

**IN THE MATTER OF THE PROPOSAL OF
PHARMACY 2 DRUG & FOOD INC.
WITH ITS HEAD OFFICE IN THE TOWN OF MARKHAM
IN THE PROVINCE OF ONTARIO**

AMENDED DEFINITIVE PROPOSAL

The Debtor (as defined below) hereby submits the following Proposal under the Act (defined below):

Definitions

1. In this Proposal, capitalized terms shall have the following meanings:
 - a) "**Act**" means *Bankruptcy and Insolvency Act R.S.C. 1985, c. B-3*, as amended;
 - b) "**Claim or Claims**" means the right of any Person against the Debtor in connection with any indebtedness, liability or obligation of any kind of the Debtor, in each case which indebtedness, liability or obligation is in existence at the Filing Date, or arising as a result of action taken by the Debtor in accordance with paragraphs 7, 8, 9 and 10 of this Proposal, and interest, if any, in respect of which there is an obligation to pay, and costs which such persons would be entitled to receive, pursuant to the terms of any contract with such person or at law or in equity, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise, and whether or not such right is executory in nature, including without limitation, the right or ability of any person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future based in whole or in part on facts or events which existed prior to or at the Filing Date, without limitation, shall include any claims that would have been claims provable in bankruptcy had the Debtor become bankrupt on the Filing Date;
 - c) "**CRA**" means Canada Revenue Agency;
 - d) "**Court**" means the Ontario Superior Court of Justice at Toronto;
 - e) "**Debtor**" means **Pharmacy 2 Drug & Food Inc.**, an insolvent person;
 - f) "**Filing Date**" means July 30, 2009, being the date on which the Debtor filed a Notice of Intention to Make a Proposal under the Act;
 - g) "**Ordinary Creditors**" means being those persons with Claims not referred to in paragraphs 1, 2, 3, 4, or 5 hereof, including Claims of every nature and kind whatsoever, whether due or not due for payment as of the Filing Date, and including contingent or liquidated claims arising out of any transaction entered into by the Debtor, or in which it was involved, prior to the Filing Date;

- h) **"Preferred Creditors"** means creditors whose Claims are to be paid in priority to the Claims of Ordinary Creditors pursuant to section 136(1) of the Act;
- i) **"Proposal"** means this proposal and all schedules or appendices hereto, including as the same may be amended or supplemented from time to time, and all uses of the words "hereto", "herein", "hereof" and "hereunder" and similar expressions refer to this Proposal as a whole rather than any portion of it;
- j) **"Secured Creditor"** means secured creditor as defined under the Act; and
- k) **"Trustee"** means Meyers Norris Penny Limited, of the Town of Richmond Hill, in the Province of Ontario.

Deemed Trust Claims

- 2. (a) The Debtor shall, within six months after court approval of this proposal, pay in full, by equal monthly instalments, all amounts of a kind that could be subject to a demand under subsection 224(1.2) of the *Income Tax Act* or under any substantially similar provision of provincial legislation that were outstanding at the Filing Date.
- (b) The Debtor shall file, at or prior to the hearing of the application for approval of the Proposal, full particulars with the Court and CRA of any default in any remittance of an amount referred to in section 60(1.1) of the Act that became due after the Filing Date.

Secured Claims

- 3. The Claims of Secured Creditors shall be paid as may be arranged between the Debtor and the holder(s) of such Claims.

Preferred Creditors

- 4. (a) Subject to paragraph 4(b), all proven Claims of Preferred Creditors shall be paid in full in priority to all proven Claims of Ordinary Creditors.
- (b) In the case of employees and former employees of the Debtor, amounts equal to the amounts, if any, that they would be entitled to receive under section 136(1)(d) of the Act, if the Debtor had become bankrupt on the Filing Date, shall be paid forthwith after approval of the Proposal by the Court.

Proposal Professionals

- 5. All proper fees and expenses of the Trustee, incidental to the proceedings arising out of the Proposal and in connection with the preparation of the Proposal, including advice to the Debtor in connection therewith, which is estimated between \$80,000 to \$90,000 plus GST, shall be paid, in priority to all Claims of creditors.

Post-Proposal Debts and Liabilities Incurred

6. (a) Claims arising in respect of goods supplied, services rendered or other consideration given to the Debtor on or after the Filing Date shall be paid in full by the Debtor in the ordinary course of business.
- (b) If applicable, the Debtor shall, during the course of the Proposal,:
- (i) remit current year payroll deductions (Employment Insurance premiums, Canada Pension Plan contributions, and income tax deductions) as required;
 - (ii) remit current GST payments and file GST returns as required by the *Excise Tax Act*; and
 - (iii) remit any other current amounts and file any other returns as required by the *Income Tax Act*.

Ordinary Creditors

7. The Debtor shall pay \$360,000 in equally monthly instalments over 48 months to the Trustee, in trust, for the sole purpose of distributing same in accordance with the terms of the Proposal. The monthly payments to the Trustee will commence 30 days after approval of the Proposal by the Court. Ordinary Creditors will receive the net proceeds, after the claims referred to in paragraphs 4 and 5. The Trustee shall distribute the net proceeds, together with interest earned in the estate trust account, pro rata among all Ordinary Creditors of the Debtor and the Ordinary Creditors shall accept such proceeds in full and complete satisfaction of their Claims. The net proceeds will only be distributed to Ordinary Creditors after the full payment of Deemed Trust claims referred to in paragraph 2(a).

Debtor's Rights under the Proposal

8. The Debtor shall have the right, at any time prior to the meeting of creditors called to permit them to vote on the Proposal, to terminate any contract for the purchase of goods or services or any contract for the rental or lease of equipment, and any affected creditor or lessor, as the case may be, shall have the right to seek to prove a Claim as an Ordinary Creditor for any amount due together with any Claim for damages. For any contract terminated under this provision, the Claims of such persons shall be a Claim provable in the Proposal and such creditors shall have no further right to pursue their respective Claims outside the terms of the Proposal. For greater certainty, any Creditor affected by this paragraph shall be an Ordinary Creditor for the purposes of the Proposal.

9. The Debtor shall have the right, at any time prior to the meeting of creditors called to permit them to vote on the Proposal, to terminate any employee and any such affected employee, as the case may be, shall have the right to seek to prove a Claim as an Ordinary Creditor for any termination and severance pay which may be owing in consequence of their termination. The Claims of such Persons shall be a Claim provable in the Proposal and such creditors shall have no further right to pursue their Claims outside the terms of this Proposal. For greater certainty, any creditor affected by this paragraph shall be an Ordinary Creditor for the purposes of the Proposal.

10. The Debtor shall have the right, at any time prior to the filing of the Proposal, to disclaim any commercial lease of real property in accordance with subsection 65.2 (1) of the Act. Any such affected landlord(s) may file a Proof of Claim as an Ordinary Creditor for the actual losses resulting from such disclaimer.

11. The Debtor shall have the right at any time up until the conclusion of the meeting of creditors or any adjournment thereof to unilaterally amend the Proposal and such amendment need not be more advantageous than the terms herein, and the Debtor need only notify the attendees at the meeting of any amendment and need not distribute in advance of the meeting any notice of amendment. The Debtor shall further have the right to unilaterally amend the Proposal at any time after the meeting of creditors to vote on this Proposal, including after Court approval as well as during or after implementation, as long as the Trustee is satisfied that such amendment does not materially prejudice any of the classes of Creditors entitled to share in the Proposal Funds, provided that the Trustee shall not be liable for such amendment or its approval thereof, and further the Debtor may but shall not be obliged to issue any notice of such amendment to any creditor and any and all amendments shall be deemed to be effective as of the date of the Proposal."

Inspectors

12. At the first meeting of creditors held on January 29, 2010 two inspectors were appointed, whose powers are restricted to:
- (a) advising the Trustee in accordance with the provisions of the Act;
 - (b) advising the Trustee in respect of any dispute that may arise as to the validity of Claims of Preferred Creditors and Ordinary Creditors under the Proposal;
 - (c) authorizing an extension of time for the making of any payment to be made pursuant to paragraph 7 of the Proposal; and
 - (d) the authority and term of office of the inspectors will terminate upon the Debtor's performance of the Proposal.

Claims against Directors

13. Any Claims against the Debtor by any Creditor that are also Claims against the directors and/or officers of the Debtor that relate to obligations of the Debtor where directors and/or officers are under any law liable in their capacity as directors and/or officers for the payment of such obligations shall be, and upon Court approval of this Proposal, are, to the extent permitted by the Act, released and forever discharged as against the directors and/or officers of the Debtor.

Default

14. The Debtor agrees that time shall be of the essence of the Proposal, and in the event any term or provision herein is not fully performed at the time and in the manner specified, each such deficiency shall constitute a default in the performance of a provision of the Proposal, and in that event, the Debtor further agrees that it shall either remedy each default, as required by s. 62.1 of the Act, or consent to any application for annulment of the Proposal.

Miscellaneous

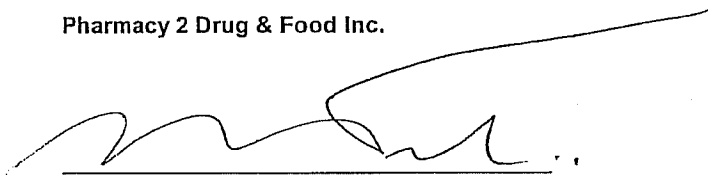
15. The Debtor acknowledges and admits that:

- a) the Proposal is made to all Ordinary Creditors with Claims for debts and liabilities, present or future, to which the Debtor was subject at the time for determining Claims of creditors of the Proposal;
- b) the security of each Secured Creditor of the Debtor is assessed in the Proposal in an amount that is equivalent to the amount of each Secured Creditor's Claim;
- c) sections 95 to 101 of the Act shall not apply to the Proposal;
- d) the Proposal is not made conditional on the purchase of shares or securities or on any other payment or contribution by creditors; and,
- e) each creditor who deals with the Debtor otherwise than at arm's length, within the meaning of section 4 of the Act, shall withdraw or postpone his/her/its Claim and acknowledges in writing that he/she/it has no entitlement to or shares in any dividend to Ordinary Creditors.

16. Nothing herein shall be construed in any way to limit or restrict the right of any creditor to challenge the security of a Secured Creditor of the Debtor, whether exercised before or after approval of the Proposal.

DATED at the City of Vaughan, in the Province of Ontario, this 8th day of April, 2010.

Pharmacy 2 Drug & Food Inc.



per: Marv Turk
I have authority to bind the Corporation

**IN THE MATTER OF THE PROPOSAL OF
PHARMACY 2 DRUG & FOOD INC.
WITH ITS HEAD OFFICE IN THE TOWN OF MARKHAM
IN THE PROVINCE OF ONTARIO**

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