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August 3, 2022

TO THE CREDITORS OF MEDIPIRE PHARMACEUTICAL INC. AND MEDIPIRE HOLDINGS INC.

Re: In the Matter of the Notice of Intention to Make a Proposal of Medipure Pharmaceuticals Inc. and Medipure Holdings Inc.

Material Adverse Change Report of the Proposal Trustee Pursuant to Section 50.4(7) of the Bankruptcy and Insolvency Act

Take notice that the attached second material adverse change report (the "**Second MAC Report**") has been issued by Deloitte Restructuring Inc. on July 29, 2022 in its capacity as proposal trustee (the "**Proposal Trustee**") under the Notices of Intention to File a Proposal filed by Medipure Pharmaceuticals Inc. and Medipure Holdings Inc. on May 11, 2022 (the "**NOI Proceedings**") pursuant to Part III, Division I of the *Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended*.

The Second MAC Report and additional information and reports with respect to the NOI Proceedings can be found on the Proposal Trustee's website at <https://www.insolvencies.deloitte.ca/en-ca/Pages/Medipure-Pharmaceuticals-Inc-and-Medipure-Holdings-Inc.aspx>.

Should you have any questions regarding these proceedings, please do not hesitate to contact Mr. Jordan Yin at (604) 640-5089.

Yours truly,

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee under the Notice of Intention to Make a Proposal of Medipure Holdings Inc. and Medipure Pharmaceuticals Inc. and not in its personal capacity.

Per: Jeff Keeble, CPA, CA, CIRP, LIT, CBV
Trustee

Enclosure



Court File Nos. B220220 and B220221
Vancouver Registry
Estate Numbers 11-2829780 and 11-2829781

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF MEDIPURE PHARMACEUTICALS INC. AND MEDIPURE HOLDINGS INC.

**SECOND MATERIAL ADVERSE CHANGE REPORT OF THE PROPOSAL TRUSTEE
PURSUANT TO SECTION 50.4(7) OF THE BANKRUPTCY AND INSOLVENCY ACT**

DELOITTE RESTRUCTURING INC.

JULY 29, 2022

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INTRODUCTION

- 1) This second material adverse change report (the "**Second MAC Report**") has been prepared by Deloitte Restructuring Inc. ("**Deloitte**") in its capacity as proposal trustee (the "**Proposal Trustee**") under the Notices of Intention to File a Proposal (the "**NOIs**") filed by Medipure Pharmaceuticals Inc. ("**MPI**") and Medipure Holdings Inc. ("**MHI**", together with MPI, "**Medipure**" or the "**Companies**") on May 11, 2022 (the "**Filing Date**") pursuant to Part III, Division I of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**"). The proceedings in which the Proposal Trustee was appointed are referred to herein as the "**NOI Proceedings**".
- 2) As a result of filing the NOIs, the Companies were each granted an automatic 30-day stay of proceedings to June 10, 2022 pursuant to Section 69(1) of the BIA (the "**Initial Stay**"). The Companies were required to file a proposal within the Initial Stay or within any further extension of the Initial Stay as granted by the Supreme Court of British Columbia (the "**Court**").
- 3) The Proposal Trustee prepared a material adverse change report dated June 3, 2022 (the "**First MAC Report**") due to the Companies not meeting the funding outlined in their initial cash flow projection. As the projected funding was received on June 6, 2022, the Proposal Trustee issued a cover letter dated June 6, 2022 that was sent to the Companies' creditors, along with the First MAC Report.
- 4) The Companies have made various Court applications and have received extensions of the Initial Stay to June 17, 2022, June 27, 2022, and August 9, 2022. As part of these Court applications, the Trustee has prepared the first report of the Proposal Trustee dated June 8, 2022 (the "**First Report**"), the second report of the Proposal Trustee dated June 16, 2022 (the "**Second Report**"), and the third report of the Proposal Trustee dated June 23, 2022 (the "**Third Report**"). The reports provide background and other information, along with updates on the activities undertaken by the Proposal Trustee and the Companies during the NOI proceedings.

PURPOSE

- 5) The purpose of this Second MAC Report is to provide the Companies' creditors and this Honourable Court with:
 - a) information and notice, pursuant to Section 50.4(7) of the BIA, regarding a material adverse change in the projected cash flow and financial circumstances of the Companies; and
 - b) the Proposal Trustee's intended course of action.

TERMS OF REFERENCE

- 6) In preparing this Second MAC Report, the Proposal Trustee has relied upon unaudited financial and other information supplied, and representations made to it, by management of the Companies ("**Management**") and Boughton Law Corporation ("**Boughton**"), the Companies' legal counsel. Although this information has been reviewed, Deloitte has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Companies in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants Canada Handbook*. Accordingly, Deloitte expresses no

opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in, or otherwise used to prepare this Second MAC Report.

- 7) Certain of the information referred to in this Second MAC Report consists of financial forecasts and/or projections prepared by Management. An examination or review of financial forecasts and projections and procedures as outlined by the *Chartered Professional Accountants of Canada* has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from those forecasts and/or projections and the variations could be significant.
- 8) All monetary amounts contained in this Second MAC Report are expressed in Canadian dollars, unless otherwise indicated.
- 9) Information in respect of the NOI Proceedings, along with the First Report, Second Report, Third Report, and First MAC Report are posted on the Proposal Trustee's website at www.insolvencies.deloitte.ca/en-ca/Pages/Medipure.

BACKGROUND

- 10) As a result of the last Court application on June 24, 2022 and a stand-down agreement (the "**Stand-Down Agreement**") between the Companies and their principal secured creditor, SHP Capital LLC ("**SHP**"), SHP agreed to, and the Court granted the Companies an extension of the stay of proceedings to August 9, 2022 as well as an additional debtor in possession ("**DIP**") financing charge in favour of HFS Management Inc. ("**HFS**") for \$1.36 million (the "**Second DIP Charge**"). The Second DIP Charge of \$1.36 million was the projected amount of financing required for the Companies to fund costs from June 25, 2022 to August 8, 2022 pursuant to the Companies' cash flow forecast for the period June 18 to August 12, 2022 (the "**June 18 Cash Flow Forecast**") included in Appendix "A" of the Third Report. A previous DIP charge of \$200,000 was granted by the Court on June 17, 2022.
- 11) The Stand-Down Agreement included a requirement for the Companies to retain Mr. Blake Elyea as a chief restructuring officer ("**CRO**") to be granted the powers customary of a chief executive officer. The Proposal Trustee understands that the engagement of the CRO was delayed due to lengthy negotiations between Medipure and SHP around the scope and terms of the CRO appointment and the CRO has only been officially in place since July 18, 2022. The CRO's retainer of \$16,500 has not yet been fully paid by the Companies due to insufficient available funds.
- 12) The June 18 Cash Flow Forecast was subsequently updated by Management on July 5, 2022 (the "**July 5 Cash Flow Forecast**") to reallocate costs with no overall change in the required DIP financing. A copy of the July 5 Cash Flow Forecast is attached hereto as **Appendix "A"**. The more significant changes to the July 5 Cash Flow Forecast included the following:
 - a) A reduction of \$42,000 in payroll costs to reflect a lower number of employees;
 - b) A reduction of \$32,000 in other administrative and laboratory costs;
 - c) An increase of \$16,000 in project study and trial costs; and
 - d) An increase of \$52,000 in professional fees to reflect the CRO appointment and additional legal fees.

MATERIAL ADVERSE CHANGE

- 13) The July 5 Cash Flow Forecast projected that HFS would provide DIP financing of \$776,000 to Medipure during the period from June 25, 2022 to July 22, 2022 (the "**Extension Period**") with an additional \$163,000 expected for the week ending July 29, 2022. The actual funds provided to the Companies by HFS and a third party investor (the "**Investor**") during the Extension Period totalled only \$207,000, which is a variance of \$569,000 (the "**Funding Shortfall**") from the July 5 Cash Flow Forecast. The Proposal Trustee understands that the Investor is not related to HFS or the Companies and provided US \$50,000 directly to Boughton pursuant to an inter-lender agreement between the Investor and HFS. The US \$50,000 was advanced to the Companies by Boughton during the Extension Period and the Proposal Trustee understands that it is being treated as part of the Second DIP Charge.
- 14) The Funding Shortfall will increase by a further \$163,000 on July 29, 2022, as no additional funds have been received as of the time of the release of this Second MAC Report and no funds are expected.
- 15) Management and Boughton have indicated that the Funding Shortfall is due to the HFS investors wanting more certainty around a potential \$65 million equity financing between Medipure and Global Emerging Markets ("**GEM**") before providing any additional DIP funds. The Proposal Trustee understands that Boughton has a final version of a binding agreement between Medipure and GEM (the "**GEM Agreement**") and is in the process of reviewing and providing final comments to the Medipure Board of Directors (the "**Board**") in anticipation of executing the GEM Agreement as soon as possible.
- 16) The Proposal Trustee understands that HFS advised the Board on July 28, 2022 that further DIP advances will be contingent on Medipure executing the GEM Agreement in order for HFS to raise necessary funding for its current DIP funding commitments and to raise money for any further DIP required if the NOI Proceedings are extended. This was not a condition that existed at the time the Second DIP Charge was granted by the Court. The Board has indicated to the CRO that it anticipates receiving further DIP funds by August 2, 2022 if the GEM Agreement is executed by that time. The anticipated amount of the funds is not yet known.
- 17) The Proposal Trustee understands that no alternative DIP lender has been identified despite the Board making several inquiries with other potential investors and lenders. SHP has expressed recent interest in being a potential DIP lender to the Companies, but the Proposal Trustee understands that the Board is not interested in pursuing this offer and discussions did not advance to determine what the potential terms and conditions of this potential DIP financing would include.
- 18) The Funding Shortfall has resulted in the following estimated post-filing arrears:
 - a) Legal counsel to the Companies, the Proposal Trustee, the Proposal's Trustee's legal counsel, the forensic auditor, and the CRO are estimated to be owed \$305,000 as at July 29, 2022, net of all retainers;
 - b) Research and development and project study and trial costs are estimated to be \$125,000 in arrears;
 - c) The next bi-weekly payroll is due July 29, 2022 for a total of approximately \$70,000 and is always one week in arrears as salaries and wages are accrued and only paid up to the week before the actual payment date; and

- d) Rent of approximately \$10,000 is due on August 1, 2022 for the Medipure head office. The Proposal Trustee understands that payment of approximately \$3,800 for the August rent for the Medipure lab facilities has been issued.
- 19) The Proposal Trustee is concerned regarding the ongoing payment of the employees, professionals, and other post-filing obligations and the timing of when, and if, additional DIP funds will be received by the Companies. Despite being granted the Second DIP Charge on June 24, 2022, HFS has provided limited funds since that date. HFS has provided over US \$1.0 million to Medipure since April 2022, but funding since the Filing Date has been sporadic and not always provided when scheduled/projected and there are now significant arrears.
- 20) Based on the foregoing, the Proposal Trustee has ascertained that there is a material adverse change in the Companies' circumstances which has or will result in:
 - a) A significant adverse effect on the projected cash flow;
 - b) A significant, or reasonably expected significant, impairment to the Companies' financial circumstances and the ability of Medipure to carry on operations; and
 - c) A significant impairment to the likelihood of success of a proposal.

PROPOSAL TRUSTEE'S INTENDED COURSE OF ACTION

- 21) The Proposal Trustee is of the view that a material adverse change has occurred in the Companies' projected cash flow and financial circumstances pursuant to section 50.4(7)(b) of the BIA.
- 22) It is the Proposal Trustee's intended course of action to:
 - a) File this Second MAC Report with the Court and the Official Receiver without delay pursuant to subsection 50.4(7)(b)(i) of the BIA;
 - b) Distribute this Second MAC Report to all known creditors of the Companies and make it available on the Proposal Trustee's website, pursuant to subsection 50.4(7)(c) of the BIA;
 - c) Continue to monitor the cash flow and financial circumstances of the Companies, particularly with respect to the Companies' progress in obtaining DIP financing and the partial revocation of the Cease Trade Orders; and
 - d) Prepare and file a fourth report with the Court prior to the expiration of the stay of proceedings on August 9, 2022.

All of which is respectfully submitted to this Honourable Court this 29th day of July, 2022.

DELOITTE RESTRUCTURING INC.

In its capacity as Proposal Trustee of
Medipure Holdings Inc. and Medipure Pharmaceuticals Inc.
and not in its personal or corporate capacity



Per: Jeff Keeble, CPA, CA, CIRP, LIT, CBV
Senior Vice-President

Appendix A

Cash Flow Forecast dated July 5, 2022 for the Period June 25, 2022 to August 12, 2022

Projected Cash Flow from June 18 to August 12, 2022 CDN\$'000	Week # Week Ending	1 01-Jul	2 08-Jul	3 15-Jul	4 22-Jul	5 29-Jul	6 05-Aug	7 12-Aug	Total Forecast
Receipts									
DIP financing		200	201	125	250	163	125	250	1,314
Total receipts		200	201	125	250	163	125	250	1,314
Operating disbursements									
Office and laboratory lease/rent costs		18	-	-	-	-	18	-	35
Payroll, source deductions, benefits and WCB		81	6	68	4	68	8	68	303
R&D: project study and trials costs		6	7	10	60	128	113	211	535
Critical vendors		-	2	4	5	7	6	3	27
Insurance / equipment rental / storage costs		2	-	-	1	1	2	-	6
Other administrative and laboratory costs		-	8	25	23	41	15	31	143
Funding of subsidiaries		11	-	7	-	4	-	1	23
Total operating disbursements		118	23	114	93	249	162	314	1,072
Other disbursements									
Professional fees		15	17	61	15	66	20	58	252
DIP financing interest and fees		2	-	-	-	-	7	-	9
Total other disbursements		17	17	61	15	66	27	58	260
Net cash flow		66	162	(50)	142	(152)	(64)	(122)	(19)
Opening cash balance		31	96	258	208	350	198	134	31
Net cash flow for the period		66	162	(50)	142	(152)	(64)	(122)	(19)
Closing cash balance		96	258	208	350	198	134	12	12