

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO DE COUR : 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
Maisonneuve West, 22nd Floor, in the City of
Montreal, Province of Quebec, H3Z 3C2

Monitor

**SECOND REPORT OF THE DESIGNATED MONITOR
ON THE STATE OF DEBTORS' FINANCIAL AFFAIRS
(MAY 31, 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. This second 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
- Plan of arrangement to be filed
- Motion for the extension time for the filing of the plan of arrangement

4. We would 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

5. The Monitor has replied on a timely basis, to all queries from creditors;
6. 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 internet site (i.e. www.rsmrichter.com);

• Monitoring

7. The Monitor has implemented procedures to insure a proper monitoring of the receipts and disbursements, as provided by the CCAA;
8. The Monitor has been actively involved with Debtors' Management in dealing with important issues that have arisen since the rendering of the Initial Order;
9. The Monitor has been kept informed of how Scotia Capital Inc. is managing the marketing process, of steps followed and the interest demonstrated for the Company;
10. The Monitor has been actively involved in the steps undertaken to secure DIP Financing;

III. CURRENT OPERATIONS

• Activities

11. The activities at the plant of EVH have been suspended since February 13, 2004. From thereon, EVH devoted its efforts to sell the remaining inventory and collect the accounts receivable in Canada and in the United States. At present, most of the inventory has been sold and all of the accounts receivable have been collected. Therefore the activities in the following months will consist of preserving the facilities, maintaining the plant in good state and assist in the sale process;

- **Inventory**

- Plant

- 12. All the inventory at the plant has been sold to date;

- Warehouses in Canada

- 13. The owner of warehouses in Laval and Toronto refuses 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

- 14. All the merchandise has been sold;

- **Accounts Receivable**

- 15. Most accounts receivable has been collected and Management are dealing with the remaining accounts;

- **Employees**

- 16. It is forecasted that from the six employees remaining in St-Mathieu d'Harricana only four will be left in the following weeks. All of the American employees were terminated in May 2004 except for the Vice-President and General Manager of EVH, the whole in respect of the debtors restructuring plan;

- **Facilities**

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

- **Les Sources Périgny Inc.**

- 18. 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**

- 19. Since the initial order, Debtors have collected most of the residual accounts receivable. As mentioned before most of the remaining inventory has been sold except for the merchandise in warehouses being withheld by the warehouse owners in Canada. The proceeds thereof are used to finance the current operating expenses of Debtors;

- 20. In view of the fact that EVH is no longer in production and that the sale process of the remaining inventory as well as the collection of the accounts receivable are virtually completed, minimum

cash-flow will be generated. Therefore Debtors are relying on a DIP financing, soon to be concluded with a financial lender, to enable Debtors to support the limited activities of the coming months;

- **Cash flow projections**

21. Included as Appendix A of this report is a summary of Debtors' cash flow forecast for the period June 3 to August 29, 2004;

The Debtors had filed with the "Motion for the Extension of Time for the Filing of the Plan of Arrangement" on April 15, 2004 a cash-flow statement covering the period from April 17 to June 2, 2004. We submit below a summary comparison of projected and actual results as at May 21, 2004:

| | Projected April 17 to June 2, 2004 | Actual April 17 to May 21, 2004 | Variances |
|----------------------|--|---------------------------------------|--------------------------------|
| Receipts | 330,983 | 389,593 | 58,610 ⁽¹⁾ |
| Disbursements | <u>521,036</u> | <u>524,341</u> | <u>(3,305) ⁽²⁾</u> |
| Variances | (190,053) | (134,748) | 55,305 ⁽³⁾ |
| Opening bank balance | <u>287,157</u> | <u>240,256</u> | <u>(46,901) ⁽⁴⁾</u> |
| Closing bank balance | <u>97,104</u> | <u>105,508</u> | <u>8,404 ⁽⁴⁾</u> |

Note:

- 1) The positive variance of \$58,610 of the receipts is due mainly to quicker than anticipated collection of accounts receivable;
- 2) The negative variance of \$3,305 in the disbursements is due, in part, by:
 - a) Employees retained longer than projected to help in the on-going operations, \$10,934;
 - b) Fees and charges incurred related to finding interested investors willing to enter into a DIP financing facilities, \$62,500;
 - c) Higher electricity costs due to new-payment terms negotiated, \$15,795;
 - d) Savings incurred in the USA warehouses' rent due to earlier than projected sale of all remaining inventory, (\$51,130);
 - e) Savings in the USA operations due to earlier than expected closing of the sale office, (\$11,112);
 - f) Other general expenses not incurred, (\$23,682);
- 3) The Debtors generated a positive variance of \$55,305 from the operations between April 17 and May 21, 2004.
- 4) The bank balance is however \$8,404 higher than projected due to a lower than projected bank balance at beginning of the period. However this comparison is missing the actual receipts and disbursements from week ending May 28, 2004. Management expects to disburse approximately \$95,000 during this week which would leave a closing bank balance

of approximately \$10,000, as at May 28, 2004, which is much lower than the projected \$97,104;

- **Post-filing Obligations**

22. Debtors are paying the post filing obligations as they become due, except for the professional fees relating to the restructuring process;

V. DEBTOR IN POSSESSION FINANCING

23. Debtors have virtually completed the sale of the remaining inventory and the collection of its residual accounts receivable. The activities from the coming months will be minimal in order to secure and maintain the facilities;

24. Given the limited resources of the Debtors additional funds are required to cover ongoing expenses while Debtors complete the ongoing process of the sale of the business;

25. Debtors with the assistance of the Monitor are actively dealing with interested lenders to enter into a DIP financing agreement to advance the estimated required funds. The terms and conditions will be submitted to the Court;

26. The discussions with potential lenders are ongoing. They are completing their due diligence.

27. The Monitor is actively assisting EVH in its discussions and steps to obtain DIP financing and is confident that a DIP financing transaction will be completed shortly;

VI. PLAN OF ARRANGEMENT TO BE FILED

28. As part of the process of finalizing the terms and conditions of the Plan of Arrangement these following measures are required to be dealt with:

- a) enter into and conclude 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 Capital Inc. continue to identify potential purchasers, enter into confidentiality agreements, organize visits of the premises and 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) finalize the terms and conditions of the proposed purchase transaction;

29. The accomplishment of the above mentioned elements are essential for Debtors before providing to the filing of a Plan of Arrangement to its creditors;

30. 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 safe transaction of Debtors' business (shares and/or assets) is determined;

VII. MOTION FOR THE EXTENSION OF TIME FOR THE FILING OF THE PLAN OF ARRANGEMENT

31. Pursuant to the Extension Order rendered on April 15, 2004, the stay period expires on June 2, 2004. Debtors are now seeking an extension of the stay period to August 31, 2004;
32. An extension of the stay period is necessary for Debtors to seek potential purchasers for EVH's assets or EVH's shares;
33. The conclusion of the sale process will enable Debtors to finalize the terms of the Plan of Arrangement to be filed;
34. During this reference period and in the event that it may be required in the future, Debtors will be negotiating with lenders willing to enter into a DIP financing agreement in order to support the ongoing restructuring process, and same will be submitted to the Court;
35. 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 August 31, 2004;
36. In the event of a bankruptcy of Debtors, it is unlikely that the creditors would benefit of a greater dividend than the one that would most likely be offered to them following the results of the sale process presently being managed by Scotia Capital Inc.;
37. The cash flow projections for the period June 1, 2004 to August 31, 2004 indicate that Debtors will have sufficient funds to support their current level of operations and meet their current obligations. The whole subject to enter into a DIP financing agreement;

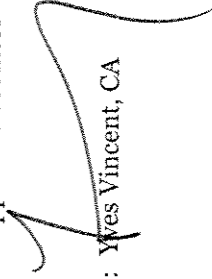
• Monitor's Recommendation

38. Considering that the Debtors will be completing the DIP financing arrangements and 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 August 31, 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 31st day of May, 2004.

RSM RICHTER INC.
Court-Appointed Monitor


Per: Yves Vincent, CA

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-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.;

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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, 22nd Floor, in the City of Montreal, Province of Quebec, H3Z 3C2

Monitor

Monitor's Report on Cash-Flow Statement

The attached Statement of Projected Cash-Flow of the above-named Debtors as of the 6th day of December, 2004, consisting of a statement of projected cash receipts and disbursements, including notes thereto, covering the period from the 1st day of December, 2004 to the 28th day of February 2005 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.

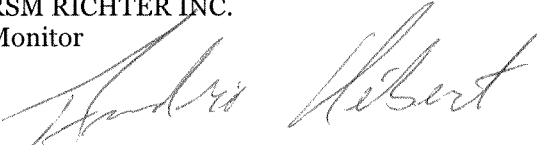
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

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 6th day of December, 2004.

RSM RICHTER INC.

Monitor

A handwritten signature in cursive script, appearing to read "André Hébert".

Per: André Hébert, CA, CIRP

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West, 22nd Floor, in the City of Montreal, Province of
Quebec, H3Z 3C2

Monitor

Mark Mangelsdorf
12-6-04

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 6th day of December 2004, consisting of a statement of projected cash receipts and disbursements, including notes thereto, covering the period from the 1st day of December 2004 to the 28th day of February, 2005.

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 6th day of December, 2004.

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

Per: Mark Mangelsdorf

Mark Mangelsdorf

EAUX VIVES HARRICANA INC.
Cash flow projections (Fifth extension December 8, 2004)
For the period ending February 28th, 2005

| | DECEMBER | JANUARY | FEBRUARY |
|--|----------------|----------------|----------------|
| OPENING BALANCE | 166,081 | 249,713 | 425,810 |
| INFLOWS | | | |
| From receivables USA | - | - | - |
| From receivables CND | - | - | - |
| From government | - | - | - |
| Dip Financing | 500,000 | 500,000 | - |
| TOTAL INFLOWS | 500,000 | 500,000 | - |
| CASH OUTFLOWS | | | |
| Canada Outflows: | | | |
| Personnel Expenses | | | |
| Expense report | 200 | 200 | 200 |
| London Life retirement plan | 542 | 542 | 542 |
| Payroll (employees) | 9,495 | 6,330 | 6,330 |
| Payroll (social benefit) | 6,647 | 4,432 | 4,431 |
| Sun Life (group insurance) | - | - | - |
| Subtotal | 16,884 | 11,504 | 17,503 |
| Operating Expenses | | | |
| Beli | 450 | 450 | 450 |
| Dicom | 86 | 86 | 86 |
| EVH pick up rental | - | - | - |
| EVH Pick up maintenance | - | - | - |
| Fedex | 75 | 75 | 75 |
| Gaz métropolitain | 3,000 | 3,000 | 3,000 |
| House keeping (St-Mathieu) | 440 | 440 | 440 |
| Hydro-Québec (electricity) | 30,000 | 30,000 | 30,000 |
| Informatika | 200 | 200 | 200 |
| Livingston (FDA) | - | - | - |
| Maheu & Maheu extermination | - | - | - |
| Mirado (security agency) | 18,445 | 13,156 | 13,156 |
| OFFICE Supplies | 200 | 200 | 200 |
| Parmalat Dairy | - | - | - |
| Parmalat Canada (Umbrella Insurance Policy) | - | - | - |
| Télébec (telephone) | 2,440 | 2,440 | 2,440 |
| Subtotal | 63,326 | 49,637 | 60,047 |
| Professional Fees | | | |
| Davies, Ward Phillips & Vineberg | 50,000 | 75,000 | 100,000 |
| RSMRichter | 50,000 | 75,000 | 100,000 |
| Samson Belair Deloitte & Touche | 131,215 | - | - |
| Legal advisor to Monitor | 5,000 | 5,000 | 10,000 |
| Scotia Capital** | - | - | - |
| Subtotal | 236,215 | 155,000 | 210,000 |
| Dip financial costs | | | |
| Interests | 23,333 | 26,250 | 23,333 |
| Unused Line Fee | - | - | - |
| Monitoring fees | 1,000 | 1,000 | 1,000 |
| Legal costs | - | - | - |
| Acceptance Fee | - | - | - |
| Subtotal | 24,333 | 27,250 | 24,333 |
| Other Expenses | | | |
| Government Canada & Québec (capital tax) | - | - | - |
| Permits | 1,000 | 1,000 | 1,000 |
| Revenue Québec | - | - | - |
| School taxes | - | 25,000 | 25,000 |
| St-Mathieu taxes | 25,000 | 25,000 | 60,000 |
| Miscellaneous Can | 1,000 | 1,000 | 1,000 |
| Subtotal | 27,000 | 52,000 | 87,000 |
| Total Canada Outflows | 407,728 | 303,305 | 372,683 |
| USA Outflows (Canadian \$ @ \$1.31 exchange rate) | | | |
| Personnel Expenses | | | |
| USA (payroll & taxes) | - | - | - |
| USA Farmland | 42,600 | 28,400 | 28,400 |
| Subtotal | 42,600 | 28,400 | 28,400 |
| Operating Expenses | | | |
| USA Boothcrafter | - | - | - |
| USA National Testing Laboratory | - | - | - |
| USA Phone | - | - | - |
| Subtotal | - | - | - |
| Professional Fees | | | |
| USA CPA Bob Berlecon and Ass. | - | - | - |
| Subtotal | - | - | - |
| Other Expenses | | | |
| USA Miscellaneous | - | - | - |
| Subtotal | - | - | - |
| Total USA Outflows | 42,600 | 28,400 | 28,400 |
| TOTAL OUTFLOWS | 450,328 | 331,705 | 401,083 |
| CLOSING BALANCE | 249,713 | 425,810 | 24,227 |

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

Mark A. Mayhew
12-16-04

