

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT OF
PLANET ORGANIC HEALTH CORP. AND
DARWEN HOLDINGS LTD.**

Applicants

**FIRST REPORT OF THE MONITOR
DATED MAY 11, 2010**

INTRODUCTION

1. On April 29, 2010 Planet Organic Health Corp. ("**Planet**" or the "**Company**") and Darwen Holdings Ltd. ("**Darwen**") (collectively the "**Applicants**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to the Order of this Honourable Court dated April 29, 2010 (the "**Initial Order**"), Deloitte & Touche Inc. ("**Deloitte**") was appointed as the Monitor of the Applicants (the "**Monitor**") in the CCAA proceedings.
2. The Initial Order provides, *inter alia*, for the following:
 - i. No proceeding or enforcement process in any court or tribunal shall be commenced or continued against or in respect of the Applicants, or affecting the Applicants' business operations or property until and including May 27, 2010 (the "**Stay Period**").
 - ii. During the Stay Period, no person that has carried on business with the Applicants may exercise a right to set-off against any amounts owing to the Applicants.

- iii. All person having oral or written agreements with the Applicants for the supply of goods and services shall continue to provide goods and services to the Applicants in the normal course of business.
 - iv. No person shall discontinue, fail to honor, alter, interfere with, repudiate, resiliate, cancel, terminate or cease to perform any right, renewal right, contract, agreement, license or permit in favor of or held by the Applicants, except with the written consent of the Applicants and the Monitor, or with leave of the Court.
3. Deloitte, in its capacity as Proposed Monitor, provided this Honourable Court with a report dated April 29, 2010 (the “**Pre-Filing Report**”) in connection with the Applicants’ application for protection under the CCAA. A copy of the Pre-Filing Report (without exhibits) is attached as Exhibit “A” to this first report of the Monitor (the “**First Report**”).

PURPOSE

4. The purpose of this First Report is to provide an update on:
 - i. The operations of the Company since the granting of the Initial Order;
 - ii. The Monitor’s activities since the granting of the Initial Order;
 - iii. The Applicants’ request for an Order adjourning and postponing the annual general meeting of shareholders of Planet, which is currently scheduled for May 14, 2010 (the “**AGM**”).

TERMS OF REFERENCE

5. In preparing this First Report, the Monitor has relied upon unaudited interim financial information, the Applicants’ books and records, the Affidavit of Darren Krissie sworn April 29, 2010, the Affidavit of Darren Krissie sworn May 6, 2010, and discussions with management and its financial and legal advisors. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of this information and, accordingly, the Monitor expresses no opinion or other form of assurance regarding any such information. An examination of the financial forecast as outlined in the Canadian

Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information referred to or relied upon in this First Report is based on management's assumptions regarding future events and conditions that are not ascertainable. Accordingly, actual results achieved will vary from any such information, and the variations may be material.

6. Unless otherwise stated, all monetary amounts contained in this First Report are expressed in Canadian dollars.
7. Capitalized terms used in this First Report but not defined are as defined in the Pre-Filing Report.

THE OPERATIONS OF THE COMPANY SINCE THE GRANTING OF THE INITIAL ORDER

8. The highlights of the Company's financial performance for the period from April 29, 2010 to May 1, 2010 are presented in the Original vs. Actual Cash Flow Statement annexed hereto as Exhibit "B". The Monitor's comments on the financial performance of the Company during this period are as follows:
 - i. Compared with the initial statement of projected cash flow presented by the Company to the Court with its application for entry of the Initial Order (the "**Initial Cash Flow Statement**"), the Company experienced a favourable variance of approximately \$823,000 in respect of cash inflows.
 - ii. This variance is primarily attributable to higher sales than initially projected. Deposits from sales had a favourable variance compared to forecast of \$239,000, attributable to a promotional 10% sale on Saturday May 1, 2010 which resulted in one of the highest sales days on record for Planet.
 - iii. Trade payable disbursements had a favourable variance compared to forecast of \$348,000 as the Company did not incur anticipated trade payable disbursements within the first three days following the CCAA application.

- iv. In addition, other deposits had a favourable variance compared to forecast of \$250,000 due to collection of the short-term working capital escrow account associated to the sale of Trophic, including interest. This variance represents a permanent difference, as the refund of the working capital escrow account was not forecast in the Cash Flow Statement due to the uncertainty in timing of that collection.
 - v. Restructuring costs had an unfavourable variance of \$58,000, as the Company issued payments to its legal counsel for services rendered. Management did not forecast restructuring related expenses until the second week of the Stay Period.
9. As at the close of the first week of the Stay Period, cash on hand amounted to \$4.1 million, versus a forecasted balance of \$3.3 million.
10. As of the date of this First Report, all expenses incurred have been or will be paid, as per the Initial Order, out of the existing working capital of the Company. Consequently, the Company does not need additional financing as appears from the Revised Cash Flow Statement annexed hereto as Exhibit “C”.
11. As mentioned in the Pre-Filing Report, the Company has completed an extensive marketing and sale process that led to the sale of three different groups of assets of the Company. Before the granting of the Initial Order, it had also initiated discussions and negotiations with Catalyst with a view to completing a sale of all its remaining assets to Catalyst.
12. The Monitor understands that the Company and Catalyst have continued these discussions and negotiations over a potential acquisition of the Applicants’ remaining assets by Catalyst. In the Monitor’s view, since the date of the Initial Order, management and the Board of Directors of the Company (the “**Board**”) have continued to work diligently and in good faith towards reaching a potential agreement with Catalyst for a transaction of that kind. As mentioned in the Pre-Filing Report, once the terms of any such agreement have been finalized between the Company and Catalyst, the Monitor will report to this Honourable Court with its recommendations in connection with any application for Court approval.

MONITOR'S ACTIVITIES SINCE THE GRANTING OF THE INITIAL ORDER

13. Since the date of the Initial Order, the Monitor has:

- i. Published a notice regarding the CCAA proceeding on May 6, 2009 in each of the Globe and Mail, National Post, Toronto Star, Calgary Herald and the Edmonton Journal;
- ii. Made publicly available a copy of the Initial Order and other relevant materials on the Monitor's web site at www.deloitte.com/ca/planet-organic;
- iii. Sent notices by regular mail to every known creditor who has a claim against any Applicant of more than \$1,000; and
- iv. Made publicly available a listing showing the names and addresses of all creditors who have a claim against any Applicant of more than \$1,000, and the estimated amounts of those claims, on the Monitor's web site at www.deloitte.com/ca/planet-organic.

14. The Monitor is monitoring on a weekly basis the receipts and disbursements of the Company with the full collaboration of management. Consequently, cash flow forecasts are updated regularly following the weekly variations analysis of the cash utilization.

15. Counsel to the Monitor, Goodmans LLP ("**Goodmans**"), together with local counsel working with Goodmans on behalf of the Monitor in the other provinces in which Planet and/or Darwen have indicated they own assets, have reviewed the security granted to the Secured Lenders by Planet and Darwen and the recent documentation concerning the assignment of that security to Catalyst. Goodmans has advised the Monitor that based on this review, and subject to the assumptions and qualifications contained in the written opinions of counsel in the respective jurisdictions, which have been delivered to the Monitor, Catalyst, as the current Secured Lender, has a valid and enforceable security interest in the personal property of each of Planet and Darwen to which the respective Personal Property Security Acts in the Provinces of British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia applies and that such security interests are perfected

in accordance with the provisions of the respective Personal Property Security Acts in those Provinces.

POSTPONEMENT OF THE AGM

16. As discussed in the Monitor's Pre-Filing Report and above, the Monitor understands that the Applicants and Catalyst are currently in discussions regarding a potential acquisition by Catalyst of all of the Applicants' remaining assets, and that it is the Applicants' intention to seek the Court's approval of that transaction in the very near future. Once the terms of this transaction have been finalized as between the Applicants and Catalyst, the Monitor will report to this Court with its recommendations in connection with any application for Court approval of the proposed transaction.
17. The Proposed Monitor stated in its Pre-Filing Report that it was of the view that the Applicants should be allowed an opportunity to complete their discussions with Catalyst, with a view to reaching an agreement that would be in the best interests of the stakeholders. Based on the Monitor's understanding of the Applicants' continued discussions with Catalyst since the date of the Initial Order, the Monitor continues to be of the view that the Applicants should be allowed an opportunity to complete their discussions with Catalyst, with a view to reaching an agreement that could then be presented to this Honourable Court for consideration and, if appropriate, approval, in the very near future.
18. The Monitor agrees with the Applicants' position that at this juncture allowing the AGM to proceed would likely only lead to a disruption of the orderly restructuring process that the Applicants have commenced and that is proceeding before this Honourable Court. As discussed, the Applicants are insolvent and are proceeding diligently and in good faith in their discussions with Catalyst, and counsel to the Monitor has confirmed that Catalyst is the Applicants' Secured Lender.

RECOMMENDATIONS

19. The Applicants seek an Order of this Honourable Court adjourning and postponing the AGM. The Monitor supports the relief requested by the Applicants in this regard.

20. The Monitor requests that this Honourable Court approve the First Report and the conduct and activities of the Monitor described therein.

All of which is respectfully submitted at Toronto, Ontario, this 11th day of May, 2010.

DELOITTE & TOUCHE INC.

In its capacity as Monitor of Planet Organic Health Corp. and Darwen Holdings Ltd.

Per:



Pierre Laporte, CA•CIRP
President



Huey Lee, MBA, CMA, CIRP
Vice President

Exhibit A – Pre-Filing Report of the Proposed Monitor

Exhibit B – Original vs. Actual Cash Flow Statement

	<u>Original</u>	<u>Actual</u>	<u>Variance</u>
Week ending May 1, opening cash balance	3,119,359	3,132,825	13,466
Cash Outflows			
Trade Payables	(347,651)		347,651
Operating Expenses	<u>(42,261)</u>	<u>(10,698)</u>	<u>31,563</u>
Total outflows	<u>(389,912)</u>	<u>(10,698)</u>	<u>379,214</u>
Cash Inflows			
Deposits - sales	561,846	800,634	238,788
Deposits - other	<u>-</u>	<u>250,064</u>	<u>250,064</u>
Total inflows	<u>561,846</u>	<u>1,050,698</u>	<u>488,852</u>
Net weekly operating cash position	171,934	1,040,000	868,066
Exchange difference on USD accounts	-	(427)	(427)
Disbursements - Restructuring	-	(57,721)	(57,721)
Adjusted closing balance week ending May 1	<u>3,291,293</u>	<u>4,114,677</u>	<u>823,384</u>

Exhibit C – Revised Cash Flow Statement

13-Week Operating Cash Flow Forecast

	ACT	FCST											
Week #	1	2	3	4	5	6	7	8	9	10	11	12	13
Week ending	1-May-10	8-May-10	15-May-10	22-May-10	29-May-10	5-Jun-10	12-Jun-10	19-Jun-10	26-Jun-10	3-Jul-10	10-Jul-10	17-Jul-10	24-Jul-10
Forecast Opening Cash Balance	\$3,132,825	\$4,115,104	\$3,992,240	\$3,682,087	\$3,812,440	\$3,472,396	\$3,454,855	\$3,250,706	\$3,551,049	\$3,239,356	\$3,479,672	\$3,152,540	\$3,351,601
Cash Outflows													
Trade Payables	-	\$792,624	\$776,954	\$813,420	\$833,609	\$825,322	\$799,073	\$770,231	\$798,380	\$811,926	\$805,583	\$792,322	\$748,409
Operating Expenses	10,698	157,276	89,276	82,276	82,276	82,276	82,276	82,276	82,276	82,276	82,276	82,276	82,277
Payroll Expense	-	-	515,832	-	515,832	-	515,832	-	515,832	-	515,832	-	515,832
Rent Expense	-	298,875	-	-	-	298,875	-	-	-	298,875	-	-	-
Maintenance Capex	-	5,000	5,000	5,000	5,000	20,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total Cash Outflows	\$10,698	\$1,253,775	\$1,387,062	\$900,697	\$1,436,717	\$1,226,473	\$1,402,181	\$857,507	\$1,401,488	\$1,198,078	\$1,408,691	\$879,599	\$1,351,519
Cash Inflows													
Sales Forecast	\$800,634	\$1,298,911	\$1,256,910	\$1,211,050	\$1,256,673	\$1,277,932	\$1,267,032	\$1,246,850	\$1,178,795	\$1,177,393	\$1,170,560	\$1,167,659	\$1,149,385
Other Receipts	250,064	-	-	-	-	-	-	-	-	350,000	-	-	-
Total Cash Inflows	\$1,050,698	\$1,298,911	\$1,256,910	\$1,211,050	\$1,256,673	\$1,277,932	\$1,267,032	\$1,246,850	\$1,178,795	\$1,527,393	\$1,170,560	\$1,167,659	\$1,149,385
Net Weekly Cash Position	\$1,040,000	\$45,136	(\$130,152)	\$310,353	(\$180,044)	\$51,459	(\$135,149)	\$389,342	(\$222,693)	\$329,315	(\$238,131)	\$288,060	(\$202,134)
Restructuring Costs	(57,721)	(168,000)	(180,000)	(180,000)	(160,000)	(69,000)	(69,000)	(69,000)	(69,000)	(69,000)	(69,000)	(69,000)	(47,000)
Forecast Bank Balance	\$4,115,104	\$3,992,240	\$3,682,087	\$3,812,440	\$3,472,396	\$3,454,855	\$3,250,706	\$3,551,049	\$3,239,356	\$3,479,672	\$3,152,540	\$3,351,601	\$3,102,467