • CIRP
Senior Vice President

DBC International Inc.
Balance Sheet As at 09/30/2008

ASSETS

Assets	
Petty Cash	3,056.65
Petty Cash US	2,498.88
HSBC Operating Account	-1,690.67
HSBC Operating Acct US\$	477.22
Scotiabank Operating Account	1,859.68
Scotiabank Operating Account US\$	12,144.23
Accounts Receivable (CAD)	183,876.49
Accounts Receivable (USD)	-8.05
Accounts Receivable (RRBIT)	0.00
Advances Receivable	0.00
Agents Clearing Account	0.00
Agents Clearing Account-MH	0.00
Agents Clearing Account-LL	0.00
Agents Clearing Account-GP	0.00
Agents Clearing Account-PK	0.00
Allowance for Doubtful Accounts	0.00
Deposits	0.00
Deposits - Prepaid Orders	50.00
Prepaid Insurance	0.00
Prepaid W.B.C.	0.00
Prepaid Accounting Services	0.00
Prepaid Taxes	0.00
Prepaid Other	4,059.37
Prepaid Deposits	0.00
Mastercard Clearing Account	0.00
Inventory Raw Materials	0.00
Inventory Bits-Tooth-Button	29,892.00
Inventory-PDC Bits	7,975.00
Inventory Other PDC Bits	14,204.00
Inventory Out of Service Bits	0.00
Inventory-Scrap Bits	0.00
Inventory-W.I.P.	0.00
Inventory-Stainless Steel	0.00
Due (to) from Renviron	35,713.99
Due (to) Dunn Trucking	0.00
Due (to) from DBC Int'l	0.00
Due (to) Hat Bit Supply Ltd.	459,561.50
Due (to) Premiere Manufacturing Ltd	-343,604.70
Due (to) Diamond Bullet	423,324.60
Due (to) Shelby Recycling	0.00
Due to/From Shelby Recycling	0.00
Land	0.00
Building	0.00
Equipment	0.00
Vehicles	0.00
Computer Hardware	0.00
Computer Software	0.00
Furniture & Fixtures	0.00
PDC Rentals	7,515.00
Other PDC Rental Bits	0.00
Tooth & Button Bits	0.00
Accum Deprn Buildings	0.00
Accum Deprn Equipment	0.00
Accum Deprn Vehicles	0.00
Accum Deprn Computers	0.00
Accum Deprn Computer Software	0.00
Accum Deprn Furniture	0.00
Accum Deprn PDC Rentals	0.00
Accum Deprn Other	0.00
Accum Deprn Tooth	0.00
Investment in Hat Bit	0.00
Investment in Premiere	0.00
Total Assets	<u>840,905.22</u>
TOTAL ASSETS	<u><u>840,905.22</u></u>

DBC International Inc.
Balance Sheet As at 09/30/2008

LIABILITIES

Liabilities	
Accounts Payable	1,330.63
Accounts Payable US	1,248.27
Accrued Payables	0.00
Accrued Payables US	0.00
Accrued Payroll	0.00
Asset Clearing Account	0.00
GST Charged on Sales	-614.05
GST Purchases ITC Credits	-1,597.59
PST Sask Payable	0.00
Vacation Payable	0.00
Social Club & Safety Awards Payable	0.00
CPP Payable	0.00
EI Payable	0.00
Tax Payable (PAYROLL)	0.00
Provincial Health Payable	0.00
Health Insurance Payable	0.00
Other Payable	0.00
Corporate Tax Payable	0.00
Long Term Mortgage Payable	0.00
Long Term Equipment Loans	0.00
Bank Loan # 602 Former Shlder & Cas	0.00
Bank Loan # 600 - Vehicle	0.00
GMAC Loan - Unit 643	0.00
GMAC Loan - Unit 917	0.00
Toyota Loan - Unit 102	0.00
Due (to) Dunn Trucking	0.00
Due (to) Three Cloud Properties	0.00
Due (to) Krellco	0.00
Shareholder Loan - Rick Souther	18,391.99
Deferred Income Tax	0.00
Total Liabilities	<u>18,759.25</u>
TOTAL LIABILITIES	<u>18,759.25</u>

EQUITY

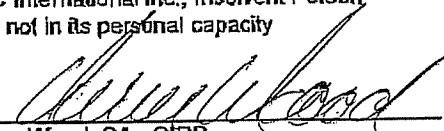
Owners Equity and Retained Earnings	
Common Shares	0.00
Preferred Shares Class I	0.00
Class B - Common Shares	0.00
Class C - Common Shares	0.00
Class D - Common Shares	0.00
Class H - Common Shares	0.00
Share Capital	100.00
Retained Earnings	177,529.07
Current Earnings	644,516.90
Total Owners Equity and Retained	<u>822,145.97</u>
TOTAL EQUITY	<u>822,145.97</u>
LIABILITIES AND EQUITY	<u>840,905.22</u>

In the Matter of the Notice of Intention to Make a Proposal of DBC International Inc., Insolvent Person
 Projected Statement of Cash Flow (Note 1)
 For the Period October 27, 2008 to January 3, 2009

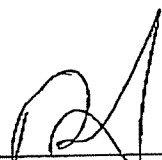
Week Beginning	Week 1 27-Oct-08 (Note 2)	Week 2 02-Nov-08	Week 3 09-Nov-08	Week 4 16-Nov-08	Week 5 23-Nov-08	Week 6 30-Nov-08	Week 7 07-Dec-08	Week 8 14-Dec-08	Week 9 21-Dec-08	Week 10 28-Dec-08	Total
Opening Cash Balance	2,827.88	25,612.51	27,589.01	27,589.01	27,589.01	37,335.26	25,285.26	25,285.26	25,285.26	25,285.26	2,827.88
Cash Receipts											
Collection of Accounts Receivable	19,675.03	19,110.00	-	-	8,475.00	-	-	-	-	5,796.52	53,056.55
Foreign Exchange (Gain/Loss)	3,148.00	2,866.50	-	-	1,271.25	-	-	-	-	5,550.00	12,835.75
Bit Rental Revenue (Note 3)	-	-	-	-	-	-	-	-	-	37,000.00	37,000.00
Total Cash Receipts	22,823.03	21,976.50	-	-	9,746.25	-	-	-	-	48,346.52	102,892.30
Cash Disbursements											
Materials and Supplies (Note 4)	-	-	-	-	-	12,000.00	-	-	-	12,000.00	24,000.00
Professional Fees	-	20,000.00	-	-	-	-	-	-	-	-	20,000.00
Bank Charges	38.40	-	-	-	-	50.00	-	-	-	50.00	139.40
Total Cash Disbursements	38.40	20,000.00	-	-	-	12,050.00	-	-	-	12,050.00	44,139.40
Closing Cash Balance	25,612.51	27,589.01	27,589.01	27,589.01	37,335.26	25,285.26	25,285.26	25,285.26	25,285.26	61,581.78	61,581.78

- NOTES:**
- The Notes to the Projected Statement of Cash Flow (attached to the Report on Cash Flow Statement by the Person Making the Proposal) form an integral part of this cash-flow projection and must be read in conjunction with this projection.
 The Projected Statement of Cash Flow for DBC International Inc. was prepared in accordance with subsection 50.4(2) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Trustee's Report on Cash Flow Statement.
 - The Company holds both a USD and Canadian bank account. The opening cash balance was calculated using the foreign exchange rate as at October 27, 2008 (1.29). Week 1 reflects the actual receipts and expenses incurred by the Company during the period October 27 to November 1, 2008 and the actual foreign exchange rates as at the date funds were converted (1.16).
 - Management projects that the Company will invoice approximately \$37,000 per month in November and December 2008 with respect to bit rentals. Management projects that it will collect the revenues invoiced in November by the end of the projection period.
 - The Company purchases materials and supplies from related companies, Premier Manufacturing Ltd. and R Environmental Labs Ltd.

Meyers Norris Penny Limited
 In its capacity as Trustee of the Notice of Intention to Make a Proposal of
 DBC International Inc., Insolvent Person
 And not in its personal capacity


 Verne Wood, CA - CIRP
 Senior Vice President

DBC International Inc., Insolvent Person


 Rick Souther
 President

DBC International Inc., Insolvent Person ("DBC")
 Summary of Actual Cash Receipts and Disbursements (Note 1)
 For the Period October 27, 2008 to November 22, 2008

	Note	Week 1 October 27 - Nov 1			Week 2 November 2 - 8			Week 3 November 9 - 15			Week 4 November 16 - 22			Totals October 27 - November 22		
		Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance
Opening Cash Balance	2	2,827.88	2,834.20	6.32	25,612.51	25,822.27	209.76	27,589.01	29,603.77	2,014.76	27,589.01	24,103.77	(3,485.24)	2,827.88	2,834.20	6.32
Cash Receipts																
Collection of Accounts Receivable (USD)		19,675.03	19,675.03	-	19,110.00	3,420.00	(15,690.00)	-	-	-	8,475.00	8,475.00	-	47,260.03	31,570.03	(15,690.00)
Foreign Exchange Conversion	3	3,148.00	3,360.00	212.00	2,866.50	361.50	(2,505.00)	-	-	-	1,271.25	1,897.55	626.30	7,285.75	5,619.05	(1,666.70)
Bit Sales and Repair Revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Receipts		<u>22,823.03</u>	<u>23,035.03</u>	<u>212.00</u>	<u>21,976.50</u>	<u>3,781.50</u>	<u>(18,195.00)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,746.25</u>	<u>10,372.55</u>	<u>626.30</u>	<u>54,545.78</u>	<u>37,189.08</u>	<u>(17,356.70)</u>
Cash Disbursements	4															
Freight and Brokerage Charges		-	-	-	-	-	-	-	365.07	365.07	-	-	-	-	365.07	365.07
Materials and Supplies	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Petty Cash Reimbursement		-	-	-	-	-	-	-	134.93	134.93	-	-	-	-	134.93	134.93
Professional Fees		-	-	-	20,000.00	-	20,000.00	-	5,000.00	5,000.00	-	10,000.00	10,000.00	20,000.00	15,000.00	(5,000.00)
Bank Charges		38.40	46.96	8.56	-	-	-	-	-	-	-	-	-	38.40	46.96	8.56
Total Cash Disbursements		<u>38.40</u>	<u>46.96</u>	<u>8.56</u>	<u>20,000.00</u>	<u>-</u>	<u>20,000.00</u>	<u>-</u>	<u>5,500.00</u>	<u>5,500.00</u>	<u>-</u>	<u>10,000.00</u>	<u>10,000.00</u>	<u>20,038.40</u>	<u>15,546.96</u>	<u>(4,491.44)</u>
Closing Cash Balance		<u>25,612.51</u>	<u>25,822.27</u>	<u>209.76</u>	<u>27,589.01</u>	<u>29,603.77</u>	<u>(37,985.24)</u>	<u>27,589.01</u>	<u>24,103.77</u>	<u>(3,485.24)</u>	<u>37,335.26</u>	<u>24,476.32</u>	<u>(12,858.94)</u>	<u>37,335.26</u>	<u>24,476.32</u>	<u>(12,858.94)</u>

NOTES:

- This document should be read in conjunction with the Projected Statement of Cash Flow, the Notes to the Projected Statement of Cash Flow (attached to the Report on Cash Flow Statement by the Person Making the Proposal) and the Trustee's Report on Cash Flow Statement. The Summary of Actual Cash Receipts and Disbursements was prepared solely from the information provided by Management. Meyers Norris Penny Limited has not audited or otherwise verified this information.
- DBC holds both a US dollar and Canadian dollar bank account. The opening cash balance is reported in Canadian funds and was calculated using the foreign exchange rate as at October 27, 2008 (1.29).
- Actual foreign exchange conversion is calculated using the closing foreign exchange rate as at the date the funds are converted to Canadian dollars. As such, DBC is exposed to foreign exchange gains and losses.
- Actual expenses incurred in US dollars by DBC are converted using the closing foreign exchange rate as at the date the transaction is processed through DBC's US dollar bank account.
- DBC purchases materials and supplies from related companies, namely, Premier Manufacturing Ltd. and R Environmental Labs Ltd.