

**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**

**REPORT OF DELOITTE & TOUCHE INC.**

**In its capacity as Proposed Monitor of the Applicants**

**APRIL 29, 2010**

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## INTRODUCTION

1. Deloitte & Touche Inc. ("**Deloitte**") has been advised that Planet Organic Health Corp. ("**Planet**" or the "**Company**") and Darwen Holdings Ltd. ("**Darwen**") (collectively the "**Applicants**") have brought an application before this Honourable Court seeking certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Deloitte has been requested to act as the Monitor of the Applicants and Deloitte has consented to act as the Monitor in respect of these CCAA proceedings (the "**Proposed Monitor**").
2. This report ("**Report**") is prepared by the Proposed Monitor to assist this Honourable Court in considering the requests for relief brought forward by the Applicants in these CCAA proceedings.
3. The purpose of this Report is to provide this Honourable Court with information concerning the:
  - a. Proposed Monitor's prior relationship with the Applicants;
  - b. Business, financial affairs and financial results of the Applicants;
  - c. History of actions taken and alternatives considered by the Company and its advisors to resolve financial challenges;
  - d. Marketing and sales process to date;
  - e. Recent events regarding the Company's senior debt;
  - f. Applicants' 13-week cash flow forecast;
  - g. Charges in the draft Initial Order; and
  - h. Proposed Monitor's recommendations to date.
4. In this Report, reference is made to the Affidavit of Darren Krissie sworn as at April 29, 2010, in support of the motion record filed by the Applicants in these CCAA proceedings (the "**Krissie Affidavit**"). Capitalized terms not otherwise defined in this Report are as

defined in the Krissie Affidavit or in the motion record filed by the Applicants in these CCAA proceedings.

5. In preparing this Report, the Proposed Monitor has relied upon unaudited interim financial information, the Applicants' books and records, the Krissie Affidavit and discussions with management and its financial and legal advisors. The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance on the information contained in this Report. 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 Report is based on management's assumptions regarding future events and conditions that are not ascertainable. Accordingly, actual results achieved will vary from this information, and the variations may be material.
6. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

#### **PROPOSED MONITOR'S PRIOR RELATIONSHIP WITH THE APPLICANTS**

7. The Proposed Monitor's affiliated accounting firm, Deloitte & Touche LLP, is not the auditor of Planet, Darwen or any of its affiliated companies, nor has it provided any significant services to the Applicants over the past two years. Deloitte was retained by Planet on March 9, 2010 to assist with its restructuring efforts and preparations for a potential filing under the CCAA. Since that date, the Proposed Monitor has been reviewing the available financial information to gain knowledge of the business and financial affairs of the Applicants and, in its capacity as the Proposed Monitor, has been preparing for the anticipated CCAA application by the Applicants.

#### **THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF THE APPLICANTS**

8. Planet is a publicly listed company on the TSX Venture Exchange (POH: TSX-V). Darwen, incorporated under the laws of Saskatchewan, is a wholly owned subsidiary of

Planet and operated the “Sangster’s” banner. The Company is a leading Canadian and U.S. retailer of natural and organic products.

9. The Company distinguishes itself through its commitment to organic and natural products through an average store size of approximately 9,000 square feet in locations with lower population density and attractive demographics where larger competitors cannot support stores.
10. Since its inception in 2001, Planet has acquired and vertically integrated several franchised and company-owned natural vitamin and supplement retailers and also a vitamin manufacturer. These acquisitions were made in order to expand market opportunity by broadening product categories and adding new retail channels.
11. Between 2004 and 2007, Planet undertook a series of strategic acquisitions to grow and expand Planet’s business, which included:
  - a. Acquisition of Darwen and Sangster’s Enterprises Ltd. in 2004 – two companies that operated a collective chain of 43 small footprint vitamin stores with locations across Canada. These 2 companies were subsequently amalgamated as Darwen in December 2004 (“Sangster’s”);
  - b. Acquisition of 616407 Alberta Ltd. (operating as “**Newfound Health**”) in 2005 – a franchise chain of vitamin supplement and body care locations in Alberta that was subsequently folded into Sangster’s;
  - c. Acquisition of Tropic Canada Limited (“**Trophic**”) in 2005 – a leading manufacturer of natural supplements located in British Columbia;
  - d. Acquisition of Healthy’s, The Athlete’s Edge Inc., Amdek Marketing Inc. and Hatem Inc. (collectively, “**Healthy’s**”) in June 2006 – a chain of 7 vitamin stores in Toronto;
  - e. Acquisition of The Big Fresh Inc. in 2006 – a single store located in Edmonton, Alberta which was subsequently rebranded as a Planet Organic Markets (“**POM**”) store; and

- f. Acquisition of Mrs. Green's Natural Food Markets, Inc. ("**MSG**") in 2007 – a chain based in the United States with 9 stores in New York State and 2 stores in Connecticut which the Company operates through its wholly owned subsidiary, Planet Organic Holding Corp. ("**Planet Organic US**"). MSG is a leading small-format natural organic food retailer of similar size and concept to Planet's POM stores in Canada.
12. The total combined acquisition cost for these companies was approximately \$43 million, of which a significant portion was financed through working capital, term debt and subordinated debt.
13. As part of its restructuring process, as further detailed later in this Report, the Company has recently sold three of its non-core assets or divisions (Sangster's, Healthy's and Trophic). These transactions were closed in February and March 2010. As a result of the sale of Sangster's, Darwen is now a non-operating shell company.
14. The Company currently operates 9 natural food supermarkets in Canada under the POM banner of which 6 are in Western Canada, 2 are in Ontario and 1 is in Nova Scotia. Eleven other natural food supermarkets are owned and operated by wholly-owned subsidiaries in the United States under the MSG banner.
15. Attached hereto as Exhibit "A" is a current corporate organizational chart that depicts the current structure of Planet, including its wholly-owned subsidiaries in Canada and the United States.
16. Planet currently has approximately 500 employees (approximately 300 full-time and 200 part-time). MSG employs approximately 300 employees (approximately 90 full-time and 210 part-time). Management has advised the Proposed Monitor that all employee-related obligations are current. Management has also advised the Proposed Monitor that all of the employees are non-unionized and that there are no registered or unregistered pensions.
17. The POM stores in Canada and MSG stores in the United States operate from leased premises. All of the leased premises are owed by arm's length parties.

18. The operations of POM and MSG are independent of each other with separate suppliers and customers. MSG maintains its own general ledger and reports results to the head office for consolidated corporate reporting purposes.
19. Attached hereto as Exhibit "B" is a schedule summarizing the consolidated financial statements of the Company as of and for the years ended June 30, 2007, June 30, 2008, June 30, 2009 and for the six months ended December 31, 2009 (unaudited).
20. The table detailed below sets out selected consolidated financial information for the periods indicated:

| (\$ in millions)                 | Financial Year Ended Jun 30 |                   |                   | 2nd Quarter                                      |
|----------------------------------|-----------------------------|-------------------|-------------------|--|
|                                  | 2007<br>(audited)           | 2008<br>(audited) | 2009<br>(audited) | Ended Dec 31/09<br>(6 months YTD)<br>(unaudited) |
| Revenue                          | 55.3                        | 114.0             | 127.7             | 54.7   |
| EBITDASX [1]                     | 3.6                         | 7.1               | 6.0               | 0.6  |
| Net income (loss)                | 1.5                         | (0.2)             | (3.3)             | (9.5)  |
| Outstanding line of credit       | 0.2                         | 0.5               | 0.7               | 1.2  |
| Long-term debt - term            | 2.6                         | 19.2              | 22.0              | 20.4   |
| Long-term debt - revolver        | -                           | 0.8               | 2.7               | 2.5  |
| Convertible senior notes payable | -                           | 7.9               | 11.9              | 16.6   |
| <b>Total Debt</b>                | <b>2.8</b>                  | <b>28.4</b>       | <b>37.3</b>       | <b>40.7</b>                                      |
| Total Debt/EBITDASX              | 0.8                         | 4.0               | 6.2               | n/a  |
| <b>Available Liquidity</b>       |                             |                   |                   |  |
| Cash and cash equivalents        | 4.5                         | 1.1               | 3.0               | 2.7  |
| Credit availability              | 1.5                         | 6.3               | 5.3               | 0.5  |
| <b>Total Available Liquidity</b> | <b>6.0</b>                  | <b>7.4</b>        | <b>8.3</b>        | <b>3.2</b>                                       |

Source: POHC Annual Reports (F07, F08, F09, Q210)

[1] EBITDASX is a measurement used exclusively by the Corporation in order to provide more meaningful representation of the Corporation's ongoing ability to generate profit from continuing operations regardless of currency. The Corporation further adjusts EBITDA by adding back stock based compensation, foreign exchange gains or losses and other "one-time" adjustments such as the loss on extinguishment of long-term debt and convertible senior notes payable.

21. As indicated in the table above, EBITDASX declined 15% between fiscal year 2008 and 2009 resulting in a debt to EBITDASX ratio of 4 times at fiscal year 2008, compared to 6.2 times at fiscal year 2009. Notwithstanding growth in sales from 2007 to 2009, net

results continue to deteriorate to a point where the Company suffered a loss of \$9.5 million, including discontinued operations (loss of \$3.6 million from continuing operations) for the six months ending December 31, 2009, and available liquidity has been reduced by \$5.2 million in the last six months of operations.

22. As at December 31, 2009, per the Company's annual financial statements, Planet owed an aggregate amount of approximately \$24.1 million, not including accrued fees and interest, to its secured lenders. The Company's secured lenders included The Toronto-Dominion Bank ("TD") as the senior secured lender and Ares Capital Corporation ("Ares") as agent of another secured lending group (collectively, the "Ares Group"). The Company also owed an aggregate amount of approximately \$16.6 million, not including fees and interest, to the holders of its secured convertible senior notes. The secured convertible notes were held by Ares, and by Partnership Capital Growth Fund I LP, an affiliate of PCG (defined below) (collectively, the "Secured Convertible Note Holders"). Darwen, guaranteed the obligations of Planet under the Ares Group loan. As discussed in greater detail below, while the debt owed to TD has been repaid through certain non-core asset sales, the remaining secured debt owed to the Ares Group and the Secured Convertible Note Holders (collectively, the "Secured Lenders") was not fully repaid and has recently been sold to The Catalyst Capital Group Inc. on behalf of funds managed by it ("Catalyst") after extensive attempts to refinance and/or sell the Company were not successful.
  
23. At December 31, 2008, Planet had breached its total leverage ratio and, by June 30, 2009, was in breach of the total leverage ratio, the senior leverage ratio and the interest coverage ratio. According to the most recent audited financial statements for the Company, for the fiscal year ended June 30, 2009, Planet owed approximately US\$36.4 million in long-term debt and notes to its secured creditors. As set out in the Krissie Affidavit, as of March 16, 2010, this number had risen to approximately US\$38.5 million. After the sale of the non-core assets and related repayments noted above, the outstanding debt (including accrued interest) to the Company's secured creditors – now Catalyst – sits at approximately US\$30.1 million as at April 28, 2010.

24. Counsel for Catalyst issued a demand letter dated April 28, 2010, to the Company and Darwen for immediate payment of their respective indebtedness and liabilities under the Amended and Restated Term Loan Agreement and under the Note Purchase Agreement (the “**Demand Letter**”). In addition to the Demand Letter, Catalyst delivered Notices of Intention to Enforce Security to the Company and Darwen pursuant to subsection 244(1) of the *Bankruptcy and Insolvency Act*. On or about April 28, 2010, Catalyst also provided a copy of the Demand Letter to Planet Organic Holding Corp., as a guarantor of the Company’s obligations under the Amended and Restated Term Loan Agreement and the Note Purchase Agreement.

#### **HISTORY OF ACTIONS TAKEN AND ALTERNATIVES CONSIDERED BY THE COMPANY AND ITS ADVISORS TO RESOLVE FINANCIAL CHALLENGES**

25. During 2009, the Company’s financial position continued to worsen due to deteriorating financial results and the significant debt load taken on to finance the acquisitions noted above.
26. Because of the covenant defaults noted above, on September 25, 2009, the Company and the Secured Lenders entered into Forbearance Agreements whereby, subject to certain conditions, the Secured Lenders waived their rights to call their loans due to the covenant breaches until November 30, 2009. However, at the end of November 2009, having failed to refinance the debt, negotiate new terms under the credit agreements, recapitalize the Company and/or sell assets, the Secured Lenders advised Planet that they wished to end their business relationship with the Company. Consequently, as mentioned in the Krissie Affidavit, the Secured Lenders refused to extend the Forbearance Agreements and were in a position to declare all of the secured loans in default and demand payment at any time.
27. The Proposed Monitor understands that, since as early as 2008, the Company has reviewed and undertaken a number of measures to attempt to reduce outstanding debt, improve operational efficiencies and address these issues. The Proposed Monitor is advised that several options have been considered by the Company to improve the capital structure, including conversion of debt, raising new debt and the issuance of new capital.



28. The Proposed Monitor is advised that, early in 2008, after recognizing that the increased leverage and risk would ultimately affect the viability of the businesses, the Company decided to initiate a process to raise capital and engaged Canaccord Adams in an effort to raise approximately \$10 million of capital. As set out in the Krissie Affidavit, and based on discussions with management, the Proposed Monitor understands that Canaccord Adams secured a proposed investment at \$1.80 to \$2.00 per share (which was approximately a 10% discount to the then average share price); however, this offer was blocked by Mr. Ron Francisco, the majority shareholder, CEO and Chair of the Board of Directors of Planet, who did not want any dilution of existing shareholders and/or an offering at a price below \$2.00 per share. The Proposed Monitor is advised that, after several days of negotiations with Mr. Francisco, the Board of Directors authorized an offer price of \$2.00 per share, as insisted by Mr. Francisco. However, given the Company's financial situation, it was then unable to raise any capital at that price.
29. Thereafter, in early 2009, the Company engaged a financial advisor, Partnership Capital Growth LLC ("PCG") based in San Francisco, California to act as advisor for the purpose of reorganizing or recapitalizing the business or other restructuring alternatives, such as a sale and/or divestiture process. As mentioned above, PCG's affiliate, Partnership Capital Growth Fund I LP, was a Secured Convertible Note Holder. Also, a PCG principal, Brent Knudsen, is a member of the Board of Directors and the OCEO, as defined and discussed further below.
30. In response to covenant breaches resulting from operating results being below forecast, the Company implemented several key management and organizational changes. Specifically, since May 2009, several board members resigned and Mr. Francisco was replaced as CEO with an Office of the CEO ("OCEO") consisting of Darren Krissie and Brent Knudsen. In addition to being the former CEO of Planet, Mr. Francisco holds approximately 67% of the outstanding shares of the Company and is the controlling shareholder of a major supplier to Planet, Horizon Distributors Ltd. Additionally, as set out in the Krissie Affidavit, Mark Craft and Diane Shaskin, VP of Operations and VP of Marketing, respectively, were terminated and replaced by promoting two individuals from within the organization. Mark Craft was also a Company founder and a member of

the Board of Directors at this time. Ultimately, the Board of Directors was reduced to three members, being Ian Newton, Brent Knudsen and Darren Krissie. Subsequently, a 100-Day Operational Plan was developed and implemented by the OCEO and PCG which included a complete review of Planet's corporate strategy, operations and restructuring options.

31. During the month of October 2009, working closely with PCG, the Company endeavored to issue bonus shares into escrow while negotiating with the Secured Lenders for a reduction in penalty interest and a prospective conversion of debt into equity, thus improving results, cash flow and eliminating defaulted loans. As set out in the Krissie Affidavit, after approval from the Board of Directors and conditional approval from the TSX Venture Exchange, this action was objected to by Mr. Francisco, via his counsel. The TSX Venture Exchange subsequently reversed its conditional approval and the issuance of bonus shares was cancelled.
32. In December 2009, PCG and the Company approached eight banks with a Request for Proposal ("RFP") for the refinancing of Planet and MSG and received three Indications of Interest ("IOI"). The IOI's received suggested potential leverage of 1.5 to 2.5 times EBITDA, which was significantly lower than the actual leverage in the business. Based on the IOIs received, the Company determined that any new debt raised would be insufficient to replace the current lenders and that raising equity to bridge the gap was not an option, for the reasons discussed in paragraph 27 above.
33. The Proposed Monitor is advised that at this time it became obvious to management of the Company that (i) because of the crisis in the credit and capital markets, (ii) the resistance of the controlling shareholder to the various options presented to resolve the Company's debt (along with the on-going opposition to any measure that would have a dilutive effect on shareholders), and (iii) the Company being over-leveraged, other measures needed to be taken to improve operating results, liquidity and capital structure. Ultimately, it was determined that a refinancing would be challenging and that PCG should focus its efforts on a divestiture strategy for the Company as a whole, beginning with each non-core division/operation separately.

## MARKETING AND SALES PROCESS

34. As discussed, the Company retained PCG in early 2009 as its financial advisor and the Proposed Monitor understands that PCG conducted an extensive marketing and sales process in respect of Planet prior to the commencement of these CCAA proceedings. PCG ran the marketing and sales process with the full involvement of management, including Mr. Francisco, and the Board of Directors of Planet. The objective was to maximize value for all stakeholders.
35. The Company and PCG began canvassing the market and exploring options around a potential reorganization of the business as early as April 2009, through a process to raise private equity or a sale to a strategic investor. Ultimately, however, the Company and PCG were not able to secure a binding offer to either recapitalize or sell the Company in this early part of the marketing process, as referenced above.
36. In late 2009, PCG and the Company renewed their marketing efforts. In December of 2009, a teaser was prepared and sent to all interested parties. PCG prepared and distributed a Confidential Information Memorandum (“CIM”) to all parties that signed a Confidentiality Agreement (“CA”) and assembled an electronic data site to facilitate buyer/investor due diligence. PCG has advised the Proposed Monitor that PCG contacted 213 parties in an attempt to sell the Company as a whole or to sell the Company’s non-core divisions/operations separately. Of that total, 130 parties were contacted for the sale of the Company as a whole (POM and MSG), 33 parties were contacted for the sale of Trophic and 50 parties were contacted for the sale of Healthy’s and Sangster’s.
37. As described in the table below, combined efforts to divest these assets led to 213 parties being contacted, 74 parties signing CAs and 20 parties submitting non-binding IOIs. Out of these totals:
  - a. 16 parties executed CAs and commenced due diligence for the purchase of Trophic, and Planet subsequently received 4 IOIs for the purchase of the Trophic division as a stand-alone business.

- b. 7 parties executed CAs and commenced due diligence for the purchase of the Sangster's and Healthy's divisions, and Planet subsequently received 5 IOIs for the purchase of Sangster's and Healthy's as stand-alone businesses.
- c. 51 parties executed CAs and commenced due diligence for the purchase of the Company as a whole (POM and MSG), and Planet subsequently received 11 IOIs for stock and/or asset purchases of POM/MSG.

|                     | Parties contacted | CA executed | Indications of Interest |
|---------------------|-------------------|-------------|-------------------------|
| Strategic Investors | 77                | 20          | 9                       |
| Financial Investors | 136               | 54          | 11                      |
| <b>Total</b>        | <b>213</b>        | <b>74</b>   | <b>20</b>               |

38. On January 15, 2010, the Board of Directors established an Independent Committee to (i) review the merits of the IOIs that had been received and (ii) provide recommendations to the Board of Directors. The Independent Committee was composed of three members: David Heighington, Darren Krissie and Ian Newton. On February 25, 2010, Darren Krissie resigned from the Independent Committee to ensure the Committee's independence from management of the Company. On March 4, 2010, David Heighington resigned from the Board of Directors and the Independent Committee.
39. After several weeks of what the Company's management described to the Proposed Monitor to be intense negotiation and discussions with potential buyers of Trophic, Sangster's and Healthy's, PCG made recommendations on the proposals received to both the OCEO and the Board of Directors. The Board of Directors subsequently approved the sale of Sangster's, Healthy's and Trophic. In connection with these transactions:
- a. *Sale of Sangster's* – on February 18, 2010, JAMM Enterprises, Inc. acquired the stock of S-5 Holdings Ltd., 616407 Alberta Ltd. and the assets of Darwen for gross proceeds of \$1.1 million.
  - b. *Sale of Healthy's* – on March 16, 2010, Health-X Corp purchased Healthy's for gross proceeds of \$348,500.

- c. *Sale of Trophic* – on March 17, 2010, Atrium Innovations Inc. purchased the assets of Trophic for gross proceeds of \$10.6 million.
40. The net cash proceeds after fees and expenses from the sale of Sangster's, Healthy's and Trophic of approximately \$9.8 million was used to partially pay down the senior indebtedness owed to the Secured Lenders. Specifically, \$5.3 million was used to repay all outstanding indebtedness to TD, and \$4.5 million was used to reduce the existing indebtedness to Ares. Transaction related costs amounted to \$1.3 million, and the remaining proceeds were used to fund two escrow accounts created in connection with the Trophic transaction: (i) a short-term working capital escrow account of \$250,000; and (ii) a long-term indemnity escrow of \$600,000.
41. As discussed in paragraphs 35 and 36 above, 130 parties were contacted in this process for their interest in the Company as a whole (POM and MSG) and, of that total, 51 signed CAs, 11 submitted IOIs and 6 bids were subsequently received. The bids received (some of which were not for the whole Company) are summarized below:
- a. An offer by Catalyst to acquire the combined assets of POM and MSG for a purchase price in the range of \$33 million to \$36 million;
  - b. A revised offer of \$30 million by another party for the recapitalization of the entire business which was subject to the arrangement of financing;
  - c. A revised offer from another party in the range of US\$14 million to US\$18 million to acquire six western locations of POM;
  - d. Another party's offer of \$7.6 million for the POM division only;
  - e. Another party's offer in the range of US\$15 million to US\$18 million for the MSG division only; and
  - f. Another party's all cash offer of US\$20 million for POM and MSG.
42. None of the bids received were sufficient to retire the debt owed to the Secured Lenders (among other issues) and – after several weeks of discussions and negotiations among the Company, the Secured Lenders and mainly Catalyst, as the highest bidder for the assets or shares of the Company as a whole – the Secured Lenders determined that their

preferred course of action was to sell their debt to Catalyst. As set out in the Krissie Affidavit, the Proposed Monitor is informed that Catalyst's acquisition of all of the debt held by the Secured Lenders was completed on April 20, 2010. Subject to the Proposed Monitor's ongoing review of Catalyst's acquisition of the debt, as discussed below, Catalyst is now the Company's senior secured lender.

43. The Monitor understands that the Company and Catalyst are currently in discussions regarding a potential credit bid by Catalyst, for all of the Applicants' assets and that it is the Company's intention to finalize the terms of the credit bid and then to seek the Court's approval of the Catalyst credit bid in the very near future. Once the terms of the credit bid have been finalized between Catalyst and the Company, the Proposed Monitor will report to this Court with its recommendations in connection with the application for Court approval. Based on the Monitor's understanding of the discussions to date, the Monitor believes that the Company should be allowed the opportunity to complete such discussions with Catalyst, with a view to reaching an agreement that would be in the best interests of the stakeholders.
44. Counsel to the Proposed Monitor, Goodmans LLP ("**Goodmans**"), together with local counsel working with Goodmans in the other provinces where the Company has assets and operations, have reviewed the security granted to the Secured Lenders by the Company and the recent documentation concerning the assignment of that debt to Catalyst. Goodmans has advised the Proposed Monitor that based on this preliminary review, and subject to the assumptions and qualifications contained in a written opinion to be provided, Catalyst, as the current secured lender, has a valid and enforceable security interest in the personal property, assets and undertaking of the Company within the Provinces of Ontario, Alberta, Nova Scotia and British Columbia, in respect of which registrations have been made by Catalyst against the Company in accordance with the provisions of the respective Personal Property Security Acts in those provinces.

#### **THE COMPANY'S 13-WEEK CASH FLOW FORECAST**

45. The management of the Company has prepared a 13-week cash flow forecast (the "**Cash Flow Statement**") that estimates the financing requirements of the Applicants during the

- 13-week period, using Probable and Hypothetical Assumptions as defined in the Notes to the Cash Flow Statement. A copy of the Cash Flow Statement is attached hereto as Part 1 of Exhibit "C" to the Report.
46. The Applicants' Cash Flow Statement is for the period of thirteen (13) weeks from April 29, 2010 to July 24, 2010. The first week is a short week composed of 3 days, April 29 to May 1, inclusive.
  47. The Cash Flow Statement shows the receipt of funds from MSG operations for settlement of receivables which will be used to fund the Applicants' working capital requirements subsequent to week ten (10) of the CCAA proceedings.
  48. The Cash Flow Statement estimates that for the period April 29, 2010 to July 24, 2010, the Applicants will have total receipts of approximately \$15.6 million, including a \$350,000 intercompany receipt, and approximate total disbursements of \$16.4 million for net cash outflow of \$0.8 million.
  49. As at April 29, 2010, the Applicants are forecasting to have available liquidity of \$3.1 million, consisting of cash on hand.
  50. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied to us by certain of the management of the Applicants. Since Hypothetical Assumptions are not supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by management for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.
  51. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:
    - a. The Hypothetical Assumptions are not consistent with the purposes of the Cash Flow Statement;

- b. As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
- c. The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.
52. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if Hypothetical Assumptions occur, and the variations may be material. Accordingly we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.
53. The Cash Flow Statement has been prepared solely for the purpose described in the Notes on the face of the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

#### **CHARGES IN THE DRAFT INITIAL ORDER**

54. The Applicants' proposed form of Initial Order provides for an administrative charge (the "**Administration Charge**") in an amount of \$400,000 for the Monitor, the Monitor's counsel, and counsel for the Applicants, as security for professional fees and disbursements incurred before and after the making of the Initial Order in respect of these CCAA proceedings. The Proposed Monitor, Goodmans and the counsel for the Applicants each hold a retainer of \$50,000. The Administration Charge has been established based on respective professionals' previous history and experience with similar restructurings. The Proposed Monitor believes that the Administration Charge is required and reasonable in these circumstances.
55. In addition, the Proposed Monitor is advised that the Applicants have given notice of the application for entry of the Initial Order (and therefore the Administration Charge to be created thereunder), to all of the secured creditors who are likely to be affected by the



Administration Charge, as required by section 11.52(1) of the CCAA. In this case, that has been done by giving notice of the application to Catalyst, and by excluding all other secured creditors from the effect of the charge, as set out in the Krissie Affidavit.

56. The Applicants' proposed form of Initial Order also provides for a charge for the directors and officers (the "**D&O Charge**") in the amount of \$1.7 million as security for various indemnities provided to the directors and officers by the Applicants in the draft Initial Order.
57. The Proposed Monitor has been advised that the D&O Charge is necessary for the continued service of the directors and officers of the Applicants during the restructuring and that the quantum has been calculated relative to certain employee and tax related statutory obligations of the Applicants for which the directors and officers may be held liable, and the value of directors and officers liability insurance that is maintained for all its directors and officers. In particular, the Proposed Monitor understands that the Applicants believe that they would not be able to obtain adequate indemnification insurance for the directors and officers at a reasonable cost, under the circumstances, as set out in the Krissie Affidavit.
58. Given that the Applicants will require the committed involvement of its directors and officers to successfully restructure, the Proposed Monitor believes the D&O Charge is required and reasonable in these circumstances. The Proposed Monitor has not been provided with detailed information on a per employee basis in order to calculate the potential exposure; however, the Applicants have provided a summary overview of the potential liabilities for the directors and officers which supports the quantum requested.
59. In addition, the Proposed Monitor is advised, as discussed above, that the Applicants have given notice of the application for entry of the Initial Order (and thereby the D&O Charge to be created thereunder), to all of the secured creditors who are likely to be affected by the Charge. Again, in this case, this has been done by giving notice of the application to Catalyst, and by excluding all other secured creditors from the effect of the charge, as set out in the Krissie Affidavit.

## PROPOSED MONITOR'S RECOMMENDATIONS


60. The Proposed Monitor supports the application by the Applicants for protection under the CCAA. The Applicants remain in default of their obligations under the senior debt facilities. These proceedings will afford the Applicants an opportunity to complete a restructuring in a manner that (i) maximizes value for the Applicants various stakeholders and (ii) best protects the interests of the various stakeholders while the Applicants work under the supervision of the Monitor and this Honourable Court to complete a restructuring, including the proposed restructuring transaction with Catalyst.
61. Further to the Proposed Monitor's review of the proposed form of Initial Order, the Proposed Monitor also supports the Administration Charge and the D&O Charge being requested in the Applicants' draft Initial Order as being reasonable and required in the circumstances.

All of which is respectfully submitted at Toronto, Ontario, this 29<sup>th</sup> day of April, 2010.

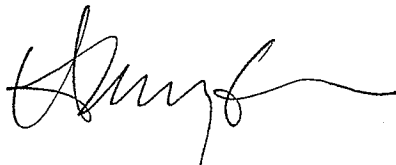
### **DELOITTE & TOUCHE INC.**

In its capacity as Proposed 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, Current Organizational Structure

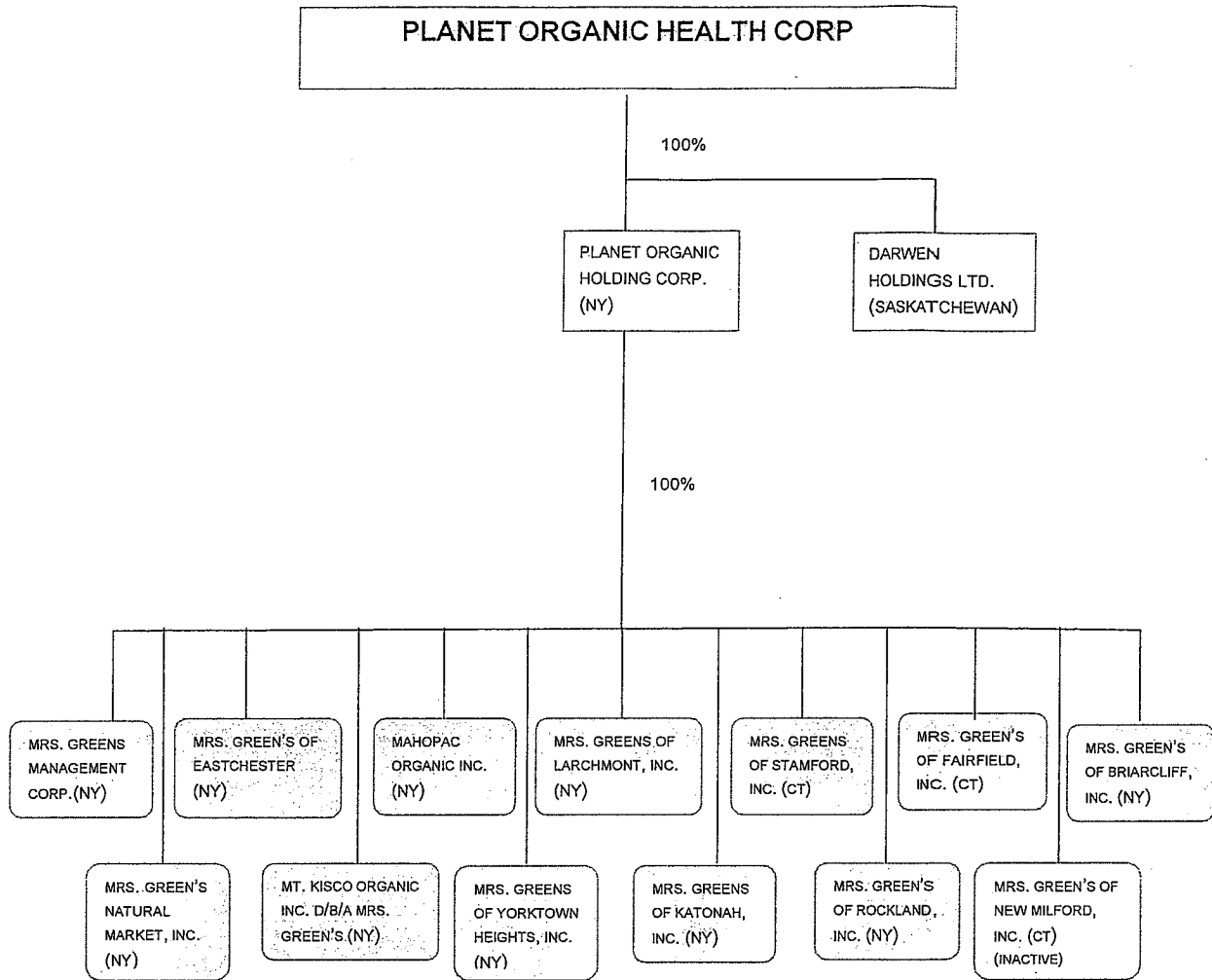


Exhibit B, Consolidated Financial Statements

| (\$ in millions)                                     | Financial Year Ended Jun 30 |                   |                   | Qtr 2 - F'10                |
|--|-----------------------------|-------------------|-------------------|-----------------------------|
|  | 2007<br>(audited)           | 2008<br>(audited) | 2009<br>(audited) | Dec 31, 2009<br>(unaudited) |
| <b>Current</b>                                       |                             |                   |                   |                             |
| Cash   | 4.4                         | 1.1               | 3.0               | 2.7                         |
| Accounts receivable                                  | 1.5                         | 2.1               | 1.8               | 0.8                         |
| Inventories  | 7.1                         | 10.8              | 11.6              | 7.9                         |
| Prepaid expenses                                     | 0.4                         | 0.6               | 0.6               | 0.2                         |
| Income taxes recoverable                             | -                           | 0.4               | 1.2               | 1.3                         |
| Current portion of future income taxes               | -                           | -                 | -                 | -                           |
| Assets held for sale                                 | -                           | -                 | -                 | 3.6                         |
|  | 13.4                        | 15.0              | 18.2              | 16.5                        |
| Notes receivable                                     | 0.1                         | -                 | -                 | -                           |
| Property, plant and equipment                        | 7.7                         | 10.2              | 12.7              | 7.9                         |
| Goodwill   | 6.4                         | 31.4              | 31.4              | 27.2                        |
| Intangible assets                                    | 0.1                         | 8.2               | 8.2               | 8.1                         |
| Other assets   | 1.3                         | 0.6               | 0.3               | -                           |
| Deposits   | 0.2                         | 0.6               | 0.6               | 0.6                         |
| Assets held for sale                                 | -                           | -                 | -                 | 2.6                         |
| <b>Total Assets</b>                                  | <b>29.2</b>                 | <b>66.0</b>       | <b>71.4</b>       | <b>62.9</b>                 |
| <b>Current</b>                                       |                             |                   |                   |                             |
| Bank indebtedness                                    | 0.5                         | 1.6               | 1.5               | 1.1                         |
| Accounts payable and accrued liabilities             | 3.8                         | 7.1               | 7.9               | 6.0                         |
| Deferred revenue                                     | 0.1                         | 0.1               | 0.1               | -                           |
| Current portion of future income taxes               | 0.1                         | 0.1               | -                 | -                           |
| Current portion of deferred tenant inducements       | -                           | -                 | 0.1               | 0.1                         |
| Current portion of long-term debt                    | 0.7                         | 0.9               | 23.7              | 22.9                        |
| Current portion of convertible senior notes payable  | -                           | -                 | 11.9              | 16.6                        |
| Current liabilities held for sale                    | -                           | -                 | -                 | 2.2                         |
|  | 5.2                         | 9.8               | 45.2              | 48.9                        |
| Future income taxes                                  | 0.1                         | 0.2               | 0.7               | 0.9                         |
| Deferred tenant inducements                          | 0.1                         | 0.4               | 0.6               | 0.4                         |
| Deferred rent  | -                           | 0.4               | 0.5               | 0.6                         |
| Long-term debt                                       | 1.9                         | 18.0              | -                 | -                           |
| Convertible senior notes payable                     | -                           | 7.9               | -                 | -                           |
|  | 7.3                         | 36.7              | 47.0              | 50.8                        |
| Share Capital  | 15.2                        | 21.5              | 21.5              | 21.5                        |
| Share capital subscriptions received in advance      | 4.5                         | -                 | -                 | -                           |
| Warrants   | -                           | 0.5               | 0.5               | 0.5                         |
| Equity component of convertible senior notes payable | -                           | 4.2               | 4.2               | -                           |
| Contributed surplus                                  | 0.4                         | 1.2               | 1.3               | 1.3                         |
| Accumulated other comprehensive income (loss)        | -                           | 0.3               | (1.3)             | 0.3                         |
| Deficit (retained earnings)                          | 1.8                         | 1.6               | (1.8)             | (11.5)                      |
|  | 21.9                        | 29.3              | 24.4              | 12.1                        |
| <b>Total Liabilities and Retained Earnings</b>       | <b>29.2</b>                 | <b>66.0</b>       | <b>71.4</b>       | <b>62.9</b>                 |

| (\$ in millions)         | Financial Year Ended Jun 30 |                   |                   | Qtr 2 - F10                 |
|--------------------------|-----------------------------|-------------------|-------------------|-----------------------------|
|                          | 2007<br>(audited)           | 2008<br>(audited) | 2009<br>(audited) | Dec 31, 2009<br>(unaudited) |
| Sales                    | 55.3                        | 113.9             | 127.7             | 54.6                        |
| Gross profit             | 21.7                        | 45.3              | 49.4              | 20.9                        |
| SG&A                     | 19.1                        | 38.1              | 44.5              | 20.3                        |
| EBITDASX                 | 3.6                         | 7.1               | 6.0               | 0.6                         |
| Amortization             | 1.2                         | 2.1               | 2.8               | 0.9                         |
| Interest                 | 0.2                         | 3.7               | 4.1               | 2.5                         |
| Net other expenses       | (0.8)                       | 0.7               | 1.3               | 0.9                         |
| Income (loss) before tax | 2.0                         | 0.6               | (3.3)             | (3.7)                       |
| Net income (loss)        | 1.5                         | (0.2)             | (3.3)             | (9.6)                       |

## Exhibit C – The Cash Flow Statement

### **Proposed Monitor's Report on Cash Flow**

The 13-week cash flow forecast (the "Cash Flow Statement") of the Applicants as of April 29, 2010 has been prepared by management for the purpose described in Notes to the Cash Flow Statement, using Probable and Hypothetical Assumptions set out in this exhibit.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Applicants. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by management for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
- b) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
- c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

The Cash Flow Statement has been prepared solely for the purpose described in the Notes on the face of the Cash Flow Statement, and readers are cautioned that it may not be appropriate for other purposes.

13-Week Operating Cash Flow Statement

| 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 \$3,119,359 \$3,291,292 \$3,168,428 \$2,858,276 \$2,988,629 \$2,648,585 \$2,631,043 \$2,426,895 \$2,727,237 \$2,415,545 \$2,655,860 \$2,328,729 \$2,527,789

**Cash Outflows**

|                            |                  |                    |                    |                  |                    |                    |                    |                  |                    |                    |                    |                  |                    |
|----------------------------|------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|--------------------|
| Trade Payables             | \$347,651        | \$792,624          | \$776,954          | \$813,420        | \$633,609          | \$625,322          | \$799,073          | \$770,231        | \$798,380          | \$811,926          | \$805,583          | \$792,322        | \$748,409          |
| Operating Expenses         | 42,261           | 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              |
| <b>Total Cash Outflows</b> | <b>\$389,912</b> | <b>\$1,253,775</b> | <b>\$1,387,082</b> | <b>\$800,697</b> | <b>\$1,436,717</b> | <b>\$1,228,473</b> | <b>\$1,402,181</b> | <b>\$857,507</b> | <b>\$1,401,488</b> | <b>\$1,198,078</b> | <b>\$1,408,691</b> | <b>\$879,599</b> | <b>\$1,351,519</b> |

**Cash Inflows**

|                           |                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |
|---------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Sales Forecast            | \$561,846        | \$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            | -                | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  | 350,000            | -                  | -                  | -                  |
| <b>Total Cash Inflows</b> | <b>\$561,846</b> | <b>\$1,298,911</b> | <b>\$1,256,910</b> | <b>\$1,211,050</b> | <b>\$1,256,673</b> | <b>\$1,277,932</b> | <b>\$1,267,032</b> | <b>\$1,246,850</b> | <b>\$1,178,795</b> | <b>\$1,527,393</b> | <b>\$1,170,560</b> | <b>\$1,167,659</b> | <b>\$1,149,385</b> |

**Net Weekly Cash Position**

|                          |           |             |             |             |             |            |             |            |             |            |             |            |             |
|--------------------------|-----------|-------------|-------------|-------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|
| Net Weekly Cash Position | \$171,934 | \$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      | -         | (\$168,000) | (\$180,000) | (\$180,000) | (\$160,000) | (\$69,000) | (\$69,000)  | (\$89,000) | (\$89,000)  | (\$89,000) | (\$89,000)  | (\$89,000) | (\$47,000)  |

Forecast Bank Balance \$3,291,292 \$3,168,428 \$2,858,276 \$2,988,629 \$2,648,585 \$2,631,043 \$2,426,895 \$2,727,237 \$2,415,545 \$2,655,860 \$2,328,729 \$2,527,789 \$2,276,655

## Notes to the Cash Flow Statement

### Note A – Purpose

The purpose of this cash-flow forecast is to determine the liquidity requirements of the Applicants during the CCAA proceedings.

### Note B – Definitions

#### (1) Cash-flow Statement

In respect of a company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the company as defined in section 2(1) of the Act based on Probable and Hypothetical Assumptions that reflect the company's planned course of action for the period covered.

#### (2) Hypothetical Assumptions

Means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the company's judgment, but are consistent with the purpose of the Cash-Flow Statement.

#### (3) Probable Assumptions

Means assumptions that:

- (i) The company believes reflect the most probable set of economic conditions and planned courses of action, Suitably Supported that are consistent with the plans of the company; and
- (ii) Provide a reasonable basis for the Cash-Flow Statement.

#### (4) Suitably Supported

Means that the Assumptions are based on either one or more of the following factors:

- (i) The past performance of the company;
- (ii) The performance of other industry/market participants engaged in similar activities as the company;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.



**Note C – Assumptions**

| <b>Assumptions</b>           | <b>Source</b>   | <b>Probable Assumption</b> | <b>Hypothetical Assumption</b> |
|------------------------------|---|----------------------------|--------------------------------|
| Opening cash balance         | Based on actual bank balance for April 27, 2010 adjusted for anticipated cash inflows and outflows on April 28, 2010.   | X                          |                                |
| Forecast Cash Receipts:      |   |                            |                                |
| Sales forecast               | Collections have been estimated based on weekly sales forecast including immediate receipts due to the nature of retail business.<br><br>Weekly sales are forecasted based on applying year-over-year sales growth to the corresponding week sales in the prior year. | X                          |                                |
| Other receipts               | Transfer of funds as partial settlement of intercompany accounts with US Holdco.  | X                          |                                |
| Forecast Cash Disbursements: |   |                            |                                |
| Trade payables               | Based on payment for trade payables being made over the CCAA filing period. All pre-filing trade payables assumed to be stayed.<br><br>Trade payable amount estimated as cost of sales which are calculated based on trailing 8-month average margins.                |                            | X                              |
| Operating Expenses           | Store level operating expenses based on year-to-date averages.  | X                          |                                |
| Payroll Expense              | Based on year-to-date averages throughout the forecast period.  | X                          |                                |
| Rent Expense                 | Rent payments are based on current lease payment schedules and are assumed to be paid in the first week of each month.  | X                          |                                |
| Maintenance Capex            | Estimated capitalized expenses, based on historical amounts, limited to addressing key operational or safety items.   | X                          |                                |
| Restructuring Costs          | Estimate of professional fees associated with the proposed CCAA proceedings.  | X                          |                                |

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.

Court File No.: \_\_\_\_\_

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at Toronto

**REPORT OF THE PROPOSED MONITOR**

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