



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.

**THIRD REPORT TO COURT OF THE PROPOSAL TRUSTEE**

**DELOITTE RESTRUCTURING INC.**

**JUNE 23, 2022**

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## INTRODUCTION

- 1) This third report ("**Third 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 ("**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 are 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 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 creditors, along with the Material Adverse Change Report.
- 4) The first report of the Proposal Trustee dated June 8, 2022 ("**First Report**") was filed for the Companies' application on June 9, 2022 (the "**First Stay Extension Application**") to, among other things, extend the Initial Stay to July 2, 2022 and provided information to this Honourable Court on the Companies in respect of certain background information, the rationale for the proposed payment of certain pre-filing obligations, an analysis of the Companies' actual cash receipts and disbursements to June 3, 2022, the Companies' updated cash flow projection from June 4 to August 12, 2022 (the "**Updated Cash Flow Forecast**"), the Companies' efforts to secure debtor in possession ("**DIP**") financing, a preliminary analysis of assets and liabilities, and the rationale for the proposed DIP Lender's Charge, Administration Charge and D&O Charge (as those terms are defined herein).
- 5) As a result of the First Extension Application, along with an application on June 9, 2022 by SHP Capital LLC ("**SHP**") to bankrupt the Companies (the "**SHP Bankruptcy Application**"), and pursuant to a Court order dated June 9, 2022 (the "**First Stay Extension Order**"), the Companies received an extension of the Initial Stay from June 10 to June 17, 2022 (the "**First Stay Extension Period**"). All other matters, including the SHP Bankruptcy Application, and the Companies' application for approval of DIP financing and the related DIP and other charges, along with a further extension of the First Stay Extension Period, were deferred to an application by the Companies heard on June 17, 2022 (the "**June 17 Application**").
- 6) The second report of the Proposal Trustee dated June 16, 2022 ("**Second Report**") was filed for the June 17 Application and provided information to this Honourable Court on the activities of the Companies and Proposal Trustee since the First Report, an analysis of the Companies actual cash receipts and disbursements from June 4 to 10, 2022 compared to the Updated Cash Flow Forecast, the Companies revised cash flow projection for the period from June 11 to August 12, 2022 (the "**June 11 Cash Flow Forecast**"), the Companies' continuing efforts to secure funding, the rationale for the proposed DIP, Lender's Charge, Administration Charge, and D&O Charge over the Companies' assets, and the Companies' request for an extension of the First Stay Extension Period from June 17 to August 1, 2022.

- 7) As a result of the June 17 Application, and pursuant to a Court order dated June 17, 2022 (the "**Second Stay Extension Order**"), the Court granted an extension of the First Stay Extension Period of the Companies from June 18 to June 27, 2022 (the "**Second Stay Extension Period**"), a \$200,000 Administration Charge, and a \$200,000 DIP Charge (in priority to all charges other than the Administration Charge) in order to fund operations to June 27, 2022. All other matters, including the SHP Bankruptcy Application, and the Companies' application for approval of a larger DIP charge and the D&O Charge, along with a further extension of the Second Stay Extension Period, were deferred to an application by the Companies to be heard on June 24 and 27, 2022 (the "**June 27 Application**").

## **PURPOSE**

- 8) The purpose of this Third Report is to provide information to this Honourable Court for the June 27 Application in respect of:
- a) The activities of the Companies and Proposal Trustee since the Second Report;
  - b) An analysis of the Companies' cash flow and actual cash receipts and disbursements from June 11 to June 17, 2022, compared to the June 11 Cash Flow Forecast;
  - c) The potential value of the Companies;
  - d) The Companies' continuing efforts to secure funding for its ongoing costs during the NOI Proceedings and the terms of the proposed DIP financing; and
  - e) The Companies' request for an extension of the Second Stay Extension Order from June 27, 2022 to August 11, 2022 (the "**Third Stay Extension Period**").

## **TERMS OF REFERENCE**

- 9) In preparing this Third Report, the Proposal Trustee has relied upon unaudited financial and other information supplied, and representations made to it, by certain senior management of the Companies ("**Management**") and 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 Third Report.
- 10) Certain of the information referred to in this Third 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 projected and the variations could be significant.
- 11) All monetary amounts contained in this Third Report are expressed in Canadian dollars, unless otherwise indicated.

- 12) Terms not defined in this Third Report are defined in the First Report and Second Report.
- 13) The reports of the Proposal Trustee and other information in respect of the NOI Proceedings are posted on the Proposal Trustee's website at [www.insolvencies.deloitte.ca/en-ca/Pages/Medipure](http://www.insolvencies.deloitte.ca/en-ca/Pages/Medipure) (the "**Trustee's Website**").

## **ACTIVITIES OF THE PROPOSAL TRUSTEE AND THE COMPANIES**

- 14) The Proposal Trustee has completed the following activities since the date of the Second Report:
  - a) Continued to monitor the financial affairs and cash flow of the Companies and obtained updates from Management on the operations and cash flow;
  - b) Continued to respond to creditor enquiries and added information to the Trustee's Website;
  - c) Had discussions with Management and legal counsel around the proposed DIP financing and general restructuring plan;
  - d) Had discussions with Deloitte's valuation group around the value of the Companies' assets (as further detailed later in this Third Report);
  - e) Had discussions with BDO Dunwoody LLP ("**BDO**") in regards to the status of its ongoing forensic audit as well as with the British Columbia Securities Commission ("**BCSC**") around the process and timing to try and obtain a partial revocation of the cease trade order issued to MHI by the BCSC on November 4, 2015 ("**CTO**");
  - f) Attended a meeting with the Companies' lab employees to provide an update on the NOI Proceedings and to answer any questions; and
  - g) Drafted this Third Report.
- 15) The Proposal Trustee understands that Management has completed the following activities since the date of the Second Report:
  - a) Continued to provide the Proposal Trustee with updates on the cash flow and the operations;
  - b) Continued discussions through their legal counsel with the BCSC around obtaining a partial revocation of the CTO pursuant to the partial revocation application filed by Medipure on June 1, 2022;
  - c) Had discussions with and provided additional information to BDO to continue with their forensic audit related to the CTO requirements to restate prior financial statements and also was in contact with Manning Elliott LLP ("**Manning Elliott**") re same;
  - d) Continued to manage the operations and secure funding to cover the post-filing obligations;
  - e) Continued discussions with the proposed DIP lender and other potential parties; and
  - f) Continued to explore options to refinance and/or restructure Medipure's debts.

## CURRENT FINANCING

- 16) At present, Medipure’s operations are being financed by way of advances from HFS Management Inc. (“HFS”) under an unsecured 6% interest bearing loan pursuant to the terms of a commercial loan agreement entered into between MHI and HFS on April 7, 2022 (the “HFS Loan Agreement”), a copy of which was attached to Appendix “B” of the First Report. The Proposal Trustee understands that Mr. Condon is involved with HFS and is the principal party organizing the funding under the HFS Loan Agreement and the potential DIP financing. HFS has advanced a total of approximately US\$869,000 to the Companies since April 2022, including approximately US\$579,000 since the Filing Date, as outlined below.

Date	HFS Advance Amount		
	USD *	Fx Rate	CAD
4/8/2022	\$ 150,000	1.256	\$ 188,400
4/25/2022	100,000	1.270	127,000
5/10/2022	40,000	1.297	51,888
5/16/2022	80,000	1.280	102,434
6/6/2022	150,000	1.252	187,743
6/13/2022	250,000	1.256	313,985
6/21/2022	75,000	1.296	97,199
6/21/2022	24,000	Not converted	
	<u>\$ 869,000</u>		<u>\$ 1,068,649</u>

\* Amount before bank charges

- 17) Pursuant to the Second Extension Order, HFS was granted a DIP charge for up to \$200,000 for any funds advanced after June 17, 2022. As outlined above, the Trustee understands that HFS has only advanced US\$99,000 to Medipure since June 17, 2022 but it supposed to provide additional financing by June 23, 2022.

## CASH FLOW AND COMPARISON OF FORECAST TO ACTUAL

- 18) The June 11 Cash Flow Forecast for the period from June 11 to August 12, 2022 was discussed in and included as Appendix “A” of the Second Report. The same version of the June 11 Cash Flow Forecast, which has only been updated to include the period from June 18 to August 12, 2022 and the roll forward of an additional DIP financing receipt of approximately \$150,000 (the “June 18 Cash Flow Forecast”) for the week ending July 1, 2022 (as further explained below), is attached hereto as Appendix “A”.
- 19) The actual receipts and disbursements of the Companies from June 11, 2022 to June 17, 2022 as compared to the June 11 Cash Flow Forecast are summarized in the following table.

Actual to Forecasted Cash Flow CDN\$'000	June 11 to June 17			
	Forecast	Actual	Var (\$)	Var (%)
Receipts				
HFS Management Inc. loan draws	-	314	314	
DIP financing	463	-	(463)	-100%
Other misc. receipts	-	-	-	
<b>Total receipts</b>	<b>463</b>	<b>314</b>	<b>(149)</b>	<b>-32%</b>
Operating disbursements				
Office and laboratory lease/rent costs	-	-	-	
Payroll, source deductions, benefits and WCB	171	171	0	0%
R&D: project study and trials costs	-	-	-	
Critical vendors	10	10	-	0%
Insurance / equipment rental / storage costs	-	1	1	
Other administrative and laboratory costs	9	9	(0)	-3%
Funding of subsidiaries	5	5	(0)	-5%
<b>Total operating disbursements</b>	<b>195</b>	<b>196</b>	<b>1</b>	<b>0%</b>
Other disbursements				
Professional fees	65	65	-	0%
DIP financing interest and fees	-	-	-	
FX changes	-	-	-	
<b>Total other disbursements</b>	<b>65</b>	<b>65</b>	<b>-</b>	<b>0%</b>
<b>Net cash flow</b>	<b>203</b>	<b>53</b>	<b>(149)</b>	<b>-74%</b>
Opening cash balance	7	7	-	0%
Net cash flow for the week	203	53	(149)	-74%
<b>Closing cash balance</b>	<b>210</b>	<b>60</b>	<b>(149)</b>	<b>-71%</b>

- a) Total receipts were approximately \$314,000, or \$149,000 lower than projected, due mainly to the projected funding being delayed. The shortfall amount has been rolled forward to be received during the week ending July 1, 2022 in the June 18 Cash Flow Forecast.
- b) Total operating disbursements were \$196,000 and were comprised mainly of payroll related payments of \$171,000 for the May 27 and June 17, 2022 payroll due dates. Payments of approximately \$10,000 were also made to critical vendors.
- c) Total other disbursements were \$65,000 and included a \$40,000 retainer payment to Gowling WLG for ongoing patent work, a further \$15,000 retainer payment to BDO for the ongoing forensic audit, and a \$10,000 retainer payment to Farris LLP for work related to the CTO.
- 20) The June 18 Cash Flow Forecast estimates that approximately \$1.44 million in DIP financing will be required to fund the Medipure operations and restructuring from June 18 to August 12, 2022. If the US\$99,000 is deducted that was received from HFS on June 21, 2022, the DIP financing requirement would be approximately \$1.31 million. The Companies will likely not be in a position to file a proposal with their creditors by August 12, 2022 so they will need to source additional financing by that time or consider other alternatives.

## POTENTIAL VALUE OF THE COMPANIES

- 21) The Proposal Trustee, in its First Report at paragraphs 59 to 65, provided an overview of the Assets of the Companies and commented that, given the inherent risks associated with research and development activities and early-stage development drugs, balanced against the high potential market opportunity if proven effective and safe, arriving at a current valuation of the Companies' intellectual property is very difficult and subject to a high degree of uncertainty.

- 22) The Proposal Trustee has further discussed the value of the Companies with Deloitte's Value Advisory Group who have provided more insights around the valuation approaches and valuation challenges for companies similar to Medipure. A formal valuation of Medipure would be complex and require consideration of each of the approaches outlined and the related issues. A copy of the memo from Deloitte's Value Advisory practice dated June 23, 2022 is attached hereto as Appendix "B".

## **CEASE TRADE ORDER UPDATE**

- 23) The Proposal Trustee had a discussion with BDO on June 23, 2022 to obtain an update from BDO on the status and timing of the forensic review and to discuss the BDO update memo to MHI dated June 23, 2022 (the "**BDO June 23 Update Memo**"). A copy of the BDO June 23 Update Memo is attached hereto as Appendix "C".
- 24) BDO has confirmed in our call and in the BDO June 23 Update Memo that they continue to complete their forensic review, are getting full cooperation from Management and the MHI Special Board Committee of the board of directors dealing with the CTO, and have received over 1,500 pages of documents to date.
- 25) BDO has also been in discussions with Manning Elliott and the BCSC as part of their engagement. The Proposal Trustee understands that Manning Elliott is still considering their position and willingness to continue with restating the financial statements and is supposed to provide an update next week.
- 26) BDO states that they met with representatives of the BCSC and are looking to work closely with the BCSC moving forward. The BDO June 23 Update Memo concludes that the forensic review will take some time but that a 45 day extension would allow BDO to make significant progress to determine the facts and assess the impact on the Companies' financial statements and to provide a better update on timing of its review at the end of the extension.
- 27) The Proposal Trustee also had a further discussion with a BCSC representative on June 23, 2022 who has stated that having all of the relevant financial statements restated and other late reporting requirements met is only one part of the revocation process and that the results of the forensic review will dictate if other requirements will need to be met. These potential other requirements may add to the time required to complete the CTO revocation process but no timeline is known at this time.

## **COMPANIES' REQUEST FOR AN EXTENSION**

- 28) The Companies are seeking an extension of the stay of proceedings from June 27 to August 11, 2022 to provide for additional time to:
- a) Take further steps towards obtaining a partial or full revocation of the CTO with the BCSC;
  - b) Source additional DIP financing with HFS or other parties to continue to fund post-filing obligations and continue the development of its products; and
  - c) Pursue a viable proposal with its creditors.
- 29) The Proposal Trustee is of the opinion that the Companies' request for an extension of the Second Stay Extension Order is warranted for the following reasons:
- a) The Companies appear to be acting in good faith and with due diligence;



- b) A further DIP loan and charge, if approved by the Court, will be in place to fund the post-filing costs associated with the NOI Proceedings as projected in the June 18 Cash Flow Forecast; and
- c) Subject to further evaluation, there may be value for the unsecured creditors and a potential viable plan.

All of which is respectfully submitted to this Honourable Court this 23<sup>rd</sup> day of June, 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

### June 18 Cash Flow Forecast for the Period of June 18 to August 12, 2022

Projected Cash Flow from June 18 to August 12, 2022 CDN\$'000	Week # Week Ending	1 24-Jun	2 01-Jul	3 08-Jul	4 15-Jul	5 22-Jul	6 29-Jul	7 05-Aug	8 12-Aug	Total Forecast
<b>Receipts</b>										
DIP financing		125	276	125	125	250	163	125	250	1,439
Other misc. receipts		-	-	-	-	-	-	-	-	-
<b>Total receipts</b>		<b>125</b>	<b>276</b>	<b>125</b>	<b>125</b>	<b>250</b>	<b>163</b>	<b>125</b>	<b>250</b>	<b>1,439</b>
<b>Operating disbursements</b>										
Office and laboratory lease/rent costs		-	18	-	-	-	-	18	-	35
Payroll, source deductions, benefits and WCB		36	89	-	81	4	81	8	81	380
R&D: project study and trials costs		29	6	78	5	53	126	6	245	548
Critical vendors		10	7	8	7	5	-	-	-	37
Insurance / equipment rental / storage costs		1	2	-	-	1	1	2	-	7
Other administrative and laboratory costs		8	33	16	27	33	47	15	4	183
Funding of subsidiaries		0	11	-	4	-	-	-	1	17
<b>Total operating disbursements</b>		<b>84</b>	<b>166</b>	<b>102</b>	<b>124</b>	<b>96</b>	<b>255</b>	<b>49</b>	<b>331</b>	<b>1,207</b>
<b>Other disbursements</b>										
Professional fees		70	15	10	75	-	15	35	50	270
DIP financing interest and fees		-	2	-	-	-	-	7	-	9
FX changes		-	-	-	-	-	-	-	-	-
<b>Total other disbursements</b>		<b>70</b>	<b>17</b>	<b>10</b>	<b>75</b>	<b>-</b>	<b>15</b>	<b>42</b>	<b>50</b>	<b>279</b>
<b>Net cash flow</b>		<b>(29)</b>	<b>94</b>	<b>13</b>	<b>(74)</b>	<b>154</b>	<b>(107)</b>	<b>34</b>	<b>(131)</b>	<b>(47)</b>
Opening cash balance		60	31	124	137	63	217	110	144	60
Net cash flow for the period		(29)	94	13	(74)	154	(107)	34	(131)	(47)
<b>Closing cash balance</b>		<b>31</b>	<b>124</b>	<b>137</b>	<b>63</b>	<b>217</b>	<b>110</b>	<b>144</b>	<b>13</b>	<b>13</b>

**Medipure Holdings Inc. and Medipure Pharmaceuticals Inc.**

Projected Cash Flow Statement

For the Period Ending August 12, 2022

CDN\$'000

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Court File No. B220220 and B220221

Vancouver Registry

Estate No. (MPI) 11-2829780

Estate No. (MHI) 11-2829781

Key Assumptions

- 1) This cash flow has been prepared on a consolidated basis as Medipure Holdings Inc. ("MHI") owns 100% of Medipure Pharmaceuticals Inc. ("MPI", collectively with MHI, "Medipure") and provides funding for MPI to operate and pay most of the operating costs which are in the name of MPI.
- 2) Medipure intends to apply for Court for approval of a DIP Loan Facility which is still being finalized. Required draws on the DIP Loan Facility have been estimated and would be subject to approval of the DIP Loan Facility by the Court.
- 3) Medipure expects to receive ~\$458k in SRED refunds (net of consulting fees) in June. For prudence, this amount has not been included in the forecast as CRA may have a right of offset.
- 4) All obligations incurred after the date of the NOI will be paid in the regular course.
- 5) Rent costs are in respect of Medipure's corporate office in North Vancouver, and its laboratory at BCIT in Burnaby.
- 6) Medipure intends to apply to Court for the approval to pay outstanding wages and source deductions in the amount of ~\$172k. Wages will then be paid in the regular course through the stay period.
- 7) R&D costs are deferred to the extent possible to manage liquidity during the stay period.
- 8) Medipure intends to apply to Court for the approval to pay certain pre-appointment arrears related to critical suppliers for the laboratory.
- 9) Cash flow includes minimal funding of MHI's subsidiary in Croatia. It is assumed that MHI's subsidiary in India will not require funding as it has sufficient funds on hand during the stay period.
- 10) Professional fees include the costs of the Proposal Trustee and its counsel, restructuring and securities counsel to the Company and the costs of audits required to remove the Cease Trade Orders.
- 11) Amounts included in the cash flow are shown in CAD. USD transactions are assumed to be at an exchange rate of 1.29.

## **Appendix B**

**Memo from Deloitte's Value Advisory Group dated June 23, 2022**



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## MEMO

TO: Jeff Keeble - Partner, Deloitte Restructuring Services

FROM: Jeremy Webster - Partner, Deloitte Value Advisory and Aishwarya Gupta – Manager, Deloitte Value Advisory

DATE: June 23, 2022

SUBJECT: Valuation approaches and valuation challenges for early-stage biotechnology companies similar to Medipure Pharmaceuticals Inc. ("Medipure")

There are three approaches to valuing early-stage biotechnology companies that include a discounted cash flow approach, market approach and cost approach. Each of these approaches are outlined below along with the key drivers, considerations and challenges. We have also included some data specific to Medipure and some of its comparable companies and the current market volatility in this space. A formal valuation of Medipure would be complex and require consideration of each of these approaches and the related issues.

### **Discounted cash flow ("DCF") approach**

The DCF method is one of the most common approaches to valuing an early-stage drug development company. Under the DCF method, we quantify and discount expected future monetary benefits to present value at an appropriate rate of return. A modified version of the DCF method, called the risk-adjusted net present value (rNPV) method, is often used for biotech companies whose future monetary benefits have some degree of uncertainty. Under the rNPV method, each cash flow of the business or asset is adjusted by the probability that it occurs. rNPV includes attrition risk, which means a lower discount rate is applied under this method relative to a traditional DCF. In order to assess the reasonability of the projected cash flow under DCF, we need to review the following elements<sup>1</sup>:

1. **Development phase** - In the initial years, there are only cash outflows, due to the research & development expenses on the drug. These costs will differ for each drug, depending on factors such as the number of iterations during the discovery and pre-clinical phases, the experimental design(s) required during pre-clinical and clinical trials, and more. As such, a significant amount of research is required to determine the reasonability of expenses noted during this phase.
2. **Revenue/Market phase** - Once the drug reaches the market, there are key drivers we need to estimate in order to derive revenue (and profit) projections:

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<sup>1</sup> <https://www.toptal.com/finance/valuation/biotech-valuation>, accessed June 22, 2022

- a. **Number of potential customers/patients** - This is a subset of the people suffering from the target condition. The reasonability of this number is assessed through a series of filters in a funnel:
    - i. First, we need to assess how many people suffer from the condition that the therapy intends to treat (the prevalence of the condition).
    - ii. Second, we need to assess the reasonability of how many patients will actually take a drug for their condition.
    - iii. Third, we need to recognize that patients are limited to those based in regions where the drug actually has regulatory approval.
    - iv. Fourth, we need to assess the reasonability of the drug's market share, in case there are competing therapy options.
  - b. **Pricing** - Products that address an unmet need will involve more research and analysis. For other non-biotechnology products, we can benchmark the price of the competition. However, pricing for drugs is dependent on many factors such as the pharma company's need to make an adequate return on its R&D investment in the therapy as well as on the therapy's value vs. competing treatment options. Therefore, a more robust analysis is required to get assurance over this input.
  - c. **Ramping up and down of revenues** - There needs to be an assessment performed over the timing and value of peak sales if the asset makes it to market. This will be based on understanding the ramp-up and ramp-down period. Ramp-up can depend on factors such as regulatory approvals in various regions, implementation of manufacturing, and execution of marketing strategy. Ramp-down can be impacted, for example, by the emergence of competing branded therapy options. We will also need to understand patents owned by the company and their useful life as it will have a directly impact on the sales curve of the company.
3. **Probability of Success** - Pharmaceutical products don't always make it all the way through development. As such, depending on the product's stage, we need to consider an adjustment to account for the probability of development success. This requires further work to assess companies' stage of development, their historical success, and their future plans for the product.

### **Market approach**

Market approach is used as another approach to value biotechnology companies in early development stages. The market approach is a valuation method used to determine the value of a subject business by comparing it to other similar businesses in the marketplace. It is imperative that when doing so, we ensure the companies are similar in nature. However, it is often difficult to find exact comparables in the biotechnology realm as many companies are working towards innovative products. High volatility, no predictable cash flows and technological uncertainties make Biotech-Healthcare companies' valuation a challenging task. When performing market analysis, we focus on the following approaches:

1. **Analyzing prior transactions in the subject company** - This approach consists of reviewing financial history of the subject company. A market step-up multiple is then applied to determine the subject companies' current value. However, the biotechnology industry has been very volatile (as noted below), making it difficult to put reliance on past financing history and market step-up multiples. As such, further work is required to assess the reasonability and adjustments to this approach.

2. **Public company comparables** – This approach entails using market capitalizations of companies that have been traded publicly, which are rightly similar to the subject entity. In most situations, direct comparability is hard to attain in the biotechnology realm as a majority of public companies are not only larger, but also more dissimilar to the subject. As such, thorough research is required to find the right comparables, which takes additional effort and time.
3. **Precedent transactions** – It is difficult to identify transactions or companies that are comparable. There is usually a lack of a sufficient number of comparable companies or transactions. As such, thorough research is required to find the right comparables, which takes additional effort and time.
4. **Initial public offering (“IPO”) of comparable companies** – This consists of reviewing the market capitalization of comparable guideline public companies when they went through an IPO. Recently, the biotechnology industry has been very volatile (as noted below), making it difficult to put reliance on IPO values. As such, further work is required to assess the reasonability and adjustments to this approach.

#### Current biotechnology industry volatility

Overall, we have noted that biotechnology companies have had highly volatile valuations, supported by the following factors<sup>2</sup>:

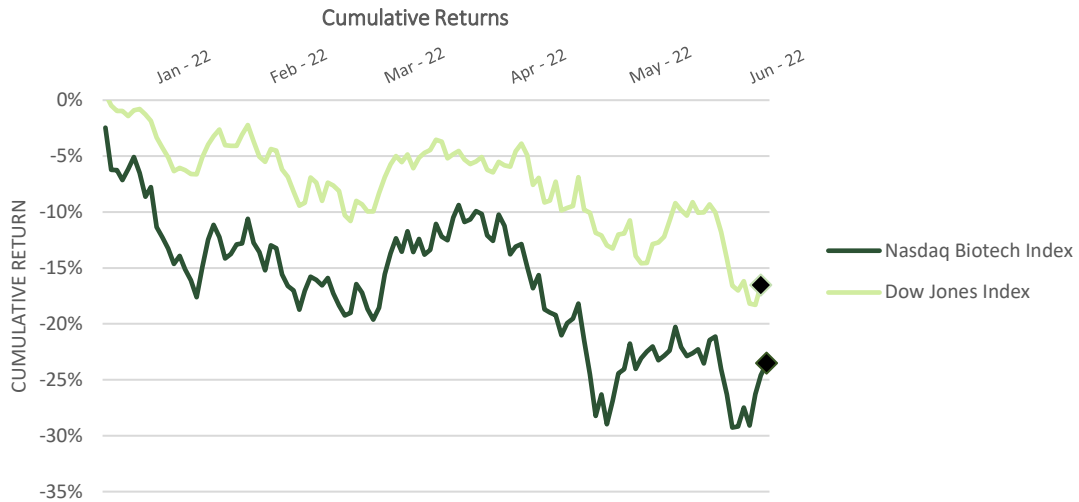
- Biotechnology companies thrived on the stock market at the beginning of the pandemic, but they have slumped over the past year. The SPDR S&P Biotech ETF (“XBI”), which tracks a basket of US-based biotech companies, is down around 40% from its February 2021 peak. It fell 20% in the first 3 months of 2022. And while the overall S&P stock index has climbed nearly 40% over its pre-pandemic level, the XBI is down 4%.
- Initial public offerings (IPOs) of stock have also taken a hit. Biotech firms that submitted IPOs in the first quarter of 2022 raised just over \$560 million, according to data from the DealForma database. By comparison, biotech’s that filed IPOs in 2021 raised over \$15 billion.
- Venture capital funding is also trending down, albeit slowly and from record high levels. Venture capitalists put \$5.4 billion into private biotech firms in the first quarter of 2022, DealForma’s data show. This is above the 5-year average of \$5.0 billion per quarter, but down from \$10.8 billion in the first quarter of 2021.

The following graphs further support the volatile trend being noted in the biotechnology realm:

- Cumulative return graph serves to demonstrate the clear distinction between the biotechnology industry and the broader market as a whole. With high betas across the industry, the recognized year-to-date losses of the biotech industry are substantially greater than the market as a whole, thus dictating the markets aversion to high-risk assets such as those within the biotech industry.

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<sup>2</sup> “Clouds gather over biotech industry” by Asher Mullard, special to C&EN, accessed June 23, 2022: <https://cen.acs.org/business/start-ups/Clouds-gather-over-biotech-industry/100/i12#:~:text=Biotech%20companies%20thrived%20on%20the,first%203%20months%20of%202022>.

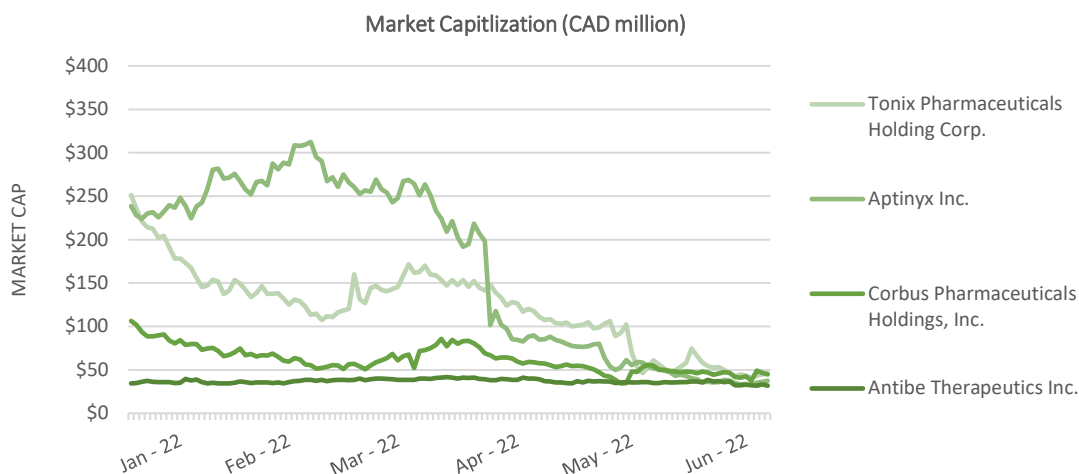


- With market capitalizations falling across the board, this graph serves to demonstrate that both established companies with large market capitalizations and early-stage companies with smaller market capitalization are following similar trends as the entire industry recognizes large losses. We reviewed companies like Zymeworks Inc. (“Zymeworks”) and AbCellera Biologics Inc. (“AbCellera”) which are Vancouver headquartered companies, similar to Medipure. Zymeworks being graphed on the right axis shows a decrease of over CAD 500 million in market capitalization, while AbCellera has shed CAD 1.4 billion in market capitalization.





- In the microcap marketplace, comparable public guideline companies to Medipure are seeing their value wiped away with the passage of time due to the volatile nature of the biotech industry. With Antibe Therapeutics Inc. graphed on the right axis, we see a loss in value of over CAD 2.4 million while Tonix Pharmaceuticals Holding Corp., Aptinyx Inc., and Corbus Pharmaceuticals Holdings, Inc. have shed CAD 204 million, CAD 200 million, and CAD 61 million in market capitalization respectively.



Overall, the volatility in the biotechnology marketplace has made the valuation of companies in this space more challenging. As such, further work is required to determine an appropriate valuation of companies in biotechnology realm, which takes additional effort and time.

### **Cost approach**

The cost approach is another way to determine the value of the subject company. The cost-based approach calculates the “cost to create” or the “cost to replace” in order to value an intangible asset<sup>3</sup>. Kothari et al. (2013) highlight, that the cost of recreating an intangible asset needs to be taken into account with the historic cost of the initial creation. The method assumes that the acquirer only pays the amount it will cost to produce the technology themselves. The “cost to create” approach refers to the historic cost approach, which adds up the cost that have been incurred in developing the intangible asset. These costs include both direct costs, e.g. material and labour costs, and indirect costs, e.g. design, marketing and overhead costs. However, the historic cost approach does not consider, that special know how had to be available in order to come up with the idea to create the innovative technology, as an example of an intangible asset. Therefore, the “cost to replace” approach focuses on the value another company had to incur in order to recreate the same technology.

The difficulty with both methods is, however, that they ignore the value that the intangible asset will create over time, e.g. potential growth and the usefulness of innovative technology created by a start-up for the future of a mature company (Goldman, 2008). Additionally, it also requires an estimation of all the costs incurred to develop the business. As such, this method requires further work to assess the completeness, accuracy and reasonability of the costs incurred to create the business, in addition to determining the future potential growth of the technology. Therefore, additional effort and time is required to assess the value of the subject business.

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<sup>3</sup> “Start-up valuation of biotech companies with real options,” by Master Thesis HEC Paris, published June 2016

## **Appendix C**

**Memo to Medipure Holdings Inc. from BDO Canada LLP dated June 23, 2022**



## MEMO

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Ref	Medipure Holdings Inc.
To	Martin Sennott, Shareholder, Boughton Law
CC	Jeff Keeble, Partner, Deloitte
From	Jervis C. Rodrigues, Partner, BDO Canada LLP
Date	June 23, 2022

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Subject	BDO Forensic Investigation
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We confirm that we have been engaged by the Special Board Committee of Medipure Holdings Inc., (hereafter referred to either as “Medipure” or the “Company”) and that we are in the midst of a forensic accounting review. Our focus is on several transactions covering the period from 2018 through 2022.

### SCOPE OF WORK

The overall intention of our review is to seek an update of the Company’s financial statements and obtain a full revocation of the cease trade order(s). We have commenced our review of the information provided by the Special Board Committee and existing management of Medipure Holdings Inc. We have received over 1,500 pages of documents and we are processing emails of key individual(s) that may contain several thousand emails and attachments. There are numerous pieces of information, many transactions to be analyzed, and the volume of material is significant. We have not audited, reviewed or otherwise verified the information. Readers are cautioned that comments and conclusions at this stage of our review are preliminary, and these would certainly be expanded upon and explained in greater detail, as more information is received and reviewed, and our work has been advanced and completed.

### DISCLAIMER

This memo is intended to provide an update as to the progress of our investigation. We understand our memo dated June 23, 2022 will be made available in the court proceedings as far as Medipure’s restructuring is concerned. We reserve the right to review and/or revise any and all assumptions and/or calculations included in or referred to in this memo and to update any contents in light of further information that becomes known to us after the date of this memo.

### FACTS

- Medipure has filed a Notice of Intention to make a Proposal to its creditors and is seeking time to restructure its business and related financial and operational commitments.
  - The Company and key members of management have been fully co-operative with BDO and have made themselves available to us with respect to our enquiries and discussions on items in question and as it relates to the nature and scope of transactions and matters under our review.
  - The company has shared numerous financial documents, bank statements and several other pieces of evidence and has uploaded to date over 1,500 pages of documents to the BDO shared portal. A summary of information we have and are reviewing is indicated in Appendix A.
  - BDO has had several discussions and meetings with current management and discussed the history and background.
  - A special committee independent to the Board has been appointed and is overseeing the activities and our report will be issued to the special committee. Representatives of the special committee have participated in our meetings.
  - We have met with representatives of British Columbia Securities Commission (“BCSC”). They are aware of our engagement and our focus and mandate and have agreed to work with us as we uncover some of the facts relevant to the restatement of the financial statements. We have established
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weekly calls with BCSC to ensure that there is a continued working relationship with them and full transparency in terms of process and discovery of facts as they relate to the financial impacts to the Company's financial statements. Our meeting with BCSC was a positive meeting and we are optimistic that there will be a way forward for the Company, and when the financial statements are properly restated, it is anticipated that a full revocation of the cease trade order(s) is granted by BCSC.

- We have been in touch with Medipure's external auditors, Manning Elliot and have offered to remain in communication with them as we work through the process of establishing the facts and assessing the financial restatement impact, that will need to be reflected in the company's financial statements.
- We understand that the BC Supreme Court and Justice Walker has requested that the company return to Court on July 27<sup>th</sup> and provide an update of the current status of our investigation and review to date, and an update on our discussions with BCSC, and the external auditors, Manning Elliot LLP.

## CONCLUSION

- We cannot comment on the merits of the extension request in front of the Court. This is a matter that the Company, its counsel, and Deloitte as the Trustee need to assess and make their submission accordingly. What we can say is that there is a large volume of transactions and documentation that we are in the midst of reviewing. Our review and assessment will take some time. A 45-day extension would certainly be beneficial allowing us to make significant progress in our review to determine the facts, get to the bottom of the situation, and assess the impact on the Company's financial statements, including the effects of restatement on the previously filed financial statements. It is our humble view that these facts will be necessary to ensure a fair treatment of the investors, their funds, distribution of dividends, as well as the successful restructuring of the Company.
  - We would be pleased to update the Court as to the progress of our investigation within the 45 days. It is possible that additional time may be required as new information comes to light, but we will only know that closer to the deadline of the first 45 day extension.
  - Given a further 45 days, we expect to have completed a significant portion of the forensic review, and we will be able to provide a firmer timetable for the completion of any outstanding matters.
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## APPENDIX A

A listing of documents/files/information we have received to date (to June 23, 2022) are as follows:

1. Bank statements
    - a. Medipure Holdings Inc.:
      - i. TD Account 5009208 (CAD): Jul 2017 through May 2022 (459 pages in 12 documents)
      - ii. TD Account 7202282 (USD): Aug 2017 through May 2022 (72 pages in 12 documents)
    - b. Medipure Pharmaceuticals Inc.:
      - i. TD Account 5009526 (CAD): Jul through Dec 2017 (client indicated as missing) and we received January 2018 through May 2022 (136 pages in 12 documents)
      - ii. TD Account 7201391 (USD): Jan 2018 through Nov 2018 (13 pages in 2 documents)
    - c. Other
      - i. Excel summaries of bank transactions (2 Excel documents)
  2. BCSC cease trade orders, production orders, enforcement orders and partial revocation orders (16 pages in 8 documents)
  3. Ontario Securities Commission Notice of Order (3 pages in 1 document)
  4. Black binder containing various information (e.g., summary of GCB payments to Medipure, incoming wires received from CY 2018 to 2021, bank statements, supporting documents, general ledger listings) (318 pages in 1 scanned document)
  5. Summary of incoming wires (2 Excel documents)
  6. Outlook backups of Boris Weiss' emails (13 files/zip folders)
  7. (Amended and restated) audited annual financial statements for MHI for the FYE June 30, 2016 through 2020 (120 pages in 5 documents)
  8. Interim financial statements for MHI for various periods ended September 30, 2014 through March 31, 2021 (200 pages in 12 documents)
  9. GCB agreements (104 pages in 7 documents)
  10. Property title of the Ludbreg facility (9 pages in 1 document)
  11. Quickbooks download of (18 files):
    - a. Medipure Pharmaceuticals Inc. (2019)
    - b. Medipure Life Sciences India Private Limited (MLS) (2020)
    - c. Medipure Holdings Inc (2019)
    - d. Medipure d.o.o.
  12. Top 20 shareholders of Medipure Holdings Inc. as of May 26, 2022 (2 pages in 1 document)
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