RSM! Richter Inc.

RSM Richter Inc.
2, Place Alexis Nihon
Montréal (Québec) H3Z 3C2
Téléphone / Telephone : (514) 934-3497
Télécopieur / Facsimile : (514) 934-3504
www.rsmrichter.com

C A N A D A
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
COURT NO. : 500-11-022700-047

S U P E R I O R C O U R T

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

IN THE MATTER OF THE PLAN OF ARRANGEMENT OF:

9161-5849 Québec Inc. (formerly known as 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, J0Y 1M0;

- and -

41902 Delaware Inc. (formerly known as 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 -

9161-5286 Québec Inc. (formerly known as 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, J0Y 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, 22nd Floor, in the City of Montréal, Province of Québec, H3Z 3C2;

Monitor

REPORT OF THE MONITOR ON THE STATE OF THE DEBTORS' FINANCIAL AFFAIRS AND THE PLAN OF ARRANGEMENT
(Under section 11.7(3)(b)(ii) of the *Companies' Creditors Arrangement Act*)

9161-5849 Québec Inc., formerly known as Eaux Vives Harricana Inc. ("EVH Inc."), 41902 Delaware Inc., formerly known as EVH U.S.A. Inc. ("EVH USA"), and 9161-5286 Québec Inc., formerly known as Les Sources Périgny Inc. ("Périgny"), (collectively "Debtors" or "EVH") filed on December 14, 2005 with the Québec Superior Court, a joint Plan of Arrangement ("Plan") in accordance with the provisions of the *Companies' Creditors Arrangement Act* (the "CCAA").

To assist the Creditors in their assessment of the Plan, which will be voted at the Meeting of Creditors to be held on February 2, 2006, the Monitor, RMS Richter Inc. (“Richter”), hereby submits a Report on the state of the Debtors’ financial affairs and the Plan.

The amounts indicated in this Report are expressed in Canadian dollars, unless indicated otherwise.

We would caution the Reader that the Monitor has not conducted an audit of the books and records of the Debtors. Accordingly, the Monitor cannot provide an opinion regarding the accuracy or completeness of the information contained in this Report. The information included in this Report has been extracted from the books and records that have been made available to us as well as from discussions with the Management of EVH.

I. HISTORY OF THE DEBTORS

EVH Inc. is a company duly constituted in 1997 pursuant to the *Companies Act (*Québec) in order to harness, bottle and distribute natural spring water from a pristine source located in Saint-Mathieu-d’Harricana, Québec. The source of the water is an “Esker”, a rare geological formation that produces spring water of exceptional quality through its natural filtration process. On December 31, 1998, the Québec Government granted EVH Inc. the necessary permit(s) pertaining to the harnessing of underground water for bottling purposes.

EVH USA is a legal person duly constituted under the laws of Delaware, United States. EVH USA acted solely as a marketing, sales and distribution agent for EVH Inc. As such, EVH USA is dependent upon EVH Inc. and cannot be dissociated therefrom, which explains the present joint Plan.

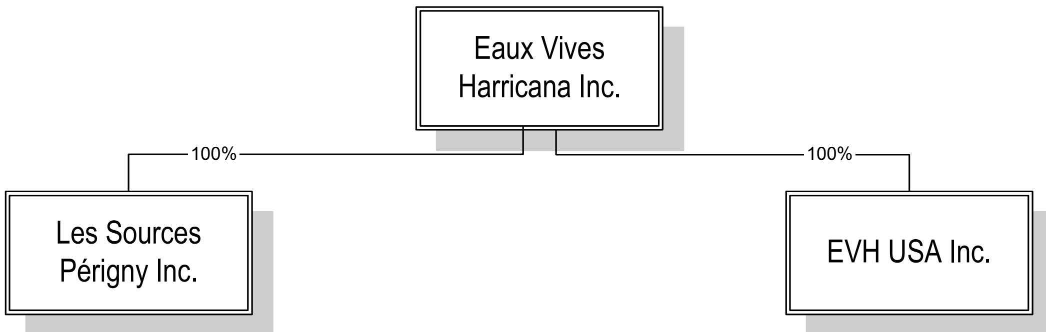
Périgny is a legal person duly constituted under the laws of Québec and a wholly-owned subsidiary of EVH. While Périgny is a distinct legal entity from EVH Inc., its assets and liabilities cannot be dissociated from EVH Inc., which explains the present joint Plan.

In August 2000, Parmalat Holding Limited (formerly known as Parmalat Canada Limited) ("Parmalat") acquired a participation in EVH Inc.'s share capital in an amount of approximately $16.9 million ($15.5 million for 600,000 Class A and $1.4 million for one Class E). EVH Inc.'s share capital, as of today, can be described as follows:

Authorized	Issued and fully paid	
Number of:		
Unlimited Class A (voting) shares	1,000,000 shares representing an amount of	$16,510,370
Unlimited Class B (non-voting) shares		Nil
Unlimited Class C (non-voting) shares		Nil
Unlimited Class D (non-voting) shares		Nil
One Class E (non-voting) share	1 share representing an amount of	1,400,000
all with nominal value.	Total value of Capital share of	$17,910,370
Shareholders	**% of Class A Shares**	**% of Class E Shares**
Parmalat	60%	100%
Gestion E.V.H. Harricana Inc. *(Note 1)*	40%	–

Note 1 Which is composed of a group of minority Shareholders (including certain local investors not related to Parmalat).

The corporate organization chart of the Debtors is as follows:



In early 2001, EVH Inc. announced that it was proceeding to construct an ultra modern bottling, warehousing and distributing facility ("Facility"). EVH Inc. invested some $57,000,000 to build the Facility, considered to be "state of the art" within the industry. It was inaugurated in September 2002.

EVH introduced in late 2002 its bottled water, under the trade name of "ESKER", into select markets in Canada and Southwest United States.

II. FINANCIAL DIFFICULTIES

The 2002 product launch required continued financial support to fund the significant investments made by EVH in research, marketing, advertising as well as the operating deficits. In total, over a three-year period (from 2001 to 2003), Parmalat advanced to EVH Inc. $85,191,000. These funds were used to finance the construction of the Facility as well as EVH's working capital requirements.

In December 2003, given EVH's disappointing performance, Parmalat decided to withdraw its financial support and informed EVH that it would not make any new loans or advances.

Without the continued financial support of Parmalat, EVH Inc. was forced to shut down the bottling plant on February 13, 2004 and to proceed with the winding-down of its affairs. Thereafter, the remaining commercial activities related mainly to the disposal of the remaining inventory and the collection of receivables.

III. CCAA FILING

As a result of the above, EVH was no longer able to meet its obligations as they became due.

EVH's Management and ownership determined that it was in the best interest of the various stakeholders that the Debtors seek the authorization of the Court for protection under the provisions of the CCAA. In this regard, on March 19, 2004, the Court granted the Initial Order. Since then, the Initial Order has been amended and extended on various occasions. The current extension period expires on February 28, 2006.

Richter has been acting as Monitor, as provided for in the Initial Order.

IV. DIP FINANCING

In view of the fact that EVH was no longer in operation and that the sale of the remaining inventory, as well as the collection of the residual accounts receivable would not provide sufficient funds to cover its current expenses, EVH requested a DIP financing facility with the Royal Bank of Canada ("RBC") for up to $3,578,000. This DIP financing was approved by the Court on June 15, 2004. This financing provided the funding for the payment of the fees for professional services rendered by the various advisors and to support the current level of activities which consisted mainly on realizing the residual assets, implementing and maintaining the protective and security measures to safeguard the Facility.

On September 16, 2005, an amount of $2,848,717 was remitted to RBC as a full and final reimbursement of capital, interest and fees. Previous to this date, EVH had paid $195,145 in acceptance and legal fees.

V. SALE PROCESS

After having explored its options, EVH determined that it was in the best interests of its creditors to sell the Facility as a business opportunity. EVH therefore commenced in March 2004 a sale process with the assistance of Scotia Capital ("Scotia"), who was to market the Facility.

In summary, the salient facts about the sale process are:

a) Initial Process

- On July 30, 2004, EVH accepted an offer;
- Some unexpected financing problems were encountered by the offeror;
- The offeror did not comply with its obligations pursuant to the offer, and EVH had no choice but to terminate in September 2004 the negotiations with the offeror.

b) Second Process

- Throughout the months of October 2004 to January 2005, Scotia, EVH and the Monitor re-established communications with all those parties that had been identified as potential buyers;
- A new sale process was launched and the market was once again canvassed;
- The Monitor, EVH and Scotia dealt mainly with six (6) interested parties and potential buyers;
- On January 21, 2005, EVH accepted an offer submitted by Quebec Waters Inc. ("Quebec Waters");
- An Order was granted on February 23, 2005, by the Québec Superior Court, authorizing the sale to Quebec Waters;
- The Debtors and the Monitor made arrangements for a closing, ultimately scheduled for May 4, 2005;
- Quebec Waters failed to complete the sale transaction;
- As instructed by EVH, Richter confiscated a $1,000,000 deposit held in trust to secure Quebec Waters' undertakings pursuant to their offer to purchase. Quebec Water did not challenge the confiscation of its deposit.

c) Third Process

On May 25, 2005 and as further revised on May 26, 2005, following discussions with Morgan Stanley & Co., the Monitor received a signed expression of interest (the "EOI"), indicating that they were "highly interested" in acquiring EVH's assets.

In view of the content of the EOI, as well as taking into account previous canvassing results and terms and conditions of previous offers received, EVH and the Monitor concluded that it was not necessary to initiate a new sale process and canvass the market once again.

The following events then occurred:

- Pursuant to negotiations with Morgan Stanley & Co., on July 15, 2005, the entity selected as the nominee for the sale transaction, Eaux Vives Water Bottling Corp. (the "Purchaser"), entered into an asset purchase agreement ("APA") with EVH;
- The Monitor's report to the Court, dated July 28, 2005 concludes that the proposed transaction should be approved for the following reasons:
  - The purchase price is, under the circumstances, fair and commercially reasonable and the sale price achieved was arrived at in a commercially reasonable manner, as:
    - The assets of EVH have been widely marketed for a considerable length of time;
    - EVH has acted in good faith throughout the process;
    - The most likely purchasers of EVH have been identified and contacted. Further marketing efforts are unlikely to result in the identification of new prospective purchasers;
    - The purchase price offered exceeds the forced liquidation value of EVH's assets;
    - The proposed sale transaction is in the best interest of the creditors of EVH;
  - The Transaction allows to restart the operations at the Saint-Mathieu d'Harricana plant and preserving and creating additional jobs in the province of Québec;
  - If the transaction is not concluded in a timely manner, the Debtors will not have the financial resources to continue to maintain the safeguard of its assets and, as such, this would most likely result in the forced liquidation of its assets;
- On July 29, 2005, the Superior Court (sitting as Tribunal designated under the Companies' Creditors Arrangement Act) rendered an Order authorizing the sale transaction and the appointment of Richter as Interim Receiver to complete the sale;
- On August 25, 2005, further to the accomplishment of all conditions precedent contemplated by the APA, the various purchase and sale documents were completed;
- On September 15, 2005, upon confirmation of registration of the transaction, the purchase price of $18,000,000 was remitted in full to the Monitor.

VI. FINANCIAL INFORMATION

The financial information below is derived primarily from the consolidated unaudited financial statements of EVH and from our limited discussions with EVH's management. In view of the fact that EVH ceased its operations in February 2004 and then proceeded to liquidate its inventory and collect its residual accounts receivable, the Monitor has established that the reference information should be the consolidated unaudited financial statements as at February 28, 2004 for the historical financial results, and March 19, 2004 for the balance sheet items.

This information is presented solely to assist the creditors in assessing the financial situation of EVH when it ceased its operations. The Monitor makes no representation and gives no guarantee as to the accuracy or completeness of the financial information contained in this Report.

Operating Results

In order to provide the creditors with a better understanding of EVH's results from operations before the interruption of its activities in February 2004, we summarize the consolidated operating results as follows:

Consolidated Operating results (in $'000)	2004 February (Unaudited) (Two months)	2003 December (Unaudited)	2002 December (Audited)	2001 December (Audited)
Sales (net of discounts)	859	4,761	358	–
Cost of goods sold	2,248	12,448	1,038	–
Gross margin	(1,389)	(7,687)	(680)	–
Gross-margin percentage	*(162%)*	(161%)	(190%)	–
Sales and administration costs	1,271	23,168	6,370	62
Financial expenses	850	4,705	963	4
Net Losses before income taxes	(3,510)	(35,560)	(8,013)	(66)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	(1,451)	(23,675)	(5,265)	(62)
Operating statistic				
Sales Volume (in Cases)	47,931	854,474	62,934	–

- **Balance Sheet**

We are submitting hereafter the most recent unaudited consolidated balance sheet of EVH, as at March 19, 2004, being the date of the Initial Order pursuant to the CCAA filing:

Preliminary Unaudited Consolidated Balance Sheet ***(Notes 1 and 2)*** **as at March 19, 2004** **(in $'000)**	
ASSETS	
Current assets:	
Cash	$ 157
Accounts receivable	940
Inventories	2,034
Prepaid expenses	279
	3,410
Fixed assets (net book value)	50,902
Other assets	9,426
	$ 63,738
LIABILITIES	
Current liabilities:	
Accounts payable and accrued charges *(Note 3)*	$ 9,575
Due to Parmalat Holding Limited *(Note 4)*	85,191
	94,766
Due to Investissement Québec *(Note 3)*	3,000
Deferred Tax	3,517
SHAREHOLDERS' DEFICIENCY	
Share capital	17,910
Deficit	(55,455)
	(37,545)
	$ 63,738

Note 1 EVH USA had nominal assets which includes cash ($53,000) and office equipment ($22,000).

Note 2 Périgny was the owner of an old unused bottling plant having a net book value of approximately $587,000.

Note 3 The value of the proof of claims filed total $11,999,000.

Note 4 The amount owing to Parmalat is $85,191,000 plus $2,298,000 of unpaid interest.

a) Assets

The following are our specific comments concerning EVH's assets:

i) Cash ($157,000)

The cash has since been used by EVH.

ii) Accounts receivable ($940,000)

The good accounts were collected by the Debtors by May 2004.

iii) Inventories ($2,034,000)

The finished goods inventories, mostly located in the USA, were sold by May 2004, at discounted prices. Some packaging supplies and labels (identifying Parmalat and EVH) were destroyed or recycled. The remaining inventories of raw material were sold to Eaux Vives Water Bottling Corp. in September 2005. The book value of these inventories was:

Inventories (in $'000)	Amount as per Books
Finished goods	$1,867
Raw material	1,371
Work in process	86
	3,324
Provision	(1,290)
	$2,034

iv) Prepaid expenses ($279,000)

The prepaid expenses consisted primarily of prepaid property taxes and insurance, and had no realization value.

iv) Fixed assets ($50,902,000)

The fixed assets consisted primarily of the Facility located in Saint-Mathieu d'Harricana, as well as the initial plant and equipment used by Périgny, which are detailed as follows:

Fixed Assets	2004		
(in $'000)	Cost	Accumulated depreciation	Net book value
Land	249	–	249
Buildings	24,259	n/a	n/a
Machinery and equipment	29,413	n/a	n/a
Well	1,964	n/a	n/a
Office and computer equipment	1,869	n/a	n/a
	57,754	6,852	50,902

vii) Other assets ($9,426,000)

These other assets primarily consist of the net book value of deferred start-up and marketing costs.

b) Liabilities ($97,766,000)

EVH's liabilities are summarized as follows:

Liabilities (in $'000)	Amount as per Book	Amount as per Proof of Claim
Secured creditor	$85,191	$87,489
Ordinary creditors	12,575	11,999
	$97,766	$99,488

Our comments on these liabilities are:

i) Secured creditors ($87,191,000)

A claim in the amount of $87,488,942.82 (capital $85,191,000 and interest $2,298,000) has been filed by Parmalat, as a Secured Creditor.

It is important to note that, if the Plan is accepted by the creditors, Parmalat has agreed to be collocated as an ''unsecured creditor'' and to participate in the distribution, on a *pro rata* basis, with the other creditors affected by the Plan.

ii) Unsecured creditors ($12,575,000)

The unsecured creditors are those creditors that do not have any charge against the assets of the Debtors. The value of the proof of claims filed by the unsecured creditors total approximately $11,999,000 (US$ claims converted at 1.331).

Some of these claims are currently under review or litigation and the conclusion of said review could affect the total value of the unsecured claims.

VII. EVENTS SUBSEQUENT TO THE INITIAL ORDER OF MARCH 19, 2004

In accordance with the provisions of the Initial Order, the Monitor has monitored the activities of EVH since March 19, 2004. In summary the salient facts are:

- **Operations**

Pursuant to obtaining the Court's protection in March 2004, in addition to collecting accounts receivable and disposing of the residual finished goods inventory, EVH initiated a mothballing program and, as such, instituted the required measures to safeguard the Facility located in Saint-Mathieu d'Harricana, to maintain it in an operating state as well as preserving the various operating permits.

- **Sale of Assets**

As discussed in section V of this Report, the main efforts of EVH throughout the period were to identify a buyer and finalize a sale transaction.

- **Expenses**

The Statement of Receipts and Disbursements for the period between March 19, 2004, and December 16, 2005, is summarized as follows:

Statement of Receipts and Disbursements from March 19, 2004 to December 16, 2005 **(in $'000)**	**EVH Accounts**	**RSM "In Trust" Account**	**Total Actual**
RECEIPTS *(Note 1)*			
Sale of Assets	$ –	$18,000	$18,000
Dip Financing	2,500	–	2,500
Forfeited deposit	–	1,000	1,000
Contributions to expenses	–	235	235
Collection of accounts receivable/sale of inventory	845	–	845
Sales taxes and other government receivable	372	64	436
Transfer from Richter trust account	183	(183)	–
Interest	–	117	117
TOTAL RECEIPTS	3,900	19,233	23,133
DISBURSEMENTS			
Operating expenses			
Payroll costs	1,671	–	1,671
Utilities and safeguard measures	703	(18)	685
Property taxes, permits and others	202	283	485
	2,576	265	2,841
Professional fees			
Davies Ward Phillips & Vineberg	627	543	1,170
Scotia Capital	117	273	390
Richter	394	428	822
Others	148	–	148
	1,286	1,244	2,530
DIP Financing costs			
Interest, charges and fees	195	349	544
Capital repayment	–	2,500	2,500
	195	2,849	3,044
TOTAL DISBURSMENTS	4,057	4,358	8,415
	(157)	14,875	14,718
Cash at beginning	157	–	157
Cash at end	$ –	$14,875	$14,875

Note 1 EVH has no remaining assets to be realized upon other than the recovery of GST/QST credits.

VIII. PLAN

a) Filing of the Plan

On December 14, 2005, EVH filed the Plan. On December 23, 2005, the creditors who had submitted their proof of claim prior to July 30, 2004 (per Claim Process authorized by the Court) were advised by the Monitor of the filing of the Plan and of the upcoming creditors' meeting, scheduled for February 2, 2006, to vote on the Plan. The creditors should refer to this official document for the legal description of the class of creditors as well as the terms of the Plan.

The proposed Plan provides for the funds on deposit with the Monitor which, once the Secured Claims, the Crown's Claims, the Unaffected Claims, the DIP Loan and various expenses relating to the CCAA process have been paid (defined as "Distribution Fund"), will be distributed to EVH's unsecured creditors. In this regard, Parmalat will participate to the Plan as unsecured creditors if and only to the extent that the Plan is accepted by the creditors and sanctioned by the Court.

Pursuant to the Plan, the unsecured creditors will receive full payment of the first $1,000 of their claim and the balance of the Distribution Fund will be distributed between the unsecured creditors proportionally to their unsecured claim that is a Proven Claim until the Distribution Fund has been exhausted.

b) Validity of the Plan

The creditors are being asked to vote on the Plan submitted by EVH. They must decide to either accept or reject the Plan.

The acceptance of the Plan by all of the creditors should permit a timely distribution to the creditors and "closure" for EVH. The rejection of the Plan by the creditors will result in a period of uncertainty which will most likely result in a bankruptcy and further delays for the distribution to the creditors.

It is important that the creditors take into account that EVH, in seeking the initial Court protection under the CCAA, was able to obtain the necessary delays (which were financed with a DIP facility) to negotiate a sale transaction at a fair market value, thus, realizing higher values than a forced liquidation scenario would have generated.

Furthermore, as provided for in the Plan, the claim in the amount of $87,488,942.82 filed by Parmalat, as a secured creditor, will be treated as "unsecured" for the purposes of the distribution under the Plan.

However, in a bankruptcy situation, Parmalat will insist upon its secured rights and is likely to try to enforce its security. Assuming the validity of said rights as "secured creditor", Parmalat's claim would rank in priority of the unsecured creditors' claims and, as such, be entitled to demand the remittance of all of the funds on deposit with the Monitor.

c) Estimated distribution

Based on the funds presently held by the Monitor, the distribution under the Plan represents an estimated distribution of approximately 14¢ on the dollar:

Estimated Distribution (in '000$)	**Plan**		**Bankruptcy**	
Funds on deposit	14,875	14,875	14,875	14,875
Provision for post-filing claims and professional fees	(620)	(770)	(620)	[illegible])
Estimated funds available for distribution	14,255	14,105	14,255	14,105
Preliminary total proven claims	99,488	99,488	99,488	99,488
Estimated realization under the Plan				
Secured Creditor ($87,489)	14%	14%	16%	16%
Unsecured Creditors ($11,999)	14%	14%	0%	0%

IX. CONCLUSION

The Monitor is of the opinion that the distribution under the Plan will be more expeditious and in the best interest of the creditors and, as such, advantageous for all the creditors versus a bankruptcy scenario. The Monitor therefore recommends to the creditors to vote in favour of the Plan.

The creditors may remit their voting letters, indicating their votes, to the Monitor prior to the meeting of creditors or, alternatively, they may attend the meeting of creditors, to be held on February 2, 2006, to obtain any additional clarification which they may deem necessary and to vote thereat.

DATED AT MONTREAL, this 23rd day of December 2005.

RSM Richter Inc.
Court-Appointed Monitor

Yves Vincent, FCA, CIRP