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UNOFFICIAL TRANSLATION

CANADA PROVINCE OF QUÉBEC DISTRICT OF MONTRÉAL	SUPERIOR COURT Commercial Division *Designated tribunal under the Companies' Creditors Arrangement Act*[1]
No.: 200-11-	

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT OF LABORATOIRES C.O.P. INC., 9327-6269 QUEBEC INC., IDEAL PROTEIN OF AMERICA, INC. AND PHARMALAB INC.

REPORT OF THE PROPOSED MONITOR – August 14, 2023

INTRODUCTION AND BACKGROUND

1. An application ("Application") has been brought before this Honourable Court ("Court") to commence proceedings under the *Companies' Creditors Arrangement Act*[1] ("CCAA"), seeking an order ("Initial Order") in respect of Laboratoires C.O.P. Inc., 9327-6269 Quebec inc., Ideal Protein of America, Inc. and Pharmalab Inc. (collectively, the "Debtors" or "Ideal Protein").

   The Application seeks a stay of proceedings in respect of the Debtors, the appointment of Ernst & Young Inc., a licensed insolvency trustee, as monitor ("EY" or the "Proposed Monitor") and various other relief measures.

2. The present report ("Report") is intended to provide the Court with information relevant to the Application, based on the information that has been made available to the Proposed Monitor. The Report is presented under the following headings:

   - Introduction and Background;
   - Foreign proceedings;
   - Appointment of monitor;
   - Terms of Reference and Disclaimer;
   - Financial position of the Debtors;
   - Cash Flow Forecast;
   - Appointment of Chief Restructuring Officer
   - Interim Financing;

[1] *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

- Financial Thresholds Contemplated in the Initial Order;
- Confidentiality Of Certain Documents
- Upcoming Restructuring Measures; and
- Overall Comments and Conclusions.

3. Ideal Protein is a significant player in the diet products, nutritional supplements and natural products market. Ideal Protein was founded in 2004 by two individuals, a Doctor of Medicine and nutritional expert, and an entrepreneur involved in the food and natural health industries. Ideal Protein was a health and wellness solutions company that developed a protocol ("Protocol") based on a protein based, carbohydrate restrictive diet supplemented by a vitamin regimen to lose weight.

   The activities of the entities comprising Ideal Protein and their incorporation jurisdiction can be summarized as follows:

   3.1. Laboratoires C.O.P. Inc. ("COP") is a corporation constituted under the Quebec *Business Corporations Act*.[2] COP distributes products in Canada and sells products in the U.S through an affiliate. The products it distributes are purchased from an affiliate that manufactures them, or from third party suppliers. This entity holds the inventories, primarily in warehouses located in Gatineau (Québec) and Swanton (Vermont) and at a warehouse affiliated with a distributor of Ideal Protein's products, in Granby (Québec). The information on the website maintained by the Registraire des Entreprises du Québec ("REQ") suggests that the board of directors of COP has no powers and that the corporation is managed through a unanimous shareholders' agreement.

   3.2. 9327-6269 Quebec inc. ("9327") is a corporation constituted under the Quebec *Business Corporations Act*.[2] 9327 is essentially a holding company owned primarily by a venture capital group ("VC Group") and by some minority shareholders. 9327 is the shareholder of COP.

   3.3. Ideal Protein of America, Inc. ("IPAM") is a corporation constituted under the laws of the State of Florida. IPAM is the affiliated entity that distributes products in the United States. All products are acquired from COP through virtual intercompany sales, as the products are shipped directly by COP to the customers.

   3.4. Pharmalab Inc. ("Pharmalab") is a corporation constituted under the Quebec *Companies Act*[3] and continued under the Quebec *Business Corporations Act*.[2] Pharmalab is a manufacturing operation that manufactures some of Ideal Protein's products, namely the protein diet products sold as a powder and vitamins used as a supplement in the diet protocol. Pharmalab also manufactures products on contract for third parties, unrelated to Ideal Protein's Protocol (the "CMO" business). The

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2 *Business Corporations Act*, CQLR c. S-31.1, as amended.

3 *Companies' Act*, CQLR c. C-38, as amended.

information on the website maintained by the REQ suggests that the board of directors of Pharmalab has no powers and that the corporation is managed through a unanimous shareholders' agreement.

The main activities and administration are carried out from premises at 8750 boul Guillaume-Couture in Lévis, Quebec. Overall, Ideal Protein employs approximately 235 employees, the majority of which are employed by Pharmalab.

4. Ideal Protein was founded in 2004. Ideal Protein had some success with offering its Protocol through a clinic type setting, whereby a "coach" would provide advice and encouragement to dieters signed up to the program through frequent periodic contacts. By 2015, Ideal Protein was selling its products in the U.S. and in Canada, was targeting a substantial market of overweight or obese adults and was reporting substantial profits and growth.

5. During 2015, the VC Group approached financial institutions, which later formed a lending syndicate ("Lender"), to finance a project whereby the VC Group would acquire Ideal Protein from its then owners, financed through equity contributed by the investment funds and investors and a credit facility provided by the Lender. The project was carried out, largely financed by a term loan facility granted by the Lender ("Term Loan"). The balance due in respect of the Term Loan is approximately $200M[4] in principal, plus approximately $17.4M in unpaid accrued interest at June 30, 2023.

6. Ideal Protein reported a strong performance in its FY16[5] and FY17[5] results, but started reporting a decreasing level of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA"), starting in its 2018 fiscal year. The decrease in revenues and EBITDA has continued since. In FY17, the reported revenues were $193.2M and the reported EBITDA was $75.9M, while the levels reported in FY22, the last full financial year, were revenues of $90.2M and EBITDA of $10.2M, a decrease of 53% in revenues and 87% in EBITDA over a 5-year period.

7. The Lender became increasingly concerned over the financial performance of Ideal Protein during the FY19 year, and appointed Ernst & Young Inc. as consultant to perform a review of Ideal Protein's business and projections.

8. Ideal Protein continued efforts to stabilize its business and stem the decrease in revenues and EBITDA, starting in FY19, up to the present time, all in cooperation with the Lender. Ideal Protein's activities were adversely affected by the COVID-19 pandemic that started in March 2020, even though Ideal Protein was not required to suspend activities during the pandemic, as it operates in the food preparation and pharmaceutical industries. However, the clinics, which are essentially the client base through which the Ideal Protein products are distributed to the consumers ("Clinics"), typically serve clients on an in person basis and were directly impacted by the various restrictions faced by businesses throughout North America.

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4 Unless otherwise stated all monetary amounts contained herein are expressed in US dollars.

5 Ideal Protein's financial year ends on December 31. FY16 denotes the financial year ended December 31, 2016, FY17 denotes the financial year ended December 31, 2017, and so on.

9. The efforts at improving the financial performance from FY19 to date comprised several initiatives, including changes in the senior management group on several occasions; attempts to solicit new investors or to find a purchaser for the business, on two occasions, which attempts were not successful; restructuring of the sales force and compensation models; improving the training and monitoring of “coaches”; enhancing the data analytics capabilities through the implementation of new business intelligence software; reviewing the manufacturing process at Pharmalab; and obtaining a moratorium in payment of interest charges and negotiating a restructuring of the debt.

10. Although the most recent initiatives instituted by the current management team have showed signs of having a positive impact on the Debtors’ operations, they have not halted the decline in business experienced by the Clinics themselves and therefore it has become necessary to institute CCAA proceedings in respect of the Debtors with a view to conduct, under the supervision of the Court, a formal sale and investment solicitation process (“SISP”) in respect of the Debtors’ business and assets.

FOREIGN PROCEEDINGS

11. As mentioned in paragraphs 3.1 and 3.3 above, Ideal Protein has operations in both Canada and in the US. The operations in the United States are carried out through IPAM. While IPAM operates in the US, its business, including its marketing and accounting functions, is mainly managed from Canada, where Ideal Protein’s center of main interest is located, thus the reason why IPAM is a debtor in these CCAA proceedings.

12. As IPAM’s sales in the US represent a significant part of Ideal Protein’s total consolidated sales, there may be a need to initiate recognition and companion proceedings with respect to the present CCAA proceedings under Chapter 15 of the US *Bankruptcy Code*[6] (“Chapter 15 Proceedings”) in order, *inter alia*, to recognise the CCAA proceedings as the foreign main proceedings and obtain the required protection of their assets and operations in the United States during the restructuring process. The request for the assistance of foreign courts is therefore necessary in the circumstances.

APPOINTMENT OF MONITOR

13. As mentioned earlier in this Report, the appointment of EY as monitor of the Debtors is sought in the context of these CCAA proceedings. The initial order sought contemplates that the Monitor would be granted extended powers. EY has had the opportunity to review these extended powers sought in these draft orders and is of the view that such powers are necessary and useful in order to conduct the restructuring.

14. EY confirms that it fulfills the requirements of section 11.7(1) of the CCAA.

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6 *US Code*, Title 11, as amended.

15. EY points out that, as mentioned in paragraph 7 above, it has been acting as financial adviser to the Lender since July 2019, in respect of the indebtedness of Ideal Protein to the Lender. The appointment of EY as adviser to the Lender commenced in July 2019 and has continued to this date. EY can confirm that its appointment in this regard is strictly advisory, to review and comment on financial information or projections provided by Ideal Protein, prepare analyses derived from such information and projections, discuss various strategic options available to the Lender and commenting on other matters as the Lender may require.

    In its capacity as adviser, EY has not acted as the accountant or auditor of Ideal Protein, has not provided an audit, review or other services that would entail the provision of an opinion or other form of assurance on financial information as contemplated in generally accepted auditing standards or generally accepted standards for review engagements.

    Furthermore, EY's engagement as adviser has not resulted in EY making any managerial decision for Ideal Protein, nor any decision for the Lender in respect of the indebtedness of Ideal Protein to the Lender.

    In light of the foregoing, EY is not aware of any conflict of interest situation, threat to independence, or other ethical obligation that would affect its ability to act as the monitor in the proceedings contemplated by the Application, and EY has accepted to act as such if the Court chooses to appoint it as monitor.

16. EY has retained Fasken Martineau Dumoulin LLP to act as the monitor's independent counsel in these CCAA proceedings if the Court chooses to appoint EY as monitor.

TERMS OF REFERENCE AND DISCLAIMER

17. In preparing this Report and making the comments herein, the Proposed Monitor has been provided with and has relied upon certain unaudited, draft and/or internal financial information, company records, management prepared financial information and projections, information from other third-party sources, and has engaged in discussions with Ideal Protein's management team ("Management") (collectively, the "Information"). Except as described in this Report:

    17.1. The Proposed Monitor has assumed the integrity and truthfulness of the Information and explanations provided to it, within the context in which it was presented. To date, nothing has come to the attention of the Proposed Monitor that would cause it to question the reasonableness of this assumption.

    17.2. The Proposed Monitor has requested that Management bring to its attention any significant matters which were not addressed in the course of its specific inquiries. Accordingly, this Report is based solely on the Information (financial or otherwise) provided by the Debtors.

17.3. The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or generally accepted standards for review engagements and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance in respect of the Information.

In view of the purpose of the Report, some of the financial information therein may not comply with generally accepted accounting principles.

Some of the information referred to in this Report consists of forecasts and projections that were prepared based on Management's current estimates and assumptions. Such estimates and assumptions are, by their nature, not ascertainable and therefore, no assurance can be provided regarding any such forecasted or projected results. Actual results will vary from the forecasts or projections, even if the estimates and assumptions are accurate, and the variations could be significant.

18. This Report has been prepared by the Proposed Monitor to provide additional information to the Court in connection with the Application and the current status of the Debtors' financial affairs and prospects. This Report may not be appropriate for any other purpose and consequently should not be used for any other purpose.

19. Unless otherwise stated all monetary amounts contained herein are expressed in US dollars.

FINANCIAL POSITION OF THE DEBTORS

20. The most recent available internally prepared consolidated financial statements are the statements as at June 30, 2023, and for the six months then ended. These are attached as Appendix "A". The audited financial statements at December 31, 2022, and for the year then ended ("FY22") are attached as Appendix "B". The following observations can be made from the financial statements:

20.1. The financial statements for FY22 indicate consolidated comprehensive operating losses of $48.0M for the year, on a sales volume of $90.2M. The consolidated losses are affected by a significant write down in intangible property which affected the results downwards by $45.7M.

The transaction in 2015 whereby the VC Group acquired Ideal Protein resulted in the recognition of intangible property, represented by goodwill of $193.9M and other intangible assets[7] of $277.8M. The decrease in the financial performance since FY18 has caused Ideal Protein to reassess the value of the intangible property, which has led to periodic charges relating to an impairment in value. Through the impairment

[7] Such as trade names, licenses and permit, customer relationships, systems software and development costs, etc.

charges (and to a lesser extent, the amortization charges), including the $45.7M impairment charge in FY22, the carrying value of the intangible property decreased from its aggregate acquisition value of $471.7M in September 2015 to $47.1M at December 31, 2022.

Based on the reported consolidated comprehensive losses of $48.0M for the FY22 year, the EBITDA is estimated to be $10.2M. Considering that Ideal Protein reports an expected current tax recovery of $1.9M and current financial expenses of $17.7M, the operations do not generate sufficient funds to service the debt, and the shortfall is approximately $5.5M.

20.2. The financial statements at June 30, 2023, indicate consolidated comprehensive operating losses of $10.5M for the six months then ended. This represents an EBITDA of $2.3M for the six-month period.

The EBITDA of $2.3M for 6 months represents a further deterioration as compared with the reported EBITDA of $10.2 for FY22, or the reported EBITDA of $7.2M for the six months ended June 30, 2022 (i.e., the same period last year).

The EBITDA of $2.3M is insufficient to pay the current financial expenses of $11.7M for the six months ended June 30, 2023.

In fact, the financial statements suggest that the results are deteriorating, as Ideal Protein reports a negative EBITDA of $874K for the month of June. This results from a decrease in sales of 32% as compared to the same month last year, and a substantial decrease in gross margin.

20.3. The losses to date have completely eliminated the equity, as Ideal Protein reports a shareholder's deficiency of $134.2M. This is based on assets having a carrying value of $98.4M (of which $44.1M is intangible property) and liabilities totaling $232.6M. A significant portion of the liabilities, or approximately 90% of the reported liabilities, is represented by the amounts due to the Lender, of $192.2M in capital and $17.4M in unpaid accrued interest.

21. Ideal Protein reported cash on hand of $19.7M at June 30, 2023. However, a substantial portion of this cash on hand (approximately $17M) has been debited and transferred by the Lender into a segregated account opened by the Lender which is not readily accessible to the Debtors (although such account has been opened in the name of the Debtors). This leaves the Debtors with approximately $3M of available cash on hand as of the date of drafting this Report. The transfer of the cash on hand to a segregated account occurred in early August 2023, out of a concern by the Lender that the Debtors' liquidities could rapidly deteriorate, since the cash flow projections prepared by Management in mid July indicated a significant anticipated cash flow loss, of $7.0M between June 30 and October 6, 2023.

22. At the time of the transfer of cash to the above-mentioned segregated account, the Lender indicated to Management their concerns over the projected deterioration in cash. In subsequent discussions between the Lender and Management, such parties discussed the initiation of these CCAA proceedings with a view to conduct a SISP and seek out offers for the business and/or assets of the Debtors.

23. In this context, Management has been developing cash flow projections in a context of CCAA proceedings (discussed later in the Report), that present a more stable cash flow, based on substantial changes to the business while a SISP is implemented.

24. The changes made to the business include suspending all non-core marketing and spending on new initiatives; temporary lay offs of personnel in all areas considered non-essential; and temporary interruption of production at Pharmalab. These measures aim at limiting a drain on cash resources; however, Management indicated this model is only valid temporarily and is not sustainable in the long term.

25. In summary, Ideal Protein has incurred and is continuing to incur substantial losses from operations, its capital base has been completely eroded, and its liquidity is limited, to the point where Ideal Protein is insolvent.

CASH FLOW FORECAST

26. Ideal Protein has prepared a statement of projected cash flow (the "Cash Flow Forecast"), on a weekly basis, for the 5 weeks ending September 15, 2023. The Cash Flow Forecast is presented on a consolidated basis for all of the Debtors and is attached to this Report as Appendix "C", together with the representations of the Debtors as prescribed, and by notes outlining the significant assumptions made in preparing the Cash Flow Forecast.

27. The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied in the past by the Debtors. Since hypothetical assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Forecast.

28. Based on this review, nothing has come to the Proposed Monitor's attention that causes it to believe that, in all material respects:

    28.1. the hypothetical assumptions are not consistent with the purpose of the projection;

    28.2. as at the date of this Report, the probable assumptions developed by the Debtors are not suitably supported and consistent with the plans of the Debtors or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or

    28.3. the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

29. Since the Cash Flow Forecast 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.

30. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Cash Flow Forecast has been prepared solely for the purpose described in the notes accompanying the Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes.

31. While the Proposed Monitor does not express reservations regarding the cash flow statement as prepared by the Debtors, the Proposed Monitor notes that the relief sought through the Application includes, *inter alia*, undertaking a SISP to assess whether a prospective purchaser can be identified for the business as a going concern. This process is intended to be carried out rapidly.

    As mentioned earlier in this Report, in paragraph 24 above, significant changes were made to the business to avoid a deterioration in the cash position, while the Debtors seek a purchaser or investor through the implementation of a SISP. According to Management, this model is only valid temporarily and is not sustainable in the long term.

APPOINTMENT OF CHIEF RESTRUCTURING OFFICER

32. On September 14, 2021, COP retained the services of RC Benson Consulting Inc. ("RC Benson") as a restructuring consultant, in order to assist with:

    32.1. The implementation of changes to Ideal Protein's business model;

    32.2. The review of certain strategic and operational alternatives with a view to addressing the financial difficulties of Ideal Protein;

    32.3. The negotiations and discussions with the Lender.

33. The draft Initial Order provides for the formal appointment of RC Benson as Chief Restructuring Officer ("CRO") to assist with the implementation of the SISP and the supervision of the Debtors' activities during the restructuring process under the CCAA.

34. The Proposed Monitor supports the request for the appointment of RC Benson as CRO of the Debtors.

INTERIM FINANCING

35. The Cash Flow Forecast suggests that the Debtors have sufficient liquidity at this time to undertake the search for a prospective purchaser, taking into consideration the current cash on hand (approximately $3M) and the projected cash flow. As a result, there is no apparent current need for Interim Financing.

36. However, considering the possibility for timing variances in the cash flow, and the Debtors' limited liquidity as explained in paragraphs 21 to 25 above, the Lender has indicated a willingness to advance additional funds of up to CDN$1M for the fist 10 days and CDN$4M thereafter, by way of Interim Financing, if it becomes necessary.

37. The Interim Financing as contemplated by the Lender would not be subject to any additional charge (set-up fee, monitoring fee, standby fee, etc.), would be subject to an interest charge consistent with the interest that is currently in effect on the Term Loan, and would be secured by a Court approved charge that would create a first ranking priority against all assets and undertakings of Ideal Protein, subject only to the priority that may be granted by the Court to the other charges referred to in the section titled "Financial Thresholds Contemplated in the Initial Order", below.

38. The Proposed Monitor considers these terms are reasonable, as a basis for an Interim Financing transaction.

FINANCIAL THRESHOLDS CONTEMPLATED IN THE INITIAL ORDER

39. The draft Initial Order provides for a number of charges and financial thresholds that are described below.

Administration Charge

40. The draft Initial Order provides for an Administration Charge for the Monitor, the Monitor's counsel, the Lender's legal counsel, the CRO and counsel for the Debtors, as security for the professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these proceedings, in addition to the retainers already provided. The Administration Charge as described in the draft Initial Order provides for an amount of CDN$225K for the first 10 days and CDN$1M thereafter. The Administration Charge threshold has been established based on the various professionals' previous history and experience with large restructurings of similar magnitude and complexity. The Proposed Monitor believes that such a charge is required and reasonable under the circumstances.

Indemnification Charge

41. The draft Initial Order provides for an indemnification charge (the "Indemnification Charge") to secure an indemnity for the Debtors' officers, the Monitor and the CRO, the whole as provided in the Initial Order. Pursuant to the proposed Initial Order, the Debtors' officers, as well as the Monitor and the CRO shall be indemnified in respect of all liabilities and obligations which may arise on or after the date of the Initial Order provided that the liability relates to their capacity and work in compliance of the Initial Order and is not attributable to a gross negligence or wilful misconduct. The draft Initial Order provides for an Indemnification Charge in the amount of CDN$150K for the first 10 days and CDN$300K thereafter.

42. It is noted that the Debtors' officers benefit from an insurance policy that provides some measure of protection. The Debtors assert that the D&O[8] insurance currently available is not sufficient to adequately protect the officers against the liability they may incur in the context of the restructuring proceedings under the CCAA and that additional insurance would not be available or would be prohibitively expensive. The Proposed Monitor considers that this assertion is reasonable. The Indemnification Charge is intended to offer additional protection beyond what is available under the insurance policy coverage. The Proposed Monitor believes that such charge is required and reasonable under the circumstances.

CONFIDENTIALITY OF CERTAIN DOCUMENTS

43. The Application contemplates that various documents, including *inter alia* the Cash Flow Forecast and the financial statements of the Debtors, be kept under seal. Ideal Protein is a significant player in the diet products market, and the information is sensitive and could provide a competitive advantage to its competitors, which may impede a possibility of a going concern solution and thus affect the SISP.

44. In view of the risk involved regarding the interest of prospective purchasers or investors and the possibility of affecting the value of the business as a going concern, the Monitor supports the request to keep certain information under seal.

UPCOMING RESTRUCTURING MEASURES

45. At this preliminary stage, it is not possible to unveil a comprehensive restructuring strategy in respect of the Debtors, as further research, discussions and negotiations and still need to be held to determine if a going concern solution can be developed. However, the restructuring process is likely to include:

    45.1. Coordination of the proceedings in foreign jurisdictions;

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8 D&O is the colloquial term for directors and officers.

45.2. Undertake a SISP to assess whether a purchaser or investor can be identified for the Debtors' business and/or assets.

45.3. Undertake a claims process, if deemed appropriate.

45.4. Negotiations of the terms of settlement with the Debtors' creditors;

45.5. Implementation of a Plan, if deemed appropriate.

OVERALL COMMENTS AND CONCLUSIONS

46. Based on the information received to date, EY considers that the process contemplated by the proceedings herein is reasonable. EY considers that the Application to obtain a stay under the CCAA is necessary and appropriate in the circumstances.

47. Further to its review of the proposed Initial Order, the Proposed Monitor supports the thresholds proposed in the Initial Order, including:

47.1. A charge in connection with an Interim Financing of CDN$1M for the first 10 days and CDN$4M thereafter;

47.2. An Administration Charge of CDN$225K for the first 10 days and CDN$1M thereafter; and

47.3. An Indemnification Charge of CDN$150K for the first 10 days and CDN$300K thereafter.

48. As well, the Proposed Monitor supports the request for the appointment of RC Benson Consulting Inc. as Chief Restructuring Officer, and the request to keep certain information under seal.

All of which is respectfully submitted this 14th day of August, 2023.

ERNST & YOUNG INC.
Licensed Insolvency Trustee
In its capacity as the proposed monitor
in the matter of the proposed compromise and
arrangement of Laboratoires C.O.P. Inc., Ideal Protein of
America, Inc. and Pharmalab Inc.

Martin P. Rosenthal, CPA, CIRP, LIT
Senior Vice President

Appendix A

(filed under seal)

Appendix B

(filed under seal)

Appendix C

(filed under seal)