

Deloitte.



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.

FOURTH REPORT TO COURT OF THE PROPOSAL TRUSTEE

DELOITTE RESTRUCTURING INC.

AUGUST 8, 2022

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INTRODUCTION

- 1) This fourth report (the "**Fourth 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 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 creditors, along with the First MAC Report.
- 4) The first report of the Proposal Trustee dated June 8, 2022 (the "**First Report**") was prepared 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 in the First Report).
- 5) As a result of the First Stay Extension Application, along with an application on June 9, 2022 by SHP Capital LLC ("**SHP**"), the Companies' principal secured creditor, 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 (the "**Second Report**") was prepared for the June 17 Application and provided information to this Honourable Court on the activities of the Companies and the Proposal Trustee since the First Report, an analysis of the Companies actual cash receipts and disbursements from June 4 to June 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, 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 from June 18 to June 27, 2022 (the "**Second Stay Extension Period**"), a \$200,000 Administration Charge, and a \$200,000 DIP Charge (the "**First DIP Charge**") in favour of HFS Management Inc. ("**HFS**" or the "**DIP Lender**") 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, 2022 and June 27, 2022 (the "**June 27 Application**").
- 8) The third report of the Proposal Trustee dated June 23, 2022 (the "**Third Report**") was prepared for the June 27 Application and provided information to this Honourable Court on the activities of the Companies and the Proposal Trustee since the Second Report, an analysis of the Companies actual cash receipts and disbursements from June 11 to June 17, 2022 compared to the June 11 Cash Flow Forecast, the Companies revised cash flow projection for the period from June 18 to August 12, 2022 (the "**June 18 Cash Flow Forecast**"), the potential value of the Companies, the Companies' continuing efforts to secure funding, and the Companies' request for an extension of the Second Stay Extension Period from June 27 to August 9, 2022.
- 9) The June 27 Application was only held on June 24, 2022 and, pursuant to a Court order dated June 24, 2022 (the "**Third Stay Extension Order**"), the Court granted an extension of the Second Stay Extension Period from June 27 to August 9, 2022 (the "**Third Stay Extension Period**"), a \$65,000 D&O Charge, and a \$1.36 million DIP Charge (the "**Second DIP Charge**") in favour of the DIP Lender in order to fund operations to August 9, 2022. All other matters, including the SHP Bankruptcy Application, and the Companies' application for approval of a DIP charge larger than the Second DIP Charge, were adjourned generally. SHP agreed to the Third Stay Extension Order as the result of a stand-down agreement between the Companies and SHP (the "**Stand-Down Agreement**") which, among other things, included a requirement for the Companies to retain Mr. Blake Elyea of 0945345 BC Ltd. as the chief restructuring officer (the "**CRO**") to be granted the powers customary of a chief executive officer.
- 10) The Proposal Trustee prepared a second material adverse change report dated July 29, 2022 (the "**Second MAC Report**") due to a significant DIP funding shortfall of approximately \$730,000 during the period June 25 to July 29, 2022. Further details are included in this Fourth Report and in the Second MAC Report which is attached hereto as **Appendix "A"**.

PURPOSE

- 11) The purpose of this Fourth Report is to provide information to this Honourable Court for the August 9, 2022 Court hearing in respect of:
 - a) The activities of the Companies and the Proposal Trustee since the Third Report;
 - b) An analysis of the Companies' cash flow and actual cash receipts and disbursements from June 18 to July 29, 2022;

- c) The Companies' continuing efforts to secure funding for its ongoing costs during the NOI Proceedings and future funding; and
- d) The Proposal Trustee's recommendation in terms of continuing the NOI Proceedings.

TERMS OF REFERENCE

- 12) In preparing this Fourth 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, Boughton Law Corporation ("**Boughton**"). 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 Fourth Report.
- 13) Certain of the information referred to in this Fourth 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.
- 14) All monetary amounts contained in this Fourth Report are expressed in Canadian dollars, unless otherwise indicated.
- 15) Terms not defined in this Fourth Report are defined in the First Report, the Second Report and/or the Third Report.
- 16) 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 (the "**Trustee's Website**").

ACTIVITIES OF THE PROPOSAL TRUSTEE AND THE COMPANIES

- 17) The Proposal Trustee has completed the following activities since the date of the Third Report:
 - a) Continued to monitor the financial affairs and cash flow of the Companies and obtained updates from Management and the CRO on the operations and cash flow;
 - b) Continued to respond to creditor enquiries and added information to the Trustee's Website;
 - c) Held discussions with Management and legal counsel around the DIP financing, general restructuring plan, and future financing;

- d) Held discussions with Management and BDO Dunwoody LLP ("**BDO**") in regards to the status of its ongoing forensic audit as well as with Manning Elliott LLP ("**Manning Elliott**") and the British Columbia Securities Commission ("**BCSC**") around the process and information required to obtain a partial revocation of the cease trade order issued to MHI by the BCSC on November 4, 2015 (the "**CTO**"); and
 - e) Prepared the Second MAC Report and this Fourth Report.
- 18) The Proposal Trustee understands that Management has completed the following activities since the date of the Third Report:
- a) Retained the CRO pursuant to the Stand-Down Agreement;
 - b) Continued to provide the Proposal Trustee with updates on the cash flow and the operations;
 - c) 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;
 - d) Held 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 held discussions with Manning Elliott respecting same;
 - e) Continued to manage the operations and attempted to secure funding to cover the post-filing obligations;
 - f) Continued discussions with the DIP Lender and other potential parties around potential financing;
 - g) Continued to negotiate a potential \$65.0 million equity financing between Medipure and Global Emerging Markets ("**GEM**") and finalized a binding subscription agreement between Medipure and GEM (the "**GEM Agreement**") on August 3, 2022; and
 - h) Continued to explore options to restructure Medipure's debts.

CASH FLOW AND COMPARISON OF FORECAST TO ACTUAL

- 19) The June 18 Cash Flow Forecast for the period from June 18 to August 12, 2022 was discussed in and included as Appendix "A" of the Third Report. 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 for the period from June 25, 2022 to August 12, 2022 and a summary of the changes from the June 18 Cash Flow Forecast were discussed and included as Appendix "A" of the Second MAC Report.
- 20) The actual receipts and disbursements of the Companies from June 18, 2022 to July 29, 2022 (the "**July 29 Variance Period**") as compared to the June 18 Cash Flow Forecast (from June 18, 2022 to June 24, 2022) and compared to the July 5 Cash Flow Forecast (from June 25, 2022 to July 29, 2022) are summarized in the following table.

| Actual to Forecasted Cash Flow CDN \$'000 | June 18 to July 29, 2022 | | | |
|--|--------------------------|-------------|--------------|--------------|
| | Forecast | Actual | Var (\$) | Var (%) |
| Receipts | | | | |
| DIP financing | 1,064 | 335 | (729) | -69% |
| Total receipts | 1,064 | 335 | (729) | -69% |
| Operating disbursements | | | | |
| Office and laboratory lease/rent costs | 18 | 18 | 0 | 0% |
| Payroll, source deductions, benefits and WCB | 263 | 172 | (90) | -34% |
| R&D: project study and trials costs | 240 | 44 | (196) | -82% |
| Critical vendors | 28 | 13 | (15) | -54% |
| Insurance / equipment rental / storage costs | 5 | 3 | (2) | -41% |
| Other administrative and laboratory costs | 105 | 22 | (83) | -79% |
| Funding of subsidiaries | 23 | 18 | (5) | -20% |
| Total operating disbursements | 680 | 290 | (390) | -57% |
| Other disbursements | | | | |
| Professional fees | 244 | 100 | (143) | -59% |
| DIP financing interest and fees | 2 | - | (2) | -100% |
| Total other disbursements | 245 | 100 | (145) | -59% |
| Net cash flow | 138 | (56) | (194) | -141% |
| Opening cash balance | 60 | 60 | (0) | 0% |
| Net cash flow for the week | 138 | (56) | (194) | -141% |
| Closing cash balance | 198 | 4 | (194) | -98% |

- a) Total receipts during the July 29 Variance Period were approximately \$335,000, or \$729,000 lower than projected (the "**DIP Funding Shortfall to July 29**"), due to the projected DIP covered by the Second DIP Charge not being funded by the DIP Lender. As outlined in the Second MAC Report, Management and Boughton have indicated that the lack of DIP funding was due to the investors of HFS wanting more certainty around the execution of the GEM Agreement before providing any additional funds. Despite the GEM Agreement being signed on August 3, 2022, no additional DIP funds have been provided as at the date of this Fourth Report. The DIP Funding Shortfall is now \$125,000 higher, or a total of \$854,000, to the week ended August 5, 2022 (the "**DIP Funding Shortfall to August 5**").
- b) Total operating disbursements were \$290,000 and approximately 60% (\$172,000) were comprised of payroll related payments due in the weeks ended July 1 and July 15, 2022. Total payroll disbursements were \$90,000 lower than forecast as \$68,000 was not paid during the week ended July 29, 2022 due to lack of funds, and payroll was lower in other weeks due to reductions in employees.
- c) Total operating disbursements of \$290,000 were \$390,000 lower than projected. This variance is primarily due to lower than forecast payments made in relation to research and development costs (\$196,000), payroll (as mentioned above), and other administrative and laboratory costs (\$83,000).
- d) Total other disbursements were \$100,000, which is \$145,000 lower than forecast. This variance is due to lack of DIP funds and higher than projected professional fees. As at July 29, 2022, it is estimated that over \$300,000 in professional fees remained outstanding.
- 21) Management has prepared an updated cash flow forecast dated August 4, 2022 (the "**August 4 Cash Flow Forecast**") which covers the 13 week period from August 6, 2022 to November 4, 2022. The Proposal Trustee has not reviewed the August 4 Cash Flow Forecast in any detail due to a lack of committed DIP funding. Further, it should be noted that the August 4 Cash Flow Forecast does not include a roll forward of any of the

DIP Funding Shortfall and related payments required to catch up the post-filing arrears to August 5, 2022. The August 4 Cash Flow Forecast is attached hereto as **Appendix "B"**.

- 22) The August 4 Cash Flow Forecast estimates that approximately \$2.8 million in financing will be required to fund the Medipure operations and restructuring from August 6 to November 4, 2022. We note that the \$2.8 million in projected DIP does not include the funds required to cover the current DIP Funding Shortfall to August 5 of \$854,000.

CURRENT AND FUTURE FINANCING

- 23) Medipure's operations have been financed by way of pre-filing and post-filing advances from HFS and pursuant to the First DIP Order and Second Dip Order. The amounts advanced by HFS and a third party investor (the "**Investor**"), who the Proposal Trustee understands is not related to HFS or the Companies and who provided US \$50,000 directly to Boughton pursuant to an inter-lender agreement between the Investor and HFS, are outlined below. The Proposal Trustee takes no position as to whether these payments are covered by the First DIP Order or the Second DIP Order.

| Date | HFS Advance Amount | | | DIP Approval Date | DIP Approved Amount | Provided after DIP Charge | Comments |
|-------------------|---------------------|---------|---------------------|-------------------|---------------------|---------------------------|-------------------------|
| | 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 | | | | |
| Total pre-filing | <u>290,000</u> | | <u>367,288</u> | | | | |
| 5/16/2022 | 80,000 | 1.280 | 102,434 | | | | |
| 6/6/2022 | 150,000 | 1.252 | 187,743 | | | | |
| 6/13/2022 | 250,000 | 1.277 | 319,131 | | | | |
| 6/21/2022 | 75,000 | 1.296 | 97,199 | 6/17/2022 | 200,000 | 97,199 | |
| 6/21/2022 | 24,000 | 1.296 | 31,104 | | | 31,104 | |
| 6/27/2022 | 42,000 | 1.284 | 53,949 | 6/24/2022 | 1,360,000 | 53,949 | |
| 6/27/2022 | 19,890 | 1.257 | 25,000 | | | 25,000 | Funds from the Investor |
| 7/4/2022 | 70,000 | 1.282 | 89,759 | | | 89,759 | |
| 7/6/2022 | 30,109 | 1.257 | 37,843 | | | 37,843 | Funds from the Investor |
| Total post-filing | <u>740,999</u> | | <u>944,161</u> | | <u>1,560,000</u> | <u>334,853</u> | |
| Grand total | <u>\$ 1,030,999</u> | | <u>\$ 1,311,449</u> | | <u>\$ 1,560,000</u> | <u>\$ 334,853</u> | |

- 24) HFS and the Investor have only provided approximately \$207,000 in funds to Medipure since the Third Extension Order and this has created significant post-filing arrears to July 29, 2022 including:
- Employees were not paid their bi-weekly payroll due on July 29, 2022 for a total of approximately \$68,000 and payroll is always one week in arrears as salaries and wages are accrued and only paid up to the week before the actual payment date;
 - Legal counsel to the Companies, the Proposal Trustee, the Proposal Trustee's legal counsel, BDO, and the CRO are estimated to be owed \$305,000, net of all retainers;
 - Research and development and project study and trial costs are estimated to be \$125,000 in arrears; and
 - Rent of approximately \$10,000 due on August 1, 2022 for the Medipure head office is outstanding. The Proposal Trustee understands that payment of approximately \$3,800 for the August rent for the Medipure lab facilities has been issued.
- 25) The Proposal Trustee understands that HFS advised the Board on July 28, 2022 that further DIP advances would be contingent on Medipure executing the GEM Agreement in order for HFS to raise the necessary funding for its current DIP funding commitments

and to raise money for any further DIP required if the NOI Proceedings were extended. This was not a condition that existed at the time the Second DIP Charge was granted by the Court and it is not known when or if any further funds will be received.

- 26) 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.
- 27) 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 and the Investor have 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.
- 28) Medipure was successful in securing the GEM Agreement, but the equity financing is not guaranteed and would only take place if the CTO was lifted by the BCSC.

CONTINUATION OF THE NOI PROCEEDINGS

- 29) The Companies have made progress during the Third Stay Extension Period by further advancing the BDO forensic audit, conducting regular update calls with the BCSC, and securing potential future equity financing through the GEM Agreement, but the Companies have been unable to secure the required DIP financing during the NOI Proceedings and have failed to meet their post filing obligations as they became due. This has called into question whether the Companies have acted in sufficiently good faith and with due diligence in the NOI proceedings, despite their reliance on and understanding that the DIP Lender would provide the funds as projected and committed. The failure to meet post-filing obligations has also materially prejudiced certain creditors and other parties involved in the NOI Proceedings.
- 30) The CRO appointment is also concerning as the Proposal Trustee understands that the engagement of the CRO was delayed after the Third Extension Order due to lengthy negotiations between Medipure and SHP around the scope and terms of the CRO appointment. The CRO was only formally retained on July 18, 2022, was never fully paid his retainer by Medipure due to a lack of funding, and subsequently resigned on July 29, 2022 citing several concerns. A copy of the CRO's resignation letter is attached hereto as **Appendix "C"**. The CRO's concerns included potential influence of the Board by Mr. Boris Weiss ("**Mr. Weiss**"), DIP funding shortfalls and HFS holding funding until the GEM Agreement was executed, transparency and information flow, and Board conduct. While there was no substantive evidence provided in regards to Mr. Weiss' ongoing involvement with Medipure and the Board, and the Proposal Trustee has not seen the Companies' full response to the concerns raised, these matters would need to be fully investigated and addressed if the NOI Proceedings were to continue.
- 31) Based on the above and the apparent lack of any further committed DIP financing or alternative DIP parties, the Proposal Trustee does not support any further extension of the stay of proceedings in the NOI Proceedings. If substantial funds became available to the Companies before the August 9, 2022 Court hearing, the Proposal Trustee would need to ensure that this amount covered all of the DIP Funding Shortfall to August 5,

along with any further projected DIP financing required for any extension of the Third Stay Extension Order. Given the history of the DIP advances to date, the Proposal Trustee would also require evidence that the required funding was available immediately to the Companies.

All of which is respectfully submitted to this Honourable Court this 8th day of August, 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

**Second Material Adverse Change Report of the Proposal Trustee dated July 29,
2022**



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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APPENDIX

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

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 |

Appendix B

August 4, 2022 Cash Flow Forecast for the Period of August 6 to November 4, 2022

| Projected Cash Flow from August 6 to November 4, 2022 CDN\$'000 | Week # | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | Total |
|--|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Week Ending | 12-Aug | 19-Aug | 26-Aug | 02-Sep | 09-Sep | 16-Sep | 23-Sep | 30-Sep | 07-Oct | 14-Oct | 21-Oct | 28-Oct | 04-Nov | Forecast |
| Receipts | | | | | | | | | | | | | | | |
| DIP financing | | 2,800 | | | | | | | | | | | | | 2,800 |
| Total receipts | | 2,800 | | | | | | | | | | | | | 2,800 |
| Operating disbursements | | | | | | | | | | | | | | | |
| Office and laboratory lease/rent costs | | | | | 18 | | | | | 21 | | | | 22 | 61 |
| Payroll, source deductions, benefits and WCB | | 74 | | 74 | 6 | 74 | | 74 | | 80 | | 74 | | 80 | 536 |
| R&D: project study and trials costs | | 158 | 36 | 130 | 128 | 18 | 6 | 8 | 76 | 8 | 121 | 11 | 181 | 10 | 891 |
| Critical vendors | | 3 | 3 | 4 | 4 | 5 | 4 | 5 | 3 | 4 | 5 | 4 | 4 | 2 | 50 |
| Insurance / equipment rental / storage costs | | | 1 | 1 | 2 | | 1 | | | 2 | | 1 | 1 | 2 | 12 |
| Other administrative and laboratory costs | | 35 | | | 12 | | | 3 | | | | 4 | | 8 | 62 |
| Funding of subsidiaries | | 1 | 12 | 3 | 13 | 6 | 3 | 10 | | 2 | 1 | 10 | 3 | 1 | 63 |
| Total operating disbursements | | 271 | 52 | 211 | 183 | 103 | 14 | 100 | 79 | 118 | 127 | 104 | 189 | 125 | 1,675 |
| Other disbursements | | | | | | | | | | | | | | | |
| Professional fees | | 153 | 143 | 144 | 68 | 69 | 68 | 69 | 68 | 69 | 53 | 79 | 53 | 69 | 1,105 |
| Total other disbursements | | 153 | 143 | 144 | 68 | 69 | 68 | 69 | 68 | 69 | 53 | 79 | 53 | 69 | 1,105 |
| Net cash flow | | 2,376 | (195) | (355) | (251) | (172) | (82) | (169) | (147) | (187) | (180) | (183) | (242) | (194) | 20 |
| Opening cash balance | | | | | | | | | | | | | | | |
| | | | 2,376 | 2,181 | 1,825 | 1,575 | 1,403 | 1,321 | 1,152 | 1,005 | 818 | 639 | 456 | 214 | - |
| Net cash flow for the period | | 2,376 | (195) | (355) | (251) | (172) | (82) | (169) | (147) | (187) | (180) | (183) | (242) | (194) | 20 |
| Closing cash balance | | 2,376 | 2,181 | 1,825 | 1,575 | 1,403 | 1,321 | 1,152 | 1,005 | 818 | 639 | 456 | 214 | 20 | 20 |

Appendix C

Resignation letter of the Chief Restructuring Officer dated July 29, 2022

0945345 BC Ltd.

VIA EMAIL

Medipure Pharmaceuticals Inc.
Medipure Holdings Inc.
302 – 267 West Esplanade Ave North
Vancouver, BC V7M 1A5

July 29, 2022

To the Board of Directors of Medipure:

Re: CRO Engagement Letter – between 0945345 BC Ltd. (“945”) and Medipure Pharmaceuticals Inc., and Medipure Holdings Inc. (collectively “Medipure”), dated for reference on July 7, 2022

Please accept this letter as notice of termination of all services under the CRO Engagement Letter between 945 and Medipure effective immediately.

The decision to terminate the services of 945 has not been taken lightly. However, given the culmination of events (discussed below) that have transpired since being retained by Medipure on July 18, 2022, I have concerns with Medipure’s Board of Directors and the actions of its DIP Lender.

Potential Influence of Board Member(s) by Mr. Boris Weiss

I have serious concerns that Mr. Weiss is influencing the board member(s).

I brought this concern to the attention of Medipure’s legal counsel on July 20, 2022. Despite having done so and the fact that certain prior actions of Mr. Weiss are the subject of an ongoing forensic review by BDO, I am advised by management that Mr. Weiss remains active in the background and continues to be in discussion with individual Board Members.

It is my recommendation that the Board and management distance themselves from Mr. Weiss to avoid any perception of his continued involvement or undue influence.

HFS Management Inc. ("HFS")

As of July 18, 2022, Medipure's DIP lender, HFS, was in arrears of its funding commitments to the extent of USD \$259,000.

The last time HFS provided any advances under the DIP facility was as of July 6, 2022. Despite this, the Board engaged the services of 945, knowing there was no ability to pay the agreed upon retainer or invoices to be rendered by the CRO.

One Board member (Nihar Pandey) assured the CRO that HFS would fulfil its requirements to fund under the DIP facility by July 21, 2022. This payment never occurred.

Further assurances of DIP funding occurred during a call with certain Board members, management and the Company's legal counsel on July 23, 2022. On this call, I was advised by a Board Member (Nihar Pandey) that USD \$200k or \$250k would be funded by HFS by July 26, 2022. This funding did not occur and the unfunded DIP advances increased to USD \$459,000 as of July 22, 2022 due to additional funding requested by Medipure under the DIP facility.

As of today's date, HFS's unfunded DIP advances has increased to USD \$589,000 and has impacted Medipure's ability to meet its post-filing obligations including, payroll, R&D project study costs, professional fees and rent.

During a video call on July 25, 2022, that Mr. Chris Condon (HFS representative) attended by telephone with the Board, management and legal counsel, it was clearly communicated by Mr. Condon that unless Medipure executes a certain Share Subscription Agreement (the "Subscription Agreement"), no further monies would be advanced by HFS / Condon under the DIP facility.

As of 10:00 AM on July 29, 2022, the Board provided an update on the status of discussions with Mr. Condon from the prior evening. They advised that no further DIP funding was expected today and any further advances were contingent upon Medipure executing the Subscription Agreement in order for HFS to raise necessary funding to meet its current DIP funding commitments and to raise money for the next 45-day extension period.

As of 12:45 PM on July 29, 2022, no further advances have been made under the DIP facility nor were any anticipated.

Transparency and Information Flow relating to Medipure

The issue of not keeping the CRO apprised of certain matters of critical importance to the ongoing operations of Medipure was communicated to certain Board Members, management and legal counsel during a call on July 23, 2022.

Despite assurances from those who participated in the call on July 23, 2022, the lack of transparency and information flow by the Board has not significantly improved.

Recommendations to the Board

Since July 18, 2022, the CRO has held discussions with the Board, individual Board members and management. These discussions involved planning and recommendations in event further DIP advances were not funded by July 27, 2022.

The Board's actions indicate they have decided to continue down the path of being influenced by Mr. Condon to execute the Subscription Agreement in order to receive any further advances under the DIP facility previously approved by the Supreme Court of British Columbia June 24, 2022.

The execution of the Subscription Agreement does not appear as a condition of DIP advances under the HFS Commitment Letter.



Yours truly,

Blake M. Elyea