

RSM Richter Inc.

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CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
COUR NO. : 500-11-022700-047

## SUPERIOR COURT

(Sitting as Tribunal designated under the  
*Companies' Creditors Arrangement Act*)

### IN THE MATTER OF THE PLAN OF ARRANGEMENT OF:

**EAUX VIVES HARRICANA INC.**, legal person  
duly constituted under the laws of Québec, having  
its head office at 11 Chemin des Sablières, Saint-  
Mathieu-d'Harricana, Province of Québec, District  
of Abitibi, JOY 1M0;

-and-

**EVH U.S.A. INC.**, legal person, duly constituted  
under the laws of Delaware, U.S.A., having a  
place of business at 17821 East 17th Street, Suite  
193, Tustin, California, 92780, U.S.A.;

-and-

**LES SOURCES PERIGNY INC.**, legal person duly  
constituted under the laws of Québec, having its  
head office at 11 Chemin des Sablières, Saint-  
Mathieu-d'Harricana, Province of Québec, District  
of Abitibi, JOY 1M0;

**Debtors**

-and-

**RSM RICHTER INC.**, a body politic and corporate,  
duly incorporated according to law, having a place  
of business at 2 Place Alexis-Nihon, 3500 de  
Maisonneuve Blvd West, 22<sup>nd</sup> Floor, in the City of  
Montréal, Province of Québec, H3Z 3C2

**Monitor**

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### THIRD REPORT OF THE DESIGNATED MONITOR ON THE STATE OF DEBTORS' FINANCIAL AFFAIRS (AUGUST 30, 2004)

#### I. INTRODUCTION

1. On March 19, 2004, Eaux Vives Harricana Inc. ("EVH INC"), EVH U.S.A. Inc. ("EVH USA") and Les Sources Périgny Inc. ("Sources Périgny") (collectively "Debtors" or "EVH") filed with the Québec Superior Court, a "Motion for the Issuance of an Initial Order" pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"). On that same date, Mr. Justice François Rolland issued an Initial Order (hereinafter the "Initial Order"), *inter alia* appointing RSM Richter Inc. (f/k/a: Richter & Associés Inc.) as monitor (the "Monitor");

2. On April 15, 2004, Debtors filed a motion for the extension of time for the filing of the Plan of arrangement. On that same date, Mr. Justice François Rolland granted said motion extending the Initial Order up to June 2, 2004;
3. On June 1st, 2004, Debtors filed a motion for the extension of time for the filing of the Plan of arrangement. On that same date, Mr. Justice François Rolland granted said motion extending the Initial Order rendered on March 19, 2004, as amended and extended, and the stay of proceedings included therein until Tuesday, August 31, 2004;
4. This third report of the Monitor is to report and inform the Court of the following:
  - Activities of the Monitor;
  - Current Operations;
  - Current financial situation;
  - Debtor in Possession financing;
  - Sale of EVH or its assets;
  - Plan of arrangement to be filed;
  - Motion for the extension of time for the filing of the plan of arrangement.
5. We hereby inform the Court that the Monitor has not conducted an audit or investigation of the books and records or the receipts and disbursements of Debtors and that accordingly, it cannot render an opinion regarding the accuracy or completeness of the information contained herein. The present information emanates from the books and records that have been made available to the Monitor, as well as from discussions with the management of Debtors;

## II. ACTIVITIES OF THE MONITOR

- **Communication**

6. The Monitor has replied on a timely basis, to all queries from creditors;
7. The Monitor deployed efforts to ensure that any affected parties would have access to the relevant available information on a timely manner. This included amongst others the posting of all relevant documentary information on the Monitor's website (i.e. [www.rsmrichter.com](http://www.rsmrichter.com));

- **Monitoring**

8. The Monitor has maintained its procedures to insure a proper monitoring of the receipts and disbursements, as provided by the CCAA;
9. The Monitor has assisted the Debtors' Management in dealing with any important issues that have arisen since the rendering of the Initial Order;

10. The Monitor has continued to request weekly reports from Scotia Capital Inc. of the results of the marketing process;
11. The Monitor has been reporting weekly to Royal Bank of Canada as required in the DIP Financing Agreement;

### III. CURRENT OPERATIONS

- **Activities**

12. The activities at the plant of EVH have been suspended since February 13, 2004. Since then EVH completed the sale of its remaining inventory and collected its residual accounts receivable in Canada and in the United States. At present, all the remaining inventory has been sold and all of the recoverable accounts receivable have been collected. Therefore the activities since the issuing of our second monitor's report have consisted and will continue to be the preserving of the facilities, maintaining the plant in good state and providing support on the marketing process;

- **Inventory**

Plant

13. All the remaining inventory at the plant has been sold;

Warehouses in Canada

14. The owners of warehouses in Laval and Toronto refuse to release the merchandise until full payment of the accounts. The amount owed to these landlords approximate the value of the merchandise present in their respective warehouse;

Warehouses in USA

15. All the merchandise has been sold;

- **Accounts Receivable**

16. All the recoverable accounts have been collected;

- **Employees**

17. As forecasted, only three employees remain in St-Mathieu d'Harricana including one on a part-time basis. All of the American employees were terminated in May 2004 and since June 2004 the Vice-President and General Manager is on a working severance;

- **Facilities**

18. The Laval sales office has been permanently closed and the furniture and equipment were transferred to St-Mathieu d'Harricana. The lease has been resiliated. The American sales office was also closed;

- **Les Sources Périgny Inc.**

19. Les Sources Périgny Inc. is a distinct legal entity from EVH INC. and is a wholly-owned subsidiary of EVH INC. The assets and liabilities are not dissociated in the normal ongoing operations of EVH. The assets of Les Sources Périgny Inc. are being offered in the sale process managed by Scotia Capital and the liabilities will be compromised in the Plan of arrangement to be filed by the Debtors;

#### IV. CURRENT FINANCIAL SITUATION

- **Funding**

20. Since the initial order, Debtors have collected the recoverable accounts receivable. As previously mentioned, the remaining inventory has been sold except for the merchandise in warehouses being withheld by the warehouse owners in Canada. These initial proceeds thereof were used to cover Debtor's current expenses;

21. In view of the fact that EVH is no longer in operation and that the sale of the remaining inventory as well as the collection of the residual accounts receivable are completed, EVH could not cover its current expenses without obtaining DIP financing. The DIP financing is provided by the Royal Bank Asset Based Finance (as authorized by the Court on June 15<sup>th</sup>, 2004), to support the current limited activities;

- **Cash flow projections**

22. Included as Appendix A of this report is a summary of Debtors' cash flow forecast for the period September 1 to October 31, 2004;

The Debtors had filed with the "Motion for the Extension of Time for the Filing of the Plan of Arrangement" on June 1, 2004 a cash-flow statement covering the period from June 3 to August 29, 2004. We submit below a summary comparison of projected and actual results as at August 25, 2004:

(in \$)	Projected June 3 to August 29, 2004	Actual June 3 to August 25, 2004	Variances
Receipts	5,007,000	2,051,031	(2,955,969) <sup>(1)</sup>
Disbursements	<u>2,098,513</u>	<u>1,511,120</u>	( 587,393) <sup>(2)</sup>
Variances	2,908,487	539,911	(2,368,576) <sup>(3)</sup>
Opening bank balance	<u>10,085</u>	<u>26,813</u>	<u>16,728</u> <sup>(4)</sup>
Closing bank balance	<u>2,918,572</u>	<u>566,724</u>	<u>(2,351,848)</u> <sup>(4)</sup>

Notes:

- 1) The unfavorable variance of \$2,955,969 of the receipts is the result of lower DIP financing advances for the period. The cash-flow forecasted the full amount of the DIP financing (\$5,000,000) to be received upon signing. Instead, the DIP funding is made monthly (\$2,000,000) based on forecasted needs. This created an unfavorable variance of \$3,000,000 in the receipts which is partly offset by a favorable variance of \$44,031 due to higher than anticipated collections of accounts receivable and government sales taxes refunds;
- 2) The overall favorable variance of \$587,393 in the disbursements is explained by:
  - a) Employees retained longer than projected to help in the on-going operations and vacations paid upon departure of employees. This also affected the related Deduction at Source ("DAS"). A timing variance occurred due to postponement of DAS remittance incurring therefore penalties for late payment. The total unfavorable variance for the Personnel Expenses amount to \$44,264;
  - b) The Operating Expenses were lower than forecasted especially for Hydro Quebec, electricity, due to lower consumption than forecasted. This favorable variance amounts to \$252,447;
  - c) Lower Professional Fees due to timing issues: favorable variance of \$206,406;
  - d) Savings incurred in the Other expenses due to timing issues related to the capital and municipal taxes: favorable variance of \$239,338;
  - e) Higher disbursements for the USA operations due to severance payment paid upon termination of employment of the Vice-President General Manager: unfavorable variance of \$66,534.
- 3) The resulting unfavorable cash flow variance is \$2,368,576;
- 4) The bank balance is however \$2,351,848 lower than projected due to the timing of the \$3,000,000 DIP funding. The Debtors have however managed their expenses in a way to incur savings of \$537,393 while realizing higher than expected collections of the accounts receivable and Government refunds totaling \$44,031. However this analysis is missing the actual receipts and disbursements from August 26 to 29, 2004. Management expects to disburse approximately \$20,000 during these four days which would not change the conclusions above.

- **Post-filing Obligations**

23. Debtors have been paying the post filing obligations as they become due. Certain expenses and professional fees have yet to be billed to the Company;

## V. DEBTOR IN POSSESSION FINANCING

24. Debtors have completed the sale of the remaining inventory and the collection of the residual accounts receivable. There are no commercial activities that may generate funds for the Company. The only activity since June 2004 and from the coming months relate to the safeguard of the facilities;

25. The Debtors cannot generate the additional funds required to cover ongoing expenses during the marketing period;
26. With the assistance of the Monitor, on June 10, 2004, EVH and Royal Bank Asset Based Finance, a division of Royal Bank of Canada, concluded a DIP Financing Agreement providing for an advance up to \$3,800,000. On June 15, 2004, Mr. Justice François Rolland rendered an Order approving the DIP Financing Agreement;
27. EVH is in compliance with terms of the DIP financing agreement;

#### **VI. SALE OF EVH OR ITS ASSETS**

28. EVH concluded in early 2004 that it was in the best interest of its creditors to terminate its operations and sell all of its assets. EVH retained the services of Scotia Capital Inc. ("Scotia") to find a buyer;
29. Scotia has advised the Monitor that the marketing process to date can be summarized as follows:
  - a) They have discussed the possibility of the purchase of the assets with over 60 prospective parties, including North American and International beverage companies, bottled water companies, bottles water industry participants, financial buyers and distressed asset purchasers and liquidators;
  - b) Between April 6, 2004 and June 16, 2004 more than 30 parties received the information package from Scotia;
  - c) During the same time period, 14 parties executed confidentiality agreements and out of such 14 parties 9 visited the data room established for the sale process, in order to examine the books, records and other documents regarding EVH therein contained and 7 such parties conducted site visits of EVH's plant;
  - d) A total of 4 formal offers were received on or before June 23, 2004 by Scotia pursuant the aforementioned marketing process;
  - e) Further to the receipt of the offers and pursuant to the recommendation of Scotia, EVH has had discussions with the offeror it felt would provide the best purchase price.
30. We are further advised by the representatives of EVH that:
  - a) On July 30, 2004, the retained offeror submitted a revised offer, which was accepted by EVH;
  - b) Negotiations between EVH and the offeror are ongoing;
  - c) Some unexpected problems have been encountered since the acceptance of said offer;
  - d) EVH and Scotia believe it is necessary to pursue the possible conclusion of the existing accepted offer and/or to explore other options with any other party. Such a transaction is expected to be concluded prior to the end of October 2004.

## VII. PLAN OF ARRANGEMENT TO BE FILED

31. As part of the process of finalizing the terms and conditions of the Plan of Arrangement the following steps were taken:
- a) DIP financing agreement with any party ready to advance such funds as allowed by Section 16 of the Initial Order;
  - b) Revoke all lease agreements pertaining to the warehouses, offices and other premises no longer required by Debtors;
  - c) Revoke all contracts no longer required by Debtors;
  - d) Update books and records and finalize list of creditors including dealing with creditors' claims, with the objective to resolve issues and come to an agreement as to amounts owed by Debtors to creditors;
  - e) Scotia identified potential purchasers, executed confidentiality agreements, organized visits of the premises and allowed access to the data room for potential buyers to perform due diligence with the objective of obtaining a final offer for the purchase of Debtors' assets and/or shares;
  - f) Scotia obtained offers to purchase;
  - g) Claim Determination Process was conducted pursuant to the Order rendered on June 8, 2004 by Mr. Justice François Rolland setting the Claim Bar Date (July 30, 2004) and establishing the Claim Determination Process.
32. The filing of a Plan of Arrangement to its creditors cannot be done until the negotiations between EVH and the offeror are still ongoing;
33. It is presently impossible to evaluate the funds that will be made available and/or the financial terms to be offered to settle with creditors. This will only be made possible once a sale transaction of Debtors' business (shares and/or assets) is determined;

## VIII. MOTION FOR THE EXTENSION OF TIME FOR THE FILING OF THE PLAN OF ARRANGEMENT

34. Pursuant to the Extension Order rendered on June 1, 2004, the stay period expires on August 31, 2004. Debtors are now seeking an extension of the stay period to Monday November 1, 2004 inclusively;
35. An extension of the stay period is necessary for Debtors to finalize the negotiations relating to the sale transaction discussed in this report and/or to explore other options with any other party;
36. The conclusion of the contemplated sale will enable Debtors to finalize the terms of the Plan of Arrangement to be filed;
37. During this reference period Debtors will rely on the DIP financing presently in place to support the safeguard measures;
38. The Monitor is of the opinion that the creditors will not suffer any prejudice by the allowance of the extension of delay sought by Debtors which would expire on November 1, 2004;

39. In the event of a bankruptcy of Debtors, it is unlikely that the creditors would benefit from a dividend;
40. The cash flow projections for the period September 1, 2004 to November 1, 2004 indicate that Debtors will have sufficient funds to support their current obligations;

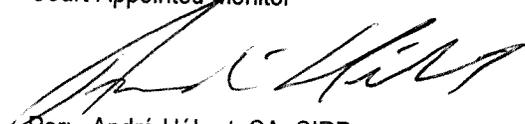
- **Monitor's Recommendation**

41. Based on our review of the information provided to us, as previously discussed in this Report, as well as our assessment of Debtors' good faith in dealing with its affairs, the Monitor recommends that Debtors' request for an extension of time for the filing of the Plan of Arrangement to November 1, 2004 be granted.

All of which is respectively submitted by RSM Richter Inc. in its capacity as Court-Appointed Monitor of EAUX VIVES HARRICANA INC., EVH U.S.A. INC and LES SOURCES PÉRIGNY.

DATED AT MONTREAL, this 30th day of August, 2004.

RSM RICHTER INC.  
Court-Appointed Monitor



Per: André Hébert, CA, CIRP

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
NO DE COUR : 500-11-022700-047

SUPERIOR COURT

**(Sitting as Tribunal designated under the  
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**IN THE MATTER OF THE PLAN OF  
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EAUX VIVES HARRICANA INC., legal person duly constituted under the laws of Québec, having its head office at 11 Chemin des Sablières, Saint-Mathieu-d'Harricana, Province of Québec, District of Abitibi, JOY 1M0;

-and-

EVH U.S.A. INC., legal person, duly constituted under the laws of Delaware, U.S.A., having a place of business at 17821 East 17th Street, Suite 193, Tustin, California, 92780, U.S.A.;

-and-

LES SOURCES PERIGNY INC, legal person duly constituted under the laws of Québec, having its head office at 11 Chemin des Sablières, Saint-Mathieu-d'Harricana, Province of Québec, District of Abitibi, JOY 1M0;

Petitioners

-and-

RSM RICHTER INC., a body politic and corporate, duly incorporated according to law, having a place of business at 2 Place Alexis-Nihon, 3500 Maisonneuve West, 22<sup>nd</sup> Floor, in the City of Montreal, Province of Quebec, H3Z 3C2

Monitor

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**Monitor's Report on Cash-Flow Statement**

The attached Statement of Projected Cash-Flow of the above-named Debtors as of the 27<sup>th</sup> day of August, 2004, consisting of a statement of projected cash receipts and disbursements, including notes thereto, covering the period from the 1st day of September, 2004 to the 31st day of October 2004 has been prepared by the Management of Eaux Vives Harricana Inc., EVH U.S.A. Inc. and Les Sources Périgny Inc. (collectively "EVH") for the purpose described in Note 1, using probable and hypothetical assumptions set out in Note 3.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the Management and employees of EVH. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

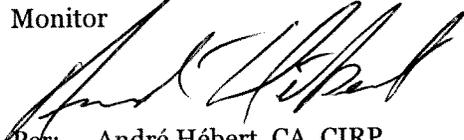
- (a) The hypothetical assumptions are not consistent with the purpose of the projection;
- (b) As at the date of this Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) The projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated at Montréal, Province of Québec, this 27<sup>th</sup> day of August, 2004.

RSM RICHTER INC.  
Monitor



Per: André Hébert, CA, CIRP

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
NO DE COUR : 500-11-022700-047

SUPERIOR COURT

(Sitting as Tribunal designated under the  
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Quebec, H3Z 3C2

Monitor

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**Report on Cash-Flow Statement by the Person Making the Proposal**

The Management of Eaux Vives Harricana Inc., EVH U.S.A. Inc. and Les Sources Périgny Inc. (collectively "EVH") has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent person, as of the 27<sup>th</sup> day of August 2004, consisting of a statement of projected cash receipts and disbursements, including notes thereto, covering the period from the 1st day of September 2004 to the 31st day of October, 2004.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions have been disclosed in Note 3.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented and variations may be material.

The projection has been prepared solely for the purpose described in Note 1, using a set of probable and hypothetical assumptions set out in Note 3. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Montréal, Province of Québec, this 27<sup>th</sup> day of August, 2004.

EAUX VIVES HARRICANA INC. & EVH U.S.A. INC. & LES SOURCES PÉRIGNY INC.

Per: Mark Mungelsdorf

*Mark Mungelsdorf* 27-8-04  
Vice President & General Manager

# EAUX VIVES HARRICANA INC.

## Cash flow projections

For the two month period ending October 31st, 2004

	SEPTEMBER	OCTOBER
<b>OPENING BALANCE</b>	<b>548,724</b>	<b>118,898</b>
<b>INFLOWS</b>		
From receivables USA	-	-
From receivables CND	-	-
From government	-	500,000
Dip Financing	-	500,000
<b>TOTAL INFLOWS</b>	<b>-</b>	<b>500,000</b>
<b>CASH OUTFLOWS</b>		
<b>Canada Outflows:</b>		
<b>Personnel Expenses</b>		
Expense report	200	200
London Life retirement plan	679	466
Payroll (employees)	13,767	6,777
Payroll (social benefit)	9,637	4,744
Sun Life (group insurance)	200	200
<b>Subtotal</b>	<b>24,483</b>	<b>12,387</b>
<b>Operating Expenses</b>		
Bell	450	450
Dicom	86	86
EVH pick up rental	-	-
EVH Pick up maintenance	-	-
Fedex	75	75
Gaz métropolitain	1,500	3,000
House keeping (St-Mathieu)	440	440
Hydro-Québec (electricity)	15,000	20,000
Informatika	200	200
Livingston (FDA)	-	-
Maheu & Maheu extermination	190	190
Mirado (security agency)	14,000	17,000
OFFICE Supplies	200	200
Parmalat Dairy	-	-
Parmalat Canada (Umbrella Insurance Policy)	-	-
Télébec (telephone)	-	-
<b>Subtotal</b>	<b>34,581</b>	<b>44,081</b>
<b>Professional Fees</b>		
Davies, Ward Phillips & Vineberg	150,000	150,000
RSMRichter	75,000	100,000
Samson Belair Deloitte & Touche	-	50,000
Legal advisor to Monitor	20,000	-
Scotia Capital**	20,000	20,000
<b>Subtotal</b>	<b>265,000</b>	<b>320,000</b>
<b>Dip financial costs</b>		
Interests	14,583	17,500
Unused Line Fee	449	241
Monitoring fees	1,000	1,000
Legal costs	-	-
Acceptance Fee	-	-
<b>Subtotal</b>	<b>16,033</b>	<b>18,741</b>
<b>Other Expenses</b>		
Government Canada & Québec (capital tax)	32,254	32,254
Permits	1,000	1,000
Revenue Québec	-	-
School taxes	-	-
St-Mathieu taxes	-	-
Miscellaneous Can	4,000	4,000
<b>Subtotal</b>	<b>37,254</b>	<b>37,254</b>
<b>Total Canada Outflows</b>	<b>377,351</b>	<b>432,463</b>
<b>USA Outflows (Canadian \$ @ \$1.31 exchange rate)</b>		
<b>Personnel Expenses</b>		
USA (payroll & taxes)	-	-
USA Farmland	45,850	68,775
<b>Subtotal</b>	<b>45,850</b>	<b>68,775</b>
<b>Operating Expenses</b>		
USA Boothcrafter	426	426
USA National Testing Laboratory	200	200
USA Phone	-	-
<b>Subtotal</b>	<b>626</b>	<b>626</b>
<b>Professional Fees</b>		
USA CPA Bob berleson and Ass.	2,500	2,500
<b>Subtotal</b>	<b>2,500</b>	<b>2,500</b>
<b>Other Expenses</b>		
USA Miscellaneous	1,500	1,500
<b>Subtotal</b>	<b>1,500</b>	<b>1,500</b>
<b>Total USA Outflows</b>	<b>50,476</b>	<b>73,401</b>
<b>TOTAL OUTFLOWS</b>	<b>427,827</b>	<b>505,864</b>
<b>CLOSING BALANCE</b>	<b>118,898</b>	<b>113,034</b>

\*\*Note : Scotia Capital's success fees are payable upon completion of the sale transaction of the Company

**Eaux Vives Harricana Inc. & EVH U.S.A. Inc. & Les Sources Périgny Inc.**

**Notes and Assumptions to Projected Cash Flow  
for the Period September 1, 2004 to October 31, 2004**

**Note 1: General**

The attached Cash Flow has been prepared by Management for the sole purpose of assessing the cash requirements of the Company for the period. As the Cash Flow is based upon various assumptions relating to events and circumstances, variances will exist and said variances may be material.

**Notes 2: Activities**

There is no longer production at the plant and the sale process of the remaining inventory as well as the collection of the accounts receivable are completed. The Company's main activities are to safeguard asset and maintain book and records.

**Note 3: Assumptions**

**Inflows**

Dip financing

The company entered into a Dip financing agreement in the month of June 2004. The advance forecasted are in respect of said agreement.

**Outflows**

Personnel Expenses:

Salaries are payable bi-weekly, including benefits.

Operating Expenses:

Cost of utilities and other minor expenses required to secure facilities.

Professional fees:

Estimate of the fees for professionals services relating to the restructuring.

Other Expenses:

Various expenses relating to ongoing agreements, payable according to terms agreed.

