

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, J0Y 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.;

Petitioners

- and -

RICHTER & ASSOCIÉS 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

**FIRST REPORT OF THE DESIGNATED MONITOR
ON THE STATE OF PETITIONERS' FINANCIAL AFFAIRS
(APRIL 15, 2004)**

I. INTRODUCTION

1. On March 19, 2004, Eaux Vives Harricana Inc. ("EVH INC") and EVH U.S.A. Inc. ("EVH USA") (collectively "Petitioners") 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 Richter & Associés Inc. as monitor (the "Monitor");
2. This first report of the Monitor is to report and inform the Court of the following:
 - Background
 - Financial Position
 - 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

3. 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 Petitioners 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 Petitioners;

II. BACKGROUND

4. EVH INC was incorporated in 1997 and has a place of business in St-Mathieu-d'Harricana, in Abitibi, Québec. The necessary permits pertaining to the harnessing of underground water for bottling purposes were obtained in late 1998. EVH INC is in the business of harnessing, bottling, distributing and marketing bottles of water under the brand name ESKER;
5. EVH USA is constituted under the laws of Delaware, U.S.A., is a wholly-owned subsidiary of EVH INC and solely acts as marketing, sales and distributing agent for EVH INC;
6. Parmalat Canada Limited ("Parmalat") acquired a participation in EVH INC in August 2000. Parmalat is, as of today, a 60% shareholder of EVH INC. The remaining 40% is held by Gestion E.V.H. Harricana Inc., which is composed of a group of minority shareholders (including certain local investors);
7. The plant of EVH INC was built in 2001, and was exclusively financed by Parmalat. The operations were inaugurated in September 2002. The ultra modern bottling plant is built on the top of an esker. It has two bottling lines having a production capacity of 50,000 bottles per hour and 14 million cases per year;
8. EVH INC initially distributed its products in Canada (Québec and Ontario), the United States (Arizona, California, Oregon, Washington, Colorado and Texas) and in Asia (Singapore);
9. However, EVH INC's level of sales never generated sufficient revenues to finance its operations. As at November 2003, Parmalat had loaned to EVH INC approximately \$85 millions. The loans are secured by a deed of hypothec granted by EVH INC on the universality of its assets and undertakings in favor of 2975483 Canada Inc., a subsidiary of Parmalat, acting as agent and "Fondé de pouvoir" of Parmalat.
10. In the course of December 2003, Parmalat, in light of the facts that EVH INC failed to reach a level of sales that would have secured its profitability and given the fact that EVH INC always encountered very substantial operating losses, decided to withdraw its continuing financial support of EVH INC's operations and informed EVH INC that it would not make any new loans or advances;
11. EVH INC decided to shut down its plant on February 13, 2004 and terminated the employment of approximately 30 employees. Twelve employees are currently working at EVH INC and EVH USA, devoting their time and energy to the sale of the remaining inventory;

III. FINANCIAL POSITION

12. The unaudited balance sheet of EVH INC as at March 20, 2004 is summarized as follows:

Balance Sheet	
Assets	
Current assets	
Cash	\$ 87,044
Accounts receivable	940,452
Inventories	2,005,690
Prepaid expenses	<u>278,931</u>
	3,312,117
Investments	5,852,014
Fixed assets	50,285,946
Other assets	<u>9,425,736</u>
	<u>68,875,813</u>
Liabilities	
Current liabilities	
Accounts payable	9,407,254
Due to Parmalat (2975483 Canada Inc.)	<u>85,191,370*</u>
	94,598,624
Long term debt	
Due to Investissement Quebec	3,000,000
Deferred tax credit	<u>3,429,290</u>
	<u>101,027,914</u>
Shareholders' Equity	
Capital Stock	17,910,370
Deficit	<u>(50,062,471)</u>
	<u>(32,152,101)</u>
	<u>\$68,875,813</u>

* The amount indicated in the EVH INC's list of payable is \$87,488,492.

13. The unaudited balance sheet of EVH USA as at March 20, 2004 is summarized as follows:

Balance Sheet	
Assets	
Current assets	
Cash	\$ 70,157
Fixed Assets	
Office equipment	<u>29,382</u>
	<u>99,539</u>
Liabilities	
Current liabilities	
Accounts payables and accrued liabilities	167,258
Long term debt	
Due to EVH INC	<u>4,258,964</u>
	4,426,222
Shareholders' Equity	
Capital Stock	1
Deficit	<u>(4,326,684)</u>
	<u>(4,326,683)</u>
	<u>\$ 99,539</u>

14. The preliminary list of creditors as at the date of the Initial Order, March 19, 2004, reflects the following:

(In 000's)	CREDITORS		
	EVH INC	EVH USA	Total
Secured Creditors			
2975483 Canada Inc. (Parmalat)	\$87,489	\$ --	\$87,489
Unsecured Creditors	<u>\$12,204</u>	<u>\$134</u>	<u>\$12,338</u>
Total	<u>\$99,693</u>	<u>\$134</u>	<u>\$99,827</u>

The above accounts payable balances do not include provisions for salaries, vacation pay, fringe benefits and other employees related liabilities. However, it includes a provision for other liabilities of \$825,000;

IV. ACTIVITIES OF THE MONITOR

- **Communication with creditors**

15. Immediately upon the granting of the Initial Order, and pursuant to Section 11 (3) of the CCAA, the Monitor issued Notices to Suspend Rights and Recourses to those parties involved in five court proceedings against EVH INC;
16. In accordance with paragraph 17(a) of the Initial Order, on March 29, 2004, the Monitor sent to all of Petitioners' known creditors having claims of more than \$250.00, a notice advising of the granting of the Initial Order, a copy of the Initial Order (and a French translation of same) along with a list of creditors;
17. The Monitor has replied on a timely basis, to all queries from creditors;
18. The Monitor deployed efforts to ensure that 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.richter.ca);

- **Review of the affairs**

19. The Monitor went to Saint-Mathieu-d'Harricana on March 23 and 24, 2004. The purpose of that trip was to meet with management in order to understand the status of the affairs of Petitioners, deal/assist them with matters relating thereto, obtain relevant information, visit the plant and establish monitoring procedures;
20. Petitioners have provided the Monitor with their full cooperation and the Monitor has had unrestricted access to their premises and to the various books and records as well as obtained the information considered pertinent by management;

- **Monitoring**

21. The Monitor has implemented procedures to insure a proper monitoring of the receipts and disbursements, as provided by the CCAA;
22. The Monitor has been actively involved with Petitioners' Management in dealing with important issues that have arisen since the rendering of the Initial Order;
23. Petitioners met with representatives of Scotia Capital Inc. on March 24, 2004 to review their mandate to find a buyer and to establish the role of the Monitor in supporting this process;
24. The Monitor has and will continue to put all efforts to seek and refer potential purchasers to Scotia Capital Inc. In this regard, we have been provided with a memorandum ("Teaser") sent by Scotia Capital Inc. to potential purchasers;

25. Scotia Capital Inc. reported that :

- They have prepared a data room;
- They have identified over 50 potential purchasers;
- They have contacted most of them;
- Teasers were sent out;
- They have signed confidentiality agreements with certain of these potential buyers;
- The inspection of EVH INC's facilities will commence.

However, it is too soon at the moment to establish when an offer may be received;

V. CURRENT OPERATIONS

- **Activities**

26. The activities at the plant of EVH INC are suspended since February 13, 2004. From thereon, EVH INC devoted its efforts to sell the remaining inventory and collect the accounts receivable in Canada and in the United States;

- **Employees**

27. Following the Initial Order, Petitioners have established that certain employees are retained to assist in the sale process as well as collection of residual account receivables and the sale of the remaining inventory, and maintaining the books and records;

- **Plant**

28. As mentioned above, there is currently no production. EVH INC is retaining the minimum required employees for the following purposes:

- Lab testing:
 - The water drawn from wells is being tested regularly to be in conformity with the permits of the Ministère des Ressources naturelles.
- Maintenance of equipment:
 - Inspection of equipment and facilities to insure their safeguard;
 - Efforts are made to minimize energy consumptions.
- Maintain proper surveillance of the plant:
 - Security guards assure the surveillance of the premises 24 hours a day.

The whole in view of an eventual restart of the activities.

- **Insurance**

Management has advised the Monitor that the various insurance coverage previously obtained have been maintained.

VI. CURRENT FINANCIAL SITUATION

- **Funding**

29. Petitioners are currently in the process of liquidating the remaining inventory and collecting the residual accounts receivable. The proceeds thereof are used to finance the current operating expenses of Petitioners;

- **Cash flow projections**

30. Included as Appendix A of this report is a summary of Petitioners' consolidated cash flow forecast for the period April 17 to June 2, 2004;

31. Upon the issuance of the Initial Order, Petitioners had approximately \$173,000 of available cash. The cash flow projections indicate that Petitioners expect to have approximately \$97,105 of cash as of June 2, 2004.

- **Post-filing Obligations**

32. Petitioners are paying the post filing obligations as they become due;

VII. DEBTOR IN POSSESSION FINANCING

33. Petitioners estimate that the sale of the remaining inventory would be finalized in May 2004 and that the majority of its residual accounts receivable will have been collected;

34. Given the limited revenues generated by the above mentioned inventory liquidation and the collection of the accounts receivable, and given the fact that EVH INC. has ceased its production activities, it seems reasonable to believe that additional funds will be necessary to complete the ongoing process of the sale of the business;

35. Petitioners are actively seeking interested lenders ready to enter into a DIP financing agreement to advance the estimated required funds, on such terms and conditions as the Court may later approve.

VIII. PLAN OF ARRANGEMENT TO BE FILED

36. 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 Petitioners;
 - c) revoke all contracts no longer required by Petitioners;
 - 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 Petitioners to creditors;
 - e) Scotia Capital Inc. must identify potential purchasers, enter into confidentiality agreements, organize visits of the premises and set up a data room for potential buyers to perform due diligence with the objective of obtaining a final offer for the purchase of Petitioners' assets and/or shares;
 - f) finalize the terms and conditions of the proposed purchase transaction;
37. The accomplishment of the above mentioned elements are essential for Petitioners in view of filing a Plan of Arrangement to its creditors;
38. 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 Petitioners' business (shares and/or assets) is determined;

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

39. Pursuant to the Initial Order, the stay period expires on April 18, 2004. Petitioners are now seeking an extension of the stay period to June 2, 2004;
40. An extension of the stay period is necessary for Petitioners to seek potential purchasers for EVH INC's assets or EVH INC's shares;
41. The conclusion of the sale process will enable Petitioners to finalize the terms of the Plan of Arrangement to be filed;
42. During this reference period and in the event that it may be required in the future, Petitioners will be negotiating with lenders willing to enter into a DIP financing agreement in order to support the ongoing restructuring process, the whole subject to Court approval;
43. The Monitor is of the opinion that the creditors will not suffer any prejudice by the allowance of the extension of delay sought by Petitioners which would expire on June 2, 2004;

44. In the event of a bankruptcy of Petitioners, 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.;
45. The cash flow projections for the period April 17, 2004 to June 2, 2004 indicate that Petitioners will generate sufficient funds to support their current level of operations and meet their current obligations.

• **Monitor's Recommendation**

46. Based on our review of the information provided to us, as previously discussed in this Report, and our assessment of Petitioners' good faith in dealing with its affairs, the Monitor recommends that Petitioners' request for an extension of time for the filing of the Plan of Arrangement to June 2, 2004 be granted.

All of which is respectively submitted by Richter & Associés INC. in its capacity as Court-Appointed Monitor of EAUX VIVES HARRICANA INC. and EVH U.S.A. INC.

DATED AT MONTREAL, this 15th day of April, 2004.

RICHTER & ASSOCIÉS INC.
Court-Appointed Monitor

Per: Yves Vincent, CA



APPENDIX A



**RICHTER
& ASSOCIÉS INC.**

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**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-022700-047**

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

**In the matter of the Plan of Compromise or
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, J0Y 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.

Debtors

- and -

Richter & Associés Inc., a legal person duly constituted
under the laws of Québec and having its principal place of
business at 2 Place Alexis Nihon, in the City and District
of Montréal, Province of Québec, 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 13th day of April, 2004, consisting of a statement of projected cash receipts and disbursements, including notes thereto, covering the period from the 17th day of April, 2004 to the 2nd day of June, 2004 has been prepared by the Management of Eaux Vives Harricana Inc. and EVH U.S.A. Inc. (collectively "EVH") for the purpose described in Note 1, using probable and hypothetical assumptions set out in Note 2.

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 14th day of April, 2004.

RICHTER & ASSOCIÉS INC.
Monitor

Per: Yves Vincent, CA, CIRP

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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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- and -

Richter & Associés Inc., a legal person duly constituted
under the laws of Québec and having its principal place of
business at 2 Place Alexis Nihon, in the City and District
of Montréal, Province of Québec, H3Z 3C2

Monitor

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

The Management of Eaux Vives Harricana Inc. and EVH U.S.A. Inc. (collectively "EVH") has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent person, as of the 13th day of April, 2004, consisting of a statement of projected cash receipts and disbursements, including notes thereto, covering the period from the 17th day of April, 2004 to the 2nd day of June, 2004.

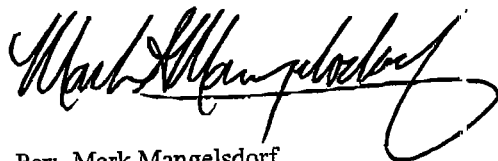
The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions have been disclosed in Note 2.

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 2. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Signed and Dated at Wallington, New Jersey, USA, this 14th day of April, 2004.

EAUX VIVES HARRICANA INC. & EVH U.S.A. INC.



Per: Mark Mangelsdorf



Eaux Vives Harricana Consolidated Cash Flow Forecast *

45 days From April 18th to June 2nd
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OPENING BALANCE	287,157
INFLOWS	
From regular receivables USA	80,032
From fire sales USA	86,951
From regular receivables CND	75,000
From fire sales CND	-
From government	89,000
TOTAL INFLOWS	330,983
Cash outflows (Including crucial suppliers)	
Agence Personnel Abitibi (account receivable agent)	1,855
Bell Canada	1,000
Béton Fortin	3,500
CIA	1,000
Dicom	200
EVH pick up maintenance and Gas	480
EVH Pick up rental	670
Canadian Employee Expense report	6,000
Fedex	500
Gaz métropolitain	2,000
House keeping (St-Mathieu)	540
Hydro-Québec (electricity)	71,340
Informatika	300
Livingston (broker)	300
London Life retirement plan	4,000
Maheu & Maheu extermination	185
Mirado (security agency)	19,368
Modulabec (security office)	414
Multilab	700
Office supplies	300
Parmalat Canada	16,000
Canada Employee Payroll	66,936
Canada Payroll Tax (social benefit)	46,856
Permits	1,000
Sun Life (group insurance)	6,000
Techni-lab	750
Télébec (telephone)	4,800
USA Employee Payroll & Taxes	96,500
USA Blue cross	1,539
USA Boothcrafter	352
Remitences to Gvt Authorities	TBD
USA CPA Bob berleson and Ass.	2,620
Case stack (Logistics and Warehouse)	77,028
USA Expense report	5,000
Farmland (GM salary, taxes, benefits, office rent & office expenses)	68,775
USA Fedex	650
USA Life insurance	170
USA National Testing Laboratory	1,100
USA office lease	2,499
USA storage unit	284
USA Phone	525
Professional Fees (Legal, Investment bank, monitor, etc...)	TBD
Miscellaneous	7,000
TOTAL OUTFLOWS	521,035
CLOSING BALANCE	97,105

* Please note an important caveat -- this information is the best estimate of EVH management, given current knowledge of the situation and circumstances. We believe that the information is reasonably accurate and directionally correct; however, we have not employed the services of an independent audit firm to validate the assumptions.

Eaux Vives Harricana Inc. & EVH U.S.A. Inc.

**Notes and Assumptions to Projected Cash Flow
for the Period April 17th, 2004 to June 2nd, 2004**

Note 1: General

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

Note 2: Assumptions

Inflows

Regular receivables Based on adjusted accounts receivable ageing of EVH, detailed analysis of the accounts and Management's experience for collections.

Fire sales : Based on Management's experience and actual agreement with clients

Government : Based on the sales taxes report filed to date and Management's experience.

Outflows

Payroll and Benefits: Based on Management's experience, payable bi-weekly including all benefits of the previous payroll.

Professionnal fees: To be determined, includes all fees of the professionals involved in the restructuring.

Continuing operations: Utilities, logistics and transportation required to sell inventories and secure facilities, based on Management's experience.

Other outflows: Based on Management's experience, lease agreements and new agreements, payable according to terms agreed .

