

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

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

**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, 3rd 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

**SECOND REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
April 16, 2010**

INTRODUCTION

1. On February 25, 2010, ConjuChem Biotechnologies Inc. (the "Petitioner" or "ConjuChem") filed with the Quebec Superior Court ("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. On March 18, 2010, the Petitioner filed a motion requesting an extension to the stay of proceedings until April 19, 2010, in order to allow the Petitioner to continue the sale and investment process (“SI Process”) and find new investors or acquirer(s) for the Petitioner’s assets. On March 19, 2010, the Court granted an order extending the stay of proceedings until April 20, 2010.
3. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
4. This second report of the Monitor is to inform the Court on the evolution of the file, particularly with respect to the following issues:
 - Sale and Investment Process
 - Financial Position
 - Cash Flow Projections
 - Activities of the Monitor
 - Reasons supporting the Extension of the Stay of Proceedings to June 30, 2010
5. 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.
6. 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.

SALE AND INVESTMENT PROCESS (“SI Process”)

7. As previously reported 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 had not been approached. Within the context of the CCAA restructuring, the Petitioner actively sought a transaction that would 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;
8. 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.
 9. On March 1, 2010, RSM Richter transmitted an investment opportunity information document (“Teaser”) to the targeted investor group. Since March 1st, 2010, RSM Richter has been communicating with these targeted investors to solicit expressions of interest.
 10. 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.
 11. 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.
 12. Bloom Burton contacted in excess of 600 potential investors and scheduled meetings and calls with the existing debenture holders and other potential investors in order to assess their level of interest and appetite for investing new funds into ConjuChem.
 13. Over the course of the last month Bloom Burton and ConjuChem's management had meetings with approximately 30 investor groups (including the 4 majority debenture holders) who expressed potential interest in forming a group prepared to recapitalize ConjuChem.
 14. On April 15, 2010 the Monitor received a correspondence from Bloom Burton, stating that a group of investors was being formed to recapitalize and restructure ConjuChem. This proposed recapitalization of ConjuChem would not only provide sufficient capital to resume the development of its products, but would also provide funds to finance a distribution under a Plan of Reorganization and Compromise.

15. Bloom Burton further stated that the four (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 had been informed of the contemplated transaction and that they were supporting the approach of ConjuChem.
16. Given the nature of the proposed recapitalization and restructuring plan, we believe that the specific terms of the proposed transaction be kept confidential pending the finalization of the negotiations.
17. Two other parties have expressed an interest in entering into licensing or purchase agreements for the use of the DAC platform technology and the Petitioner's patents, for non- Exendin-4 research and development purposes. These offers are for minimal amounts and would not be considered by Management as an alternative to the Bloom Burton potential recapitalization.
18. With the interest to maximize the recoverable value to its stakeholders, the Petitioner believes that it should continue to work with Bloom Burton and the Monitor in order to conclude the proposed recapitalization and restructuring transaction and formulate a Plan of Reorganization and Compromise. Accordingly, the Petitioner is requesting an extension of the stay proceedings to June 30, 2010. The four (4) convertible debenture holders representing 93% of the aggregate value of the debentures have indicated to ConjuChem's management as well as Bloom Burton that they support the motion for an extension of the Initial Order.

FINANCIAL POSITION

19. In conjunction with the filing of the Motion for the First Extension of an Initial Order on March 18, 2010, the Petitioner submitted weekly cash flow projections for the eleven (11) weeks ended May 28, 2010 (Exhibit R-1) to the Petition for the Issuance of an Initial Order. Updated cash flow projections are being submitted herewith as Appendix "2".
20. As at April 16, 2010, the Petitioner's cash balances amounted to \$2.96MM, as compared to the projected balance of \$2.90MM as at the same date. The \$62K favorable variance is attributable to the following:
 - Cash disbursements are lower than projected by \$125K, primarily due a timing difference that will likely be reversed in the upcoming weeks;
 - Overstatement of the opening book value of one of the Petitioner's short term investments by \$59K.

21. 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".
22. Since the filing of the CCAA, the Petitioner has not incurred significant additional liabilities and is paying its suppliers based on negotiated terms or upon receipt of invoices.

CASH FLOW PROJECTIONS

23. The Petitioner presents to this Court its Cash Flow Projections for the 11 week period from April 23, 2010 to July 2, 2010 ("Period") (Appendix "2").
24. 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 April 15, 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.
25. 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 and Bloom Burton to conclude the proposed recapitalization transaction.
26. The Monitor believes the Cash Flow Projections for the Period are reasonable.
27. The projected cash flow reflects the following:
 - Net negative cash flow from operations of \$1,883K 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 (\$416K), professional fees for patent legal and maintenance fees (\$580K), restructuring professional fees (\$478K), and other operating expenses (\$409K).

ACTIVITIES OF THE MONITOR

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

- The Monitor attended numerous and conference calls with the Petitioner's management and Bloom Burton, in view of keeping them apprised of material developments in seeking new investors;
- 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;
- Other administrative and statutory matters relating to the Monitor's administration of this mandate.

REASONS SUPPORTING THE EXTENSION OF THE STAY OF PROCEEDINGS TO JUNE 30, 2010

29. 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 conclude the proposed recapitalization and restructuring transaction, to formulate a Plan of Reorganization and Compromise and seek a Claims Procedure Order and a Creditors Meeting Order.
30. Based on the Bloom Burton letter, it is clear that the proposed transaction is the only viable alternative and is more beneficial to all parties involved than a liquidation of the assets.
31. We were informed by ConjuChem's management as well as Bloom Burton that the majority of the unsecured creditors, represented by four (4) debenture holders, representing 89% of all unsecured claims, are supportive of the extension.
32. The Petitioner has been paying for any and all approved goods and services received subsequent to the date of filing the CCAA. The Petitioner has sufficient funds on hand in order to continue to meet its obligations up to and including June 30, 2010.

33. The Petitioner 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 and ConjuChem's other creditors.
34. The Monitor is supporting the extension of the Initial Order until June 30, 2010, for the above noted reasons.
35. 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 conclude the proposed recapitalization and restructuring transaction, to formulate a Plan of Reorganization and Compromise and to seek a Claims Procedure Order and a Creditors Meeting Order.
 - The Petitioner has not prejudiced its creditors as it has paid for liabilities incurred since the date of filing.
 - The major creditors support the extension.

Respectfully submitted at Montreal, this 16th day of April, 2010.

RSM Richter Inc.
Court-Appointed Monitor



Gilles Robillard, CA, CIRP

ConjuChem Biotechnologies Inc.
 Actuals vs. Budget
 For the 5 weeks ended April 16, 2010

Appendix "1"

Week Ended	5 Weeks Ended April 16, 2010			Notes
	Actuals	Budget	Variance	
Cash Receipts				
GST/QST Receivable	-	-	-	
R&D Tax Credits Receivable	-	-	-	
Withholding tax receivable	-	-	-	
Cash Disbursements				
<i>Research</i>				
Supplies	-	5,000	5,000	
Maintenance contract	2,500	-	(2,500)	
<i>Development</i>				
Manufacturing	-	-	-	
Clinical Insurance	-	-	-	
<i>Operating & Overhead Expenses</i>				
Wages & levies	244,716	252,500	7,784	1
Director's Fees	-	-	-	
Rent	-	70,000	70,000	2
Municipal and School Taxes	-	1,417	1,417	
Insurance	-	2,000	2,000	3
Administration	8,737	17,750	9,013	3
Investor Relations	-	24,000	24,000	3
Housing and Airfare	18,226	19,000	774	3
Interest on debentures	-	-	-	
<i>Professional Fees</i>				
Legal - Gowlings	18,975	50,000	31,025	4
Legal - McCarthy	91,735	60,000	(31,735)	4
Legal - Patent Fees	222,207	225,000	2,793	4
Consultant - RSM	74,197	50,000	(24,197)	4
Auditors - E&Y	6,265	26,500	20,235	4
PWC	10,578	20,000	9,422	4
Total Disbursements	698,134	823,167	125,033	
Opening Cash and Investments	3,721,395	3,721,395	-	
Foreign exchange	(4,632)	-	4,632	5
Adjustment to Opening Investments	(58,764)	-	58,764	6
(-) Net Cash Flow	(698,134)	(823,167)	(125,033)	
Closing Cash and Investments	2,959,865	2,898,228	(61,638)	

ConjuChem Biotechnologies Inc.
Actuals vs. Budget - Variance Analysis
For the 5 weeks ended April 16, 2010

- Note 1 Wages and levies are less than projected due to an overestimation of group insurance costs for a reduced headcount.
- Note 2 Rent expense is \$70K less than projected which is due to timing differences as management awaits the receipt of an invoice for the negotiated reduced space for the last 2 months.
- Note 3 The administration, insurance, investor relations and travel expenses are overall \$36K less than projected, which is primarily attributable to timing differences which will likely reverse themselves in future weeks.
- Note 4 Professional fees as a whole are \$7K less than projected which is attributable to timing differences and will likely be incurred in future weeks.
- Note 5 The foreign exchange adjustment is attributable to the restatement of \$US opening cash at par, which more accurately reflects the current rates.
- Note 6 Opening cash, in particular an investment was erroneously overstated by \$59K.

ConjuChem Biotechnologies Inc.
Cash Flow Projections
For the 11 weeks ended July 2, 2010

Appendix "2"

Week Ended	23-Apr-10	30-Apr-10	07-May-10	14-May-10	21-May-10	28-May-10	04-Jun-10	11-Jun-10	18-Jun-10	25-Jun-10	02-Jul-10	Total
Cash Receipts												
GST/QST Receivable	-	-	-	-	-	-	-	-	-	-	-	-
R&D Tax Credits Receivable	-	-	-	-	-	-	-	-	-	-	-	-
Withholding tax receivable	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements												
Research												
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
Development												
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory	-	3,000	-	-	-	-	-	-	-	-	-	3,000
Clinical Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Operating & Overhead Expenses												
Wages & levies	-	84,500	-	81,000	-	84,500	-	81,000	-	84,500	-	415,500
Director's Fees	-	-	-	-	-	44,000	-	-	-	-	-	44,000
Rent	-	-	105,000	-	-	-	35,000	-	-	-	-	140,000
Municipal and School Taxes	20,000	-	-	-	-	-	-	-	-	-	-	40,000
Insurance	-	2,000	-	-	-	22,000	-	-	-	22,000	-	46,000
Administration	12,500	2,500	4,000	500	5,000	2,500	4,000	500	5,000	2,500	4,000	43,000
Investor Relations	-	-	12,000	-	-	-	12,000	-	-	-	-	36,000
Housing and Airfare	1,500	8,500	13,000	1,500	1,500	1,500	13,000	1,500	1,500	1,500	1,500	46,500
Interest on debentures	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees												
Legal - Gowlings	-	-	50,000	-	-	-	50,000	-	-	-	50,000	150,000
Legal - McCarthy	-	-	50,000	-	-	-	50,000	-	-	-	50,000	150,000
Legal - Patent Fees	-	270,000	-	5,000	-	250,000	-	-	-	55,000	-	580,000
Consultant - RSM	-	-	50,000	-	-	18,000	-	-	-	-	50,000	150,000
Auditors - E&Y	-	-	-	-	-	10,000	-	-	-	-	-	18,000
PWC	-	-	-	-	-	10,000	-	-	-	-	-	10,000
Total Disbursements	35,000	371,500	285,000	89,000	7,500	433,500	215,000	84,000	7,500	186,500	168,500	1,883,000
Opening Cash and Investments	2,999,865	2,924,865	2,553,365	2,268,365	2,179,365	2,171,865	1,738,365	1,523,365	1,439,365	1,431,865	1,245,365	2,999,865
(-) Net Cash Flow	(35,000)	(371,500)	(285,000)	(89,000)	(7,500)	(433,500)	(215,000)	(84,000)	(7,500)	(186,500)	(168,500)	(1,883,000)
Closing Cash and Investments	2,924,865	2,553,365	2,268,365	2,179,365	2,171,865	1,738,365	1,523,365	1,439,365	1,431,865	1,245,365	1,076,865	1,076,865

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.