



**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  
R ENVIRONMENTAL LABS LTD.**

**TRUSTEE'S REPORT TO THE COURT**

(Subsection 50.4(7)(b)(ii) of the *Bankruptcy and Insolvency Act*)

**INTRODUCTION AND BACKGROUND**

1. R Environmental Labs Ltd. ("Labs") has been operating since 2002. Labs manufactures and supplies diamond cutters to Premiere Manufacturing Ltd. ("Premiere") and DBC International Inc. ("DBC"). It also develops geothermal heating and waste water treatment technology and services. Its head office is located in Taber, Alberta.
2. Labs 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, Labs is unable to determine its exposure pursuant to its guarantee.
3. Labs 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"). Related companies, namely Diamond, Premiere, Hat Bit Supply Ltd., DBC and Dunn Trucking Ltd. also filed NOIs on the Filing Date.

**FINANCIAL POSITION**

4. The most recent financial information available from Labs is its internally prepared, unaudited financial statements as at October 30, 2008. A copy of Labs' balance sheet as at October 30, 2008 (the "Balance Sheet") is attached as Schedule 1.
5. 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 the Company are accounts receivable, land and building, inventory, equipment and vehicles. A list of assets and the net book values is summarized below:

Description	Net Book Value (Note 1) \$
Cash on Hand	22,933
Accounts Receivable	524,474
Prepays and Deposits	106,178
Land and Building	434,966
Inventory	116,242
Due to Related Parties	(215,877)
Equipment and Vehicles (Note 2)	94,356
Furniture and Fixtures	1,184
	<u>1,084,456</u>

NOTES:

1. The source of information is Labs' internally prepared, unaudited balance sheet as at October 30, 2008.
  2. Certain of the equipment and vehicles are subject to security agreements.
7. All of Labs' assets are subject to various lease agreements and the general security agreement held by HSBC. The Trustee has not obtained a legal opinion as to the validity and enforceability of these security agreements.
8. All of Labs' accounts receivables (approximately \$524,000) are due from related companies, namely Premiere and Sleawzone (2005) Inc. ("Sleawzone"). As Premiere has filed an NOI the amount due from Premiere (approximately \$171,000) will likely be compromised as part of Premiere's Proposal. The Trustee has not been provided with information to assess Sleawzone's financial status, and as such, cannot determine the likelihood of collectability of the amount due from Sleawzone (approximately \$353,000).
9. The Company commissioned an appraisal of its building located at 6210 – 62 Street, Taber, Alberta as at October 6, 2006. The appraisal indicates a resale market value of approximately \$475,000.
10. Management advises that inventory consists of diamond cutters. Management is currently in the process of conducting the annual year end inventory count and, once the inventory count is finalized, will make any necessary adjusting entries.
11. Labs has not provided the Trustee with a fixed asset ledger. Management advises that a motor vehicle (net book value of approximately \$5,200) was sold prior to the Filing Date and Labs' records have not yet been updated to reflect this sale.
12. Labs owns 37% of the shares of Sleawzone. The Balance Sheet does not reflect any value with respect to Labs' investment in Sleawzone. As noted above, as the Trustee has not been provided with any financial information on Sleawzone, the value of Labs' investment in Sleawzone is unknown.

13. Management advises that Labs may have entitlement to federal Scientific Research and Experimental Development ("SR&ED") tax credits. Management advises that a contractor has been retained to calculate the value of any potential SR&ED tax credits.
14. The Balance Sheet indicates total secured and unsecured liabilities, excluding inter-company debt, contingent claims and shareholders' loans, of approximately \$127,000. Management advises that as at the Filing Date its total liabilities are approximately \$33,000, excluding inter-company debt, contingent claims, shareholders' loans, and Labs' exposure as a result of its guarantee of the HSBC Debt.

#### OPERATIONS

15. Labs has two salaried employees.
16. Labs has continued operations on a business as usual basis. Results of Labs' operations since October 27, 2008 are discussed below in the monitoring section of this report.

#### MONITORING

17. Attached as Schedule 2 is a copy of Labs' 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 provide supplies and materials to Premiere Manufacturing Ltd. and DBC International Inc. in the ordinary course of business;
  - Continue to collect rental income from Premiere Manufacturing Ltd. in the ordinary course of business;
  - Projected expenses based on average historical expenses for the past fiscal year of operations; and
  - No payment of pre Filing Date accounts payable except for net payroll in the approximate amount of \$2,000 that was paid on October 31, 2008
19. A summary of Labs' Projected Statement of Cash Flow is provided below:

	\$
Opening Cash Position	8,906
Estimated Cash Receipts	65,200
Estimated Cash Disbursements (Note 1)	<u>(43,489)</u>
Estimated Closing Cash Position	<u><u>30,617</u></u>

#### NOTES:

- 1 The original Projected Statement of Cash Flow filed by Labs erroneously projected cash disbursements of \$40,661 rather than \$43,489. This did not, however, affect Labs' projected closing cash position as originally reported.

20. Management anticipates that there will be sufficient cash flow generated from operations to meet Labs' on-going expenses and to pay restructuring costs.
21. The actual net cash flow for Labs for the period October 27, 2008 to November 22, 2008 is summarized below:

	<b>Actual</b>	<b>Projected</b>	<b>Variance</b>
	\$	\$	\$
Opening Cash Position	8,906	8,906	-
Cash Receipts	13,445	25,200	(11,755)
Cash Disbursements	(9,725)	(22,492)	12,767
Net Cash Flow	<u>3,720</u>	<u>2,708</u>	<u>1,012</u>
Closing Cash Position	<u>12,626</u>	<u>11,614</u>	<u>1,012</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 the Company's cash receipts for the period and provides the following comments:
- All cash receipts were derived from amounts received from Premiere representing actual materials and supplies purchased by Premiere from Labs.
  - Premiere has not yet paid the rent due to Labs for the rent of a portion of the shop in Labs' building. Management advises that this amount will be paid in a subsequent period.
  - Management advises that the miscellaneous accounts receivable representing the proceeds from the disposition of a motor vehicle prior to the Filing Date has not yet been received. Management advises that this amount is collectible.
24. The Trustee reviewed the Company's cash disbursements for the period and provides the following comments:
- Cash disbursements are less than forecast as Labs has been relying on its current stock of supplies and materials and has not been required to purchase additional supplies or materials.
  - Truck lease and expenses are less than forecast as the proceeds from the disposition of the motor vehicle (see comment under cash receipts above) has not yet been received and accordingly, Labs has not paid out the lease owing against the motor vehicle.
25. The Trustee did not note any material adverse change in Labs' projected cash flow that would impair Labs' ability to carry on operations.

26. Management advises that all of Labs' post Filing Date remittances relating to source deductions are up to date.

**EXTENSION OF PERIOD TO FILE PROPOSAL**

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

28. An extension is necessary for Labs to continue to develop a Proposal. Labs' 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.

29. The Trustee is of the view that Management is acting in good faith and with due diligence in its effort to restructure Labs' affairs. Labs 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.

30. 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.

31. 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**

32. 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*.

33. 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  
R Environmental Labs Ltd., Insolvent Person  
And not in its personal capacity



Verne Wood, CA • CIRP  
Senior Vice President

**Environmental Labs Ltd**  
**Balance Sheet As at 10/30/2008**

**ASSETS**

Petty Cash	4.81
HSBC Operating Account	-83.37
HSBC Operating Acct US\$	18.84
Scotiabank Operating Account	22,992.96
Accounts Receivable (CAD)	524,473.84
Accounts Receivable (USD)	0.00
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	90,691.69
Deposits - Prepaid Orders	0.00
Prepaid Insurance	-68.88
Prepaid W.B.C.	2,521.39
Prepaid Accounting Services	0.00
Prepaid Taxes	13,018.41
Prepaid Other	0.00
Prepaid Deposits	0.00
Mastercard Clearing Account	15.48
Inventory Raw Materials	116,242.16
Inventory Bits-Tooth-Button	0.00
Inventory-PDC Bits	0.00
Inventory Other PDC Bits	0.00
Inventory Out of Service Bits	0.00
Inventory-Scrap Bits	0.00
Inventory-W.I.P.	0.00
Inventory-Stainless Steel	0.00
(to) from Renviron	0.00
(to) Dunn Trucking	-61,236.19
Due (to) from DBC Int'l	-258,118.72
Due (to) Hat Bit Supply Ltd.	788,726.94
Due (to) Premiere Manufacturing Ltd	-688,764.59
Due (to) Diamond Bullet	0.00
Due (to) Shelby Recycling	3,515.68
Due From/To Shelby Recycling	78,000.00
Land	424,084.63
Building	263,317.65
Equipment	11,243.21
Vehicles	0.00
Computer Hardware	0.00
Computer Software	6,751.41
Furniture & Fixtures	0.00
PDC Rentals	0.00
Other PDC Rental Bits	0.00
Tooth & Button Bits	-67,118.72
Accum Deprn Buildings	-165,403.66
Accum Deprn Equipment	-14,801.23
Accum Deprn Vehicles	-5,567.42
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
<b>Total Assets</b>	<u><u>1,084,456.32</u></u>
<b>TOTAL ASSETS</b>	<u><u>1,084,456.32</u></u>

**LIABILITIES**

<b>Liabilities</b>	
Accounts Payable	38,394.55

**Environmental Labs Ltd**  
**Balance Sheet As at 10/30/2008**

Mastercard Rick Souther	0.00
Trade Accounts Payable	6,830.99
Accounts Payable US	13,125.00
AVP - US \$ Exchange	0.00
Accrued Payables	0.00
Accrued Payables US	0.00
Accrued Payroll	-0.01
Asset Clearing Account	0.00
GST Charged on Sales	54,614.41
GST Purchases ITC Credits	-6,287.35
PST Sask Payable	0.00
Vacation Payable	2,419.61
Social Club & Safety Awards Payable	0.00
CPP Payable	2,677.84
EI Payable	1,242.84
Tax Payable (PAYROLL)	5,544.40
Provincial Health Payable	23.64
Health Insurance Payable	-564.54
Other Payable	0.00
Corporate Tax Payable	-6,093.67
Future Income Taxes	2,406.18
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	-167,686.61
Due (to) Three Cloud Properties	0.00
Due (to) Krelco	0.00
Shareholder Loan - Rick Souther	606,694.56
Deferred Income Tax	0.00
<b>Total Liabilities</b>	<b><u>553,341.84</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>553,341.84</u></b>
<b>EQUITY</b>	
Owners Equity	100.00
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
Prior Period Adjustment	522,002.80
Retained Earnings	9,011.68
Current Earnings	<u>531,114.48</u>
<b>Total Owners Equity</b>	<b><u>531,114.48</u></b>
<b>TOTAL EQUITY</b>	<b><u>531,114.48</u></b>
<b>LIABILITIES AND EQUITY</b>	<b><u><u>1,084,456.32</u></u></b>

In the Matter of the Notice of Intention to Make a Proposal of R Environmental Labs Ltd., 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 2-Nov-08	Week 3 9-Nov-08	Week 4 16-Nov-08	Week 5 23-Nov-08	Week 6 30-Nov-08	Week 7 7-Dec-08	Week 8 14-Dec-08	Week 9 21-Dec-08	Week 10 28-Dec-08	Total
Opening Cash Balance	8,906.17	6,778.17	2,009.17	11,864.17	11,614.17	11,364.17	7,595.17	21,230.17	17,980.17	17,730.17	8,906.17
<b>Cash Receipts</b>											
Sales - Cutters (Note 3)	-	-	12,000.00	-	-	-	12,000.00	-	-	12,000.00	36,000.00
Rental Income (Note 3)	-	-	4,000.00	-	-	-	4,000.00	-	-	4,000.00	12,000.00
Sales (Note 3)	-	-	-	-	-	4,000.00	-	-	-	4,000.00	8,000.00
Miscellaneous Accounts Receivable	-	-	9,200.00	-	-	-	-	-	-	-	9,200.00
<b>Total Cash Receipts</b>	-	-	25,200.00	-	-	4,000.00	16,000.00	-	-	20,000.00	65,200.00
<b>Cash Disbursements</b>											
Equipment Lease, Repairs and Maintenance	-	750.00	-	-	-	750.00	-	-	-	750.00	2,250.00
Materials and Supplies	-	-	6,500.00	-	-	-	-	-	-	-	6,500.00
Fuel and Oil	-	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	2,250.00
Insurance (Note 4)	-	-	-	-	-	-	-	-	-	50.00	150.00
Bank Charges	-	50.00	-	-	-	50.00	-	-	-	-	7,710.00
Truck Lease and Expenses	-	-	5,595.00	-	-	-	2,115.00	-	-	-	6,400.00
Utilities	-	3,200.00	-	-	-	3,200.00	-	-	-	-	15,401.00
Salaries, Wages and Benefits	2,128.00	519.00	3,000.00	-	-	3,519.00	-	3,000.00	-	-	2,827.50
Net GST Owng	-	-	-	-	-	-	-	-	250.00	7,112.50	40,661.00
<b>Total Cash Disbursements</b>	2,128.00	4,769.00	15,345.00	250.00	250.00	7,769.00	2,365.00	3,250.00	250.00	7,112.50	80,617.67
Closing Cash Balance	6,778.17	2,009.17	11,864.17	11,614.17	11,364.17	7,595.17	21,230.17	17,980.17	17,730.17	30,617.67	80,617.67

NOTES:

1 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.

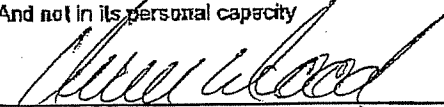
The Projected Statement of Cash Flow for R Environmental Labs Ltd. was prepared in accordance with subsection 50.4(2) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Trustee's Report on Cash Flow Statement.

2 Represents the Company's actual cash receipts and disbursements.


3 The Company provides materials and supplies to related companies, Premiere Manufacturing Ltd. and DBC International Inc. and collects rent from Premiere Manufacturing Ltd.

4 Insurance has been prepaid.

Meyers Norris Penny Limited  
 In its capacity as Trustee of the Notice of Intention to Make a Proposal of  
 R Environmental Labs Ltd., Insolvent Person  
 And not in its personal capacity

  
 Verne Wood, CA - CIRP  
 Senior Vice President

R Environmental Labs Ltd, Insolvent Person

  
 Rick Souther  
 President

R Environmental Labs Ltd. , Insolvent Person ("Labs")  
 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
<b>Opening Cash Balance</b>		8,906.17	8,906.17	-	6,778.17	7,852.63	1,074.46	2,009.17	5,789.69	3,780.52	11,864.17	15,885.61	4,021.44	8,906.17	8,906.17	-
<b>Cash Receipts</b>																
Sales - Cutters	2	-	-	-	-	-	-	12,000.00	13,445.25	1,445.25	-	-	-	12,000.00	13,445.25	1,445.25
Rental Income	2	-	-	-	-	-	-	4,000.00	-	(4,000.00)	-	-	-	4,000.00	-	(4,000.00)
Sales		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Accounts Receivable		-	-	-	-	-	-	9,200.00	-	(9,200.00)	-	-	-	9,200.00	-	(9,200.00)
<b>Total Cash Receipts</b>		-	-	-	-	-	-	25,200.00	13,445.25	(11,754.75)	-	-	-	25,200.00	13,445.25	(11,754.75)
<b>Cash Disbursements</b>																
Accounting and Legal		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment Lease, Repairs and Maintenance		-	-	-	750.00	746.79	(3.21)	-	-	-	-	-	-	750.00	746.79	(3.21)
Materials and Supplies		-	-	-	-	-	-	6,500.00	-	(6,500.00)	-	-	-	6,500.00	-	(6,500.00)
Fuel and Oil		-	-	-	250.00	-	(250.00)	250.00	-	(250.00)	250.00	-	(250.00)	750.00	-	(750.00)
Insurance		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank Charges		-	6.50	6.50	50.00	-	(50.00)	-	-	-	-	-	-	50.00	6.50	(43.50)
Truck Lease and Expenses		-	-	-	-	-	-	5,595.00	2,149.32	(3,445.68)	-	-	-	5,595.00	2,149.32	(3,445.68)
Utilities		-	-	-	3,200.00	-	(3,200.00)	-	-	-	-	125.32	125.32	3,200.00	125.32	(3,074.68)
Salaries, Wages and Benefits		2,128.00	1,047.04	(1,080.96)	519.00	1,316.15	797.15	3,000.00	1,200.01	(1,799.99)	-	3,134.01	3,134.01	5,647.00	6,697.21	1,050.21
Net GST Owing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Cash Disbursements</b>		2,128.00	1,053.54	(1,074.46)	4,769.00	2,062.94	(2,706.06)	15,345.00	3,349.33	(11,995.67)	250.00	3,259.33	3,009.33	22,492.00	9,725.14	(12,766.86)
<b>Closing Cash Balance</b>		6,778.17	7,852.63	1,074.46	2,009.17	5,789.69	3,780.52	11,864.17	15,885.61	4,021.44	11,614.17	12,626.28	1,012.11	11,614.17	12,626.28	1,012.11

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.
- Sales and rental income are derived solely from related companies, namely Premiere Manufacturing Ltd. and DBC International Inc., and represents the actual sale of product or services between companies.