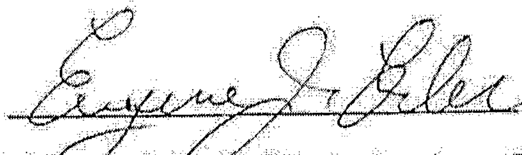
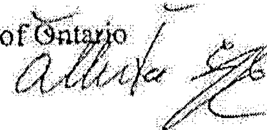
This is Exhibit "J" referred to in the Affidavit of Darren Krissie sworn before me this 29th day of April, 2010



Commissioner for Taking Affidavits, Province of ~~Ontario~~ (or as may be)



EUGENE J. ERLEF
BARRISTER AND SOLICITOR
AND NOTARY PUBLIC

This report lists registrations in the Personal Property Registry that match the following search criteria:

Province or Territory Searched:	Nova Scotia
Type of Search:	Debtors (Enterprise)
Search Criteria:	PLANET ORGANIC HEALTH CORP.
Date and Time of Search:	2010-04-26 13:18 (Atlantic)
Transaction Number:	5900630
Searched By:	C186290

The following table lists records that match the Debtors (Enterprise) you specified.

Exact	Included	Original Registration Number	Enterprise Name	Place
*	*	12618138	PLANET ORGANIC HEALTH CORP.	Calgary
*	*	12618153	PLANET ORGANIC HEALTH CORP.	Calgary

An '*' in the 'Exact' column indicates that the Debtor (Enterprise) exactly matches the search criteria.

An '*' in the 'Included' column indicates that the registration's details are included within the Search Result Report.

2 registration(s) contained information that **exactly** matched the search criteria you specified.

0 registration(s) contained information that **closely** matched the search criteria you specified.

When reviewing the registrations below, note that a registration which has expired or been discharged within the last 30 days can still be re-registered by the secured party.

All registration date/time values are stated in Atlantic Time.

For more information concerning the Personal Property Registry, go to **www.acol.ca**

Registration Details for Registration Number: 12618138

Province or Territory: Nova Scotia
Registration Type: PPSA Financing Statement

Registration History

Registration Activity	Registration Number	Date/Time (Atlantic)	Expiry Date	File Number
Original	12618138	2007-06-25 16:29	2015-06-25	15576-003
Amendment	16539744	2010-04-21 15:30	2015-06-25	SM002438.CAT

As listed in the Registration History section above, this registration has been the subject of an Amendment or Global Change to add or delete information. The following registration details provide the registration number for the Amendment that added or deleted information. If no "added by" or "deleted by" registration number is provided, the information was added by the original registration and has not been deleted.

Debtors

Type: Enterprise
PLANET ORGANIC HEALTH CORP.
730, 1015-4 Street SW
Calgary AB T2R 1J4
Canada

Secured Parties

The Secured Party below was deleted by registration number 16539744

~~Type: Enterprise~~
~~Ares Capital Corporation, as Second Lien Collateral Agent~~
~~280 Park Avenue, 22nd Floor~~
~~New York NY 10017~~
~~USA~~

The Secured Party below was added by registration number 16539744

Type: Enterprise
CATALYST FUND LIMITED PARTNERSHIP II
77 KING STREET WEST
ROYAL TRUST TOWER, SUITE 4320
BOX 212
TORONTO ON M5K 1J3
Canada

The Secured Party below was added by registration number 16539744

Type: Enterprise
THE CATALYST CAPITAL GROUP INC.
77 KING STREET WEST
ROYAL TRUST TOWER, SUITE 4320
P.O. BOX 212
TORONTO ON M5K 1J3
Canada

General Collateral

A SECURITY INTEREST IS TAKEN IN ALL OF THE DEBTOR'S PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY INCLUDING ALL PROCEEDS THEREOF.

Registration Details for Registration Number: 12618153

Province or Territory: Nova Scotia
Registration Type: PPSA Financing Statement

Registration History

Registration Activity	Registration Number	Date/Time (Atlantic)	Expiry Date	File Number
Original	12618153	2007-06-25 16:33	2015-06-25	15576-003
Amendment	16539751	2010-04-21 15:32	2015-06-25	SM002438.CAT

As listed in the Registration History section above, this registration has been the subject of an

Amendment or Global Change to add or delete information. The following registration details provide the registration number for the Amendment that added or deleted information. If no "added by" or "deleted by" registration number is provided, the information was added by the original registration and has not been deleted.

Debtors

Type: Enterprise
PLANET ORGANIC HEALTH CORP.
730, 1015-4 Street SW
Calgary AB T2R 1J4
Canada

Secured Parties

The Secured Party below was deleted by registration number 16539751

~~Type: Enterprise~~
~~Ares Capital Corporation, as Collateral Agent~~
~~280 Park Avenue, 22nd Floor~~
~~New York NY 10017~~
~~USA~~

The Secured Party below was added by registration number 16539751

Type: Enterprise
CATALYST FUND LIMITED PARTNERSHIP II
77 KING STREET WEST
ROYAL TRUST TOWER, SUITE 4320
P.O. BOX 212
TORONTO ON M5K 1J3
Canada

The Secured Party below was added by registration number 16539751

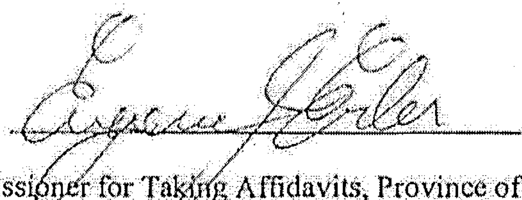
Type: Enterprise
THE CATALYST CAPITAL GROUP INC.
77 KING STREET WEST
ROYAL TRUST TOWER, SUITE 4320
P.O. BOX 212
TORONTO ON M5K 1J3
Canada

General Collateral

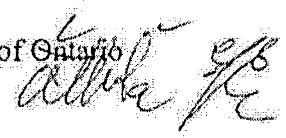
A SECURITY INTEREST IS TAKEN IN ALL OF THE DEBTOR'S PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY INCLUDING ALL PROCEEDS THEREOF.

END OF REPORT

This is Exhibit "K" referred to in
the Affidavit of Darren Krissie
sworn before me this 29th day of April, 2010



Commissioner for Taking Affidavits, Province of Ontario
(or as may be)



EUGENE J. ERLER
BARRISTER AND SOLICITOR
AND NOTARY PUBLIC

Being good to the Planet *is good for you.*

ANNUAL REPORT

2008/2009

PLANET ORGANIC

HEALTH CORP

428

PLANET ORGANIC
HEALTH CORP

Fiscal 2009
Annual Report to Shareholders

7915 - 104 Street, Edmonton, AB, T6E 4E1 780-435-4573 www.planetorganichealthcorp.com

PLANET ORGANIC
HEALTH CORP

Planet Organic Health Corp. Corporate Profile

Good for you. Good for the Planet. Good for business.

Planet Organic Health Corp (TSX-V: POH) ("Planet Organic", the "Corporation" or the "Company") is one of Canada's largest natural products companies, comprising both retail and manufacturing operations. The Company's primary focus is the retail division, which encompasses mid-sized format market stores and smaller natural health outlets. Planet and its subsidiaries conduct business throughout Canada and the northeastern United States under six popular name brands:

1. Planet Organic Market® (Canada)
2. Mrs. Green's Natural Markets (US)
3. Sangster's Health Centres (Canada)
4. Healthy's Nutrition (Canada)
5. Trophic Canada (Canada)
6. Planet Organic Living® (Canada)

History and Corporate Highlights

Recognizing a significant growth opportunity, Planet Organic was created in 2001 to market natural and organic food primarily to:

- To contribute to the personal well-being of customers
- To protect the health of the Earth
- To make eating a robust and joyful event

Since its inception, Planet Organic remains committed to providing high quality organic and natural products with a particular emphasis on superior customer service, community involvement and providing an environment conducive to employee satisfaction. While continuing to focus on consolidating the natural products market, Planet Organic has created what it believes is a unique opportunity to be the leader in its field in Canada and in other markets while staying true to its original founding principles.

Historically, the Company has grown primarily via acquisition. Since inception in 2001 with one store in Edmonton Alberta, it has acquired operations in Victoria, British Columbia (2002), Halifax, Nova Scotia (2004), Port Credit, Ontario (2007), and a second Edmonton, Alberta location (2007). These acquisitions now operate under the Planet Organic Market banner. Additionally, the Company built two new Planet Organic Market stores in Calgary, Alberta (2003 and 2007), plus stores in Port Coquitlam, British Columbia (2004), Vaughan, Ontario (2008) and opened a new store this year in Markham, Ontario.

In 2004, the Company acquired Sangster Enterprises and Darwen Holdings, a chain of supplement and body care stores with locations across Canada operating under the Sangster's Health Centres banner. In 2005, the Company acquired Newfound Health, a franchise chain of supplement and body care locations in Alberta that was subsequently folded under the Sangster's division. This was followed in 2006 with the acquisition of a chain of natural health outlets in Ontario operating under the name Healthy's Nutrition. The Healthy's locations have been undergoing a rebranding to Planet Organic Living.

The Company's first movement towards vertical integration was the 2005 acquisition of Trophic Canada, one of Canada's leading vitamin manufacturers and distributors located in Penticton, British Columbia.

The Company entered the US market in 2008 with the acquisition of Mrs. Green's Natural Market, an eleven store chain with nine stores located in New York State and two stores located in Connecticut.

Planet Organic Acquisitions

Date	Acquiree	Location	Outcome
February 2002	Capers Community Market	British Columbia	Rebrand as Planet Organic Market
July 2004	Darwen Holdings/ Sangsters Health Centres	Primarily Western Canada	Operating as a division
August 2004	Great Ocean Natural Foods	Nova Scotia	Rebranded and amalgamated to Planet Organic Market
January 2005	Trophic Canada	British Columbia	Operating as a division
July 2005	Newfound Health	Alberta	Operations rebranded and rolled into Sangster's
May 2006	Operating assets of Alternative Markets Inc	Ontario	Rebrand as Planet Organic Market
June 2006	Healthy's, The Athletes Edge	Ontario	Operating as a division, undergoing rebranding to Planet Organic Living
September 2006	The Big Fresh Inc.	Alberta	Rebrand as Planet Organic Market
July 2007	Mrs. Green's Natural Market	New York and Connecticut, USA	Operating as a division

Planet Organic Health Corp Management Discussion and Analysis For the Quarter and Year Ended June 30, 2009 Prepared October 28, 2009

The Management Discussion and Analysis (MD&A) of the operational results and financial condition of Planet Organic Health Corp should be read in conjunction with the Company's annual audited consolidated financial statements and notes thereto, the most recent being as at and for the year ended June 30, 2009. Management is responsible for the information disclosed in this MD&A, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee and the Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed and approved this MD&A and the audited consolidated financial statements as at June 30, 2009 and 2008. Any monetary measurement provided in this MD&A is denominated in Canadian dollars unless otherwise stated. Planet Organic is publicly traded on the TSX Venture Exchange. Additional information regarding the Company, including annual and interim financial reports, can be found on SEDAR at www.sedar.com.

The information below contains certain forward-looking information that reflects the current view of Planet Organic Health Corp. Any such forward looking information is subject to risks and uncertainties and as a result, the Company's actual results of operations could differ from historical results or current expectations. The Company assumes no obligation but will undertake to publicly update or revise its forward-looking statements if experience or future changes make it clear that any projected results expressed or implied therein will not be realized as required by securities law.

Vision

Planet Organic Health Corp's vision is to provide maximum shareholder value through the provision of high quality organic and natural products with an emphasis on superior customer service, community involvement and employee satisfaction.

The Company carries out its vision through strategic growth of its retail divisions via either new store development or acquisition of smaller format or similarly focused operations. As the natural/organic industry is highly fragmented, the Company sees significant opportunity for its business model in both Canada and the United States. Accordingly, it has developed operations in both countries. Additionally, vertical integration provides the opportunity for greater economies of scale and enables Planet Organic to secure strong independent suppliers within the natural products industry.

All of the Company's mid-size market stores provide customers with a warm and inviting shopping environment with excellent customer service and product knowledge. They feature a full range of organic, natural and clean products free of artificial flavours, sweeteners, colours, preservatives or added chemicals. They also contain a bountiful selection of organic produce and the delis are filled with baked goods, salads and take home meals to meet the needs of today's busy consumers. The natural living departments offer an excellent selection of vitamins, supplements, sports nutrition and body care products. The smaller health outlets offer a vast selection of exclusive private label and major brands of vitamins as well as body care products.

Planet Organic has grown primarily through acquisition. For the most part, acquisitions have been financed through internally raised equity from related parties or external debt. The Company's strategy with respect to business acquisitions has generally been to retain the existing key executive and management teams to continue managing and growing the operations. Acquisition targets have been highly successful entrepreneurially focused organizations. Historically, the Company has taken on more of a financing and monitoring role at the corporate level rather than a significant hands-on approach. However, the Company has recently taken a more active role in direct monitoring and management of the divisions (refer to Outlook section for details).

Retail Operations

Planet Organic Market®

Planet Organic Market is a leading Canadian chain of natural and organic supermarkets and health food stores. These stores are generally smaller supermarket formats with ten locations that were open throughout most of the current year in four provinces: British Columbia (Victoria and Port Coquitlam), Alberta (two Edmonton locations and two Calgary locations), Ontario (Port Credit, Vaughan, Markham) and Nova Scotia (Halifax). The Markham location opened in the second quarter of the current fiscal year and the main Edmonton location completed an expansion to double its size in the fourth quarter of the current fiscal year. With an average store size of approximately 9,000 square feet, Planet Organic Market stores focus on shopper comfort and convenience offering a wide range of quality products. This leads to high sales per square foot and high annual same store sales growth. Additionally, the concept allows for easier expansion into other markets as the opportunity for site acquisition and development is easier to manage compared to larger sized operations.

Mrs. Green's Natural Market

The Company acquired Mrs. Green's in 2008. Mrs. Green's operates nine stores in the state of New York and two stores in the state of Connecticut. These stores are of similar concept with a slightly smaller size (average approximately 5,500 square feet) to the Planet Organic Market stores in Canada. Mrs. Green's has developed an extremely loyal customer base for more than 15 years by providing high quality products and a customer friendly environment with excellent product selection.

Healthy's Nutrition

Healthy's is a seven store chain located in the Toronto, Ontario area. It has a format similar to Sangster's and focuses on nutritional products and natural remedies. When acquired, the Company's plan was to rebrand the stores to Planet Organic Living, similar in presentation to Planet Organic Market. One existing Healthy's location was rebranded last year while another location was renovated and reopened under the new brand in the second quarter of the current fiscal year. One new store opened under the Planet Organic Living name in the prior year. One store closed early in the fourth quarter of the current fiscal year as the Company elected not to renew an expiring lease. The Company is currently assessing whether to continue with the rebranding initiative given the current economic circumstances facing the Company, and the general state of the economy, particularly in Ontario.

Sangster's Health Centres

At the end of the year, Sangster's included six corporate-owned stores and thirty seven franchised locations located throughout Canada, but primarily in the West. These are small format health food stores with a focus on nutritional products and natural health remedies. Sangsters produces over 250 exclusive private label vitamins, minerals, herbs, weight management and sports nutrition products and also produces a proprietary full-colour magazine called "Natural Living" for distribution in all locations. The Company assists franchisees in all facets of operations including site selection, store layout, information systems and sales support.

Manufacturing Operations

Trophic Canada

Trophic is one of Canada's leading manufacturers of natural nutritional supplements. It manufactures and sells over 150 vitamin, mineral and herbal supplements using the highest quality raw materials and top manufacturing processes. The acquisition of Trophic allowed the Company to leverage Trophic's significant manufacturing capabilities with Planet Organic Market's, Sangster's, and Healthy's retail customer base.

Performance Analysis

The following table summarizes the Company's key performance indicators since 2007. Major individual components are discussed in separate sections within this MD&A. All figures presented are derived from the Company's interim and annual consolidated financial statements which have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada.

SUMMARY OF QUARTERLY KEY PERFORMANCE INDICATORS (MILLIONS OF $ EXCEPT EPS)

Fiscal Years	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11.2	13.8	14.6	15.7	25.7	27.5	29.7	31.0	30.0	32.1	33.1	32.5
Gross Profit	4.3	5.5	5.8	6.1	10.3	11.2	11.2	12.6	11.5	12.5	12.6	12.8
SG&A	3.6	4.6	4.7	6.2	8.7	9.5	9.9	10.0	10.5	11.5	11.3	11.2
EBITDASX(1)	0.9	1.0	1.3	0.4	1.9	1.8	1.6	1.8	1.2	1.3	1.6	1.9
Amortization	0.2	0.2	0.2	0.6	0.4	0.4	0.6	0.7	0.6	0.7	0.8	0.7
Interest	0.0	0.1	0.0	0.1	0.9	1.0	0.9	0.9	0.9	1.1	1.5	0.6
Net Other Expenses	(0.1)	0.1	0.1	(0.5)	(0.5)	(0.0)	0.4	0.9	0.5	2.0	0.4	(1.6)
Income (loss) before tax	0.6	0.7	1.0	(0.3)	0.8	0.3	(0.6)	0.0	(1.0)	(2.8)	(1.4)	1.9
Net Income (loss)	0.4	0.5	0.7	(0.1)	0.6	0.1	(0.7)	(0.2)	(0.7)	(2.8)	(1.2)	1.4
Basic EPS	0.01	0.02	0.02	0.00	0.02	0.00	(0.02)	(0.01)	(0.02)	(0.08)	(0.04)	0.04
Diluted EPS	0.01	0.02	0.02	0.00	0.02	0.00	(0.02)	(0.01)	(0.02)	(0.08)	(0.04)	0.04
Total Assets	23.4	24.5	24.8	29.3	61.8	62.3	67.3	66.0	67.2	70.6	71.6	71.4
Long-term liabilities	1.5	1.5	1.5	2.2	26.0	26.5	28.7	27.0	28.3	1.8	2.1	1.8

(1) EBITDASX is a Company specific measurement. Refer to definition of EBITDASX as noted below.

Sales

SALES BREAKDOWN (MILLIONS OF $) (% OF QUARTERLY TOTAL)

	Retail Canada	Retail US	Manufacturing	Total
Q1 FY09	17.0 (57%)	11.3 (38%)	1.7 (5%)	30.0
Q2 FY09	17.3 (54%)	13.3 (41%)	1.5 (5%)	32.1
Q3 FY09	17.5 (53%)	13.9 (42%)	1.7 (5%)	33.1
Q4 FY09	17.4 (53%)	13.2 (41%)	1.9 (6%)	32.5
FY09 YTD	69.2 (54%)	51.7 (41%)	6.8 (5%)	127.7
Q1 FY07	13.8 (53%)	10.2 (40%)	1.7 (7%)	25.7
Q2 FY07	15.3 (55%)	10.6 (39%)	1.6 (6%)	27.5
Q3 FY07	16.2 (55%)	11.6 (39%)	1.9 (6%)	29.7
Q4 FY07	17.7 (57%)	11.4 (37%)	1.9 (6%)	31.0
FY07 YTD	63.0 (55%)	43.8 (39%)	7.1 (6%)	113.9

The Retail Canada segment includes Planet Organic Market, Healthy's and Sangster's. Planet Organic Market is comprised of ten stores (two in British Columbia, four in Alberta, three in Ontario, one in Nova Scotia). One of the Ontario stores opened in the last quarter of FY2008 while another Ontario store opened in the second quarter of the current fiscal year. Healthy's is comprised of seven stores at the end of the year, all located in Ontario. One of the stores opened late in the third quarter of FY08, while another closed during the fourth quarter of the current year.

As at the end of the current year, Sangster's included six corporate Sangster's Health Centres and product sales to thirty seven franchised locations throughout most of Canada. The numbers of corporate and franchised stores varies from time to time as franchisees are opened and closed as part of normal business operations.

The Retail US segment includes Mrs. Green's Natural Market with nine locations in New York State and two locations in the state of Connecticut. A new larger commissary to supply all eleven Mrs. Green's locations has been delayed to the next fiscal year. The new commissary will allow greater capacity for enhancing and increasing the deli and the "to go" selections at each Mrs. Green's store location, and also support new store locations as they are developed. The current commissary will continue to operate until the new commissary is completed.

The Manufacturing segment includes the manufacturing and wholesale operations of Trophic Canada located in British Columbia. Trophic has sales throughout Canada.

Growth in the natural and organic retail environment appears to have remained neutral to positive despite depressed economic conditions throughout both Canada and the United States (see outlook section for additional commentary). The Company continued to execute its growth strategy this fiscal year by expanding the Planet Organic Market store in Edmonton and opening a new store in Ontario, with the Ontario store having opened in the second quarter of the current fiscal year. Annual same store sales growth is a critical success indicator for the Company's operating units. Same store sales growth measures the change in sales for locations that have been in full operation for full comparative periods. Accordingly, this would exclude new stores opening within the last year. The following table summarizes same store sales growth this quarter compared to the same quarter last year, excluding the impact of any consolidation eliminations. Data for the previous fiscal year is also provided.

SAME STORE SALES GROWTH SUMMARY

Fiscal Year	2008					2009				
	Q1	Q2	Q3	Q4	Fiscal	Q1	Q2	Q3	Q4	Fiscal
Planet Organic Market®	10.5%	26.5%	27.3%	22.3%	22.4%	19.4%	8.6%	(0.4%)	(2.4%)	5.4%
Mrs. Green's Natural Markets	10.1%	9.7%	11.4%	9.6%	10.2%	8.0%	1.3%	(2.9%)	(0.4%)	1.3%
Trophic Canada	8.3%	9.4%	5.1%	13.2%	8.9%	7.5%	(2.8%)	(5.9%)	(4.4%)	(1.6%)
Sangster's System Sales	1.3%	0.0%	6.6%	7.4%	4.1%	11.4%	3.3%	(8.5%)	(9.6%)	(1.3%)
Healthy's	4.6%	(6.0%)	(12.7%)	0.7%	(3.7%)	(3.1%)	1.8%	0.7%	7.4%	1.8%

All divisions except Healthy's saw negative same store sales growth in the fourth quarter of the current fiscal year compared to the fourth quarter of the last fiscal year. The declines are primarily attributable to the economic recession that took full effect during the current fiscal year in both Canada and the US and hit many retail sectors. The Company saw the impact of the recession mainly through lower rates of growth in customer count and relatively flat average transaction values compared to the previous fiscal year for both Planet Organic Markets and Mrs. Green's Natural Markets. It is important to note however that FY08 saw tremendous rates of growth, particularly in Planet Organic Markets, which could have been difficult to sustain even without the economic recession.

The third straight quarterly decline at Trophic in the last quarter of this fiscal year is primarily attributable to the general economy as Trophic's customers would be experiencing lower sales, thus reducing their purchasing levels. Evidence of this appears in the Sangster (whose product line is similar to many of Trophic's customer base) sales growth rates which have turned negative for the last two quarters of the current fiscal year. However, Trophic experienced positive growth over the previous quarter of 12%.

Sangster's system sales reflects sales through the entire Sangster's system, including both corporate owned stores and stores owned/operated through franchises. Total system sales are indicative of the success of Sangster's brand. Additionally, the system sales would directly affect the franchise revenues recorded by the Company as franchisee royalty payments to the Company are revenue driven. Sales were negatively affected by the general economy.

Sales for Healthy's were positively affected by the rebranding initiative that now sees two former Healthy's locations operating under the Planet Organic Living banner and a targeted marketing program aimed at increasing both store traffic and top line sales.

Fourth Quarter Ending June 30, 2009

Year over Year – Consolidated sales were $32.5 million for the three months ended June 30, 2009, compared to $31.0 million for the same period in 2008, an increase of $1.5 million (5%). The Canadian retail division sales decreased by $0.4 million (-2%) over the same quarter last year as the economic crisis in Canada affected overall sales despite the addition of a new Planet Organic market store in the second quarter of the current fiscal year. The new Planet Organic Market store contributed $0.5 million of sales in the fourth quarter. Particularly hard hit were vitamin and supplement sales through Healthy's and Sangster's as sales from those divisions decreased by $0.3 million from the fourth quarter last year. Sales in the US retail division increased by $1.8 million (16%) over the same quarter last year. However, eliminating the impact of foreign currency differences, sales for the US retail division were effectively flat to the same quarter last year. The overall sales performance for the year was not unexpected given the severe economic crisis in the US that affected nearly every sector of the US economy. The manufacturing division saw fourth quarter sales also remain flat to the same quarter last year. However, excluding the impact of intercompany elimination entries, the manufacturing division saw sales decrease by 5% over the same quarter last year. The decrease is largely due to the temporary reductions in product demand caused by the current economic crisis and the resulting reduction in retail sales in the vitamin and supplement area as evidenced in the Company's Healthy's and Sangster's divisions.

Quarter over Quarter – Consolidated sales decreased by $0.6 million (-2%) in quarter over quarter sales (fourth quarter compared to third quarter of this fiscal year). The Canadian retail segment reported a decrease of $0.1 million, or less than1%, from the prior quarter. This segment was positively affected by the opening of the Planet Organic Market Markham location in November 2008 but negatively affected by lower sales in Sangster's and Healthy's. One Healthy's location closed during the fourth quarter, representing a portion of the decrease. The US retail segment saw quarter over quarter sales decrease by $0.7 million, or -6%. However, the full decrease was attributable to changes in exchange rates as the Canadian dollar appreciated against the US dollar during the quarter.

The manufacturing segment reported an increase in sales of $0.2 million, or 12% from the prior quarter. The increase reflects a partial recovery from weaker than expected second and third quarter sales. The increase in sales in the last two quarters of the year is consistent with manufacturing sales trends in the prior year.

Year Ended June 30, 2008

Consolidated sales for fiscal 2009 were $127.7 million compared to $113.9 million in fiscal 2008, an increase of $13.8 million (12%). The Canadian retail division sales increased by $6.2 million (10%) over last year as the popularity of organic and natural products continued to grow and new locations were added (two Planet Organic Market stores and one Planet Organic Living store). Almost $4.1 million of the increase was due to two new Planet Organic Market stores that were not open for all of last year (Vaughan and Markham Ontario) while the remainder of the increase is attributable primarily to the success of the other Planet Organic Market locations which posted growth during the year of 5.5%. Sales in the US retail division increased by $7.9 million (18%) over last year. However, eliminating the impact of foreign currency differences, the currency adjusted increase (as denominated in US dollars) was 2% for the US retail division. The Company is pleased with sales growth in the US retail division in light of the economic recession conditions in the US.

The manufacturing division saw sales decrease by $0.3 million (4%) from last year. However, excluding the impact of consolidation entries as a result of sales to other divisions, the manufacturing division sales decreased by only 2% from last year, reflecting stronger sales of Trophic product through Planet Organic Markets and Healthy's retail locations.

Gross Profit

Fourth Quarter Ending June 30, 2009

Year over Year – Gross profit was $12.8 million for the three months ended June 30, 2009, compared to $12.6 million for the same period in 2008, an increase of $0.2 million (2%). The increase is primarily attributable to changes in foreign currency translation. Foreign currency translation contributed additional gross profit of approximately $0.7 million. Therefore, overall gross profit for Canadian operations decreased by $0.5 million. The decrease in Canadian gross profit from last year is primarily due to new store openings (which tend to experience lower gross profit initially until a regular customer base is established) and the general economic climate in Canada which, last year, had not yet shown significant signs of recession. As a percentage of revenue, gross profit for the quarter was 39.4%, down slightly from 40.6% for the same quarter last year. The decrease is partially attributable to a slight tightening of margins from the same quarter last year as a result of the recession in both Canada and the US.

Quarter over Quarter – Fourth quarter gross profit increased by $0.2 million, or 2%, from the third quarter on a dollar basis, and as a percentage of sales increased from 38.1% to 39.4%. The increase on a dollar basis is primarily the result of the increased gross profit percentage despite sales decreases as retail operations in both Canada and the US continued to take actions to protect margins without excessively affecting overall sales levels.

Year Ended June 30, 2008

Gross profit for the year ended June 30, 2009 of $49.4 million increased by $4.2 million, or 9%, over gross profit of $45.2 million last year. Approximately $2.8 million is attributable to changes in foreign currency translation while the remainder is attributable to increased sales. Gross profit as a percentage of sales decreased to 38.7% for the current year compared to 39.7% last year. The decrease as a percent of sales is primarily attributable to aggressive pricing taken in the current year (particularly in the first quarter) to address the economic recession to protect sales levels. Additionally, as with most new retail operations, the new Planet Organic Market stores in Ontario (Vaughan and Markham) are realizing comparatively lower margins during start-up to attract a larger customer base in the area.

Selling, General and Administration

Selling, general and administration expenses (SG&A) include the direct operating expenses associated with each operating unit encompassing occupancy, wages, supplies, marketing, advertising, repairs, maintenance, travel, promotion and other administrative related costs.

Fourth Quarter Ending June 30, 2009

Year over Year – SG&A expenses increased by $1.2 million (12%) in the quarter to $11.2 million from $10.0 million in the same quarter last year. The increase is primarily due to new store locations and general increases in costs over the prior year, as well as changes in foreign currency translation. Foreign currency translation represented $0.5 million of the increase while new store locations accounted for $0.3 million of the increase over the prior year. Corporate SG&A costs increased by $0.3 million from the same quarter last year as additional costs were incurred to address certain corporate matters (more fully described later in this MD&A). SG&A costs are closely linked to the number of divisions and locations. Accordingly, these costs are expected to rise in dollar value as the Company continues to grow. As a percentage of sales, SG&A expenses for the current quarter were 34.5% compared to 32.3% for the same quarter last year. The increase is consistent with expectations given recent new store openings.

Quarter over Quarter – Fourth quarter SG&A expenses increased by $0.1 million, or 2%, over the third quarter primarily as additional costs were incurred in respect of certain restructuring actions taken by management during the quarter. Accordingly, as a percentage of sales, SG&A increased from 34.1% to 34.5%.

Year Ended June 30, 2009

SG&A expenses for the year ended June 30, 2009 of $44.5 million increased by $6.3 million, or 16%, over SG&A expenses of $38.2 million last year. The new store locations represent $2.6 million of the increase, while foreign currency translation accounted for an additional $2.1 million. The remainder of the increases are due to general cost increases year over year. SG&A expenses represented 34.8% of sales for the current year compared to 33.5% for the prior year. The increase is within the Corporation's expectations resulting from the new store openings during the current year.

Amortization

Fourth Quarter Ending June 30, 2009

Year over Year – Total amortization expense for the fourth quarter increased $0.1 million (14%) to $0.8 million from $0.7 million in the same quarter last year. The increase is primarily due to amortization of fixed assets and deferred start-up costs for new store locations (particularly the Markham Planet Organic Market location) plus new fixed asset additions during the prior year. As a percentage of sales, total amortization expense for the quarter increased to 2.5%, up marginally from 2.3% in the same quarter last year.

Quarter over Quarter – Fourth quarter amortization expense was effectively unchanged from the third quarter, both in dollar terms and as a percentage of sales.

Year Ended June 30, 2009

Amortization expense for the year ended June 30, 2009 of $2.8 million increased by $0.7 million, or 34%, over amortization expense of $2.1 million for the prior year. The increase is attributable to new store locations (primarily Vaughan and Markham Planet Organic Market stores) and fixed asset additions. As a percentage of sales, current year amortization expense represented 2.3% compared with 1.8% in the prior year. The increase is consistent with new store locations within the last two years.

Interest

Fourth Quarter Ending June 30, 2009

Year over Year – Total interest expense for the fourth quarter of $0.6 million decreased by $0.3 million, or 33%, from interest expense for the same quarter last year. The fourth quarter this year reflected a reversal of $0.4 million of interest expense that had been recognized in the third quarter. However, the legal obligation for the additional interest had not yet been established. The legal obligation occurred after yearend with the signing of the forbearance agreements (as described in Cash, Financing and Liquidity section). Eliminating the impact of the interest adjustment, the fourth quarter interest expense in the current year would be $1.0 million. Accordingly, adjusted

fourth quarter interest expense increased by $0.1 million, or 11% over the fourth quarter last year. Additional interest charges on the senior convertible notes payable as a result of compounding and unfavorable foreign currency exchange effectively offset the benefit of decreased interest rates and principal balances outstanding on the other debt facilities. Adjusted interest expense for the fourth quarter this year represented 3.1% of sales, while for the same quarter last year represented 2.9%, reflecting increased interest costs from the interest rate and foreign exchange rate changes.

Quarter over Quarter – Reported fourth quarter interest expense decreased $0.9 million from the third quarter. However, after adjusting both the current and previous quarter interest expense as described above, the fourth quarter interest expense actually only decreased by $0.1 million. The decrease was primarily due to the changes in foreign currency conversion and slightly lower debt balances.

Year Ended June 30, 2009

Interest expense for the year ended June 30, 2009 was $4.1 million, $0.4 million, or 11% higher than the prior year. The Company was negatively affected by the impact of foreign currency translation with the Canadian dollar depreciating considerably against the US dollar for most of the year. A significant portion of the Company's debt, and therefore interest, is denominated in US dollars. Additionally, the covenant breach after the second quarter this year resulted in a slight increase in the Company's overall interest rates as penalty interest provisions in the loan agreements took effect.

Income (loss) Before Taxes

Fourth Quarter Ending June 30, 2009

Year over Year – The Company recorded earnings before tax for the fourth quarter of $1.9 million compared to earnings of $0.1 million in the same quarter last year, a difference of $1.8 million. The adjustment to interest expense previously noted contributed $0.4 million of the difference. In addition, the foreign exchange gain was $1.3 million higher this quarter than the same quarter last year. Increases in expenses other than interest and foreign exchange in the current quarter over the same quarter last year were effectively offset by increases in gross profit.

Quarter over Quarter – The Company recorded earnings before tax for the fourth quarter $3.3 million higher than the previous quarter. The Company recorded a foreign exchange loss last quarter of $0.7 million compared to a $1.4 million gain in the current quarter. The prior quarter saw an unfavorable change in foreign exchange rates, while the change in the current quarter saw a substantial favorable change in foreign exchange rates as the Canadian dollar appreciated against the US dollar. Additionally, the interest adjustment described above accounted for $0.8 million of the differential. The remainder of the variance was the result of enhanced gross profit and lower SG&A expenses.

Year Ended June 30, 2009

Loss before tax for the year ended June 30, 2009 was $3.3 million compared to income before tax for the prior year of $0.5 million, an unfavorable difference of $3.8 million. The Company recorded a foreign exchange loss of $2.3 million in the current year compared to a foreign exchange gain of $0.5 million last year accounting for $2.8 million of the difference. Interest charges were $0.4 million higher in the current year than for last year as described above. The remaining variance from last year is due largely to losses of $1.9 million incurred by the two newest Planet Organic Market stores offset by the positive impact to net income before tax from Mrs. Green's operations translated to Canadian dollars and additional gross margin from established Canadian stores.

Income Taxes

Fourth Quarter Ending June 30, 2009

The Company recorded an income tax expense of $0.5 million in the fourth quarter representing the net adjustment to reflect current and future taxes payable or recoverable on the current year loss. Included in the current quarter provision was a $0.3 million increase in tax allowance recorded against future income tax assets. The total tax provision for the same quarter last year was an expense of $0.3 million.

Year Ended June 30, 2009

The annual income tax provision for the current fiscal year is an expense of $29 thousand, comprised of a current income tax recovery of $0.3 million offset by a future income tax expense of $0.3 million. The income tax provision for the prior year totaled $0.8 million, comprised of a current income tax expense of $0.7 million and a future income tax expense of $0.1 million. The nominal expense for the current year reflects the pre-tax loss of $3.3 million, created in part by expenses not fully deductible for income tax purposes in the current year (such as foreign exchange losses) or not at all deductible for income tax purposes (such as stock based compensation) which impact the final income tax provision. Note 22 to the consolidated financial statements provides a reconciliation of the difference between expected tax expense (or recovery) against pre-tax earnings (losses) to the actual amount recorded. The effective corporate tax rate has decreased slightly from the prior year recognizing expected blended future income tax rates.

Earnings Before Interest, Income Taxes, Depreciation, Amortization, Stock Based Compensation and Foreign Exchange Gains (Losses) – (EBITDASX)

EBITDA is a non-GAAP measure that the Company heavily relies on for measuring operational effectiveness. EBITDA is generally defined as earnings before interest, taxes, depreciation and amortization. The Company further adjusts EBITDA by adding back stock based compensation and foreign exchange gains or losses in order to provide more meaningful representation of the Company's ongoing ability to generate profit from continuing operations regardless of currency and excluding payments effectively paid directly by shareholders (via issuance of shares or options). The Company refers to this measurement internally as EBITDASX. Readers are cautioned that EBITDASX is a measurement used exclusively by the Company in assessing its own operations and any comparisons with EBITDA or other related EBITDA measurements of other organizations may not be relevant. EBITDASX for the current quarter and year to date and for the same periods last year is calculated as follows:

	FY08 Q4	FY08 YTD	FY09 Q4	FY09 YTD
Net loss	$ (195,717)	$ (228,350)	$ 1,446,184	$ (3,307,174)
Add (deduct):				
Income taxes	273,437	758,437	471,100	29,000
Foreign exchange loss (gain)	(91,374)	(513,342)	(1,423,415)	2,299,553
Interest on long-term debt	862,850	3,655,881	711,194	4,102,318
Amortization - property, plant and equipment	461,094	1,558,500	491,461	2,054,823
Amortization – intangibles and other	239,383	373,453	76,289	459,794
Amortization – finance fees	45,826	208,413	64,781	255,620
Stock based compensation	187,665	1,237,404	19,962	90,970
Interest on short-term debt	24,989	45,897	152	26,384
EBITDASX	$ 1,808,153	$ 7,096,293	$ 1,857,708	$ 6,011,288

EBITDASX SUMMARY ($ IN MILLIONS)

Fiscal Year	2007	2008					2009				
	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Sales	$55.4	$25.7	$27.5	$29.7	$31.0	$113.9	$30.0	$32.1	$33.1	$32.5	$127.7
EBITDASX as defined	$3.6	$1.9	$1.8	$1.6	$1.8	$7.1	$1.2	$1.3	$1.6	$1.9	$6.0
EBITDASX as a % of Sales	6.5%	7.4%	6.7%	5.3%	5.8%	6.2%	4.0%	4.0%	4.8%	5.8%	4.8%
Net Income	$1.5	$0.6	$0.1	$(0.7)	$(0.2)	$(0.2)	$(0.7)	$(2.8)	$(1.2)	$1.2	$(3.5)
NI as a % of Sales	2.7%	2.3%	0.4%	(2.4%)	(0.6%)	(0.2%)	(2.3%)	(8.7%)	(3.6%)	3.7%	(2.7%)

Fourth Quarter Ending June 30, 2009

Year over Year – EBITDASX for the current quarter increased by $0.1 million, or 6% to $1.9 million from $1.8 million from the same quarter last year. The Company benefitted from changes in exchange rate when translating US dollar denominated EBITDASX to Canadian dollars, offset by losses from new store openings (stores opened since the same quarter last year recorded negative EBITDASX of $0.2 million in the current quarter). However, as a percentage of sales, EBITDASX was unchanged from the same quarter last year at 5.8%.

Quarterly EBITDASX has shown little change in the last two quarters of the fiscal year compared to the same two quarters last year. While better than decreases, the results continue to be disappointing although not unexpected given the impact new stores have on EBITDASX over the first several quarters of operation until they achieve profitable net earnings (at the store level) and the severe economic crisis affecting both Canada and the US during the current fiscal year. There are two Planet Organic Market stores and one Planet Organic Living store that have begun operations since the third quarter last year.

Quarter over Quarter – Fourth quarter EBITDASX increased $0.3 million (19%) over the third quarter to $1.9 million from $1.6 million. The increase is attributable to an increase of $0.2 million in gross profit and a reduction of $0.1 million in SG&A expenses as previously described.

Year Ended June 30, 2009

EBITDASX for the year ended June 30, 2009 was $6.0 million compared to $7.1 million for the prior year, a decrease of $1.1 million, or 15%. The decline was driven largely by new store openings which represented $1.3 million of negative EBITDASX. As a percentage of sales, the current year's EBITDASX is 4.8% compared to 6.2% last year. The decrease reflects the impact new store openings had on earnings and the impact of the reduction in gross profit percentage. While essentially non-quantifiable, the economic recession also had an impact on EBITDASX in the current year as the Corporation saw significant reductions in the rate of growth of both sales and numbers of customers at most stores.

Cash, Financing and Liquidity

The Company significantly altered its capital structure in the prior year primarily to finance the acquisition of Mrs. Green's, but also to fund future expansion via developing new stores and upgrading existing facilities. The capital structure now includes several long term debt instruments, including term debt, revolving debt and convertible debt. At the time of financing in July 2007, the Company had total credit facilities of US$42.5 million (US$24.0 million term debt, US$11.0 million convertible debt, US$7.5 million revolver debt), of which US$32.8 million (US$18.9 million term debt, US$11.0 million convertible debt, US$2.9 million revolver debt) was outstanding as at June 30, 2009. After January 3, 2009, no further draws were available under existing term loan facilities, although revolving credit facilities remain substantially available in an amount believed to be sufficient for current operating requirements.

All of the debt facilities were initially denominated in US dollars. Due to the strengthening of the Canadian dollar against the US dollar from March 31, 2009 to June 30, 2009, the Company recorded a $1.4 million foreign exchange gain on US dollar denominated debt held in Canadian dollar denominated accounts during the fourth quarter of the current fiscal year. However, for the year, the Company recorded a total foreign exchange loss of $2.3 million as the Canadian dollar depreciated considerably against the US dollar from June last year to June this year.

During the current fiscal year, the Company was able to successfully negotiate with one of its lenders enabling the Company to borrow against some of the original debt facilities in Canadian dollars instead of US dollars, thereby reducing its exposure to foreign exchange risk. During the fourth quarter of the current fiscal year, the Company made a draw of US$20 thousand under existing US dollar revolver facilities.

The Company does not speculate on foreign exchange. However, it does closely monitor foreign exchange rates. The Company believes that a mix of Canadian dollar and US dollar debt will allow a natural hedge against foreign exchange risk as the Company's operations are closely divided between the US and Canada. However, because a majority of the debt is still denominated in US dollars, the Company continues to be exposed to foreign currency fluctuations.

Principal repayments on the long term debt during the fourth quarter of the current fiscal year totaled $0.4 million with total estimated scheduled repayments to June 30, 2010 of $1.8 million. The Company made a very nominal draw under its revolver facilities during the current quarter. For the year, the Company made a total of $5.9 million in draws on existing term and revolver loan facilities, and repaid a total of $4.0 million, for a net increase in the outstanding debt at June 30, 2009 of $1.9 million. The convertible debt facilities feature no payment of either principal or interest until October 2012, with the principal balance and any accrued and compounded interest due in full in July 2014. The Company neither missed nor was late on any principal or interest payment since the inception of the loans in July 2007.

Under existing debt agreements, there are five financial ratio covenants that management regularly monitors and reports to the lenders on a quarterly basis. The ratios are: i) total leverage ratio – calculated as total consolidated debt divided by adjusted EBITDA; ii) senior leverage ratio – calculated as total debt less subordinated indebtedness (senior convertible notes payable) divided by adjusted EBITDA; iii) fixed charge coverage ratio – calculated as adjusted EBITDA plus consolidated cash rent expense less capital expenditures and income taxes paid divided by cash interest paid plus scheduled debt principal repayments plus consolidated cash rent expense; iv) interest coverage ratio – calculated as adjusted EBITDA divided by consolidated cash interest expense, and; v) capital expenditure limits. The covenants are based on a rolling twelve month period and are calculated after converting amounts to US dollars at actual average exchange rates in effect for each quarter.

A summary of the covenants for each quarter this fiscal year and at June 30, 2008 is shown below:

	Jun. 30, 2008	Sep. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	Jun. 30, 2009
Total leverage ratio	4.12	4.42	4.88	5.36	6.44
Senior leverage ratio	2.55	2.67	2.92	3.24	3.83
Fixed charge coverage ratio	1.20	1.05	1.20	1.20	1.13
Interest coverage ratio	3.85	3.86	3.30	3.40	3.30
Capital expenditures	$ 3,142,791	$ 1,151,082	$ 3,016,975	$ 3,567,042	$ 4,533,829

The Company was in compliance with these covenants through to September 30, 2008. However, for the quarter ended December 31, 2008, the Company breached the total leverage ratio. Furthermore, for the quarter ended March 31, 2009, the Company remained in breach of the total leverage ratio and also breached the senior leverage ratio. The covenant target for the total leverage ratio at December 31, 2008 and March 31, 2009 was 4.75 or lower and the senior leverage ratio target was 3.15 or lower. At June 30, 2009, the Company was in breach of the total leverage ratio, the senior leverage ratio and the interest coverage ratio. At June 30, 2009, under the original loan agreements, the targets for these ratios were 4.25 or lower, 2.75 or lower and 4.00 or higher respectively.

The ratio covenant breaches have been reported to the lenders and negotiations have been underway since March 2009 to find a resolution. Since the first breach, the lenders have been in a position to declare all the loans in default and demand payment. If this were to occur, the Corporation would be forced to seek financing from other sources to meet debt repayment needs. Although credit markets appear to be strengthening, there is uncertainty whether sufficient funding would be available from current lenders or other parties. It is important to note that the Corporation has not missed any interest or principal payments since the inception of the loans.

The lenders and the Corporation have been negotiating to find an option that would allow the Corporation to continue as a going concern, including probable renegotiation of the loan agreements and the covenants therein. On May 6, 2009, the Board of Directors agreed in principle to certain proposed terms and conditions put forward by the lenders that established the base for future discussions and initiated certain organizational changes. Negotiations continued through to September 25, 2009 (subsequent to the balance sheet date of these consolidated financial statements) when the parties entered into various forbearance agreements respecting the loans with an effective date of August 1, 2009. Pursuant to the terms of the forbearance agreements, the lenders have agreed, subject to certain conditions, to waive their rights to call the loans due to the specific existing covenant breaches until November 30, 2009 (the forbearance termination date). Contemporaneously, the loan agreements have been amended to revise applicable interest rates and reset certain financial ratio covenants. The impact of the revised interest rates from the forbearance agreements has not been reflected in the consolidated financial statements for the year ended June 30, 2009 as rates were not put into effect until the forbearance agreements were signed. Under the forbearance agreements, effective July 1, 2009, the five year term loan and the revolving loans will bear interest at

LIBOR plus 6% per annum or ABR plus 4.5% per annum, at the option of the Corporation. Additionally, the interest on the six year term loan will bear interest at LIBOR plus 10% per annum with a stated minimum LIBOR rate of 3%, or ABR plus 9% per annum with a stated minimum ABR rate of 4%. However, the Corporation can defer cash payment of a portion of the interest on this loan until loan expiration date. The senior convertible notes will bear interest at 17% per annum until July 3, 2012 and subsequently at 19% per annum until maturity.

Under terms of the forbearance agreements, for June 30, 2009 covenant test purposes, the interest coverage ratio was reset to 3.00 and the fixed charge coverage ratio was reset to 1.05. Accordingly, the Corporation is in compliance with both these amended ratios at June 30, 2009. These two ratio covenants were also amended for the first quarter of the next fiscal year. The total leverage ratio and the senior leverage ratio were not amended and the Corporation remains in default of these, however, following the forbearance termination date, these will be revisited with the lenders and reset if appropriate for periods beyond the forbearance termination date. To date, the Corporation is in compliance with all covenants included in the forbearance agreements.

The covenant breaches and subsequent negotiations have also resulted in in-depth operational reviews that have resulted in several key management and organizational changes. These are more fully discussed in the Outlook section.

The Corporation is optimistic that negotiations with the lenders will be successful and completed within the time frame now established. To date, all principal and interest payments have continued to be made to the lenders such that the respective loans are all in good standing as to the date of this MD&A but for the covenant breaches.

Both the total leverage and senior leverage ratios were affected by lower than anticipated adjusted EBITDA (refer to EBITDASX discussion above for more information). However, the covenants are calculated after converting the Corporation's results to US dollars. Accordingly, the change in foreign currency exchange rates had a significant negative impact on the calculated ratios as the US dollar significantly appreciated against the Canadian dollar during most of the current year, thus decreasing EBITDA derived from Canadian operations. The Company believes it would not have breached the total leverage ratio in the second quarter had exchange rates stayed consistent with the first quarter. However, the covenant would likely have been breached in the third quarter nonetheless. Additionally, the breach of the senior leverage ratio would not have occurred in the third quarter had exchange rates stayed near first quarter levels.

Consistent with the third quarter interim report, the Company has continued to present all long-term debt and convertible senior notes payable as part of current liabilities on the consolidated financial statements to reflect the potential that the loans could become fully due and payable within the next twelve months should negotiations with the lenders be unsuccessful. This presentation results in a significant negative working capital position at June 30, 2009 of $27.0 million. The working capital position would have been positive at $6.8 million if the long-term debt was presented in long-term liabilities and the current portion in current liabilities.

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Cash and Cash Flow

As at June 30, 2009, the Company had cash and cash equivalents of $3.0 million, offset by current bank indebtedness of $1.5 million for a net liquid cash position of $1.5 million. This compares to a net negative position of $0.5 million at June 30, 2008. The change is primarily attributable to the reduction of outstanding bank indebtedness through positive operating cash flows and new borrowings.

HISTORICAL CASH FLOW ($ IN THOUSANDS)

	2008					2009				
	Q1	Q2	Q3	Q4	FISCAL	Q1	Q2	Q3	Q4	FISCAL
Cash from operations before non cash working capital	1,306	1,237	1,283	754	4,580	1,054	1,029	1,041	1,349	4,473
Working capital changes	609	(1,125)	279	(737)	(974)	1,051	(1,824)	1,111	(317)	21
Cash from operations	1,915	112	1,562	17	3,606	2,105	(795)	2,152	1,032	4,494
Cash from financing	28,633	644	491	(429)	29,339	(333)	1,871	(24)	278	1,792
Cash from investing	(33,124)	(452)	(2,329)	(452)	(36,357)	(1,173)	(1,962)	(525)	(941)	(4,601)
Foreign exchange[1]	-	-	-	81	81	81	317	83	(296)	185
Net cash change	(2,576)	304	(276)	(783)	(3,331)	680	(569)	1,686	73	1,870
Ending cash position	1,893	2,197	1,921	1,138	1,138	1,818	1,249	2,935	3,008	3,008
Working capital position	5,883	7,637	6,116	5,206	5,206	4,717	(28,524)	(29,927)	(27,769)	(27,021)

[1] FY09 Q1 through Q3 have been restated to conform to the Q4 presentation.

Fourth Quarter Ending June 30, 2009

Year over Year – The Company recorded positive cash flow from operations before working capital adjustments for the fourth quarter of $1.3 million, up $0.6 million or 79% from positive cash flow for the same quarter last year of $0.7 million. The increase is primarily a reflection of fourth quarter exchange rates on US dollar denominated operating results and lower interest expense (refer to interest discussion above for details).

Cash from financing activities during the fourth quarter was $0.3 million reflecting principal repayments on long term debt of $0.4 million offset by an increase in bank indebtedness of $0.8 million. The repayments of long term debt were according to scheduled repayments. Long term debt repayments for the same quarter last year were $1.2 million while bank indebtedness increased $0.6 million.

Cash used in investing activities during the quarter of $0.9 million was directed primarily towards completion of the expansion of the Planet Organic Market store in Edmonton, Alberta that continued throughout the quarter. There were no other major capital projects other than the Edmonton expansion. This project was substantially completed at the end of the year. Estimated costs to complete this project subsequent to June 30, 2009 are $0.5 million.

Quarter over Quarter – Cash flow from operations before working capital changes in the current quarter was up by $0.3 million from the third quarter primarily due to the adjustment to interest expense previously noted. Operations between quarters did not change significantly. Financing activity in the current quarter included an increase in bank indebtedness that more than offset scheduled debt repayments whereas in the third quarter, increases in bank indebtedness were lower. Investing activities in the fourth quarter comprised mainly of construction activity for the Edmonton Planet Organic Market store location which was substantially completed during the fourth quarter.

Year Ended June 30, 2009

Cash flow from operating activities before working capital changes were $4.5 million for the year ended June 30, 2009, a decrease of $0.1 million (2%) from the $4.6 million from the prior year. The current year was negatively affected by losses associated with two new Planet Organic Market stores that were not open during the entire previous fiscal year offset to a certain extent by changes in foreign currency rates when translating US dollar denominated results to Canadian dollars. Changes in non-cash working capital items were nominal in during the current year compared to cash used of almost $1.0 million for the same period last year. The difference is mainly due to timing of cash inflows and outflows pertaining to accounts payable, accounts receivable and prepaids. Financing activities in the prior year contributed cash of $29.4 million as the Company received significant debt proceeds in the first quarter last year to fund the acquisition of Mrs. Green's. Likewise, investing activities in the prior year consisted of the Mrs. Green's acquisition for $33.0 million (all of which occurred in the first quarter last year). Financing activities in the current year, which provided cash of $1.8 million consisted primarily of scheduled debt repayments, as well as some conversion of US dollar denominated debt with Canadian dollar

denominated debt. Investing activities in the current year were limited primarily to the construction of the Markham Ontario Planet Organic Market store and the expansion of the Edmonton Alberta Planet Organic Market store, while in the prior year funds were primarily for construction of the Vaughan Ontario Planet Organic Market store and renovations in Healthy's.

New Accounting Policies

Effective this fiscal year, the Corporation adopted new accounting policies as described below due to the implementation of new accounting standards as specified in the CICA Handbook.

a. Capital Disclosures

The Corporation adopted the recommendations issued by the CICA in new accounting standard Section 1535 – "Capital Disclosures". Section 1535 specifies the disclosure of i) an entity's objectives, policies and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance.

The Corporation's objectives when managing capital are: i) ensure sufficient liquidity to support its financial objectives and execute its strategic and operating plans; ii) ensure debt covenants are met, and; iii) maximize and protect shareholder value. As previously noted, the Corporation was not able to meet all debt covenants during the year – refer to discussion in Cash, Financing and Liquidity for further discussion of the impact this has had on the Corporation.

The Corporation considers its total capitalization to include all interest bearing debt, including bank indebtedness, long-term debt (including the current portion thereof but excluding unamortized financing fees), senior convertible notes payable (including accrued interest thereon but excluding unamortized financing fees) and shareholders' equity, net of cash. The calculation is set out in the following table:

	June 30, 2009	June 30, 2008
Bank indebtedness	$ 1,486,514	$ 1,594,591
Current portion of long-term debt	24,768,645	900,955
Long-term debt	-	19,158,988
Current portion of convertible senior notes payable	12,793,000	-
Convertible senior notes payable	-	11,216,700
Accrued interest on convertible notes payable	3,979,208	1,570,215
Shareholders' equity	24,351,680	29,180,567
Less: equity portion of convertible notes payable	(4,200,315)	(4,200,315)
Less: cash	(3,008,131)	(1,138,131)
Capital under management	$ 60,170,601	$ 58,283,570

Planet Organic is required to effectively manage existing capital, as well as seek additional sources of capital, to maintain continuous growth. Accordingly, the Corporation does not currently pay dividends in order to maximize available capital. The Corporation manages capital primarily through investment in additional retail space for stores in Canada and the US. Additional retail space comes in the form of new stores or expansion of existing locations. The Corporation does not usually take an ownership interest in land or buildings. However, capital is expended in the form of leasehold improvements and features that enable the Corporation to expand its brand reach and recognition. The Corporation has historically heavily relied on its cash flow from operations to fund its capital development program. In the prior fiscal year, the Corporation significantly increased its external borrowing through term loans, revolving loans, and senior convertible notes. These debt instruments comprise a majority of the capital under management.

Refer to commentary under Cash Financing and Liquidity for discussion of the status of the Company's long-term debt and related covenants.

b. Inventories

The Corporation adopted the recommendations issued by the CICA in new accounting standard Section 3031 – "Inventories", which requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including allocation of overheads and other costs to inventories. The standard also requires the use of either first in, first out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques such as the retail method, used to measure cost of inventory, may be used if the results approximate cost. The adoption of this standard had no impact on the current or previous operating results of the Corporation.

c. General standards of financial statement presentation

Effective July 1, 2008, CICA Handbook Section 1400.08A - .08C – "General Standards of Financial Statement Presentation – Going Concern" was adopted. There is no impact on the consolidated interim financial statements as a result of applying this section.

d. Financial Instruments

The Corporation adopted prospectively without restatement, CICA Handbook Sections 3862 – "Financial Instruments – Disclosure" and 3863 – "Financial Instruments – Presentation", which requires additional disclosures to enable users to evaluate the significance of financial instruments to the Corporation's financial position and performance. Qualitative and quantitative disclosures are also provided to enable users to evaluate the nature and extent of risks arising from the Corporation's financial instruments as further described below.

Fair values of financial instruments

The fair value of a financial instrument is the estimated amount that the Corporation would receive or pay to settle the financial assets and financial liabilities as at the reporting date. The following table summarizes the classification of the Corporation's financial instruments:

June 30, 2009	Designated held for trading	Loans and receivables	Other financial liabilities	Total carrying amount	Fair Value
Financial Assets					
Cash	$ 3,008,131	$ -	$ -	$ 3,008,131	$ 3,008,131
Accounts receivable	-	1,830,889	-	1,830,889	1,830,889
Notes receivable	-	20,520	-	20,520	20,520
Total financial assets	$ 3,008,131	$ 1,851,409	$ -	$ 4,859,540	$ 4,859,540
Financial Liabilities					
Bank indebtedness	$ -	$ -	$ 1,486,514	$ 1,486,514	$ 1,486,514
Accounts payable and accrued liabilities	-	-	7,886,651	7,886,651	7,886,651
Long-term debt	-	-	23,741,777	23,741,777	21,816,347
Convertible senior notes payable	-	-	11,931,002	11,931,002	13,431,231
Total financial liabilities	$ -	$ -	$ 45,045,944	$ 45,045,944	$ 44,620,743

June 30, 2008	Designated held for trading	Loans and receivables	Other financial liabilities	Total carrying amount	Fair Value
Financial Assets					
Cash	$ 1,138,131	$ -	$ -	$ 1,138,131	$ 1,138,131
Accounts receivable	-	2,049,942	-	2,049,942	2,049,942
Notes receivable	-	70,437	-	70,437	70,437
Total financial assets	$ 1,138,131	$ 2,120,379	$ -	$ 3,258,510	$ 3,258,510
Financial Liabilities					
Bank indebtedness	$ -	$ -	$ 1,594,591	$ 1,594,591	$ 1,594,591
Accounts payable and accrued liabilities	-	-	7,054,883	7,054,883	7,054,883
Long-term debt	-	-	18,938,847	18,938,847	18,938,847
Convertible senior notes payable	-	-	7,932,032	7,932,032	7,932,032
Total financial liabilities	$ -	$ -	$ 35,520,353	$ 35,520,353	$ 35,520,353

The carrying amounts of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair values at the balance sheet date due to the short-term nature of these instruments. The fair value of the notes receivable approximates its carrying value at the balance sheet date due to the variable interest rate feature of the notes receivable.

The fair value of the Corporation's long term debt and convertible senior notes payable have been estimated by discounting future cash flows at rates that would be offered for debt of similar maturities and credit quality before any unamortized transaction costs. Due to the recent volatility in the credit markets and the covenant breach previously described, the Corporation expects that it would be subject to a higher credit spread applied to both variable and fixed rate instruments and that the terms of the convertible senior notes payable would be different, particularly pertaining to the conversion price. Accordingly, the carrying value of financial liabilities exceed their estimated fair value.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable and notes receivable. The Company's maximum exposure to credit risk is represented by the carrying amount for all accounts receivable and notes receivable. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company does not have a significant concentration of credit risk in any particular geographic or customer sector. The Company maintains adequate reserves for potential credit losses as estimated by management. Changes in the reserve as at June 30 are as follows:

		2009		2008
Balance, beginning of period	$	137,481	$	88,352
Provision for doubtful accounts		42,910		70,895
Amounts charged off, net of recoveries		(77,665)		(21,766)
Balance, end of period	$	102,726	$	137,481

Payment terms are generally net 30 days. Gross accounts receivable as at June 30, 2009 were $1,897,476 compared to $2,151,285 at June 30, 2008. As at June 30, 2009, the aging category percentages of accounts receivable (net of allowance) were as follows: 81% current, 13% 1 to 30 days past due, 3% 31 to 60 days past due, 2% 61 to 90 days past due and 1% over 90 days past due.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As previously noted, the Company was in breach of debt covenants as at June 30, 2009 (refer to discussion on Cash, Financing and Liquidity). Although the Company's lenders are in a position to demand the Company's debt, they have not done so and have entered into forbearance agreements with the Company. The Company continues to have access to revolving credit facilities (totalling $1.7 million and a further revolving facility of US$2.3 million) that ensure it has sufficient available funds to meet current financial requirements. In the unlikely event that the negotiations with the lenders are unsuccessful following the forbearance termination date, the Company will be forced to seek financing from other sources in order to meet future obligations, including repayment of existing debt.

The following table summarizes the undiscounted contractual maturities of significant financial liabilities for the twelve month periods ended June 30 under loan facilities as they existed as at June 30, 2009 (not taking into consideration the impact from the covenant breach previously discussed):

	2010	2011	2012	2013	2014	Thereafter	Total
Long term debt [1]	$ 3,527,157	$ 3,334,275	$ 6,885,899	$16,609,437	$ -	$ -	$30,356,768
Convertible senior notes payable [2]	-	-	-	3,638,018	3,638,018	24,253,454	31,529,490
	$ 3,527,157	$ 3,334,275	$ 6,885,899	$20,247,455	$ 3,638,018	$24,253,454	$61,886,258

(1) Includes interest payments at interest rates in effect as at June 30, 2009.
(2) Includes fixed interest payments.
(3) Amounts contractually denominated in US dollars are exchanged at the June 30, 2009 exchange rate.

The Company's bank indebtedness, accounts payable and accrued liabilities are short term in nature which are due in the next twelve months and accordingly are not included above.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to interest rate risk consist primarily of bank indebtedness and long-term debt. Interest rates are variable depending on rate maturity terms as selected by the Company and may vary in accordance with the provisions contained in the lending agreements based on LIBOR rates, bank prime rates or Bankers' Acceptances rates. The Company does not currently hold any financial instruments that mitigate this risk and manages interest rate risk primarily through the selection of short term interest rate renewal periods. The Company has benefitted from a general decline in short term interest rates since the inception of the loans by using this strategy. The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables constant, would result in an increase (decrease) to long-term interest expense of approximately $0.3 million per year.

The senior convertible notes payable bear interest at fixed rate for the term of the contract. Accordingly, interest expense on these instruments is not affected by changes in interest rates.

Currency exchange risk

Currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in the United States and is exposed to risk from changes in foreign currency rates when translating results from the US dollar to the Canadian dollar. Additionally, the Company's convertible senior notes payable and a portion of long-term debt are denominated in US dollars exposing the Company to changes in foreign currency rates. The Company mitigates cash flow risk principally through the natural hedge resulting from the operations in the US (including sales and purchases denominated in US dollars) that provide sources of US dollars sufficient to satisfy current foreign denominated liabilities. The Company estimates that a five cent increase (decrease) in foreign exchange rate, with all other variables constant, would result in an increase (decrease) in net income of approximately $0.8 million per year and an increase (decrease) in comprehensive loss of $1.1 million.

As previously noted, the Company is required to calculate its loan covenants in US dollars, thus requiring conversion of Canadian EBITDA (as defined in the loan agreements) into US dollars. During the current year, the Canadian dollar depreciated considerably, negatively affecting EBITDA and, in part, causing the Corporation to breach several covenants. Alternatively, if the Canadian dollar appreciates relative to the US dollar, then EBITDA would be positively affected. Foreign exchange hedges would not address the conversion of Canadian dollar denominated EBITDA to US dollars, although hedges would be available to address US dollar denominated debt payments.

Upcoming Accounting Policies

In February 2008, the CICA issued Handbook Section 3064 – Goodwill and Intangible Assets that supersedes Sections 3062 – Goodwill and Other Intangible Assets and 3450 – Research and Development Costs. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. This new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 31, 2008 and will be effective for the Corporation's next fiscal year. The Company is currently assessing whether application of this new accounting standard will allow for pre-opening costs to be classified as intangible assets.

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards (IFRS), effective for years beginning on or after January 1, 2011. Accordingly, the standards would be effective for the year ended June 30, 2012. However, the interim report as at September 30, 2011 would be reported under IFRS. To the date of this MD&A, the Company has received external consulting proposals to assist in the evaluation of the impact in converting to IFRS. However, in light of the debt covenant breaches and other significant changes to the organizational structure of the Corporation, management has concluded to defer the IFRS assessment until the second quarter of the 2010 fiscal year. It is expected that IFRS impact reviews would be concluded in the third and fourth quarters of the next fiscal year, enabling the Corporation to prepare a pro-forma balance sheet as at June 30, 2010 under IFRS.

In January 2009, the CICA issued new Handbook Sections 1582 – "Business Combinations", 1601 – "Consolidated Financial Statements", and 1602 – "Non-Controlling Interests" that supersede current sections 1581 – "Business Combinations" and 1600 – "Consolidated Financial Statements". These Sections shall be applied prospectively to business combinations for which the acquisition date is after June 30, 2011. Earlier adoption is permitted if an entity discloses that fact and applies each of the new sections concurrently. This new section was created to converge GAAP with IFRS.

Share Capital Information

The Company has one class of Common Shares and one class of Preferred Shares. Both classes of shares have an unlimited number authorized. There are no Preferred Shares outstanding to the date of this MD&A.

Common Shares

The following table summarizes the number of common shares to June 30, 2009, and summarizes the impact on common shares outstanding should all currently issued warrants and options be exercised and all convertible senior notes payable be converted.

Outstanding at June 30, 2008	34,634,794
Shares issued on exercise of warrants	30,000
Outstanding at June 30, 2009	34,664,794
Issuable on exercise of options (described below)	2,154,500
Issuable on exercise of warrants (described below)	1,800,000
Issuable on conversion of convertible senior notes payable (described below)	4,802,358
Potential common shares outstanding	43,421,652

During 2002, the Company sold units of the Company consisting of shares and warrants to purchase additional shares. During 2003, certain warrants were exercised upon payment of the warrant value. In July 2008, it was discovered that common share certificates had not been issued for 30,000 warrants although the warrants had been fully paid up. Accordingly, on July 21, 2008, the Corporation issued 30,000 common shares without proceeds.

On September 23, 2009, the Corporation applied to the TSX Venture Exchange for the issuance of 19,808,453 bonus shares to one of its lenders, Ares Capital Corp., a related party, at a deemed fair value price based on recent trade activity of $0.14 per share for an aggregate value of $2,773,183 to compensate the lender for agreeing to amend the term loan facility. The shares were to be subject to certain holding, voting and cancellation conditions and provisions as agreed between the parties. The TSX Venture Exchange initially approved the application subject to certain conditions that were satisfied by the Corporation. Subsequently, the Corporation determined not to pursue the issuance of the shares as on October 15, 2009, the TSX Venture Exchange revoked its initial conditional approval and imposed additional conditions that prevented the transaction from proceeding. As a result, the Corporation has formally withdrawn its application with the TSX Venture Exchange without issuing any bonus shares.

There have been no further common share transactions since October 9, 2009 to the date of this MD&A.

Options

The Company has approved a stock option plan whereby the Company may grant options to employees, consultants, officers and directors totaling up to 10% of its issued and outstanding common shares. Given this limitation, 3,466,479 total options are available to be granted. As at June 30, 2009, there were 2,154,500 options outstanding. Each option is convertible into one common share. Outstanding stock options as at June 30, 2009 are:

Grant Date	Number of Options	Exercise Price	Expiry Date
February 17, 2005	1,303,500	$ 1.00	February 17, 2010
July 3, 2007	826,000	$ 2.50	July 31, 2012
July 16, 2008	25,000	$ 2.50	July 16, 2013
	2,154,500		

During the year, 25,000 options were granted to a senior employee with an exercise price of $2.50 and an expiry date of July 16, 2013. Additionally, during the current year, 300,000 options granted on August 1, 2007 expired unexercised and 100,000 options granted on April 12, 2004 expired unexercised. A further 13,000 unvested options granted on July 3, 2007 were cancelled.

There have been no share option transactions from June 30, 2009 to the date of this MD&A.

Warrants

In connection with the private placement of common shares in July 2007, the Company issued whole share warrants that entitle the holder to purchase one common share per warrant at an exercise price of $3.25 per share. There were no changes to the warrants during the year and there have been no warrant transactions from June 30, 2009 to the date of this MD&A.

Convertible Senior Notes Payable

The Company issued convertible notes in July 2007 that entitle the holder the option to convert the principal amount plus any interest outstanding into common shares at any time prior to July 3, 2012 at a conversion price of $3.33 per share. As at June 30, 2009, principal and interest outstanding on the convertible senior notes payable was $15,991,852 as determined under the terms of the debt agreement and exchanged at rates in effect at June 30, 2009. Had conversion rights been exercised at June 30, 2009, a total of 4,802,358 common shares would be issued. As interest continues to accrue and the total outstanding balance of the notes increases, the number of shares that would be issued if conversion was exercised would increase accordingly. Further, exchange rate fluctuations impact the number of shares that could be issued as the debt is initially denominated in US dollars. Additionally, these convertible notes are callable by the Company at any time prior to maturity at a rate of 115% of the outstanding principal and interest up to July 3, 2011, then at 100% of the outstanding amount until maturity.

Transactions with Related Parties

Planet Organic regularly enters into transactions with related parties as part of its operations. It is the Company's policy to conduct all transactions and settle all balances with related parties on market terms and conditions. Accordingly, these transactions are recorded at the exchange value in the annual consolidated financial statements which management considered equivalent in value to an arm's length transaction. For years ended June 30, the following transactions occurred with related parties (from the date the entity was identified as being a related party):

	2009	2008
Sales [1]	$ 863,437	$ 928,985
Franchise and other revenue [2]	21,333	21,333
Cost of sales [3]	7,635,807	6,536,400
Selling, general and administration expenses		
Consulting [4]	531,951	553,669
Legal [5]	85,142	259,461
Occupancy [6]	20,000	18,000
Marketing and promotion [6]	6,594	-
Recovery of marketing and promotion [2]	(4,267)	(4,267)
Interest on long-term debt [7]	407,586	-
Included in accounts receivable	134,627	185,070
Included in accounts payable and accrued liabilities	384,269	348,103
Included in long term debt and convertible senior notes payable (excluding unamortized financing fees)	31,729,314	-

(1) These transactions are with customers (Christmas Natural Food, Corwin Distributors, PSC Natural Foods) that are owned or controlled directly or indirectly by a director and significant shareholder of the Company and with a customer (101033568 Sask. Ltd.) that is owned and controlled directly by a senior executive and his spouse of one of the Corporation's subsidiaries.

(2) These transactions are with a customer (101033568 Sask. Ltd.) that is owned and controlled directly by a senior executive and his spouse of one of the Corporation's subsidiaries.

(3) These transactions are with suppliers (Christmas Natural Foods, Corwin Distributors Ltd., Horizon Distributors, PSC Natural Foods) that are owned or controlled, directly or indirectly, by a director and significant shareholder of the Company.

(4) These transactions are with consultants (Okasu Enterprises, 101054774 Sask. Ltd.) where the principals are directors, officers and/or shareholders of the Company.

(5) These transactions are with a firm (Heighington Law Firm) where the partner is a director of the Company.

(6) These transactions are with a firm (Eclipse Pen and Pencil Ltd.) that is owned or controlled, directly or indirectly, by a director and significant shareholder of the Company.

(7) These transactions are with lenders (Ares Capital Corp, Partnership Capital Growth) where principals are directors of the Company.

The nature and proportion of the transactions noted above are generally consistent with prior periods.

Outlook

The Company has grown primarily through acquisition of retail outlets and manufacturing operations, the most recent being the acquisition of Mrs. Green's in the densely populated northeastern US in FY08. While the Company intends to continue to grow in this fashion, internal growth of existing store locations, as well as new store locations, also plays a significant role in the Company's plans. There was one new Planet Organic Market store located in Markham Ontario that opened during the current fiscal year. The expansion of one of the Planet Organic Market locations in Edmonton, including the administrative offices, commenced late last year and was substantially completed during the third quarter this year and the expanded store was fully opened to the public in the last quarter.

The Company has secured a lease for a new commissary location for Mrs. Green's. However, the current economic downturn and higher than anticipated construction costs have resulted in the Company postponing conversion of the facility to FY10 or until the economic situation in the US stabilizes. The new commissary, once completed, will enable Mrs. Green's to expand deli and prepared food selections, and support any new Mrs. Green's locations. A project to add a third Mrs. Green's location in Connecticut was cancelled during the year in light of the current economic situation.

Economic conditions deteriorated significantly to the point of recession in both Canada and the US since the end of the last fiscal year. The Company is not immune to the far reaching effects of recession as seen by a significant decrease in the rate of growth of same store sales from the prior year. However, the Company continues to believe it is in a strong position to meet the challenges. During economic difficulties, it is inevitable that consumer spending will be reduced. Indeed, consumers are more likely to reduce their spending by eating out less and purchasing more food for preparation at home. Most of the Company's products are food and food related which historically are not affected as significantly as other types of discretionary spending and which may in fact see sales increase, at least in volume. Additionally, consumers of organic and natural products are generally more committed to continuing to purchase these products and tend to be less likely to move away from this lifestyle. However, pressure is expected to continue at the sales and gross profit level for the next several quarters as consumers are unlikely to have the same spending ability as prior to the recession.

The consolidated financial statements for the year ended June 30, 2009 have been prepared on a going concern basis which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. However, as disclosed in the annual consolidated financial statements, there are material uncertainties related to certain adverse conditions and events that may cast significant doubt on the validity of this assumption. During 2008, the Corporation entered into various debt agreements primarily to fund the acquisition of Mrs. Green's Natural Markets. Under those debt agreements, certain financial ratios are included in covenants which the Corporation reports to the lenders on a quarterly basis and,

as noted, the Corporation is in breach of certain debt covenants. As a result, the Corporation has classified the indebtedness related to the breach as current liabilities in these consolidated financial statements. This has contributed to a significant working capital deficiency. Furthermore, net losses, caused primarily by interest costs and unrealized foreign exchange losses, have created an accumulated deficit as at June 30, 2009.

Negotiations with the lenders to rectify the covenant breach and enter into new loan agreements commenced early in the third quarter. Subsequent to June 30, 2009, the Corporation entered into forbearance agreements with its lenders respecting the loans. Pursuant to the terms of the forbearance agreements, the lenders have agreed, subject to certain conditions, to waive their rights to call the loans due to the specific covenant breaches until November 30, 2009. In the event continuing discussions with the lenders are not successful in refinancing the Corporation and resetting the covenants after November 30, 2009, the Corporation will be forced to seek financing from other sources to meet debt repayment needs if the current lenders demand repayment of the outstanding amounts payable. Although credit markets appear to be strengthening, there is uncertainty whether sufficient funding would be available from current lenders or other parties. These factors may indicate the Corporation will be unable to continue as a going concern. The consolidated financial statements for the year ended June 30, 2009, do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. Any such adjustments could be material.

The Corporation will be responsible for certain fees and costs incurred by its lenders in connection with renegotiating terms of various loan agreements, including entering into forbearance agreements. The Corporation estimates these costs, including costs incurred directly by the Corporation, at $250,000. These costs will be recorded as financial instruments transaction costs in the first quarter of the next fiscal year. Additionally, in the first quarter the Corporation will also reflect additional amounts owing to its lenders as a result of the forbearance agreements totaling US$1,525,000. This amount was added to the outstanding principal balances of the six year term debt and the senior convertible notes payable at September 25, 2009.

As previously noted, the Company is working closely with its lenders in light of the covenant breaches. Part of this work includes a comprehensive review of current operations and corporate structure, including engaging a reputable investment bank to assess the possible sale of certain assets or business units. As a result of this ongoing review, certain retail divisions may be divested with proceeds to be applied against outstanding loan balances. It may also be necessary for the Corporation to consider further divestitures to satisfy its loan obligations.

Additionally, Planet Organic has also undertaken a restructuring of its Board of Directors and senior management team. On May 22, 2009, the Company replaced its CEO with an interim position of Office of the CEO whose membership is comprised of the Company's newly created position of Executive Vice President Business Development, one of the Company's directors, and an outside consultant with expertise in corporate restructuring. A search for a permanent

CEO has been delayed until finalization of the situation with the lenders with respect to the covenant breaches. In May 2009, two new Board members from Ares Capital Corp. were appointed to the Board (Michael Arougheti, Daniel Katz), and one former Board member (Roy Sangster) resigned from the Board. Additionally, in September 2009, the Board replaced its former Chairperson with Brent Knudsen, who also forms part of the Office of the CEO. In September 2009, the Corporation created the position of Executive Vice President, Business Development and appointed Darren Krissie (formerly Vice President Business Development and CFO) to the position. Appointed to the position of CFO was Yvan Boutin, formerly the Company's Director of Finance. The Company's executive management continues to review all aspects of the Corporation's structure and activities.

Risks

Like all businesses, Planet Organic and its management team deal with various risks that threaten its ability to achieve its strategic direction and accomplish its vision. Among the most significant risk factors are:

Foreign Exchange – all of the Company's debt was initially denominated in US dollars. However, less than half of the Company's revenues are denominated in US dollars, with the majority denominated in Canadian dollars. Accordingly, changes in the US exchange rate can significantly affect the amount that will be payable when the debt matures, as well as the amount of interest expense recorded and/or paid each period. The Company recorded a foreign exchange loss of $2.3 million during the current year (compared to a gain of $0.5 million for the prior year) due to the deterioration of the Canadian dollar since the end of last year. While future exchange rates cannot be accurately predicted, since the end of the year to the date of this MD&A, the Canadian dollar has appreciated in value against the US dollar.

General Economy – as with every other consumer based business, the Company is subject to the general economic conditions within the markets it operates. As economic conditions deteriorate, consumers reduce their spending. However, management believes that consumers, when faced with economic hardship, often reduce the frequency they eat out and other discretionary spending and will instead purchase food to prepare at home. Additionally, organic/natural product consumers are more prone to continue to purchase food that is better for them and for the environment provided they continue to see value both in terms of quality and healthfulness. The general economy in the US and Canada has deteriorated considerably during the current year, and continues somewhat to the date of this MD&A with major economic news affecting practically all industries and with major government intervention. Economic circumstances have prompted the Company to delay some expansion plans until the economic situation improves. Unfortunately, the length and depth of the current economic situation remains uncertain.

Interest Rates – Approximately 35% of the Company's outstanding debt bears a fixed rate of interest for the initial term of the loan. The remaining 65% is subject to variable rates of interest, either based on prime lending, bankers' acceptance or LIBOR rates. Accordingly, the Company is subject to variations in interest rates and would incur additional interest expense should base rates increase. Alternatively, a decline in rates would have a positive impact to interest expense. During the third quarter of the current fiscal year, the Company saw an increase in general interest rates, however, rates have declined significantly during the fourth quarter.

Changes in Consumer Preferences – the Company has built its reputation on providing high quality natural and organic products. The North American market for these products has risen considerably in recent years, supported by a population becoming more concerned with both the food that they eat (in terms of quality and healthfulness) and the impact that food production has on the environment. While the Company anticipates that growth in this segment will continue, management cannot accurately predict potential changes in consumer preferences that could move them away from natural and organic products nor can it predict the impact the economic recession may have on consumer spending patterns.

Availability of Suppliers and Products – The Company takes actions available to it to assure access to quality products from its vendors through contracts and agreements. However, access or availability cannot be guaranteed due to the risks associated with food production (weather, disease, etc.) and the relatively limited number of suppliers. Additionally, with growing demand for the Company's products, the possibility of increased competition at the retail level from other natural food stores could result in increased prices for products and increase the risks associated with possible increased competition for potentially limited supplies of products.

Food Safety and Labeling – There is increased government scrutiny and public awareness of food safety issues. Management believes that many customers choose to shop at the Company's stores because of their interest in health, nutrition and food safety. Although the Company has comprehensive food safety procedures, it anticipates that customers will hold it to a higher standard than conventional supermarkets. As a result, the sale of contaminated food products, or the perception of such sale by the Company could have a material adverse effect on its operations. Indeed, the sale of contaminated product by the Company's direct competitors could also have the same impact. The Company endeavours to employ best practices for the storage and distribution of food products and also actively supports consumer awareness of safe food handling and consumption. The Company strives to ensure its products have informative nutritional labeling so that customers can make informed product choices.

Personnel – The Company's employees play a significant role in the success of the Company. The conduct of the Company's business and the execution of its growth strategy rely heavily on teamwork and the Company's future performance and development depends to a significant extent on the abilities, experience and efforts of its management team. The Company's ability to retain its management team, or attract suitable replacements should key members leave, is dependent on the competitive nature of the employment market.

Competition – The Company's competitors include other natural foods stores, large and small traditional and specialty supermarkets and grocery stores. These stores compete with the Company in one or more product categories. In addition, traditional and specialty supermarkets are expanding more aggressively in marketing a broad range of natural foods and thereby competing directly with the Company for products, customers and locations. Some of these potential competitors have been in business longer or have greater financial or marketing resources than the Company and may be able to devote greater resources to the sourcing, promotion and sale of their products. Existing or future competitors also may seek to compete with the Company for acquisition candidates that could have the effect of increasing the price for acquisitions or reducing the number of suitable acquisition candidates. Increased competition may have an adverse effect on profitability as the result of lower sales, lower gross profits and/or greater operating costs.

Government Regulation – Management cannot predict the nature of future laws, regulations, interpretations or applications, nor can it determine what effect either additional governmental regulations or administrative orders, when and if promulgated, would have on its business in the future. They could, however, require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. Any or all of such requirements could have an adverse effect on the Company's results of operations and financial condition.

Internal Controls Over Financial Reporting and Disclosure Contols and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information related to the Company, including its consolidated subsidiaries, is gathered and reported to senior management, including the Office of the CEO and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal controls over financial reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Management is responsible for establishing and maintaining adequate internal controls appropriate to the nature and size of the business to provide reasonable assurance regarding the reliability of financial reporting of the Company.

The Corporation has been in a significant growth phase and management is continually monitoring and revising its control procedures and processes over the different areas of the business. Management considers control procedures and processes as a continual evolution and acknowledges that sufficient resources need to be directed towards continuous monitoring and revision of those controls.

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Planet Organic Health Corp.

Consolidated Financial Statements

For the year ended June 30, 2009

Auditors' Report

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To the Shareholders of
Planet Organic Health Corp.

We have audited the consolidated balance sheets of Planet Organic Health Corp. as at June 30, 2009 and 2008 and the consolidated statements of operations and (deficit) retained earnings, comprehensive (loss) income, accumulated other comprehensive (loss) income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada

October 23, 2009

Grant Thornton LLP

Chartered Accountants

Planet Organic Health Corp.

Consolidated Financial Statements

For the year ended June 30, 2009

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Planet Organic Health Corp.

Consolidated Balance Sheets
(In Canadian Dollars)

As at June 30	2009	2008
Assets		
Current		
Cash	$ 3,008,131	$ 1,138,131
Accounts receivable	1,830,889	2,049,942
Inventories	11,561,880	10,799,611
Prepaid expenses	553,058	653,036
Income taxes recoverable	1,188,028	357,915
Current portion of future income taxes (note 22)	12,593	-
Current portion of notes receivable (note 9)	19,900	29,760
	18,174,479	15,028,395
Notes receivable, net of current portion (note 9)	620	40,677
Property, plant and equipment (note 10)	12,728,110	10,154,079
Goodwill (note 11)	31,424,428	31,424,428
Intangible assets (note 12)	8,164,000	8,196,381
Other assets (note 13)	275,566	599,097
Deposits (note 14)	603,364	584,856
	$ 71,370,567	$ 66,027,913
Liabilities		
Current		
Bank indebtedness (note 15)	$ 1,486,514	$ 1,594,591
Accounts payable and accrued liabilities	7,886,651	7,054,883
Deferred revenue	89,953	79,798
Current portion of future income taxes (note 22)	-	146,757
Current portion of deferred tenant inducements (note 16)	59,363	45,796
Current portion of long-term debt (note 17)	23,741,777	900,955
Current portion of convertible senior notes payable (note 18)	11,931,002	-
	45,195,260	9,822,780
Future income taxes (note 22)	730,201	234,771
Deferred tenant inducements (note 16)	551,573	413,026
Deferred rent	541,853	406,845
Long-term debt, net of current portion (note 17)	-	18,037,892
Convertible senior notes payable, net of current portion (note 18)	-	7,932,032
	47,018,887	36,847,346
Going concern (note 2)		
Commitments and contingencies (note 24)		
Subsequent events (note 26)		
Shareholders' Equity		
Share capital (note 19)	21,456,932	21,456,932
Warrants (note 19)	486,000	486,000
Equity component of convertible senior notes payable (note 18)	4,200,315	4,200,315
Contributed surplus (note 20)	1,251,037	1,160,067
Accumulated other comprehensive (loss) income	(1,289,971)	322,712
(Deficit) retained earnings	(1,752,633)	1,554,541
	24,351,680	29,180,567
	$ 71,370,567	$ 66,027,913

Approved by the Board:

(Signed) "Darren Krissie ", Director

(Signed) "Brent Knudsen", Director

See accompanying notes to the consolidated financial statements

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PLANET ORGANIC
HEALTH CORP

Planet Organic Health Corp.

Consolidated Statements of Operations and (Deficit) Retained Earnings
(In Canadian Dollars)

For the years ended June 30		2009	2008
Sales		$ 127,665,123	$ 113,972,886
Cost of sales		78,248,195	68,724,865
Gross profit		49,416,928	45,248,021
Franchise and other revenue		1,048,365	948,724
		50,465,293	46,196,745
Operating expenses			
Selling, general and administration		44,454,005	38,153,477
Interest on long-term debt		4,102,318	3,655,881
Foreign exchange loss (gain)		2,299,553	(513,342)
Amortization – property, plant and equipment		2,054,823	1,558,500
Amortization – intangibles and other		459,794	373,453
Amortization – finance fees		255,620	208,413
Stock-based compensation		90,970	1,237,404
Interest on short-term debt		26,384	45,897
Acquisition costs		-	946,975
		53,743,467	45,666,658
(Loss) income before income taxes		(3,278,174)	530,087
Income taxes (recovery) (note 22)			
Current		(347,637)	676,994
Future		376,637	81,443
		29,000	758,437
Net loss		(3,307,174)	(228,350)
Retained earnings, beginning of year		1,554,541	1,782,891
(Deficit) retained earnings, end of year		$ (1,752,633)	$ 1,554,541
Loss per share (note 21)	- Basic	$ (0.10)	$ (0.01)
	- Diluted	(0.10)	(0.01)

See accompanying notes to the consolidated financial statements

Planet Organic Health Corp.

Consolidated Statements of Comprehensive (Loss) Income
(In Canadian Dollars)

For the years ended June 30	2009	2008
Net loss	$ (3,307,174)	$ (228,350)
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(1,612,683)	322,712
Comprehensive (loss) income	$ (4,919,857)	$ 94,362

Consolidated Statements of Accumulated Other Comprehensive (Loss) Income
(In Canadian Dollars)

For the years ended June 30	2009	2008
Accumulated other comprehensive (loss) income on translating foreign operations		
Balance, beginning of year	$ 322,712	$ -
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(1,612,683)	322,712
Balance, end of year	$ (1,289,971)	$ 322,712

See accompanying notes to the consolidated financial statements

PLANET ORGANIC
HEALTH CORP

Planet Organic Health Corp.

Consolidated Statements of Cash Flows
(In Canadian Dollars)

For the years ended June 30	2009	2008
Cash provided by (used for)		
Operating activities		
Net loss	$ (3,307,174)	$ (228,350)
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment	2,054,823	1,558,500
Amortization of intangible assets	32,381	33,333
Amortization of financing fees	255,620	208,413
Amortization of guarantee fees	-	64,785
Amortization of deferred charges	427,413	275,335
Deferred rent	126,838	370,245
Future income tax expense	376,637	81,443
Stock-based compensation	90,970	737,404
Accrued interest relating to senior notes	2,208,366	1,554,814
Direct stock compensation	-	500,000
Unrealized foreign exchange loss (gain)	2,299,553	(513,341)
Loss on sale of property, plant and equipment	-	3,899
Lease inducement allocated against rent	(91,866)	(66,434)
	4,473,561	4,580,046
Changes in non-cash working capital balances		
Accounts receivable	510,168	(39,365)
Inventories	(321,170)	(533,160)
Prepaid expenses	110,959	(187,342)
Income taxes payable	(860,100)	(929,582)
Notes receivable	49,917	39,060
Deferred revenue	10,155	1,822
Accounts payable and accrued liabilities	520,410	674,106
	4,493,900	3,605,585
Financing activities		
Issuance of share capital	-	110,000
Share issuance costs	-	(16,992)
Proceeds from long-term debt	5,875,486	33,700,051
Payment of financing fees	-	(2,072,790)
Repayment of long-term debt	(3,975,003)	(3,886,726)
(Decrease) increase in bank indebtedness	(108,077)	1,114,708
Deferred tenant inducement	-	390,663
	1,792,406	29,338,914
Investing activities		
Business acquisitions (note 6)	-	(32,966,447)
Purchases of property, plant and equipment	(4,533,829)	(3,202,406)
Other asset expenditures	(105,704)	(91,926)
Deposits	38,993	(103,046)
Proceeds on property disposition	-	7,000
	(4,600,540)	(36,356,825)
Effect of foreign currency exchange rate changes on cash and cash equivalents	184,234	80,905
Change in cash and cash equivalents	1,870,000	(3,331,421)
Cash and cash equivalents, beginning of year	1,138,131	4,469,552
Cash and cash equivalents, end of year	$ 3,008,131	$ 1,138,131

See accompanying notes to the consolidated financial statements

Planet Organic Health Corp.

Consolidated Statements of Cash Flows
(In Canadian Dollars)

For the years ended June 30	2009	2008
Supplemental disclosure of cash flow activities		
Cash taxes paid	$ 449,856	$ 1,135,377
Cash interest paid	1,869,507	2,088,769
Cash included in business acquisitions	-	73,175
Non-cash transaction		
Share capital issued on acquisition (note 6)	$ -	$ 1,701,313

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

In Canadian dollars except where noted
For the years ended June 30, 2009 and 2008

1. **Nature of operations**

Planet Organic Health Corp. (the "Corporation" or "Planet") is a natural products industry company comprising retail and manufacturing operations. The Corporation trades on the TSX Venture Exchange under the symbol "POH". The Corporation, either directly or through subsidiaries, conducts business throughout Canada and the United States under the following trade banners: Planet Organic Market, Healthy's, Planet Organic Living, Sangster's Health Centres (direct and through franchises) and Mrs. Green's Natural Food Markets which are the retail operations and Trophic Canada, which is the manufacturing operation.

2. **Going concern**

While these consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, there are material uncertainties related to certain adverse conditions and events that may cast significant doubt on the validity of this assumption. During 2008, the Corporation entered into various debt agreements primarily to fund the acquisition of Mrs. Green's Natural Markets (note 6). Under those debt agreements, certain financial ratios are included in covenants which the Corporation reports to the lenders on a quarterly basis. The Corporation is in breach of certain debt covenants as described in note 7. As a result, the Corporation has classified the indebtedness related to the breach as current liabilities in these consolidated financial statements. This has contributed to a significant working capital deficiency. Furthermore, net losses, caused primarily by interest costs and unrealized foreign exchange losses, have created an accumulated deficit as at June 30, 2009.

Negotiations with the lenders to rectify the covenant breach and enter into new loan agreements commenced early in the third quarter. Subsequent to June 30, 2009, the Corporation entered into forbearance agreements respecting the loans (note 26). Pursuant to the terms of the forbearance agreements, the lenders have agreed, subject to certain conditions, to waive their rights to call the loans due to the specific covenant breaches until November 30, 2009.

The Corporation has initiated certain changes to its Board of Directors and executive management and has commenced a review of all the Corporation's operations including engaging a reputable investment bank to assess the sale of certain assets or business units. As a result of this ongoing review, certain retail divisions may be divested with proceeds to be applied against outstanding loan balances. It may also be necessary for the Corporation to consider further divestitures to satisfy its loan obligations.

In the event negotiations with the lenders are not successful in refinancing the Corporation and resetting the covenants, the Corporation will be forced to seek financing from other sources to meet debt repayment needs if the current lenders demand repayment of the outstanding amounts payable. Although credit markets appear to be strengthening, there is uncertainty whether sufficient funding would be available from current lenders or other parties. These factors may indicate the Corporation will be unable to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate.

3. **Significant accounting policies**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies:

(a) **Basis of consolidation**

The consolidated financial statements represent the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The principal subsidiaries of the Corporation are: Darwen Holdings Ltd., Planet Organic Holding Corp., Healthy's The Athletes Edge Inc., Mrs. Green's Management Co.

3. Significant accounting policies (continued)

(b) Foreign currency translation

The consolidated financial statements of the Corporation's operations are reported in Canadian dollars. The Corporation's foreign entities operate in a functional currency that is the United States dollar ("US dollar") and are considered to be financially independent. Accordingly, these subsidiaries are self-sustaining foreign operations that are translated using the current rate method whereby assets and liabilities are translated at period-end rates and revenue and expense accounts are translated using average exchange rates for the period as a method of approximation. Adjustments resulting from these translations are reflected in accumulated other comprehensive income, a separate component of shareholder's equity.

Transactions of Canadian entities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the time of the transaction. Foreign currency monetary assets and liabilities of the Corporation are translated into Canadian dollars at the rates of exchange in effect at the period end date. Any gains or losses from changes in exchange rates are recognized in net income in the period of occurrence.

(c) Cash and cash equivalents

Cash and cash equivalents include cash in bank, cash on hand and instruments with a maturity date of three months or less from the date of acquisition.

(d) Inventories

Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using the retail method based on the retail price less a normal margin, which has been determined to approximate cost (which is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, and reduced by the value of rebates and allowances received from vendors). Net realizable value is defined as the estimated selling price less estimated selling costs. Inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

Manufacturing inventories are valued at the lower of cost and net realizable value. Cost is determined based on average cost and includes the costs of raw materials and consumables, direct labour costs and applicable production overheads based on normal operating capacity. Raw materials are valued at the lower of cost determined on an average cost basis, and net realizable value.

(e) Financial instruments

All financial instruments are classified into one of five categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets, or other financial liabilities. Financial assets and financial liabilities are measured initially at fair value with subsequent measurement and changes in fair value depending on the instrument's initial classification. Held for trading financial instruments are measured at fair value and changes in fair value are recognized in net income. Available for sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. Loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method, with any change in fair value being recognized in net income when the asset or liability is derecognized or impaired. Transactions costs relating to financial assets and financial liabilities, other than those classified as held for trading, are capitalized as part of the related financial asset or liability and are amortized over the expected life of the financial instrument using the effective interest method. The Corporation has classified its financial instruments as shown below.

3. **Significant accounting policies (continued)**

(e) Financial instruments (continued)

(i) **Held for trading** – cash is classified as a financial asset held for trading as it represents the medium of exchange in which all other transactions are measured and recognized. Any interest income arising from cash is recognized in net income in the period it is earned.
(ii) **Loans and receivables** – accounts receivable and notes receivable, net of allowance for doubtful accounts, are classified as receivables and are measured at their amortized cost using the effective interest method. Interest income recognized under the effective interest method is included in net income when it arises. As accounts receivable are short-term in nature, the recognition of interest income under the effective interest method in these consolidated financial statements would be immaterial.
(iii) **Other financial liabilities** – bank indebtedness, accounts payable and accrued liabilities, long-term debt and convertible senior notes payable are classified as other financial liabilities, all of which are measured at amortized cost using the effective interest method. Interest expense recognized under the effective interest method is deducted from net income in the period it arises.
(iv) **Derivatives** – Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument and the terms of the embedded derivatives are measured at fair value with subsequent changes recognized in income. In accordance with CICA Handbook Section 3855, the Corporation conducted a search for embedded derivatives in all contractual arrangements and did not identify any material embedded derivatives other than the equity component forming part of the convertible senior notes payable that require separate presentation from the related host contract.

Transaction costs related to loans and receivables and other financial liabilities are applied against the fair value of the related financial asset or liability and amortized using the effective interest method over the life of the financial instrument.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided using the following annual rates and methods which are designed to apportion the costs of the assets over their estimated useful lives.

	Method	Rate
Software	Straight-line	100%
Signage	Diminishing balance	20%
Computers	Diminishing balance	30%
Office equipment	Diminishing balance	20%
Production equipment	Diminishing balance	10%
Retail equipment and fixtures	Diminishing balance	20%
Building	Diminishing balance	5%
Leasehold improvements	Straight-line	Initial lease term

(g) Goodwill

The cost of acquiring businesses is allocated to the fair value of the related net identifiable tangible and intangible assets acquired. The excess cost of the acquired businesses over the fair value of the related net identifiable tangible and intangible assets acquired is allocated to goodwill.

Goodwill is not subject to amortization. Instead, goodwill is reviewed by management on an annual basis to determine whether there is any impairment in value. Goodwill is tested between annual tests when an event or circumstance indicates the asset might be impaired.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

In Canadian dollars except where noted
For the years ended June 30, 2009 and 2008

3. **Significant accounting policies (continued)**

(e) Financial instruments (continued)

(i) **Held for trading** – cash is classified as a financial asset held for trading as it represents the medium of exchange in which all other transactions are measured and recognized. Any interest income arising from cash is recognized in net income in the period it is earned.
(ii) **Loans and receivables** – accounts receivable and notes receivable, net of allowance for doubtful accounts, are classified as receivables and are measured at their amortized cost using the effective interest method. Interest income recognized under the effective interest method is included in net income when it arises. As accounts receivable are short-term in nature, the recognition of interest income under the effective interest method in these consolidated financial statements would be immaterial.
(iii) **Other financial liabilities** – bank indebtedness, accounts payable and accrued liabilities, long-term debt and convertible senior notes payable are classified as other financial liabilities, all of which are measured at amortized cost using the effective interest method. Interest expense recognized under the effective interest method is deducted from net income in the period it arises.
(iv) **Derivatives** – Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument and the terms of the embedded derivatives are measured at fair value with subsequent changes recognized in income. In accordance with CICA Handbook Section 3855, the Corporation conducted a search for embedded derivatives in all contractual arrangements and did not identify any material embedded derivatives other than the equity component forming part of the convertible senior notes payable that require separate presentation from the related host contract.

Transaction costs related to loans and receivables and other financial liabilities are applied against the fair value of the related financial asset or liability and amortized using the effective interest method over the life of the financial instrument.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided using the following annual rates and methods which are designed to apportion the costs of the assets over their estimated useful lives.

	Method	Rate
Software	Straight-line	100%
Signage	Diminishing balance	20%
Computers	Diminishing balance	30%
Office equipment	Diminishing balance	20%
Production equipment	Diminishing balance	10%
Retail equipment and fixtures	Diminishing balance	20%
Building	Diminishing balance	5%
Leasehold improvements	Straight-line	Initial lease term

(g) Goodwill

The cost of acquiring businesses is allocated to the fair value of the related net identifiable tangible and intangible assets acquired. The excess cost of the acquired businesses over the fair value of the related net identifiable tangible and intangible assets acquired is allocated to goodwill.

Goodwill is not subject to amortization. Instead, goodwill is reviewed by management on an annual basis to determine whether there is any impairment in value. Goodwill is tested between annual tests when an event or circumstance indicates the asset might be impaired.

3. Significant accounting policies (continued)

(g) Goodwill (continued)

Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. Fair value is determined using the discounted estimated future operating cash flows of the reporting unit. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying value to measure the amount of impairment loss, if any.

(h) Intangible assets

Intangible assets acquired individually or as part of a group of assets are initially recognized and measured at cost. Intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill are allocated to individual assets acquired based on their estimated fair values. Intangible assets with finite useful lives are amortized over their estimated useful life.

Three year non-compete contract with prior owners of Alternative	3 year straight line

Intangible assets with an indefinite life are not amortized but are subject to an annual impairment test or more frequently when an event or circumstance indicates that the asset might be impaired.

(i) Other assets

(i) Transaction costs – eligible costs incurred in raising debt and equity financings are capitalized until such time as the financing is completed or abandoned. When an equity financing is completed, the associated costs will be charged as a cost against equity financing. When a debt financing is completed, the associated costs are capitalized as part of the debt instrument and are amortized over the expected life of the debt instrument using the effective interest method.

(ii) Pre-opening costs – eligible pre-opening costs incurred, net of related revenues, during the pre-operating phase of a new retail outlet are capitalized. The pre-operating phase is the period prior to the commencement of commercial operations and is determined by management with reference to the commencement of sustainable retail operations. Eligible costs pertain to incremental costs that are directly associated with the set-up of a new store not otherwise classified as property, plant and equipment.

Amortization of these costs begins once commercial operations have commenced and is provided for using the straight-line method over a two-year period. If a new retail outlet is abandoned, the associated unamortized costs will be charged to operations at that time.

(iii) Business acquisition costs – eligible costs directly associated in identifying business acquisitions are capitalized until such time as the acquisition is completed or abandoned. When an acquisition is completed, the associated costs are included as part of the purchase price. When an acquisition is abandoned, the associated costs will be charged to operations at that time.

(j) Impairment of long-lived assets

The Corporation assesses the carrying values of its long-lived assets including property, plant and equipment, intangible assets subject to amortization and other assets for impairment when circumstances indicate such amounts may not be recoverable. Recoverability is determined by comparing the carrying amount of the asset to the undiscounted net future cash flows expected from its use and eventual disposal. If impairment is indicated, the loss is measured based on the amounts by which the assets' carrying values exceed their fair values.

3. Significant accounting policies (continued)

(k) Revenue recognition

Sales include retail revenue from customers through corporate-owned stores, revenue from manufacturing and distribution and wholesale revenue from franchised stores. Revenues from product sales are recognized at the point of sale to the retail customer (or in the case of wholesale revenues, to franchised stores) and are stated net of related discounts, coupons and returns. Manufacturing and distribution revenues are recognized, net of discounts and returns, when title passes to customers, which is generally at the time of shipping and when reasonable assurance exists regarding the measurement and collection of the consideration receivable or received. Customers have a general right of return within a certain period after a sale on substantially all products sold, however, returns are not significant.

The Corporation records franchise revenues from franchisees monthly based on a percentage of their monthly sales. The Corporation also receives franchise payments from franchisees based on a percentage of their monthly sales with respect to contributions to advertising. These amounts are recorded as a reduction to overall advertising expenses (included in selling, general and administration for financial statement presentation purposes).

(l) Deferred revenue

For an annual fee, the Corporation offers customers membership cards that entitle the cardholder to receive discounts on purchases. Each card is issued with a twelve month expiry period. The fee revenue related to the issuance of a card is deferred and amortized to earnings over the expiry period.

(m) Advertising

Advertising is expensed as incurred. Co-op advertising cost recoveries which are reimbursements of specific, incremental identifiable costs incurred by the Corporation in selling vendors' products are credited against marketing expenditures included in selling, general and administration for financial statement presentation purposes.

(n) Income taxes

Income taxes have been provided using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the accounting and income tax bases of an asset or liability. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. In assessing whether future tax assets should be recognized for accounting purposes, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. To the extent that it is not considered to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

(o) Stock based compensation

The Corporation uses the fair value method of accounting for stock options granted to employees and non-employees. Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized on a straight-line basis over the vesting period with a corresponding adjustment to contributed surplus. Compensation cost attributable to awards to non-employees is measured at fair value at the earliest of the date at which the non-employee's performance is complete, the date at which a commitment for performance by the non-employee is reached or the grant date if the stock options are fully vested and non-forfeitable at that date. Compensation cost is recognized over the shorter of the vesting period or related service period with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds received by the Corporation, together with the related amount in contributed surplus are credited to share capital. No adjustment is recorded for stock options that expire unexercised. Compensation costs related to forfeited options are reversed on the forfeiture date provided the options have not vested.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

In Canadian dollars except where noted
For the years ended June 30, 2009 and 2008

3. **Significant accounting policies (continued)**

(p) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Diluted earnings (loss) per share excludes all dilutive potential shares if their effect is anti-dilutive. For warrants and stock options, the treasury stock method is used whereby the number of additional common shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year. For convertible debentures, the "if-converted" method is used.

(q) Deferred tenant inducements

Lease inducements received by the Corporation are deferred and amortized against rent expense over the term of the respective lease.

(r) Comprehensive (loss) income

Comprehensive (loss) income consists of net (loss) income plus "other comprehensive (loss) income". Other comprehensive (loss) income includes gains or losses resulting from the changes in fair value of certain financial instruments as described above. Accumulated other comprehensive (loss) income is presented separately as a component of shareholder's equity.

(s) Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and associated notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

The most significant estimates included in these consolidated financial statements are the valuation of accounts receivable, inventories, income taxes, asset amortization periods, stock-based compensation and the carrying value of goodwill, intangibles and accrued liabilities. Estimates are also used in allocating a purchase price related to a business combination, measuring impairment of certain assets and in recording fair value when an impairment has occurred. These estimates depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements.

4. **Accounting policy changes**

The Corporation has made certain changes in accounting policies to conform to new accounting standards issued and applicable to the Corporation.

(a) Capital disclosures

Effective July 1, 2008, the Corporation adopted the recommendations issued by the CICA in new accounting standard Section 1535 – "Capital Disclosures". Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Capital disclosures are further discussed in note 7.

Planet Organic Health Corp.

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4. Accounting policy changes (continued)

(b) Inventories

Effective July 1, 2008, the Corporation adopted the recommendations issued by the CICA in new accounting standard Section 3031 – "Inventories", which requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including allocation of overheads and other costs to inventories. The standard also requires the use of either first in, first out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques such as the retail method may be used to measure cost of inventory if the results approximate cost. The adoption of this standard had no impact on the current or previous operating results of the Corporation.

Retail inventories at June 30, 2009 carried at cost were $9,884,062 (2008 - $9,191,452). Retail inventories recognized as an expense during the year ended June 30, 2009 were $74,510,990 (2008 - $65,420,494). There were no retail inventories written down to net realizable value as a result of situations where the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices.

Manufacturing inventories at June 30, 2009 carried at cost were $1,677,818 (2008 - $1,608,159). Manufacturing inventories recognized as an expense during the year ended June 30, 2009 were $3,737,205 (2008 - $3,304,371). There were no manufacturing inventories written down to net realizable value as a result of situations where the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices.

(c) Financial instruments

The Corporation adopted prospectively without restatement, CICA Handbook Sections 3862 – "Financial Instruments – Disclosure" and 3863 – "Financial Instruments – Presentation", which requires additional disclosures to enable users to evaluate the significance of financial instruments to the Corporation's financial position and performance. Qualitative and quantitative disclosures are also provided to enable users to evaluate the nature and extent of risks arising from the Corporation's financial instruments as further described in note 8.

(d) General standards of financial statement presentation

Effective July 1, 2008, CICA Handbook Section 1400.08A - .08C – "General Standards of Financial Statement Presentation – Going Concern" was adopted. There is no impact on the consolidated financial statements as a result of applying this section as further described in note 2.

5. Future accounting pronouncements

The Corporation is currently assessing the impact of the adoption of the following new accounting standards to its consolidated financial statements.

(a) In February 2008, the CICA issued Handbook Section 3064 – "Goodwill and Intangible Assets" that supersedes Sections 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs". Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. This standard will be applicable for the 2010 fiscal year. The Corporation is currently assessing whether application of this new accounting standard will allow for pre-opening costs to be classified as intangible assets.

(b) In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards (IFRS), effective for years beginning on or after January 1, 2011. Accordingly, this standard will be applicable for the 2012 fiscal year.

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5. Future accounting pronouncements (continued)

(c) In January 2009, the CICA issued new Handbook Sections1582 – "Business Combinations", 1601 – "Consolidated Financial Statements", and 1602 – "Non-Controlling Interests" that supersede current sections 1581 – "Business Combinations" and 1600 – "Consolidated Financial Statements". These Sections shall be applied prospectively to business combinations for which the acquisition date is after June 30, 2011. Earlier adoption is permitted if an entity discloses that fact and applies each of the new sections concurrently. These new sections were created to converge GAAP with IFRS.

6. Acquisitions

There were no acquisitions in 2009.

During 2008, the Corporation acquired all of the issued and outstanding shares of Mrs. Green's Natural Food Market, an eleven store retail operation in the states of New York and Connecticut, USA, through the payment of $30,279,488 (net of shareholder loan repayment) in cash and issuance of 721,695 common shares at a average fair value of $2.36. The fair value of the common shares approximated the share closing prices near the dates when the shares were issued and provided for a discount on the shares due to trading restrictions during the first year. The acquisition was primarily financed through a senior secured credit facility and convertible senior secured notes as disclosed in Notes 17 and 18. The acquisition has been accounted for using the purchase method with the results of operations of Mrs. Green's Natural Food Market being included in the consolidated financial statements from the date of acquisition.

The purchase price allocation is as follows:

Fair value of net assets acquired:	
Current assets	$ 3,987,682
Property and equipment	770,951
Deposits	303,808
Intangible assets	8,164,000
Goodwill	25,055,687
Current liabilities	(2,726,510)
Shareholder loan	(2,377,384)
	$ 33,178,234
Consideration given:	
Cash	$ 32,656,872
Settled in common shares	1,701,313
Transaction costs paid in cash	1,197,433
Payment of shareholder loan	(2,377,384)
	$ 33,178,234

Intangibles acquired through the Mrs. Green's acquisition include the Mrs. Green's brand name ($7,928,000) and commissary recipes ($236,000). The Corporation has determined that these intangible assets have an indefinite life and accordingly, no amortization will be recorded.

7. Capital structure financial policies

The Corporation's objectives when managing capital are: i) ensure sufficient liquidity to support its financial objectives and execute its strategic and operating plans; ii) ensure debt covenants are met, and; iii) maximize and protect shareholder value. The Corporation has policies and procedures in place where the executive management team reviews future capital requirements, particularly as relating to future capital expenditures, and matches the timing of those expected future expenditures with either internally generated cash flow or externally derived cash flow, which is generally in the form of additional borrowing. The Corporation's cash and overall debt position is reported and reviewed

Planet Organic Health Corp.

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7. Capital structure financial policies (continued)

on a weekly basis. Management also uses forecast information to determine if externally imposed capital requirements will continue to be met in future quarters.

Consistent with prior periods, the Corporation considers its total capitalization to include all interest bearing debt, including bank indebtedness, long-term debt (including the current portion thereof but excluding unamortized financing fees), senior convertible notes payable (including accrued interest thereon but excluding unamortized financing fees) and shareholders' equity, net of cash. The calculation is set out in the following table:

	2009	2008
Bank indebtedness	$ 1,486,514	$ 1,594,591
Current portion of long-term debt	24,768,645	900,955
Long-term debt	-	19,158,988
Current portion of convertible senior notes payable	12,793,000	-
Convertible senior notes payable	-	11,216,700
Accrued interest on convertible senior notes payable (note 18)	3,979,208	1,570,215
Shareholders' equity (net of equity portion of senior convertible notes)	20,151,365	24,980,252
Less: cash	(3,008,131)	(1,138,131)
Capital under management	$ 60,170,601	$ 58,283,570

The Corporation is in a stage of continuous growth and accordingly is required to effectively manage existing capital, as well as seek additional sources of capital. Accordingly, to maximize available capital, the Corporation does not currently pay dividends. Primarily, the Corporation manages for overall capital growth through investments in additional retail space for stores in Canada and the US. Additional retail space comes in the form of new stores or expansion of existing locations. The Corporation does not usually take an ownership interest in land or buildings, however, capital is expended in the form of leasehold improvements and features that enable the Corporation to build its brands.

The Corporation has historically relied heavily on its cash flow from operations to fund its capital development program. In the prior fiscal year, the Corporation significantly increased its external borrowing through term loans, revolving loans, and senior convertible notes primarily to fund the acquisition described in note 6. These debt instruments comprise the significant majority of capital under management.

As part of the debt agreements, five financial ratios are included in covenants that are monitored and communicated on a quarterly basis: i) total leverage ratio – calculated as total consolidated debt divided by adjusted EBITDA, ii) senior leverage ratio – calculated as total debt less subordinated indebtedness (senior convertible notes payable) divided by adjusted EBITDA, iii) fixed charge coverage ratio – calculated as adjusted EBITDA plus consolidated cash rent expense less capital expenditures and income taxes paid divided by cash interest paid plus debt principal repayments plus consolidated cash rent expense, iv) interest coverage ratio – calculated as adjusted EBITDA divided by consolidated interest expense, and; v) capital expenditure limits. The covenants are based on a rolling twelve month period (except capital expenditure limits) and are calculated after converting amounts to US dollars at effective average rates during the periods covered.

	2009	2008
Total leverage ratio	6.44	4.12
Senior leverage ratio	3.83	2.55
Fixed charge coverage ratio	1.13	1.20
Interest coverage ratio	3.30	3.85
Capital expenditures (in Canadian dollars)	$ 4,533,829	$ 3,202,406

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

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7. Capital structure financial policies (continued)

The Corporation was in compliance with these covenants during the period except for the total leverage ratio, senior leverage ratio and interest coverage ratio. The covenant breaches have been communicated to the lenders and negotiations are ongoing towards an effective resolution. Although a resolution has not been reached by June 30, 2009, the Corporation does not expect the lenders to declare all long-term debt and convertible senior notes payable immediately due and payable. However, the Corporation has presented all long term debt and the convertible senior notes payable as part of current liabilities to reflect the potential that the loans may be demanded within the next twelve months should negotiations with the lenders be unsuccessful. Under terms of the loan agreements, certain of the loans bear increased interest rates as a result of the covenant breach. Accordingly, the Corporation has reflected the impact of increased interest rates in these consolidated financial statements to reflect the Corporation's interest costs under the terms of the loans agreements effective as at January 1, 2009. Refer to note 26 for a discussion of the impact of forbearance agreements entered into subsequent to yearend.

EBITDA is a non-GAAP financial measure generally defined as net income plus interest, taxes, depreciation and amortization. Additionally, the debt agreements specifically identify and allow certain adjustments to EBITDA as calculated above for purposes of calculating covenant ratios. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

8. Financial instruments

(a) Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the Corporation would receive or pay to settle the financial assets and financial liabilities as at the reporting date. The following table summarizes the classification of the Corporation's financial instruments, as well as their carrying amounts and fair values:

	2009				
	Designated held for trading	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
Financial Assets					
Cash	$ 3,008,131	$ -	$ -	$ 3,008,131	$ 3,008,131
Accounts receivable	-	1,830,889	-	1,830,889	1,830,889
Notes receivable	-	20,520	-	20,520	20,520
Total financial assets	$ 3,008,131	$ 1,851,409	$ -	$ 4,859,540	$ 4,859,540
Financial Liabilities					
Bank indebtedness	$ -	$ -	$ 1,486,514	$ 1,486,514	$ 1,486,514
Accounts payable and accrued liabilities	-	-	7,886,651	7,886,651	7,886,651
Long-term debt	-	-	23,741,777	23,741,777	21,816,347
Convertible senior notes payable	-	-	11,931,002	11,931,002	13,431,231
Total financial liabilities	$ -	$ -	$ 45,045,944	$ 45,045,944	$ 44,620,743

Planet Organic Health Corp.

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8. Financial instruments (continued)

(a) Fair value of financial instruments (continued)

2008	Designated held for trading	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
Financial Assets					
Cash	$ 1,138,131	$ -	$ -	$ 1,138,131	$ 1,138,131
Accounts receivable	-	2,049,942	-	2,049,942	2,049,942
Notes receivable	-	70,437	-	70,437	70,437
Total financial assets	$ 1,138,131	$ 2,120,379	$ -	$ 3,258,510	$ 3,258,510
Financial Liabilities					
Bank indebtedness	$ -	$ -	$ 1,594,591	$ 1,594,591	$ 1,594,591
Accounts payable and accrued liabilities	-	-	7,054,883	7,054,883	7,054,883
Long-term debt	-	-	18,938,847	18,938,847	18,938,847
Convertible senior notes payable	-	-	7,932,032	7,932,032	7,932,032
Total financial liabilities	$ -	$ -	$ 35,520,353	$ 35,520,353	$ 35,520,353

The carrying amounts of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their fair values at the balance sheet date due to the short-term nature of these instruments. The fair value of the notes receivable approximates its carrying value at the balance sheet date due to the variable interest rate feature of the notes receivable.

The fair value of the Corporation's long term debt and convertible senior notes payable have been estimated by discounting future cash flows at rates that would be offered for debt of similar maturities and credit quality before any unamortized transaction costs. Due to the recent volatility in the credit markets and the covenant breach described in note 7, the Corporation expects that it would be subject to a higher credit spread applied to both variable and fixed rate instruments and that the terms of the convertible senior notes payable would be different, particularly pertaining to the conversion price. Accordingly, the carrying value of long term debt and convertible senior notes payable exceeds its estimated fair value.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially subject the Corporation to credit risk consist primarily of accounts receivable and notes receivable. The Corporation's maximum exposure to credit risk is represented by the carrying amount for all accounts receivable and notes receivable. The Corporation performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Corporation does not have a significant concentration of credit risk in any particular geographic or customer sector. The Corporation maintains adequate reserves for potential credit losses as estimated by management.

Reconciliation of changes in allowance for doubtful accounts:

	2009	2008
Balance, beginning of year	$ 137,481	$ 88,352
Provision for doubtful accounts	42,910	70,895
Amounts charged off, net of recoveries	(77,665)	(21,766)
Balance, end of year	$ 102,726	$ 137,481

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

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8. Financial instruments (continued)

(b) Credit risk (continued)

Payment terms are generally net 30 days. Gross accounts receivable at June 30, 2009 were $1,897,476 (2008 - $2,151,285). At as June 30, 2009, the aging percentages of accounts receivable (net of allowance) were as follows: 81% current, 13% 1 to 30 days past due, 3% 31 to 60 days past due, 2% 61 to 90 days past due and 1% over 90 days past due.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As previously noted, the Corporation was in breach of three of its debt covenants. Accordingly, the lenders have the right to place the Corporation in default which would immediately make all debt due and payable. Negotiations with lenders are ongoing and the Corporation currently continues to have access to revolving credit facilities that ensure it has sufficient available funds to meet current financial requirements. Additional disclosure on liquidity risk and going concern in provided in note 2.

The following table summarizes the undiscounted contractual maturities of significant financial liabilities for the twelve month periods ended June 30 under loan facilities as they existed at June 30, 2009 (after taking into consideration incremental interest resulting from the covenant breaches previously discussed):

	2010	2011	2012	2013	2014	Thereafter	Total
Long term debt (1)	$ 3,527,157	$ 3,334,275	$ 6,885,899	$16,609,437	$ -	$ -	$30,356,768
Convertible senior notes payable (2)	-	-	-	3,638,018	3,638,018	24,253,454	31,529,490
	$ 3,527,157	$ 3,334,275	$ 6,885,899	$20,247,455	$3,638,018	$24,253,454	$61,886,258

(1) Includes interest payments at interest and exchange rates in effect at June 30, 2009.
(2) Includes fixed interest payments.

The Corporation's bank indebtedness, accounts payable and accrued liabilities are short term in nature which are due in the next twelve months and accordingly are not included above. Despite the covenant breaches described in notes 2 and 7, the Corporation expects to maintain access to sufficient credit lines to meet operating needs.

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Corporation to interest rate risk consist primarily of bank indebtedness and long-term debt. Interest rates are variable depending on rate maturity terms as selected by the Corporation and may vary in accordance with the provisions contained in the lending agreements based on LIBOR rates, bank prime rates or Bankers' Acceptances. The Corporation does not currently hold any financial instruments that mitigate this risk and manages interest rate risk through the selection of short interest rate term renewal periods. The Corporation estimates that a 100 basis point increase (decrease) in interest rates, with all other variables constant, would result in an increase (decrease) to long-term interest expense of approximately $255,000 per year.

(e) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation operates in the United States and is exposed to risk from changes in foreign currency rates when translating results from the US dollar to the Canadian dollar. Additionally, the Corporation's convertible senior notes payable and a portion of long-term debt are denominated in US dollars, exposing the Corporation to changes in foreign currency rates. The Corporation mitigates cash flow risk principally through the natural hedge resulting from the operations in the US (including sales and purchases denominated in US dollars) that provide sources of US dollars sufficient to satisfy foreign denominated liabilities. The Corporation estimates that a five cent increase (decrease) in foreign exchange rate, with all other variables constant, would result

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

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8. Financial instruments (continued)

(e) Currency risk (continued)

in an increase (decrease) in net income of approximately $760,000 per year and an increase (decrease) incomprehensive loss of $1,100,000. Additional disclosure on currency risk is included in the Corporation's Management Discussion and Analysis.

The consolidated balance sheet includes significant foreign financial assets, such as cash and accounts receivable, as well as significant foreign financial liabilities, such as accounts payable and accrued liabilities of $3,008,131, $399,742 and $2,737,225 respectively as of June 30, 2009 (2008 - $1,011,440, $463,828, $2,206,215 respectively). As at June 30, 2009, the cash, accounts receivable and accounts payable and accrued liabilities denominated in United States dollars amount to US$2,586,527, US$343,716 and US$2,353,590 respectively (2008 - US$991,900, US$454,867, US$2,163,592 respectively). Refer to notes 17 and 18 to these consolidated financial statements for balances of long-term debt and convertible senior notes payable in Canadian and United States dollars.

9. Notes receivable

Notes receivable consist of amounts due from certain franchisees as set out below:

	2009	2008
Notes receivable bearing interest at prime per annum with monthly principal and interest payments aggregating $1,658. The notes are secured by inventory held at each franchise location.	$ 56,658	$ 106,575
Less current portion	(19,900)	(29,760)
Less allowance for uncollectible portion	(36,138)	(36,138)
	$ 620	$ 40,677

Estimated principal repayments for the next five years and thereafter are as follows:

2010	$ 19,900
2011	11,113
2012	7,200
2013	7,200
2014	7,200
Thereafter	4,045
	$ 56,658

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

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10. Property, plant and equipment

2009

	Cost	Accumulated amortization	Net book value
Software	$ 292,436	$ 203,998	$ 88,438
Signage	27,358	14,080	13,278
Computers	739,573	424,863	314,710
Office equipment	520,444	241,442	279,002
Production equipment	1,582,805	991,976	590,829
Retail equipment and fixtures	7,195,425	2,899,360	4,296,065
Leasehold improvements	8,248,448	2,729,876	5,518,572
Building	2,299,009	740,817	1,558,192
Land	69,024	-	69,024
	$ 20,974,522	$ 8,246,412	$ 12,728,110

2008

	Cost	Accumulated amortization	Net book value
Software	$ 195,812	$ 159,340	$ 36,472
Signage	27,358	10,761	16,597
Computers	651,745	304,923	346,822
Office equipment	404,139	201,143	202,996
Production equipment	1,535,114	922,605	612,509
Retail equipment and fixtures	5,291,146	2,187,797	3,103,349
Leasehold improvements	5,878,435	1,802,114	4,076,321
Building	2,299,009	658,807	1,640,202
Land	69,024	-	69,024
Construction in progress	49,787	-	49,787
	$ 16,401,569	$ 6,247,490	$ 10,154,079

11. Goodwill

	2009	2008
Balance, beginning of year	$ 31,424,428	$ 6,368,741
Goodwill acquired (note 6)	-	25,055,687
Balance, end of year	$ 31,424,428	$ 31,424,428

Planet Organic Health Corp.

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12. Intangible assets

2009

	Cost	Accumulated amortization	Net book value
Indefinite life			
Mrs. Green's brand name	$ 7,928,000	$ -	$ 7,928,000
Mrs. Green's commissary recipes	236,000	-	236,000
Definite life			
Non-compete contract	100,000	100,000	-
	$ 8,264,000	$ 100,000	$ 8,164,000

2008

	Cost	Accumulated amortization	Net book value
Indefinite life			
Mrs. Green's brand name	$ 7,928,000	$ -	$ 7,928,000
Mrs. Green's commissary recipes	236,000	-	236,000
Definite life			
Non-compete contract	100,000	67,619	32,381
	$ 8,264,000	$ 67,619	$ 8,196,381

13. Other assets

2009

	Cost	Accumulated amortization	Net book value
Pre-opening costs	$ 1,203,111	$ 927,545	$ 275,566
Website development	18,913	18,913	-
	$ 1,222,024	$ 946,458	$ 275,566

2008

	Cost	Accumulated amortization	Net book value
Finance fees	$ 5,000	$ 5,000	$ -
Guarantee fees	208,000	208,000	-
Pre-opening costs	1,099,228	507,730	591,498
Website development	18,913	11,314	7,599
	$ 1,331,141	$ 732,044	$ 599,097

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

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14. Deposits

	2009	2008
Rental deposits	$ 587,227	$ 566,403
Other deposits	16,137	18,453
	$ 603,364	$ 584,856

15. Bank indebtedness

Bank indebtedness consists of the following:

	2009	2008
Cheques issued in excess of funds on deposit	$ 747,224	$ 1,074,591
Operating line of credit	739,290	520,000
	$ 1,486,514	$ 1,594,591

The Corporation has revolving credit facilities for general corporate purposes with a maximum lending limit of $1,750,000 and a term of five years, maturing June 2012. The loan bears interest at LIBOR plus 2% per annum or ABR plus 1% per annum. Due to the covenant breach, the loan currently bears interest at LIBOR plus 4% per annum, or ABR plus 3%, at the option of the Corporation. Interest is payable monthly. The loan is secured by a general security agreement which places a floating charge over all of the assets of the Corporation and its subsidiaries.

16. Deferred tenant inducements

	2009	2008
Balance, beginning of year	$ 458,822	$ 134,593
Inducements receivable	243,980	390,663
Amortization	(91,866)	(66,434)
	610,936	458,822
Less current portion	(59,363)	(45,796)
Balance, end of year	$ 551,573	$ 413,026

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Notes to the Consolidated Financial Statements

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17. Long-term debt

	2009	2008
Term loan payable in United States dollars ($16,690,434 USD, 2008 - $17,360,000 USD). The loan has a term of six years, maturing June 2013. The loan bears interest at LIBOR rate plus 5.5% per annum or ABR rate plus 4.5% per annum. Due to the covenant violation, subsequent to December 31, 2008, the loan bears interest at LIBOR plus 7.5% per annum, or ABR plus 6.5% per annum, at the option of the Corporation. Interest is calculated and payable monthly or quarterly at the option of the Corporation. Principal repayments are due quarterly and commenced on June 30, 2008 and are calculated at a rate of 0.8% of the outstanding loan balance from June 2008 to March 2009, 1.5% of the outstanding loan balance from June 2009 to March 2012 and 2.0% of the outstanding loan balance from June 2012 to March 2013. The remaining principal balance is due on maturity.	$ 19,410,975	$ 17,701,992
Term loan payable (2008 - in United States dollars ($1,500,000 USD)). The loan has a term of five years, maturing June 2012. The loan bears interest at LIBOR plus 2% per annum or ABR plus 1% per annum. Due to the covenant violation, subsequent to April 3, 2009, the loan bears interest at LIBOR plus 4% per annum, or ABR plus 3%, at the option of the Corporation. Interest is calculated and payable monthly or quarterly at the option of the Corporation. Principal repayments are due quarterly and commenced on June 30, 2008 and are calculated at a rate of 2.5% of the outstanding loan balance from June 2008 to March 2009 and 5.0% of the outstanding loan balance from June 2009 to March 2012. The remaining principal balance is due on maturity.	2,636,250	1,529,550
Revolving loan payable in United States dollars ($800,000 USD, 2008 - $812,397 USD). The loan has a maximum lending limit of $2,300,000 USD and an original term of five years, maturing June 2012. The loan bears interest at LIBOR plus 2% per annum or ABR plus 1% per annum. Due to the covenant violation, subsequent to April 3, 2009, the loan bears interest at LIBOR plus 4% per annum, or ABR plus 3%, at the option of the Corporation. Interest is calculated and payable monthly or quarterly at the option of the Corporation. The principal balance is due on maturity.	930,400	828,401
Revolving loan payable in United States dollars ($1,540,000 USD, 2008 - Nil USD). The loan has a maximum lending limit of $3,500,000 USD and an original term of five years, maturing June 2012. The loan bears interest at LIBOR plus 2% per annum or ABR plus 1% per annum. Due to the covenant violation, subsequent to April 3, 2009, the loan bears interest at LIBOR plus 4% per annum, or ABR plus 3%, at the option of the Corporation. Interest is calculated and payable monthly or quarterly at the option of the Corporation. The principal balance is due on maturity.	1,791,020	-
	24,768,645	20,059,943
Less unamortized financing fees	(1,026,868)	(1,121,096)
Less current portion (note 2 and 7)	(23,741,777)	(900,955)
	$ -	$ 18,037,892

Planet Organic Health Corp.

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17. Long-term debt (continued)

All loans are secured by a general security agreement which places a floating charge over all of the assets of the Corporation and its subsidiaries. Refer to note 26 for a discussion of the impact of forbearance agreements entered into subsequent to yearend.

Estimated principal repayments for the next four years at the exchange rate in effect at June 30, 2009 are as follows:

For the twelve month periods ending June 30,	
2010	$ 1,816,451
2011	1,747,076
2012	5,469,711
2013	15,735,407

18. Convertible senior notes payable

	2009	2008
Convertible senior notes payable in United States dollars ($11,000,000 USD, 2008 - $11,000,000 USD) that have a term of seven years, maturing July 3, 2014. Interest is calculated and compounded quarterly at 13% per annum until July 3, 2012. Quarterly interest payments will commence on October 1, 2012 at a rate of 15% per annum based on the outstanding principal and accrued interest. The principal balance is due on maturity. The notes are convertible at the option of the holder into common shares of the Corporation at a conversion price of $3.33 CAD in whole or in part any time before July 3, 2012. The notes are callable by the Corporation at any time prior to maturity at a rate of 115% of the outstanding principal and interest up to July 3, 2011 and 100% of the outstanding principal and interest for the remaining three years. The notes are secured by a general security agreement which places a floating charge over all of the assets of the Corporation and its subsidiaries.	$12,793,000	$11,216,700
Gross equity component of convertible senior notes payable	(4,453,869)	(4,453,869)
Accrued interest	3,979,208	1,570,215
Less unamortized financing fees	(387,337)	(401,014)
Less current portion (note 2 and 7)	(11,931,002)	-
	$ -	$ 7,932,032

	2009	2008
Gross equity component of convertible senior notes payable	$ 4,453,869	$ 4,453,869
Less financing fees	(253,554)	(253,554)
Net equity component of convertible senior notes payable	$ 4,200,315	$ 4,200,315

The convertible senior notes contain both a liability and an equity element, represented by the conversion option. Accordingly, these two elements are split and classified separately as debt and equity. The carrying value of the convertible senior notes payable is calculated as the present value of the required interest and principal payments discounted at a rate of 18.5% which approximates the interest rate that would have been applicable to non-convertible senior notes payable at the time the convertible senior notes payable were issued. The difference between the face value and the estimated carrying value of the debt was recorded as an equity component at the time of issuance.

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18. Convertible senior notes payable (continued)

The allocation of the carrying value, based on the relative fair values, resulted in $7,201,731 allocated to the debt instrument and $4,453,869 allocated to the conversion option. Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued. This resulted in $253,554 of the transaction costs being allocated to the equity component and $409,988 being allocated to the debt component.

The Corporation accretes the carrying value of the convertible senior notes through interest expense over the expected life of the debt component such that at maturity on July 3, 2014, the carrying value will be their face value of $11,000,000 US dollars. On conversion of the senior convertible notes payable, the initial amount recorded to the senior convertible notes payable along with the value of the conversion options exercised (which was originally recorded as an equity component) and accreted interest net of cash interest payments is recorded to share capital.

Refer to note 2 and 7 for additional discussion on classification of convertible senior notes payable and to note 26 for discussion of the impact of forbearance agreements entered into subsequent to yearend.

19. Share capital

(a) Authorized
Unlimited number of:
Common shares
Preferred shares, issuable in series with any rights, restrictions, privileges, conditions and designations being fixed before issuance by the Board of Directors of the Corporation.

(b) Common shares issued

	2009		2008	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	34,634,794	$ 21,456,932	31,703,099	$ 15,145,711
Shares issued:				
On exercise of warrants	30,000	-	-	-
On acquisitions (note 6)	-	-	721,695	1,701,313
On completion of private placement	-	-	1,800,000	4,500,000
On exercise of options	-	-	210,000	110,000
On payment of bonus shares	-	-	200,000	500,000
Fair value transfer to warrants	-	-	-	(486,000)
Fair value transfer from contributed surplus on exercise of stock options	-	-	-	2,900
Share issuance costs, net of tax	-	-	-	(16,992)
Balance, end of year	34,664,794	$ 21,456,932	34,634,794	$ 21,456,932

(i) Transactions during 2009

During 2002, the Corporation sold units of the Corporation consisting of shares and warrants to purchase additional shares. During 2003, certain warrants were exercised upon payment of the warrant value. In July 2008, it was discovered that common share certificates had not been issued for 30,000 warrants, although the warrants had been fully paid up. Accordingly, on July 21, 2008, the Corporation issued 30,000 common shares without proceeds.

Planet Organic Health Corp.

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19. Share capital (continued)

(b) Common shares issued (continued)

(ii) Transactions during 2008

The Corporation closed a non-brokered private placement of 1,800,000 units, with a Company controlled by an officer and director of the Corporation, at an issue price of $2.50 per unit for gross proceeds of $4,500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share for $3.25 for a period of two years from issuance.

The Corporation incurred costs directly attributable to this transaction of $16,992 which was recorded against share capital.

The Corporation issued 250,000 common shares at a fair value of $2.50 per share as settlement of certain transaction costs incurred as part of the acquisition completed during the period (note 6). Additionally, pursuant to the transaction, an additional 471,695 common shares at a fair value of $2.28 per share were issued to complete the transaction with respect to final valuation of working capital purchased. The fair value for each issuance was a reflection of closing share prices near the dates of the issuance and as negotiated between the parties.

The Corporation issued 200,000 common shares at a fair value of $2.50 per share to an officer and director of the Corporation pursuant to the terms of an employment contract. The fair value reflected the share closing prices near the date of issuance.

(c) Escrowed shares

Common shares issued in connection with the prior year's acquisition are subject to escrow conditions determined by the various regulatory authorities and management. These are released at specific intervals over a period of time following the date of closing.

The following summarizes the status of common shares held in escrow and the changes during the year then ended:

	2009 Number of shares	2008 Number of shares
Balance held in escrow, beginning of year	125,000	71,970
Escrowed shares arising from acquisitions	-	125,000
Released during the year	(125,000)	(71,970)
Balance held in escrow, end of year	-	125,000

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19. Share capital (continued)

(d) Stock option plan

Under the Corporation's stock option plan, the Corporation may grant options to employees, consultants, officers and directors totaling up to 10% of its issued and outstanding common shares. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding common shares.

The following summarizes the status of the stock option plan as of June 30, 2009 and the changes during the year then ended:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,542,500	$ 1.72	1,613,500	$ 0.92
Granted	25,000	2.50	1,162,000	2.63
Forfeited	(13,000)	2.50	(23,000)	2.50
Expired	(400,000)	2.43	-	-
Exercised	-	-	(210,000)	0.52
Outstanding, end of year	2,154,500	$ 1.59	2,542,500	$ 1.72
Exercisable, end of year	1,901,000	$ 1.47	1,638,500	$ 1.26

Additional information about stock options outstanding at June 30, 2009:

Grant date	Number of shares	Exercise price	Expiry date
February 17, 2005	1,303,500	$ 1.00	February 17, 2010
July 3, 2007	826,000	$ 2.50	July 31, 2012
July 16, 2008	25,000	$ 2.50	July 16, 2013
	2,154,500		

The Corporation recorded stock-based compensation of $90,970 (2008 - $737,404) during the year ended June 30, 2009. For options granted in 2009, the compensation expense was calculated using the Black-Scholes Option Pricing Model using the following assumptions and estimates: a risk-free rate of return of 2.22%, an expected volatility of 43.34%, a dividend rate of 0% and an expected life of five years. For options granted in 2008, the compensation expense was calculated using the Black-Scholes Option Pricing Model using the following assumptions and estimates: a risk-free rate of return of 4.55%, an expected volatility of 30.48%, a dividend rate of 0% and an expected life of five years or three years as applicable.

Included in the prior year stock-based compensation expense is a charge for $500,000 pursuant to shares issued to an officer and director of the Corporation pursuant to the terms of an employment contract and which were not related to the issuance or exercise of stock options.

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(e) Warrants

In connection with the issuance of common shares by private placement, the Corporation has issued whole share purchase warrants entitling the holders to buy common shares of the Corporation.

A summary of the status of the outstanding warrants as of June 30, 2009 and changes during the periods then ended is presented below:

	2009		2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	1,800,000	$ 3.25	-	$ -
Issued	-	-	1,800,000	3.25
Exercised	-	-	-	-
Outstanding, end of year	1,800,000	$ 3.25	1,800,000	$ 3.25
Exercisable, end of year	1,800,000	$ 3.25	1,800,000	$ 3.25

The fair value of the 1,800,000 warrants issued during 2008 has been estimated at $0.27 per warrant, or $486,000 using the Black-Scholes pricing model with the following assumptions: a risk-free rate of return of 4.55%, an expected volatility of 30.48%, a dividend rate of 0% and an expected life of two years.

20. Contributed surplus

	2009	2008
Balance, beginning of year	$ 1,160,067	$ 425,564
Stock-based compensation on stock options	90,970	737,403
Transfer on exercise of stock options	-	(2,900)
Balance, end of year	$ 1,251,037	$ 1,160,067

Contributed surplus includes only charges to income derived from issuance of share options and does not include other forms of stock-based compensation.

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21. Loss per share

The following reconciles basic and diluted loss per share.

	2009	2008
Net loss	$ (3,307,174)	$ (228,350)
Weighted average common shares outstanding	34,663,068	34,269,345
Dilutive effect of stock options and warrants	-	806,147
Diluted weighted average common shares outstanding	34,663,068	35,075,492
Loss per share		
Basic	$ (0.10)	$ (0.01)
Diluted	$ (0.10)	$ (0.01)

22. Income taxes

The income tax provision differs from the income taxes obtained by applying the effective corporate tax rate and is reconciled as follows:

	2009	2008
(Loss) earnings before income taxes	$ (3,278,174)	$ 530,087
Corporate tax rate	31.02%	33.55%
Calculated income tax (recovery) expense	(1,016,890)	177,845
Adjustments for:		
Non-deductible expenses	403,929	47,599
Impact of change in tax rates	114,281	66,479
Stock-based compensation	28,219	395,116
Acquisition costs	-	63,902
Change in valuation allowance	300,000	(170,000)
Income taxed in a foreign jurisdiction	136,000	88,974
Capital tax	6,291	9,900
Other	57,170	78,622
Income tax (recovery) expense	$ 29,000	$ 758,437

Income tax (recovery) expense is comprised of the following:

	2009	2008
Current	$ (347,637)	$ 676,994
Future	376,637	81,443
	$ 29,000	$ 758,437

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22. Income taxes (continued)

Temporary differences and loss carryforwards that give rise to future income tax assets and liabilities as of June 30, 2009 and 2008 are as follows:

	2009	2008
Future income tax assets and (liabilities)		
Current:		
Share issuance costs	$ 3,593	$ 5,734
Inventory	131,693	5,855
Tenant inducements	15,458	11,853
Pre-opening costs	(72,547)	(156,305)
Other	(809)	23,532
Finance fees, website development, guarantee fees	(64,795)	(37,426)
	12,593	(146,757)
Long term:		
Property, plant and equipment	$ (72,173)	$ (133,143)
Goodwill	(1,644,502)	(638,603)
Intangibles	(301,306)	(207,725)
Non-capital loss carry forwards	849,106	517,407
Capital loss carry forwards	29,657	-
Unrealized foreign exchange translation	256,412	(114,093)
Acquisition costs	182,046	145,800
Deferred rent	159,573	90,888
Deferred tenant inducements	110,986	104,698
	(430,201)	(234,771)
Less: Valuation allowance	(300,000)	-
	(730,201)	(234,771)
Total future income tax liability	$ (717,608)	$ (381,528)

The Corporation has Canadian non-capital loss carry forwards of approximately $1,794,000 that expire during fiscal 2026 and 2029 if not utilized and US non-capital loss carry forwards of approximately US$726,000 that expire during fiscal 2028 and 2029 if not utilized. The Corporation also has Canadian capital loss carry forwards of approximately $114,000 that can be carried forward indefinitely to reduce future capital gains.

23. Related party transactions

The Corporation has transacted business in the normal course with entities that are related. It is the Corporation's policy to conduct all transactions and settle all balances with related parties on market terms and conditions. In management's opinion, these transactions were in the normal course of operations and were recorded at the exchange value, which was the amount of consideration established and agreed to by the related parties.

Related party transactions include transactions with parties that are related by common directors, officers, or shareholders and transactions with other private companies owned or controlled by officers, directors, or immediate family members of officers or directors.

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23. Related party transactions (continued)

	2009	2008
Sales	$ 863,437	$ 928,985
Franchise and other revenue	21,333	21,333
Cost of sales	7,635,807	6,536,400
Selling, general and administration expenses		
Consulting	531,951	553,669
Legal	85,142	259,461
Occupancy	20,000	18,000
Marketing and promotion	6,594	-
Recovery of marketing and promotion	(4,267)	-
Interest on long-term debt	407,586	-
Included in accounts receivable	134,627	185,070
Included in accounts payable and accrued liabilities	384,269	301,667
Included in long term debt and convertible senior notes payable	31,729,314	-

24. Commitments and contingencies

The Corporation is committed pursuant to lease agreements for retail space to minimum annual payments, not including operating costs, as follows:

2010	$ 4,437,077
2011	4,182,385
2012	3,627,633
2013	3,345,054
2014	3,009,664
Thereafter	14,214,455
	$ 32,816,268

The Corporation is a lessee under head lease agreements for retail space occupied by various franchisees. The Corporation has entered into sublease agreements with franchisees whereby the franchisee pays the total lease payments due under the head leases. Annual head lease payments and corresponding sublease recoveries approximate $600,000 per year. Existing lease terms have expiry dates ranging from 2009 to 2016. Renewal of head leases and subleases are in the normal course of business.

The Corporation indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their services to the Corporation to the extent permitted by law. The Corporation has acquired and maintains liability insurance for directors and officers of the Corporation.

At June 30, 2009, the Corporation substantially completed a construction project expanding and renovating a store located in Edmonton, Alberta. The Corporation estimates costs remaining to complete the project at $465,000. These costs will be capitalized as incurred in the next fiscal year.

The Corporation will be responsible for certain fees and costs incurred by its lenders in connection with renegotiating terms of various loan agreements, including entering into forbearance agreements. The Corporation estimates these costs, including costs incurred directly by the Corporation, at $250,000. These costs will be recorded as financial instruments transaction costs in the next fiscal year.

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25. **Segmented information**

The Corporation operates in two main reporting segments (retail and manufacturing) which operate in two geographic areas (Canada and United States). The retail segment is comprised of retail organic and natural food and supplement stores and franchise operations. The manufacturing segment manufactures and distributes vitamin and natural supplements. The Corporation accounts for intersegment sales at the exchange value which reflects current market terms and conditions.

2009

	Retail	Manufacturing	Corporate	Consolidated
Sales from external customers	$ 120,894,842	$ 6,770,281	$ -	$ 127,665,123
Intersegment sales	-	975,560	-	975,560
Elimination of intersegment sales	-	-	-	(975,560)
Total sales	120,894,842	7,745,841	-	127,665,123
Interest expense on long term debt	-	-	4,102,318	4,102,318
Amortization of property, plant and equipment	1,891,107	156,244	7,472	2,054,823
Income (loss) before income taxes	5,033,180	723,095	(9,034,449)	(3,278,174)
Income tax expense (recovery)	1,240,791	418,941	(1,630,732)	29,000
Additions to property, plant and equipment	4,416,226	51,924	65,679	4,533,829
Identifiable assets	66,000,066	5,303,181	67,320	71,370,567
Property, plant and equipment	10,528,750	2,132,040	67,320	12,728,110
Amount representing goodwill	31,336,079	88,349	-	31,424,428

2008

	Retail	Manufacturing	Corporate	Consolidated
Sales from external customers	$ 106,951,403	$ 7,021,483	$ -	$ 113,972,886
Intersegment sales	-	881,146	-	881,146
Elimination of intersegment sales	-	-	-	(881,146)
Total sales	106,951,403	7,902,629	-	113,972,886
Interest expense on long term debt	48,534	18,332	3,589,015	3,655,881
Amortization of property, plant and equipment	1,392,588	165,282	630	1,558,500
Income (loss) before income taxes	7,002,533	1,231,431	(7,703,877)	530,087
Income tax expense (recovery)	1,983,106	571,810	(1,796,479)	758,437
Additions to property, plant and equipment	3,149,120	51,136	2,150	3,202,406
Additions to goodwill	25,055,687	-	-	25,055,687
Additions to intangibles	8,164,000	-	-	8,164,000
Identifiable assets	61,134,240	4,884,560	9,113	66,027,913
Property, plant and equipment	7,908,606	2,236,360	9,113	10,154,079
Amount representing goodwill	31,336,079	88,349	-	31,424,428

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25. Segmented information (continued)

The Corporation has operations in Canada and the United States and accordingly presents the following segmented data.

2009

	Canadian Operations	US Operations	Consolidated
Sales from external customers	$ 75,903,577	$ 51,761,546	$ 127,665,123
Interest expense on long term debt	2,407,433	1,694,885	4,102,318
Amortization of property, plant and equipment	1,761,438	293,385	2,054,823
Income (loss) before income taxes	(5,692,836)	2,414,662	(3,278,174)
Income tax expense (recovery)	(679,284)	708,284	29,000
Additions to property, plant and equipment	4,515,950	17,879	4,533,829
Identifiable assets	29,909,038	41,461,529	71,370,567
Property, planet and equipment	12,238,429	489,681	12,728,110
Amount representing goodwill	6,368,741	25,055,687	31,424,428

2008

	Canadian Operations	US Operations	Consolidated
Sales from external customers	$ 70,109,910	$ 43,862,976	$ 113,972,886
Interest expense on long term debt	1,757,529	1,898,352	3,655,881
Amortization of property, plant and equipment	1,302,087	256,413	1,558,500
Income (loss) before income taxes	(1,471,143)	2,001,230	530,087
Income tax expense	218,470	539,967	758,437
Additions to property, plant and equipment	3,014,489	187,917	3,202,406
Additions to goodwill	-	25,055,687	25,055,687
Additions to intangibles	-	8,164,000	8,164,000
Identifiable assets	26,809,533	39,218,380	66,027,913
Property, plant and equipment	9,483,919	670,160	10,154,079
Amount representing goodwill	6,368,741	25,055,687	31,424,428

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26. Subsequent events

(a) Bonus shares

On September 23, 2009, the Corporation applied to the TSX Venture Exchange for the issuance of 19,808,453 bonus shares to one of its lenders, Ares Capital Corp., a related party, at a deemed fair value price based on recent trade activity of $0.14 per share for an aggregate value of $2,773,183 to compensate the lender for agreeing to amend the term loan facility. The shares were to be subject to certain holding, voting and cancellation conditions and provisions as agreed between the parties. The TSX Venture Exchange initially approved the application subject to certain conditions that were satisfied by the Corporation. Subsequently, the Corporation determined not to pursue the issuance of the shares as on October 15, 2009, the TSX Venture Exchange revoked its initial conditional approval and imposed additional conditions that prevented the transaction from proceeding. As a result, the Corporation has formally withdrawn its application with the TSX Venture Exchange without issuing any bonus shares.

(b) Forbearance agreements

On September 25, 2009, the Corporation entered into forbearance agreements with its lenders respecting its loans with an effective date of August 1, 2009. Pursuant to the terms of the forbearance agreements, the lenders have agreed, subject to certain conditions, to waive their rights to call the loans due to the specific existing covenant breaches until November 30, 2009 (the forbearance termination date). Contemporaneously, the loan agreements have been amended to revise applicable interest rates and to reset certain covenants until the forbearance termination date. The change in the interest coverage ratio puts the Corporation into compliance with that ratio as at June 30, 2009. The Corporation will reflect the additional amounts owing to its lenders as a result of the forbearance agreements, totaling US$1,525,000, in the first quarter of the next fiscal year. This amount was added to the outstanding principal balances of the six year term debt and the senior convertible notes payable at September 25, 2009.

Effective July 1, 2009, the five year term loan and the revolving loans will bear interest at LIBOR plus 6% per annum or ABR plus 4.5% per annum, at the option of the Corporation. Additionally, the interest on the six year term loan will bear interest at LIBOR plus 10% per annum with a stated minimum LIBOR rate of 3%, or ABR plus 9% per annum with a stated minimum ABR rate of 4%. The senior convertible notes will bear interest at 17% per annum until July 3, 2012 and subsequently at 19% per annum until maturity.

The Corporation is assessing whether the modifications of the loan agreements constitutes a substantial modification that would require extinguishment of the debt. If the debt is extinguished, any unamortized transaction fees related to the debt will be recorded through the income statement and the debt will be set up at fair value. If it is not an extinguishment and simply a modification, the unamortized fees will be amortized over the new term of the debt.

In connection with the forbearance agreements, the Corporation paid fees and expenses totaling $221,000 to the lenders and their representatives.

27. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

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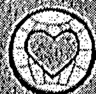

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