

**CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL  
No.: 500-11-038490-104**

**SUPERIOR COURT  
(Commercial Division)  
*The Companies' Creditors Arrangement Act***

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**IN THE MATTER OF THE PLAN OF ARRANGEMENT  
WITH RESPECT TO:**

**CONJUCHEM BIOTECHNOLOGIES INC.**, a legal person duly incorporated under the laws of Canada, having its principal place of business at 225 President-Kennedy, 3<sup>rd</sup> Floor, suite 3950, Montreal, Quebec, H2X 3Y8

**Petitioner**

-and-

**RSM RICHTER INC.**, a duly incorporated legal person having its principal place of business at 2 Place Alexis-Nihon, in the city and district of Montreal, H3Z 3C2

**Monitor**

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**FIRST REPORT OF THE MONITOR  
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS  
March 18, 2010**

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**INTRODUCTION**

1. On February 25, 2010, ConjuChem Biotechnologies Inc. (the "Petitioner" or "ConjuChem") filed with the Quebec Superior Court, a Motion for the Issuance of an Initial Order pursuant to Section 11 of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36, as amended (the "CCAA"). On February 26, 2010, the Honourable Chantal Corriveau, J.S.C. issued an initial order (the "Initial Order"), *inter alia* appointing RSM Richter Inc. as monitor (the "Monitor").

2. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
3. This first report of the Monitor is to inform the Court of the following:
  - General Corporate Information and Historical Events Leading to the CCAA
  - Sale and Investment Process
  - Financial Position
  - Cash Flow Projections
  - Activities of the Monitor
  - Request for an Extension of the Stay of Proceedings to April 19, 2010
4. We inform the Court that the Monitor has not conducted an audit or investigation of the information it was provided by the Petitioner and that accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this Report. The information contained herein is based on unaudited financial information provided to the Monitor by the Petitioner's management as well as obtained through discussions with the Petitioner's management and employees.
5. The cash flow projections appended to this Report were prepared by the Petitioner's management and are based on underlying financial assumptions. The Monitor cannot provide an opinion as to the accuracy, completeness or reliability of these projections. As the cash flow projections relate to future events, which are indeterminable by nature, variances will occur, which may be material. Accordingly, the Monitor does not express an opinion regarding the likelihood of materialization of these cash flow projections.

#### **GENERAL CORPORATE INFORMATION AND HISTORICAL EVENTS LEADING TO THE CCAA FILING**

6. ConjuChem Biotechnologies Inc. is a public company whose common shares traded on the Toronto Stock Exchange under the symbol "CJB". Subsequent to the issuance of the Initial Order the Petitioner's shares ceased trading.
7. ConjuChem is a biotechnology company, engaged in the discovery and development of its bioconjugation technologies to develop therapeutic drugs. The Company focuses on developing new long-acting drugs based on its patented bioconjugation technology platforms called Drug Affinity Complex ("DAC") and Preformed Conjugate Drug Affinity Complex ("PC-DAC"). These technologies,

when applied to peptides, enable the creation of new drugs with enhanced therapeutic properties as compared to the original peptide.

8. The Company is researching and developing compounds to treat various disorders focusing more specifically on metabolic disorders, which include diabetes and obesity.
9. ConjuChem has 3 products under development including PC-DAC: Exendin-4, a long acting GLP-1 receptor agonist for the treatment of type II diabetes; PC-Insulin, a long acting basal insulin and PC-HIV, an HIV treatment. PC-DAC: Exendin-4 is in Phase IIb development stage, whereas the other two products are in the preclinical testing phase. ConjuChem requires significant financial resources to continue the development of the products and to maintain and protect its technology and product/process patent portfolios.
10. We refer you to the Report of RSM Richter, in its capacity as the Proposed Monitor of the Petitioner, prepared in support of the Petition for the issuance of an Initial Order, dated February 25, 2010 for details pertaining to the following:
  - General corporate information;
  - Historical events leading to the CCAA filing;
  - Financial position and operating results, pre-CCAA.

#### **SALE AND INVESTMENT PROCESS (“SI Process”)**

11. ConjuChem’s management and Board of Directors resolved that as a last resort and in an attempt to maximize the Company’s value and/or the value of its platform and patents, they would file for CCAA and market the technology to a broader group of potential investors and parties that have yet to be approached. Within the context of the CCAA restructuring, the Petitioner is actively seeking a transaction that may involve either or both of the following:
  - Financing involving the issuance of equity, debt or convertible securities of the Petitioner;
  - Sale of the Petitioner’s intellectual property and other assets;

The following summarizes the SI Process actions undertaken by the Petitioner pursuant to the Initial Order:

12. During the period leading to the filing for CCAA, the Petitioner retained RSM Richter’s Corporate Finance Group (a division of RSM Richter Inc.)(“RSM Richter”) to work closely with its management in targeting a

group of approximately 200 financial and strategic investors, identified from RSM Richter's contacts and database, as well as those known to ConjuChem's management.

13. On March 1, 2010, RSM Richter transmitted an investment opportunity information document ("Teaser") to the targeted investor group. Since March 1<sup>st</sup>, 2010, RSM Richter has been communicating with these targeted investors to solicit expressions of interest.
14. To appeal to an even broader market, the Teaser was posted on the Monitor's website. As well, the Petitioner issued a press release on February 26, 2010 announcing the initiation of the restructuring process.
15. In conjunction with the CCAA filing, the Company initiated discussions with Bloom Burton & Co. Inc. ("Bloom Burton"), a pre-eminent investment bank for mid-cap and small-cap healthcare companies primarily based in North America. Bloom Burton was the co-lead underwriter in ConjuChem's \$120,250,000 common share offering in November 2006 and the lead underwriter in ConjuChem's \$22,000,000 convertible debenture issuance in December 2007. Given their industry expertise, extensive network of North American biotech investors and successful history in raising funds for ConjuChem, the Petitioner mandated Bloom Burton, on a success fee basis, to assist in the search for an investor.
16. Bloom Burton has contacted in excess of 600 potential investors and has scheduled meetings and calls with the existing debenture holders and other potential investors starting the week of March 15<sup>th</sup>, 2010 in New York, Boston and California.
17. The Petitioner sought out and initiated discussions with the convertible debenture holders to inform them of the actions taken by the Petitioner to date and seek their support. The Petitioner, the Monitor and Bloom Burton have been in contact with the 4 primary debenture holders who collectively represent \$19MM of the \$20.3MM (or 93%) of outstanding debentures and of the \$21.3MM (or 89%) of estimated unsecured claims. Pursuant to various meetings and discussions, the 4 primary debenture holders confirmed to the Petitioner's management their support of the CCAA Process and the SI Process. Furthermore, 3 of these parties expressed a possible interest in recapitalizing the existing debentures and providing new funding in support of ConjuChem's continued research and development, with a primary focus on Exendin-4. The debenture holders require additional time to assess the situation and determine the amount of funds that they can collectively commit.
18. Other potential investors have expressed an interest in entering into licensing agreements for the use of the DAC platform technology and the Petitioner's patents, for non- Exendin-4 research and development

purposes. The Petitioner will continue to pursue these interests as an additional means of financing the core process.

19. With the interest to maximize the recoverable value to its stakeholders, the Petitioner believes that it should continue to work with the existing debenture holders and continue to solicit expressions of interest from other potential investors and accordingly, is requesting an extension of the stay proceedings to April 19, 2010. Convertible debenture holders representing 93% of the aggregate value of the debentures have indicated to Conjuchem's management that they support the motion for an extension of the initial order.
20. The Petitioner initiated discussions with a European based investment bank specializing in European based life science companies in order to broaden the scope of finding financing in the European market. The Petitioner intends on mandating the investment bank on a success fee basis. The investment bank has identified a targeted list of potential European acquirers.

#### **FINANCIAL POSITION**

21. In conjunction with the filing of the Petition for the issuance of an Initial Order on February 25, 2010, the Petitioner submitted weekly cash flow projections for the thirteen (13) weeks ended May 28, 2010 (Exhibit P-3) to the Petition for the Issuance of an Initial Order. Updated cash flow projections are being submitted herewith as Appendix "2".
22. As at March 12, 2010, the Petitioner's cash balances amounted to \$3.72MM, as compared to the projected balance of \$3.51MM as at the same date. The \$208K favorable variance is attributable to the following:
  - Cash receipts are greater than projected by \$88K, attributable to the collection of GST and QST refunds earlier than anticipated;
  - Cash disbursements are lower than projected by \$130K, primarily due a timing difference that will likely be reversed in the upcoming weeks.
23. For more detailed explanations of the above noted variances, we refer you to the "Cash Flow - Actuals vs. Budget" schedule and variance analysis included as Appendix "1".
24. Since the filing of the CCAA, the Petitioner has not incurred significant additional liabilities and is paying its suppliers based on negotiated terms provided or upon receipt of invoices.

## **CASH FLOW PROJECTIONS**

25. The Petitioner presents to this Court its Cash Flow Projections for the 11 week period from March 15, 2010 to May 28, 2010 ("Period") (Appendix "2").
26. The ConjuChem Cash Flow Projections for the Period are based on information and assumptions provided by management based on financial and other information available as of March 16, 2010. The cash flow projections have been prepared using probable assumptions supported and consistent with the plans of the Company for the Period, considering the economic conditions that are considered the most probable by management. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material.
27. The basic assumptions underlying the Cash Flow Projections are as follows:
  - The Petitioner will maintain its current headcount of 11 employees;
  - The Petitioner will continue to conduct limited research activities;
  - The Petitioner will maintain its patents and work with the Monitor to find a financial partner or purchaser for the assets of the Company.
28. The Monitor believes the Cash Flow Projections for the Period are reasonable.
29. The projected cash flow reflects the following:
  - Net negative cash flow from operations of \$1,854K over the Period;
  - No cash receipts is projected as it is assumed that government refunds will be delayed as a result of the CCAA filing;
  - The cash disbursements consist of wages and levies (\$505K), professional fees for patent legal and maintenance fees (\$800K), restructuring professional fees (\$297K), and other operating expenses (\$252K).

## **ACTIVITIES OF THE MONITOR**

30. The Monitor's activities have included the following:

- In accordance with the Initial Order, a copy of the Initial Order (on February 26, 2010) and a list of creditors (on March 2, 2010) were posted on the Monitor's website;
- On March 2, 2010 the Monitor sent to all of the Petitioner's known creditors, a notice advising them of the granting of the Initial Order and referring them to the Monitor's website;
- In accordance with the Initial Order, notices of the CCAA filing were published in La Presse and The National Post newspapers on March 5, 2010 and on March 12, 2010;
- The Monitor attended numerous meetings and conference calls with the Petitioner's management and Board of Directors, in view of keeping them apprised of material developments and to seek their views and input in the restructuring process;
- The Monitor addressed numerous queries from the Petitioner's suppliers, debenture holders and other unsecured creditors;
- The Monitor reviewed the Petitioner's financial affairs and results;
- The Monitor reviewed the Petitioner's weekly cash flow projections attached to this Report;
- The Monitor drafted this Report and reviewed material to be filed by the Petitioner herewith.
- The Monitor was kept informed on discussions with debenture holders and potential interested parties in the acquisition of some or all of the assets of ConjuChem;
- The Monitor issued a "Teaser" to more than 200 potential investors/purchasers and posted said "Teaser" on its website;
- The Monitor has participated in the Petitioner's discussions with Bloom Burton, leading to their engagement;
- The Monitor has retained Gowlings Lafeur Henderson, LLP as its independent legal counsel;
- Other administrative and statutory matters relating to the Monitor's administration of this mandate.

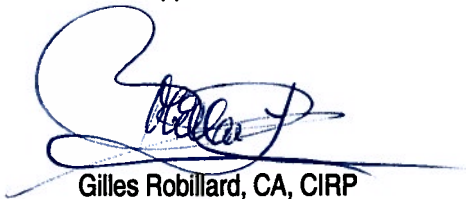
## **REQUEST FOR EXTENSION**

31. At the present time, it is premature for the Petitioner to devise a Plan of Arrangement and present same to its creditors. The Petitioner is seeking an extension in order to continue its efforts to identify an investor or purchaser through the SI Process given that any plan of arrangement will be contingent on the success of this process.

32. The Petitioner will require additional time in order to continue canvassing the market, identify potential investors or purchasers, negotiate the terms of a transaction and close.
33. We have been informed by ConjuChem's management that the majority of the unsecured creditors, represented by 4 debenture holders, representing 89% of all unsecured claims, are supportive of the extension.
34. The Petitioner has been paying for any and all approved goods and services received subsequent to the date of filing the CCAA.
35. The Petitioner's management has, and continues to act in good faith, with due diligence and has been cooperating with all stakeholders involved in this process, including but not limited to the Monitor, the known debenture holders, ConjuChem's other creditors and its Board of Directors.
36. The Monitor is supporting the extension of the Initial Order until April 19, 2010, for the above noted reasons.
37. The Court should grant this extension as:
  - The Petitioner has and continues to act in good faith and with diligence;
  - The Petitioner needs additional time in order to complete the SI Process and present a Plan of Arrangement to its creditors.
  - The Petitioner has not prejudiced its creditors as it has paid for liabilities incurred since the date of filing.
  - The majority of creditors support the extension.

Respectfully submitted at Montreal, this 18<sup>th</sup> day of March, 2010.

**RSM Richter Inc.**  
Court-Appointed Monitor



Gilles Robillard, CA, CIRP



ConjuChem Biotechnologies Inc.  
 Actuals vs Budget  
 For the 2 weeks ended March 12, 2010

Appendix "1"

Week Ended	2 Weeks Ended March 12, 2010			Notes
	Actuals	Budget	Variance	
<b>Cash Receipts</b>				
GST/QST Receivable	87,724	-	87,724	1
R&D Tax Credits Receivable	-	-	-	
Withholding tax receivable	-	-	-	
	<u>87,724</u>	<u>-</u>	<u>87,724</u>	
<b>Cash Disbursements</b>				
<i>Research</i>				
Supplies	-	2,000	2,000	
Maintenance contract	-	-	-	
<i>Development</i>				
Manufacturing	-	-	-	
Clinical Insurance	-	-	-	
<i>Operating &amp; Overhead Expenses</i>				
Wages & levies	86,028	81,500	(4,528)	2
Director's Fees	-	-	-	
Rent	-	35,000	35,000	3
Municipal and School Taxes	18,773	55,000	36,227	4
Insurance	-	-	-	
Administration	1,022	4,500	3,478	5
Investor Relations	-	12,000	12,000	5
Housing and Airfare	13,870	14,500	630	5
Interest on debentures	-	-	-	
<i>Professional Fees</i>				
Legal - Gowlings	-	50,000	50,000	6
Legal - McCarthy	57,602	50,000	(7,602)	6
Legal - Patent Fees	12,448	-	(12,448)	6
Consultant - RSM	58,259	50,000	(8,259)	6
Auditors - E&Y	-	8,500	8,500	6
PWC	-	10,000	10,000	6
<b>Total Disbursements</b>	<u>248,002</u>	<u>373,000</u>	<u>124,998</u>	
<b>Opening Cash and Investments</b>	<b>3,886,747</b>	<b>3,886,747</b>	<b>-</b>	
Foreign exchange	(5,075)	-	5,075	7
(-) Net Cash Flow	<u>(160,278)</u>	<u>(373,000)</u>	<u>(212,722)</u>	
<b>Closing Cash and Investments</b>	<u><b>3,721,395</b></u>	<u><b>3,513,747</b></u>	<u><b>(207,648)</b></u>	

**ConjuChem Biotechnologies Inc.**  
**Actuals vs Budget - Variance Analysis**  
**For the 2 weeks ended March 12, 2010**

**Appendix "1"**

- Note 1 Cash receipts are \$88K greater than projected, pertaining to the receipt of GST & QST refunds for the months of September to December 2009, which were not projected in the period.
- Note 2 Wages and levies were greater than projected due to the underestimation of the payroll cost for the current reduced head count.
- Note 3 Rent expense is \$35K less than projected which is due to timing differences as management awaits the receipt of an invoice for the negotiated reduced space.
- Note 4 Municipal taxes is \$36K less than projected as a result of 1) stay of proceedings with respect to the January and February portion and 2) deferral of payment on the May and June payment until May.
- Note 5 The administration, investor relations and travel expenses are \$16K less than projected due to timing differences and will likely be paid in future weeks.
- Note 6 Professional fees as a whole are \$40K less than projected which is attributable to timing differences and will likely be incurred in future weeks.
- Note 7 The foreign exchange adjustment is attributable to the restatement of \$US opening cash at par, which more accurately reflects the current rates.

ConjuChem Biotechnologies Inc.  
Cash Flow Projections  
For the 11 weeks ended May 28, 2010

Appendix "2"

Week Ended	19-Mar-10	26-Mar-10	02-Apr-10	09-Apr-10	16-Apr-10	23-Apr-10	30-Apr-10	07-May-10	14-May-10	21-May-10	28-May-10	Total
<b>Cash Receipts</b>												
GST/QST Receivable	-	-	-	-	-	-	-	-	-	-	-	-
R&D Tax Credits Receivable	-	-	-	-	-	-	-	-	-	-	-	-
Withholding tax receivable	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
<b>Cash Disbursements</b>												
<i>Research</i>												
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
<i>Development</i>												
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-
Clinical Insurance	-	-	-	-	-	-	-	-	-	-	-	-
<i>Operating &amp; Overhead Expenses</i>												
Wages & levies	84,000	-	84,500	-	84,000	-	84,500	-	84,000	-	84,500	505,500
Director's Fees	-	-	-	-	-	-	-	-	-	-	-	-
Rent	35,000	-	35,000	-	-	20,000	-	35,000	-	-	-	105,000
Municipal and School Taxes	-	1,417	-	-	-	-	-	-	-	-	-	21,417
Insurance	-	-	-	-	2,000	-	-	-	-	-	-	2,000
Administration	1,000	9,750	2,500	4,000	500	5,000	2,500	4,000	500	5,000	2,500	37,250
Investor Relations	-	12,000	-	12,000	-	-	-	12,000	-	-	-	36,000
Housing and Airfare	1,500	1,500	13,000	1,500	1,500	1,500	1,500	13,000	1,500	1,500	1,500	39,500
Interest on debentures	-	-	-	-	-	-	-	-	-	-	-	-
<i>Professional Fees</i>												
Legal - Gowlings	-	-	-	50,000	-	-	-	30,000	-	-	-	80,000
Legal - McCarthy	10,000	-	-	50,000	-	-	-	30,000	-	-	-	90,000
Legal - Patent Fees	-	160,000	-	-	65,000	-	270,000	-	5,000	-	300,000	800,000
Consultant - RSM	-	-	-	50,000	-	-	-	30,000	-	-	-	80,000
Auditors - E&Y	-	8,500	18,000	-	-	-	-	-	-	-	-	26,500
PWC	-	10,000	-	10,000	-	-	-	-	-	-	-	20,000
<b>Total Disbursements</b>	<b>132,500</b>	<b>204,167</b>	<b>154,000</b>	<b>178,500</b>	<b>154,000</b>	<b>27,500</b>	<b>359,500</b>	<b>155,000</b>	<b>92,000</b>	<b>7,500</b>	<b>389,500</b>	<b>1,854,167</b>
<b>Opening Cash and Investments</b>	<b>3,721,395</b>	<b>3,588,895</b>	<b>3,384,728</b>	<b>3,230,728</b>	<b>3,052,228</b>	<b>2,898,228</b>	<b>2,870,728</b>	<b>2,511,228</b>	<b>2,356,228</b>	<b>2,264,228</b>	<b>2,256,728</b>	<b>3,721,395</b>
(-) Net Cash Flow	(132,500)	(204,167)	(154,000)	(178,500)	(154,000)	(27,500)	(359,500)	(155,000)	(92,000)	(7,500)	(389,500)	(1,854,167)
<b>Closing Cash and Investments</b>	<b>3,588,895</b>	<b>3,384,728</b>	<b>3,230,728</b>	<b>3,052,228</b>	<b>2,898,228</b>	<b>2,870,728</b>	<b>2,511,228</b>	<b>2,356,228</b>	<b>2,264,228</b>	<b>2,256,728</b>	<b>1,867,228</b>	<b>1,867,228</b>

The above cash flow projections are based on the same assumptions presented in Appendix 2 to the Report of RSM Richter Inc., in its capacity as the Proposed Monitor of the Petitioner, Prepared in support of the Petition for the issuance of an Initial Order and in Exhibit P-3 to the Petition for the issuance of an Initial Order.