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CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO.: 01-MONTREAL  
COURT NO.: 500-11-039358-102  
ESTATE NO.: 41-1385192

**SUPERIOR COURT**  
(Commercial Division)

**IN THE MATTER OF THE BANKRUPTCY OF:**

**ConjuChem Biotechnologies Inc.**

a body politic and corporate, duly incorporated  
according to law and having its head office and its  
principal place of business at:  
225 President Kennedy, Suite 3950  
Montreal, Quebec, H2X 3Y8

**Bankrupt**

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## **TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS**

Pursuant to an order of the Quebec Superior Court, District of Montreal (Commercial Division) made on February 26, 2010, ConjuChem Biotechnologies Inc. (the "Company" or "ConjuChem") was granted protection under the *Companies Creditors' Arrangement Act* ("CCAA") and RSM Richter Inc. ("Richter") was appointed as the Monitor in the CCAA proceedings. The Company continued its operations under the volition of its Management, with a view to reorganizing both operationally and financially, the latter which was to be addressed by the filing of a Plan of Arrangement to its creditors. Ultimately the Company was unable to accomplish its recapitalization and accordingly could not honour the terms of the Plan of Arrangement. As a result of the Company's inability to recapitalize its operations, the Company filed an Assignment in Bankruptcy on July 21, 2010 and Richter was appointed as Trustee to the Estate of the Bankrupt by the Board of Directors of the Company.

**The information contained in this Report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.**

## I. OVERVIEW

ConjuChem was a biotechnology company, engaged in the discovery and development of bioconjugation technologies to develop therapeutic drugs. The Company focused 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.

The Company was also researching and developing compounds to treat various disorders focusing more specifically on metabolic disorders, which include diabetes and obesity.

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, a HIV treatment, PC-DAC™: Exendin-4 is in Phase IIb development stage, whereas the other two products are in the preclinical testing phase. None of ConjuChem's products are commercialized yet.

The Company's financial difficulties resulted from the following:

- The average research and development cost per approved drug is estimated to be between US\$500 million and US\$800 million. The drug discovery and development process is time consuming, bears high risk and is capital intensive. Since its inception, the Company raised approximately CA\$350 million;
- ConjuChem's management became aware that one of their competitors was granted a U.S. patent which created a Freedom to Operate issue for its PC-DAC™: Exendin-4 product. ConjuChem has spent 3 to 4 years challenging the validity of key claims in the competitor's patent via an *inter partes* reexamination with the U.S. Patent & Trademark Office. This caused a slowdown in the development of its products and drained a substantial amount of its liquidity. In December 2009, the U.S. Patent & Trademark Office ruled, for the third time, in favor of ConjuChem in a Final Office Action. However, ConjuChem's competitor has since appealed the decision and it is uncertain when the appeal will be heard and resolved;
- In January 2009, ConjuChem mandated Clearview Projects Inc. ("Clearview"), an American consulting firm, to provide strategic services to enhance the Company's efforts to identify a

pharmaceutical partner for the continued development and commercialization of PC-DAC™: Exendin-4. Certain parties contacted by Clearview expressed an interest in ConjuChem's platform and development products, however, in light of the ongoing PC-DAC™: Exendin-4 patent issues, industry consolidation and the significant downturn in the economy, no offers were made. In some cases, companies which would have otherwise expressed an interest in this opportunity were more focused on their own internal restructuring.

## II. STATEMENT OF AFFAIRS

We summarize and comment on the Statement of Affairs as follows:

### A) Assets

- **Cash**

The Trustee received into trust bank account approximately \$500,000 at inception emanating from the closing of the Company's bank accounts. Funds have since been drawn down to pay administrative and protective expenses incurred to date.

- **Withholding Taxes**

There is an outstanding refund of approximately \$880,000 relating to withholding taxes with respect to interest paid to debenture holders, on which the Company did not withhold taxes as per section XIII of the Income Tax Act ("ITA"). The Company and the debenture holders are of the opinion that interest on debenture was paid to "exempt entities" and it had no obligation to withhold any amount as per section XIII of the ITA. The government agreed to review the facts in exchange for the payment of the withholding taxes by the Company. The Government is still reviewing the facts and the Company's attorney, McCarthy Tetrault LLP, is in contact with the Government in order to resolve this situation. The Trustee shall follow up on this matter.

- **R&D Tax Credits**

There is an outstanding refund of approximately \$350,000 relating to a R&D tax credit for the fiscal year ended October 31, 2009. In August 2009, the Company concluded a transaction with Colabor Inc. whereby the latter acquired the "legal shell" in which the Company was operating (the "Transaction").

As provided for in the sale agreement, the Company is entitled to receive all R&D tax credits incurred prior to the closing of the Transaction. The claim was filed mid June 2010 by Colabor Inc. and we are awaiting its acceptance and the payment thereof.

There is also a possible refund relating to R&D tax credit for the Company's "deemed" fiscal year ended July 21, 2010, the date of the bankruptcy. We have not yet finalized the quantum of said R&D tax credit nor has the associated claim been filled with the government.

- **GST – QST**

The Company may be entitled to receive reimbursement of approximately \$175,000 with respect to GST-QST. This amount is net of GST-QST within unpaid accounts payable as of the bankruptcy date.

- **Fixed Assets**

The Company has certain scientific lab equipment and office furniture, valued at Net Book Value (cost minus depreciation) of approximately \$600k. The realizable value of these assets is currently unknown.

## **B) Liabilities**

It is important to note that the exact amount of the liabilities which existed as at July 21, 2010 will only be determined once the Proof of Claims are submitted by the creditors and have been compiled by the Trustee. We, nonetheless, present hereinafter a summary of the Company's liabilities, based upon preliminary information.

<b>Description</b>	<b>Amount</b>
Secured Creditors	\$ -
Preferred Creditors	31,994
Unsecured Creditors	1,263,915
Debenture Holders	<u>20,523,236</u>
	<b><u>\$21,819,145</u></b>

- **Secured Creditors**

Although the Statement of Affairs attested to by Management at the time of the filing of the Assignment stated that there were no secured creditors, it is possible that various secured creditors do exist in virtue of charges / hypothecs granted under the CCAA.

- **Preferred Creditors - \$31,994**

As at the preparation of this report, there may be an amount owing to the landlord which may be considered a priority. The ultimate amount of this category of claims, if any, will only be subsequently determined.

- **Unsecured Creditors - \$1,263,915**

The books and records of the Company have not been fully updated and the claims received from unsecured creditors may therefore differ from the amounts reflected in the Statement of Affairs.

- **Debenture Holders - \$20,523,236**

There are approximately \$20 million of debenture holders which may possibly rank as unsecured creditors. If such is the case, this ranking would be *pari passu* and share pro-rata in any dividend distribution with the other Unsecured Creditors. The Trustee has asked its legal counsel for an opinion thereon.

### III. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE ESTATE

- **Books and Records**

The books and records of the Bankrupt were not up to date as at the Bankruptcy. The Trustee is taking the necessary steps to bring them to date and will take them into its custody for future reference.

- **Security and Protective Measures**

Since July 21, 2010, the Trustee has undertaken various security and protective measures such as:

- Hiring of former employees of ConjuChem, on a temporary basis, to assist the Trustee in its functions;
- Opening of a trust bank account;
- Initiate the inventory-taking of the assets;
- Safeguarding the information contained in the computer system;
- Adding the Trustee's name to the insurance policies in force covering the assets of the Company (still awaiting the insurer's confirmation);
- Making arrangements with certain suppliers of services to maintain assets; and
- The Company's lease had expired and was converted to a monthly occupancy before the bankruptcy. In consequence the landlord sought and was successful in getting a new tenant. As such upon the bankruptcy, the landlord requested that the Company leaves its current premises so as to allow the new tenant to occupy same. Pursuant to negotiations by the Trustee with the landlord, it provided the Trustee alternate temporary space at a reduced rent. The Trustee is taking measures to expeditiously vacate the premises.

- **Reviewable Transactions**

The Trustee is gathering the information to perform a review of the payments to the creditors in the last three (3) months and twelve (12) months with respect to related parties. The Trustee will report to the Inspectors (selected representatives of creditors) upon completion of its review.

#### **IV. SUMMARY OF THE ONGOING SALE PROCESS**

Time being of the essence, we have initiated a sale process for the assets of the Company. The assets for sale include both the physical assets and intellectual property. In this regard, we have gathered relevant financial and non-financial information and built a virtual data room for prospective buyers. Access is granted upon request to the Trustee and the execution of a Confidentiality Agreement with respect to information on the intellectual property.

We have requested offers ("Offers") to be submitted no later than August 19, 2010 at 3:00 p.m. (Montreal time). Time is of the essence as the Trustee presently has only limited funds and substantial costs are being incurred and further costs must be incurred to maintain the value of the intellectual property. The Offers shall be reviewed with the Inspectors whose permission shall be sought before concluding a transaction.

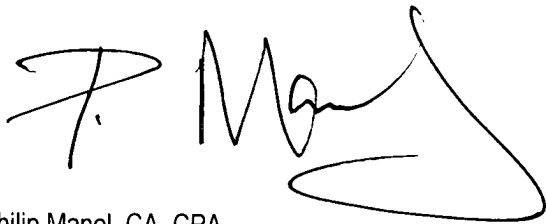
**V. Property of Others**

To date, the Trustee has not received any property claims.

**VI. Projected Dividend**

It is premature to project the amount of any dividend which may be available for distribution to the creditors. We have no idea of the Offer amounts nor of the prospects of recovery of the other assets enumerated above. In due course those creditors who file their claims with the Trustee will be advised.

**RSM Richter Inc.**  
Trustee

A handwritten signature in black ink, appearing to read 'P. Manel', with a large, sweeping flourish underneath.

Philip Manel, CA, CPA  
Administrator of the Estate