

COURT FILE NUMBER 25-094321

ESTATE NUMBER 25-094321

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT IN THE MATTER OF THE BANKRUPTCY AND
INSOLVENCY ACT, RSC 1985, c B-3, AS AMENDED

AND IN THE MATTER OF THE PROPOSAL OF
IMPACT 2000 INC.

DOCUMENT SUPPLEMENTAL REPORT TO FIRST REPORT OF
ALVAREZ AND MARSAL CANADA INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL

NOVEMBER 29, 2012

ADDRESS FOR SERVICE AND
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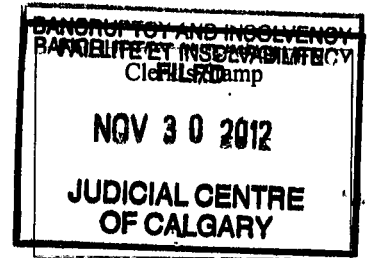


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INTRODUCTION

1. On November 2, 2011, Impact 2000 Inc. (“Impact” or the “Company”) sought protection from their creditors through filing a Notice of Intention to Make a Proposal (the “NOI”) under section 50.4(1) of the *Bankruptcy and Insolvency Act* (“BIA”), RSC 1985, c B-3, as amended (the “BIA”). The NOI filing was accepted by the Office of the Superintendent of Bankruptcy Canada (“OSB”) and a stay of proceedings was obtained by Impact on the morning of November 2, 2011 (the “Filing Date”). Alvarez & Marsal Canada Inc. (the “Trustee”) was named as Trustee under the NOI.
2. On November 26, 2012, the Trustee, as statutorily required, filed its first report to this Honourable Court (the “First Report”) that provided information in respect to Impact’s business and financial affairs, on-going restructuring efforts since the Filing Date and other matters that Impact was seeking approval for from this Honourable Court. The unfiled First Report was circulated to certain of the secured creditors on November 23 and 24, 2012.
3. On November 26, 2012, an application for an extension of the stay and for an Administration Charge was made by Impact (“Extension Application”). The Extension Application was contested by Canadian Western Bank (“CWB”) and by Canada Revenue Agency (“CRA”) and adjourned until November 29, 2012.
4. The purpose of this supplemental report to the First Report (the “Supplemental 1st Report”) is to provide this Honourable Court with information in respect of the further investigation of the Trustee arising from the following:
 - a) concerns raised at the Extension Application by CWB and CRA with respect to the use of Impact’s equipment in rental arrangements and the potential impact of that on the equipment value at the end of the rental term versus immediate liquidation;

- b) the Equipment Appraisal received from Maynards Appraisals Ltd. (“Maynards”) on November 26, 2012, after filing the First Report;
 - c) concerns expressed at the Extension Application by CWB and CRA with respect to granting an Administration Charge and further concerns expressed by CWB about payment of the fees of the Trustee, its counsel and counsel to Impact;
 - d) concerns expressed at the Extension Application by CWB about the ability of Impact to present a viable proposal; and
 - e) an update of the actual to forecast cash flow results for the period from November 2, 2012 to November 28, 2012 (the “Reporting Period”).
5. Capitalized terms not defined in this Supplemental 1st Report are as defined in the First Report.
6. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

7. This report should be read in conjunction with the First Report.
8. In preparing this Supplemental 1st Report, the Trustee has relied upon unaudited financial information, Impact’s records and discussions with various advisors of Impact. The Trustee has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this report is based on Impact’s assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

LIMITATION IN SCOPE OF REVIEW

9. This Supplemental 1st Report has been prepared by the Trustee pursuant to the rules and regulations as set out in the BIA. The BIA provides that the Trustee shall incur no liability for any act or omission pursuant to its appointment or fulfillment of its duties, save and except for gross negligence or wilful misconduct on its part.
10. This Supplemental 1st Report is not and should not be construed or interpreted as an endorsement, comment or recommendation to any creditor, prospective investor, or any persons to advance credit and/or goods and services or to continue to provide credit and/or goods and services or to lend monies to Impact during these proceedings and/or at any other such time.
11. The Trustee has not audited or reviewed the assets of Impact, and with respect to such assets, both have relied to a significant degree upon information provided by Impact.
12. The Trustee is specifically not directed or empowered to take possession of the assets of the Company or to manage any of the business and affairs of the Company.

RENTAL OF EQUIPMENT

13. The Trustee is aware that during the Extension Application, CWB and CRA expressed concerns regarding potential diminution in value of equipment if Impact were to continue with its short-term rental strategy for its equipment and defer sale of its equipment to a later date.
14. As previously discussed in the First Report (paragraphs 39 to 43), the Trustee advised this Honourable Court that it did not believe that any creditor would be materially prejudiced by the NOI proceedings. In particular, the Trustee, based on its own professional experience in insolvency proceedings and in discussing the industry specifics with Impact, indicated that if liquidation of Impact's assets

were to presently occur, there would not be enough time to properly market Impact's specialized assets; the "window" of opportunity to maximize on the value of these assets (liquidation) has already passed for this season. In addition, the Trustee further advised this Honourable Court that most of Impact's equipment has already depreciated to some extent, and the short-term rental use of this equipment would not significantly impair its value nor would selling equipment at a later date result in any lower price than if sold now.

15. On November 26, 2012, after the First Report was filed, the Trustee received the Equipment Appraisal conducted by Maynards. The Equipment Appraisal is considered confidential information and accordingly the Trustee has included the Equipment Appraisal as a confidential appendix to this report (the "Confidential Appendix A"). The Equipment Appraisal was provided to CWB and CRA on a confidential basis by Impact's counsel.
16. On November 27, 2012, the Trustee and Maynards had a telephone conference to review the Equipment Appraisal, wherein Maynards was able to confirm the following:
 - a) the Equipment Appraisal provides a forced liquidation value ("FLV"), on Impact's equipment, which in the circumstances would approximate an orderly liquidation value, but would be less than the fair market value of the equipment;
 - b) historically, the most opportune time to realize on Impact's specialized seismic equipment (i.e. tools, drills, recording trailers, etc.) is in or around the August/September months (late summer season) as seismic companies are replacing or adding equipment required to fulfill their seismic contracts for the winter season. At that time, the specialized equipment would likely achieve a greater sale price than the FLV indicated in the Equipment Appraisal;

- c) if Impact's specialized seismic equipment is not sold in or around the preferred August/September months, the anticipated FLV of the equipment as set out in the Equipment Appraisal would not likely be any different whether the equipment is sold now or in April; and
 - d) Substantially all of Impact's equipment is older (i.e. more than 3 years old and in some cases more than 10 or 20 years old). Because of the age of the equipment, a moderate increase in the hours or kilometers from a short-term rental of the equipment over a 4 month period would not cause any significant change to the FLV of the equipment. The rental season's additional hours or kilometres on the equipment would not significantly impact the FLV as most of the depreciation of Impact's equipment has already been experienced. As a result, if Impact is able to obtain a reasonable rental rate over the winter months, then it is likely in all stakeholders' best interest to maximize recoveries from these assets in this fashion versus having to sell them now or have them sit idle.
17. Impact's equipment appears to be well-kept and properly maintained. The Trustee and Maynards have been advised by Impact that a considerable amount of "sweat equity" from Mike Wolowich has been put into maintaining and repairing its equipment, along with the assistance and support from his colleagues in the industry and friends since the Filing Date (at zero expense to Impact). This "sweat equity" has likely increased the value of these assets and its overall realization potential as well as allowed Impact's equipment to be "rental ready" for the upcoming winter season.
18. Upon review of the Equipment Appraisal and after receiving additional information from Maynards on the FLV of Impact's equipment and the effect of the timing of sale on the FLV, the Trustee continues to believe that Impact's equipment would not likely achieve any higher prices if the equipment is sold now as opposed to at the end of the rental period for some equipment of (i.e.

March 31, 2013) should the company not be in a position to put forward a proposal to its creditors. Maynard's indicated some equipment may even achieve a 10-15% increase over the FLV of their equipment if the assets are sold in April as December and January are not opportune months to sell equipment.

19. As a result, the Trustee continues to be of the view that no creditor would be materially prejudiced by the extension of the NOI proceedings or the rental of the equipment at this time.

EQUIPMENT APPRAISAL & ANALYSIS OF RENTAL RECEIPTS

20. The Trustee has prepared an analysis that compares the rental receipts from the equipment rented under the confirmed and upcoming Rental Agreements to its FLV. The analysis is considered information and accordingly the Trustee has included this analysis as a confidential appendix to this report (the "Confidential Appendix B").
21. In summary, the Trustee's analysis indicates that Impact is able to generate approximately \$665,000 of rental receipts from confirmed rental contracts and other contracts expected to be executed forthwith. The Trustee is of the view that the receipts generated from the Rental Agreements are reasonable in relation to the FLV. Consequently, renting the equipment is currently the best use of Impact's assets and will generate the best recoveries in any realization scenario versus having them sit idle and/or liquidated immediately.
22. The forecasted cash flow, which includes mainly confirmed rental contracts, discloses that Impact will be able to generate the revenue it needs to fund its proposal proceedings including operating costs and restructuring professional costs without prejudicing any creditors and will leave an available estimated net cash surplus of approximately \$452,000 over the Forecast Period to pay secured debt or other priority payables to CRA as determined in these proceedings.
23. Clearly the rental of the equipment is advantageous to Impact and to its creditors.

ADMINISTRATION CHARGE AND PROFESSIONAL FEES

24. The Trustee is an officer of the Court and is charged with many statutory duties and obligations while acting in that capacity. The Trustee has diligently carried out its duties, which are for the benefit of all creditors, other stakeholders and to assist this Honourable Court with supervising the proposal process. The Trustee, by statute is entitled to its fees and nothing in the BIA appears to prevent the insolvent person from using its resources to pay the Trustee fees.
25. The Trustee requires legal counsel to properly carry out its duties. The Company requires legal counsel to guide it through the legal process. Both counsel have diligently carried out their duties in the course of these proposal proceedings and are entitled to their fees. Nothing in the BIA appears to prevent the company using its resources to pay its legal fees.
26. The initial cash flows provided with the filing of the NOI clearly indicated professional fees would be paid and provided in Note J that there would be an application for an Administration Charge. No creditor objected to that until the November 21, 2012 letter from CWB's counsel sent to the Trustee and counsel for Impact on November 22, 2012 and raised at time of the Extension Application.
27. The BIA legislation clearly allows the Trustee and other professionals a priority charge over the assets of the company in order to protect the court officer and other professionals for their fees. This provision provides insolvent persons the ability to obtain the professional assistance they require to assist in the restructuring process and to provide supervision of the insolvent person for the benefit of all creditors. Without this provision many insolvent persons would not be able to restructure and would be forced into bankruptcy or receivership which is not always the best solution.
28. In restructurings under the Companies' Creditors Arrangement Act and in liquidations under Court-appointed receiverships, professionals are routinely

granted an Administration Charge upon the granting of the initial order. The process is a bit different under the BIA proposal legislation in that there is no initial order required to commence the process. This difference in the procedure should not prevent the subsequent granting of an Administration Charge.

29. Whether or not the proposal proceedings continue, the Trustee and other professionals involved in the proposal proceedings should have security for their fees. The Trustee will have continuing duties, under the BIA and otherwise, should the proposal proceedings terminate and should be protected for its fees as an officer of the Court.

ABILITY TO MAKE A VIABLE PROPOSAL

30. The Trustee has had a number of discussions with Impact both before and after the Filing Date about the purpose of the BIA proposal proceedings, the basic outline of Impact's proposal and the ability of the company to make a viable proposal. The Trustee has investigated the affairs of the company, including the causes of its insolvency, its assets, its liabilities, its contractual relations with customers and its ability to generate cash flow while it restructures to allow it to present a proposal to its creditors. Based on that investigation, the Trustee concluded in its First Report that the Company should be able to present a viable proposal to its creditors.
31. The BIA proposal process provides for a company to have a stay of proceedings for up to six months to restructure its affairs and develop a proposal to its creditors. There is no requirement that a proposal be presented prior to the expiration of that six months. It only need be shown that the company has the ability to present a viable proposal. In support of this position, Impact has:
 - a) downsized its operations significantly and eliminated substantially all of its overhead;

- b) continued with one part of its business, the rental of its equipment, and secured contracts that will generate sufficient receipts to pay all of the costs of the restructuring, pay interest to CWB to keep their position from deteriorating and generate a surplus of cash with the intent to assist with paying down the debt of its secured creditors. The Trustee understands that this will be done without diminishing the value of its equipment;
 - c) commissioned a FLV appraisal of its equipment so it could more fully understand the worst case scenario in the event a liquidation has to be undertaken;
 - d) taken up discussions with two potential investors, which may be interested in acquiring or financing the fair market value ("FMV") of the business, which Maynards has indicated would be more than a FLV;
 - e) identified equipment that is considered surplus to its operations and commenced searching for strategic purchasers who will pay more than FLV. The proceeds from the sale of the surplus equipment would be utilized to pay down the debt of secured creditors; and
 - f) equipment, seismic data for licensing and an anticipated surplus cash flow as documented in the Updated Forecast that appears to be in excess of the estimated secured debt CWB and CRA.
32. On November 8, 2012, the company, together with its counsel and the Trustee had a without prejudice meeting with CWB and its counsel to provide with the status of the Company and its intended course of action.
33. The Trustee now understands that CWB will not accept any proposal presented to it and that as a secured creditor it claims to have a veto over any proposal. The Trustee further understands that Impact's intention is to present a plan that would

pay CWB's and CRA's debt in full and to generate a pool of funds for the distribution to unsecured creditors.

34. The Trustee further understands that if CWB is paid in full prior to or in any plan being presented, CWB would not necessarily have a veto. As a result, CWB's comment that Impact would need its support to present a viable plan may not necessarily be the case. However, the Company does need the stay of proceedings to continue to allow it time to complete its restructuring efforts and present a viable plan to all of its creditors.

ACTUAL TO FORECAST RESULTS – NOVEMBER 2, 2012 TO NOVEMBER 28, 2012

Actual to Forecast Summary Results

35. The actual to forecast cash flow chart presented below for the Reporting Period contains the actual cash receipts and disbursements relating to the Impact as compared to the cash flow forecasts previously provided to this Court in the First Report (the "First Report Forecast").

Impact 2000 Inc.	Nov. 2/12 to	Nov. 2/12 to	Nov. 2/12 to
Actual to Budget Cash Flow	Nov. 28/12	Nov. 28/12	Nov. 28/12
Results	Budget	Actual	Variance
RECEIPTS			
Rental receipts	97,475	56,875	(40,600)
Damage deposit	44,675	24,375	(20,300)
Damage deposit held in trust	(44,675)	(25,000)	19,675
Seismic data receipts	-	-	-
Sale of non-core/redundant assets	12,000	12,000	-
GST collected	7,708	4,663	(3,045)
Total receipts	\$ 117,183	\$ 72,913	\$ (44,270)
DISBURSEMENTS			
Management and contracting fees	20,000	-	20,000
Moving fees and costs	10,000	-	10,000
Fleet registration costs	-	-	-
Rent	7,500	7,500	-
Equipment maintenance and repairs	-	-	-
Insurance	5,000	4,200	800
Interest charges	-	-	-
Seismic data sales commissions	-	-	-
Appraisal	8,500	-	8,500
Professional fees and costs	50,000	50,000	-
Miscellaneous and contingency	-	-	-
Foreign exchange costs and bank fees	-	833	(833)
GST paid on disbursements	5,050	375	4,675
GST remitted to CRA	-	-	-
Total disbursements	\$ 106,050	\$ 62,908	\$ 43,142
NET CHANGE IN CASH	\$ 11,133	\$ 10,005	\$ (1,128)
OPENING CASH	\$ -		
Net change in cash	11,133	10,005	(1,128)
ENDING CASH	\$ 11,133	\$ 10,005	\$ (1,128)

36. Receipts for the Reporting Period totalled \$72,913 representing a negative variance of \$44,270. This variance was primarily due to the timing of collection of the second rental agreement that is expected to be received by November 30,

2012. The Rental Agreement relating to this collection is expected to be executed between Impact and its customer on November 29, 2012.

37. Disbursements for the Reporting Period totalled \$62,908 representing a positive variance of \$43,142. This variance was primarily due to the timing of the following expenses already incurred by Impact during these proceedings of:

- a) management and contractor fees of approximately \$20,000 for work performed since the Filing Date;
- b) moving fees and costs relating of approximately \$10,000 to the remove Impact's furniture from its Head Office Premise;
- c) lower than expected monthly insurance instalments of approximately \$800. On November 26, 2012, the Trustee understands that Impact obtained equipment insurance over its entire fleet for an annual premium amount of approximately \$42,000;
- d) Maynards fees in relation to the Equipment Appraisal of approximately \$8,500;
- e) Foreign exchange difference of approximately \$800 on the collection of rental receipts in US funds; and
- f) GST paid on the above noted expenses of approximately \$4,675.

38. Restructuring fees of \$50,000 were paid as professional fee retainers for professional services rendered by Impact's counsel, the Proposal Trustee and its counsel (the "NOI Professionals"). Fees incurred to date by the NOI Professionals have currently exceeded the retainer amount provided by Impact and these outstanding costs are expected to be out of the cash flow from Impact as indicated in the Updated Forecast.

39. As discussed in the Updated Forecast in the First Report, Impact intends to pay forthwith the unpaid invoices incurred during these NOI proceedings (i.e.

appraisal costs, moving fee, etc.) once the collection of the additional rental receipts (as discussed above) have been received.

40. The Applicant's ending cash balance as at November 28, 2012 was \$10,005 compared to the forecast cash balance amount of \$11,133, for the reasons discussed above.

CONCLUSION

41. As a result of the submissions of CWB and CRA, the Trustee has made further investigations and done further analysis in order to satisfy itself that an extension of the stay is warranted.
42. These further investigations and analysis provide further support that:
- a) the Company is acting honestly and with due diligence;
 - b) no creditor will be materially prejudiced during the next 45 days; and
 - c) the Company has the ability to present a viable proposal to its creditors
43. Accordingly, the Trustee believes that an extension of the stay of proceedings is appropriate in the circumstances.

All of which is respectfully submitted this 29th day of November, 2012

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Trustee under the Notice
of Intention to Make a Proposal of
Impact 2000 Inc.**



Tim Reid, CA•CIRP
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