RSM Richter Inc.

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CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
No.:

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

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. (1985), c. C-36 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

Proposed Monitor

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
February 25, 2010

INTRODUCTION

1. RSM Richter Inc. ("RSM Richter" or "Proposed Monitor") understands that ConjuChem Biotechnologies Inc. (hereinafter referred to as "ConjuChem", "Petitioner" or "Company") will bring a Petition before this Honourable Court seeking commencement of proceedings under the *Companies' Creditors Arrangement*

Act, R.S.C. (1985), c. 36, as amended (the "CCAA") granting, inter alia, a stay of proceedings until March 26, 2010, authorizing a sales and investment process ("SI Process") and appointing RSM Richter as Monitor (the "Monitor"). The Proceedings to be commenced by the Petitioner under the CCAA will be referred to herein as the "CCAA Proceedings".

2. RSM Richter was consulted as potential monitor by ConjuChem on January 19, 2010 to provide information concerning a potential filing and, if necessary, to assist its attorneys in preparing for a filing under the CCAA.

3. Gilles Robillard, CA, CIRP of RSM Richter, the individual with the primary responsibility for this matter, as well as RSM Richter Inc., are trustees within the meaning of subsection 2(1) of *the Bankruptcy and Insolvency Act (Canada)*. Neither RSM Richter or any of its representatives have been at any time in the two preceding years:

   - the auditor of the Petitioner;
   - a director, an officer or an employee of the Petitioner;
   - related to the Petitioner or to any director of officer of the Petitioner;

4. RSM Richter has consented to act as Monitor should this Honorable Court grant the Petitioner's request to commence the CCAA Proceedings.

5. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.

6. The purpose of this report is to inform the Court of the following:

   - General corporate information;
   - Historical events leading to the CCAA filing;
   - Financial position and operating results;
   - Cash flow projections;
   - SI Process;
   - Proposed Key Employee Incentive Program ("KEIP");
   - Directors' indemnification and charge;
   - Conclusions and recommendations.

7. We inform the Court that the information contained within this Report is based on unaudited financial information provided to the Proposed Monitor by the Petitioner's management as well as obtained

through discussions with the Petitioner's management and employees. The Proposed Monitor has not conducted an audit or other verification of such information and accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained herein.

8. The cash flow projections appended to this Report were prepared by the Petitioner's management and are based on underlying financial assumptions. The Proposed 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 Proposed Monitor does not express an opinion regarding the likelihood of materialization of these cash flow projections.

GENERAL CORPORATE INFORMATION

9. The Company was founded as "Red Cell Canada Inc." and incorporated under the Canada Business Corporations Act on April 27, 1997. It changed its name to "ConjuChem Inc." on April 28, 1998 and began publicly trading its shares on November 30, 2000 following an initial public offering in Canada. Pursuant to corporate reorganizations in May, 2006 and July, 2009, ConjuChem Inc. continued its operations as "ConjuChem Biotechnologies Inc."

10. The Company's common shares currently trade on the Toronto Stock Exchange under the symbol "CJB". As of the date of the Monitor's Report, ConjuChem Biotechnologies Inc. has 252,576,168 issued and outstanding common shares.

11. ConjuChem's head office and principal place of business is located at 225 President-Kennedy, Montréal, Québec.

12. 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.

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

14. 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.

15. Given that ConjuChem is only in the development phase of its products, it has not generated sales revenues from its products since its inception and accordingly has incurred significant annual operating losses. The Company is not expected to generate profits until its products under development are commercialized.

16. The completion of the development of ConjuChem's products are years away from regulatory approval and from being introduced on the market. However, the Company requires significant financial resources to continue the development of the products.

17. Since its inception and over the course of the research and development of its DAC and PC-DAC platforms and its products, ConjuChem has, through patent submissions and maintenance, continually increased and protected its technology and product/process patent portfolios.

HISTORICAL EVENTS LEADING TO THE CCAA FILING

18. Since its inception, ConjuChem raised approximately $350 million, through share offerings, debt offerings and financing, as well as monetization of its tax losses, to fund the Company's research and development activities.

19. 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, high risk and capital intensive.

20. Partnering with other biopharmaceutical firms is a component of the innovative drug industry and the eventual commercialization of their products. Partnering may occur at an early stage by means of research collaborations or at a later stage through licensing or a sale of assets following the development and clinical trials of compounds.

21. In 2005, ConjuChem entered into negotiations for a licensing agreement with pharmaceutical companies in an attempt to form a partnership, which would result in market recognition and ensure the continued development of its PC-DAC: Exendin-4 product.

22. During the due diligence process, 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.

23. It became apparent, that without resolution of this patent issue, executing a licensing agreement would be very challenging.

24. 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 has caused a slowdown in the development of its products and drained a substantial amount of its liquidities.

25. 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.

26. In November, 2008, ConjuChem completed two Phase II clinical studies of PC-DAC: Exendin-4.

27. The Phase II results indicated that a Phase IIb clinical trial would be required in order to optimize the dose. However, in order to progress to Phase IIb, ConjuChem would have to raise funds ranging between $15 to $20 million.

28. 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.

29. We understand that 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.

30. Since mid-2009, all the development programs, including PC-DAC: Exendin-4 are temporally on hold as a result of cash flow constraints.

31. In March 2009, the Company reduced its headcount from 40 to 20 employees, limited its activities to scaled back research, and focused its resources on finding a partner as well as on resolving its patent issues.

32. As of February 19, 2010 the Company and Clearview's efforts to find a partner for PC-DAC: Exendin-4 or to sell the Company have not been successful.

33. The Company has since further reduced its headcount to the core group of 11 employees.

FINANCIAL POSITION AND OPERATING RESULTS

Operating results

34. The following summarizes the audited operating results for the past 5 years ended October 31, 2009:

ConjuChem Biotechnologies Inc.
Statement of Operations and Comprehensive Loss
(in millions $CND)

	Audited as at October 31				
	2009	**2008**	**2007**	**2006**	**2005**
Revenues					
Contract revenues	$ 37	$ 61	$ 69	$ 239	$ 82
Interest income	168	1 449	3 693	477	623
	205	1 510	3 763	717	706
Expenses					
Research and development	8 351	22 212	35 034	30 280	25 963
Investment tax credits	(2 641)	(701)	(1 353)	583	(2 025)
Net research and development expenses	5 710	21 511	33 681	30 862	23 937
General and administrative expenses	2 878	5 965	4 754	4 754	4 486
Amortization of property, plant and equipment	166	221	255	293	341
Amortization of intangible assets	6	10	17	33	50
Stock-based compensation	2 570	2 567	3 872	4 806	5 178
Financial charges	14	210	16	50	17
Foreign exchange loss	86	938	(244)	(46)	43
Accretion in carrying value of convertible senior	-	-	-	-	-
Unsecured notes and interest	-	5 504	7 301	6 127	5 171
Accretion in carrying value of convertible unsecured	-	-	-	-	-
Subordinated debentures and interest	4 566	3 734	-	-	-
Loss on redemption of long-term investments	-	267	-	-	-
	15 996	40 927	49 654	46 881	39 223
Net loss for the year	**$ (15 792)**	**$ (39 417)**	**$ (45 891)**	**$ (46 165)**	**$ (38 518)**

35. As indicated above, given that ConjuChem is a development company, the only source of revenue is derived from interest income, contract revenues as well as research and development tax credits.

36. A significant portion of the above noted expenses are non-cash expenses, representing 25% of total expenses in any given year and 36% in 2009.

37. As illustrated above, the research and development expenses, as well as the general and administrative expenses decreased significantly in 2009. The reduction is directly attributable to the fact that the projects were suspended in mid-year and the Company reduced its headcount by more than 50% and its expenses in an attempt to preserve cash until a strategic transaction could be executed.

Financial Position

38. The following summarizes ConjuChem's financial position as at October 31, 2009, compared to October 31, 2008:

ConjuChem Biotechnologies Inc.
Balance Sheet
(In millions $CND)

	Audited as at October 31 2009	2008
Assets		
Current		
Cash and cash equivalents	$ 1 743	$ 2 187
Investments	5 718	18 935
Accounts receivable	1 088	161
Investment tax credits receivable	524	542
Prepaid expenses	182	229
	9 255	22 054
Property, plant and equipment	636	842
Intangible assets	6	11
	$ 9 896	$ 22 907
Liabilities and Shareholders' deficiency		
Current liabilities		
Accounts payable and accrued liabilities	3 135	10 080
	3 135	10 080
Convertible unsecured subordinated debentures	16 548	13 635
	19 684	23 715
Shareholders' deficiency		
Capital stock	266 859	266 824
Warrants	10 817	10 817
Equity portion of convertible unsecured subordinated debentures	5 185	5 194
Contributed surplus	55 533	48 819
Deficit	(348 183)	(332 391)
Accumulated other comprehensive loss	1	(72)
Total shareholders' deficiency	(9 788)	(809)
	$ 9 896	$ 22 907

39. ConjuChem's assets had a net book value of $9.9 million as of October 31, 2009, consisting primarily of the following:

- Cash of $1.7 million;

- Investments of $5.7 million, which can be liquidated at any time;
- Accounts receivable comprising primarily of a GST/QST recovery ($140K) and withholding tax receivable ($880K pending government assessment);
- Research and development investment tax credits of $524K;
- Prepaid expenses, consisting primarily of insurance premiums;
- Property, plant and equipment consisting primarily of lab equipment.

40. The Company holds patents, trademarks and inventory consisting of chemicals and compounds of significant value (for an ongoing operation), which have been expensed over time and not capitalized.

41. The following summarizes ConjuChem's estimated unaudited financial position as of January 31, 2010:

ConjuChem Biotechnologies Inc.
Balance Sheet
(in millions $CND)

	Jan.31, 2010 (Estimated)	Oct.31, 2009 (Audited)
Assets		
Current		
Cash and cash equivalents	$ 873	$ 1 743
Investments	3 500	5 718
Accounts receivable	1 061	1 088
Investment tax credits receivable	692	524
Prepaid expenses	111	182
	6 236	9 255
Property, plant and equipment	636	636
Intangible assets	6	6
	$ 6 877	$ 9 896
Liabilities and Shareholders' deficiency		
Current liabilities		
Accounts payable and accrued liabilities	1 938	3 135
	1 938	3 135
Convertible unsecured subordinated debentures	20 270	16 548
	22 208	19 684
Shareholders' deficiency		
Capital stock	266 859	266 859
Warrants	10 817	10 817
Equity portion of convertible unsecured subordinated debentures		5 185
Contributed surplus	55 553	55 533
Deficit	(348 560)	(348 183)
Accumulated other comprehensive loss		1
Total shareholders' deficiency	(15 330)	(9 788)
	$ 6 877	$ 9 896

42. The book value of ConjuChem's assets decreased from $9.9 million as of October 31, 2009, to approximately $6.9 million as of January 31, 2010. This reduction is primarily attributable to the use of cash to fund the Company's limited research operations, maintain and defend the company's patent estate, and seek a pharmaceutical partner.

43. The Company estimated total liabilities as of January 31, 2010 amounted to approximately $22.2 million, consist of the following:

- Accounts payable;
- Accrued liabilities, including vacation pay accruals;
- Unsecured debenture holders ($20.2 million).

44. There is no significant secured creditor.

CASH FLOW PROJECTIONS

45. The Petitioner presents to this Court its Cash Flow Projections for the 13 week period from March 1, 2010 to May 28, 2010 ("Period") (Appendix "1").

46. 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 February 24, 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.

47. The basic assumptions underlying the Cash Flow Projections are that the Company will maintain its current headcount of 11 employees, continue to conduct limited research activities, maintain its patents and work with the Proposed Monitor to find a financial partner or purchaser for the assets of the Company. We refer you to Appendix "2" for detailed assumptions.

48. The projected cash flow reflects the following:

- Net negative cash flow from operations of $2 million over the Period;

- No cash receipts projected as it is assumed that government receivables will be delayed as a result of the CCAA filling;
- The cash disbursements consist of wages and levies ($570K), professional fees ($376K), professional fees for patent legal and maintenance fees ($827K), and other operating expenses ($290).

SALES AND INVESTMENT PROCESS ("SI Process")

49. As previously stated, Clearview has been working with the Company since January 2009 in order to find a pharmaceutical partner for the continued development and commercialization of PC-DAC: Exendin-4. More recently, the mandate was expanded to seek potential buyers for the Company and/or any of its assets. It has become increasingly clear to management that in spite of the progress in bringing clarity to the intellectual property issue, the fundamental issue the Company was faced with was not the financial terms in a potential transaction but the ongoing commitment of funds required in order to bring the PC-DAC: Exendin-4 product to market with the ongoing patent risk associated with the product. Also, the inability of the company to progress the product in its development during the last year has resulted in competitors moving further ahead in the development of their own products.

50. 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 not been approached so far.

51. In this regard, the Petitioner and RSM Richter will be conducting a Court sanctioned SI Process aimed at contacting amongst others, such parties as venture capital investors specializing in the pharmaceutical industry, in an effort to determine their interest in ConjuChem.

52. A qualified list of possible venture capital investors and purchasers in the pharmaceutical industry has been identified by RSM Richter's corporate finance group, with the approval of the company and will be approached about the current opportunity to acquire the ConjuChem's IP or sponsor a plan of arrangement.

53. An information circular has been prepared by RSM Richter corporate finance group, with the participation of management, which will be circulated immediately following the Court approval of the SI Process, to all identified potential interested parties.

54. Notices will be placed on the websites of the Proposed Monitor.

55. Upon the execution of a satisfactory confidentiality undertaking, interested parties will be given access to all relevant information regarding the products in development and the existing patents, in order to complete a due diligence review.

56. All interested parties will be given access to all key employees to supplement their due diligence, as necessary.

57. All interested parties will be provided with the proper conditions of sale as well as details concerning the contemplated SI Process.

58. All interested parties will have until April 15, 2010 at 5 pm (e.s.t.) to submit an offer.

59. The proposed time table for the SI Process is as follows:

Steps	Description	*Completed by*
1	Granting of Initial Order	*February 26, 2010*
2	Issuance of a teaser to all identified parties	*March 1, 2010*
3	Expression of interest by the parties contacted	*March 12, 2010*
4	Signature of a confidentiality and non disclosure agreement and commencement of the due diligence process	*March 15, 2010*
5	Motion to extend the filing deadline *(if needed)*	*March 26, 2010*
6	Completion of due diligence process and interviews	*April 14, 2010*
7	Limit to submit an offer and opening of offers	*April 15, 2010*
8	Clarification of offers *(if needed)*	*April 20, 2010*
9	Approval of offer by Board of Directors	*April 23, 2010*
10	Presentation to Court of Motion to approve the transaction	*To be determined*
11	Closing of the transaction	*To be determined*
12	Filing of a Plan of Arrangement	*May 7, 2010*
13	Meeting of creditors and vote	*May 28, 2010*
14	Ratification of Plan	*To be determined*

PROPOSED KEY EMPLOYEE INCENTIVE PLAN ("KEIP")

60. The Petitioner recognizes that a key component of a successful SI Process is the retention of certain key employees whose knowledge and expertise are integral to the intrinsic value of the DAC and PC-DAC platforms, the development programs and intellectual property being marketed. Furthermore, the Petitioner recognizes that certain other employees are indispensable in to the Process and would also be integral in dealing with the Company's tangible assets, should a financial partner or purchaser not be found and the Company be liquidated.

61. Following discussions with the Proposed Monitor, the Petitioner's Board or Directors formulated a KEIP designed to address the necessity of the continued employment of the remaining 11 key employees (as identified by management and vented by the Proposed Monitor).

62. The KEIP provides for a retention bonus payable to the key employees at the earlier of:

a) The termination of their employment by the Company and/or RSM Richter; and

b) The conclusion of a successful transaction.

63. The KEIP is designed to provide the necessary incentive for the remaining key employees to remain with the Petitioner throughout the contemplated SI Process or alternatively the liquidation, with a view to maximizing values for the benefit of all stakeholders.

64. We understand that payments provided for under the KEIP will only be made to the key employees who have completely fulfilled their employment obligations to the Petitioner throughout the restructuring process and who have not resigned or been terminated for cause.

[redacted]

DIRECTORS' INDEMNIFICATION AND CHARGE

68. Although the Petitioner projects to comply with all applicable laws and regulations, the Petitioner's directors and officers are concerned about the potential for their personal liability in the context of the present restructuring.

69. The Petitioner is not currently in a position to secure adequate additional directors and officers' liability insurance, especially given its financial situation and the need to utilize all available funds to sustain operations. In addition, it should be noted that the D&O insurance policy will be expiring in May 2010.

70. The Petitioner seeks a $250,000 D&O Charge. This amount was established by the Petitioner and reviewed by the Proposed Monitor, taking into account direct and indirect payroll obligations, vacation pay and deductions at source.

CONCLUSIONS AND RECOMMENDATIONS

71. The Proposed Monitor believes that the Petitioner should be granted the benefit of protection normally accorded by the CCAA, to permit it to proceed with the SI Process and formulate a plan of arrangement for the interest of all stakeholders.

72. The Proposed Monitor is further concerned that in the event of a bankruptcy, it would lose the key employees and the ultimate value of the knowhow, which consists in the only asset of the company would be greatly diminished if not permanently lost.

73. Based on the Proposed Monitor's review, we support the orders sought, the charges as well as the thresholds reflected in the said Order, including:

- The proposed administration charge of $250,000;
- The proposed D&O charge of $250,000;
- The Key Employee Incentive Program charge of $587,000;

- All other relief sought including, without limitation, with respect to the annual shareholders' meeting and the cash management.

74. There is no significant secured creditor.

75. The Proposed Monitor believes that the charges requested in the Proposed Initial Order are necessary and reasonable in the circumstances and will provide the Company with the opportunity to successfully complete a restructuring.

Respectfully submitted at Montreal, this 26th day of February, 2010.

RSM Richter Inc.
Proposed Monitor

Gilles Robillard, CA, CIRP

Appendix "1"

ConjuChem Biotechnologies Inc.
Cash Flow Projections
For the 13 weeks ended May 28, 2010

Week Ended	05-Mar-10	12-Mar-10	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
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	1,000	1,000	**13,000**
Development														
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinical Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating & Overhead Expenses														
Wages & levies	81,500	-	81,000	-	81,500	-	81,000	-	81,500	-	81,000	-	81,500	**569,000**
Director's Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rent	35,000	-	-	-	35,000	-	-	-	-	35,000	-	-	-	**105,000**
Municipal and School Taxes	55,000	-	-	1,417	-	-	-	-	-	-	-	-	-	**56,417**
Insurance	-	-	-	-	-	-	2,000	-	-	-	-	-	-	**2,000**
Administration	4,000	500	3,500	2,500	-	4,000	500	-	2,500	4,000	500	-	2,500	**24,500**
Investor Relations	12,000	-	-	-	-	12,000	-	-	-	12,000	-	-	-	**36,000**
Housing and Airfare	13,000	1,500	1,500	1,500	13,000	1,500	1,500	1,500	1,500	13,000	1,500	1,500	1,500	**54,000**
Interest on debentures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees														
Legal - Growlings	-	50,000	-	-	-	30,000	-	-	-	30,000	-	-	-	**110,000**
Legal - McCarthy	-	50,000	-	-	-	30,000	-	-	-	30,000	-	-	-	**110,000**
Legal - Patent Fees	-	-	77,500	250,000	-	-	-	250,000	-	-	-	250,000	-	**827,500**
Consultant - RSM	-	50,000	-	-	-	30,000	-	-	-	30,000	-	-	-	**110,000**
Auditors - E&Y	-	8,500	18,000	-	-	-	-	-	-	-	-	-	-	**26,500**
PWC	-	10,000	-	-	-	10,000	-	-	-	-	-	-	-	**20,000**
Total Disbursements	201,500	171,500	182,500	256,417	130,500	118,500	86,000	252,500	86,500	155,000	84,000	252,500	86,500	**2,063,917**
Opening Cash and Investments	**3,886,747**	**3,685,247**	**3,513,747**	**3,331,247**	**3,074,830**	**2,944,330**	**2,825,830**	**2,739,830**	**2,487,330**	**2,400,830**	**2,245,830**	**2,161,830**	**1,909,330**	**3,886,747**
(-) Net Cash Flow	**(201,500)**	**(171,500)**	**(182,500)**	**(256,417)**	**(130,500)**	**(118,500)**	**(86,000)**	**(252,500)**	**(86,500)**	**(155,000)**	**(84,000)**	**(252,500)**	**(86,500)**	**(2,063,917)**
Closing Cash and Investments	**3,685,247**	**3,513,747**	**3,331,247**	**3,074,830**	**2,944,330**	**2,825,830**	**2,739,830**	**2,487,330**	**2,400,830**	**2,245,830**	**2,161,830**	**1,909,330**	**1,822,830**	**1,822,830**

ConjuChem Biotechnologies Inc.
Cash Flow Projections Assumptions
For the 13 weeks ended May 28, 2010

Background

ConjuChem Biotechnologies Inc. ("ConjuChem" or the "Company") is a biotechnology public company, founded in 1997. ConjuChem focuses on the development of medicines from therapeutic peptides based on its patented bioconjugation platform technologies with an initial focus on diabetes. The Company is researching and developing compounds to treat various disorders focusing on metabolic disorders, which include diabetes and obesity.

Conjuchem currently has 3 products in development, 2 of which in are in the pre-clinical development phase (PC-Insulin and PC-HIV); the other is in Phase II (b) development phase (PC-DAC Exendin 4). All products are years away from regulatory approval and from being introduced on the market. However, the Company no longer has the financial resources to continue the development of the products.

ConjuChem has been trying to find a pharmaceutical partner for a licensing agreement for its development products, in particular PC-DAC Exendin-4. In this regard, the Company mandated Clearview Projects, an American consultant to assist in these efforts. As of February 24, 2010, all the development programs, including PC-DAC Exendin-4 are temporary on hold as a result of cash flow constraints. However, certain limited research activities are continuing.

Note 1: Purpose of the Cash Flow Projections

The attached ConjuChem cash flow projections for the 13 weeks period from March 1, 2010 to May 28, 2010 ("Period") are based on information and assumptions provided by management, based on financial and other information available as of February 24, 2010. The purpose of these projections is to provide the Company and its representatives with prospective information in order to evaluate the available courses of action for the Company. Readers are cautioned that this information may not be appropriate for other purposes.

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 as of February 24, 2010.

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.

Note 2: General Assumptions

The cash flow projections were prepared and presented under the assumption that the Company files for CCAA, the Company continues to conduct limited research activities and maintains the current headcount of 11 employees while working with the Monitor to identify a financial partner or purchaser and facilitate the due diligence process.

Note 3: Specific Assumptions

- **Cash receipts:**
  - ConjuChem is not a revenue generating company, as such no cash receipts are projected;
  - The GST/QST, R&D tax credit and Withholding taxes receivable have not been projected since the timing of receipt of these amounts is uncertain and will likely be delayed as a result of a CCAA filing.
- **Cash Disbursements:**
  - Research costs consist of:
    - Minimal cost for replenishing lab chemicals and supplies;
    - Estimated patent maintenance and annual annuity costs;
  - Development costs consist of:
    - Manufacturing costs – none projected as all development activities are interrupted;
    - Clinical insurance annual renewal cost (to maintain coverage if required).
  - Operating and Overhead Expenses consist of:
    - Payroll and levies consist of the following:
      - Bi-weekly payroll for 11 employees;
      - Bi-weekly RRSP 50% matching for employees;
      - Monthly Canadian employee group insurance, payable every month-end;
      - Monthly US employee group insurance premiums, payable the 5th of every month.
    - Director Fees: payable quarterly for 3 previous months (not required during filing period).
    - Rent: payable on the 1st of each month
      Note: Projected monthly rent is an estimate based on the planned reduction in space effective Feb.1, 2010. The Company's lease expired on Jan.31, 2010 and management is currently negotiating a month-to-month rent for reduced space.
    - Municipal and school taxes: semi-annual instalments are projected to be paid in March 2010;
    - Insurance: only marine cargo insurance needs to be renewed within the Period;
    - Administrative expenses: are monthly expenses that include phones, internet, books & records storage, office supplies, courier, stock transfer fees, cleaning, website maintenance (quarterly), copier lease (quarterly) and other miscellaneous expenses;
    - Investor relations expense: monthly contract amount and estimated press release costs;

- Housing and airfare: monthly costs of having Mark Perrin, President and CEO and Tom Ulich, Executive Vice President, Research and Development work out of Montreal;

- Interest on debentures: are payable twice a year, in Dec and June (none projected in the Period);

- Professional Fees consist of:

  - McCarthy Tétrault, ConjuChem's legal representatives who will represent them under a CCAA process. The provision reflected herein may not be representative of actual costs as we have not attempted to determine the actual fees required in the execution of the mandate;

  - RSM Richter Inc, ConjuChem's consultants who will be appointed Monitor under a CCAA. The provision reflected herein may not be representative of actual costs as we have not attempted to determine the actual fees required in the execution of the mandate;

  - E&Y, ConjuChem's auditors. The $8.5K represents the cost of preparing the 2009 tax return. The $18K in March represents the cost of the Q1 statements;

  - PWC, provides ConjuChem accounting support services including calculation of R&D ITC, Internal control review, US employee tax returns and tax equalization services.

RSM Richter Inc.

Appendix « 3 »

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
No.:

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

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. (1985), c. C-36 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

Proposed Monitor

PROPOSED MONITOR'S REPORT ON CASH FLOW STATEMENT
Prepared in support of the Petition for the issuance of an Initial Order
February 25, 2010

The attached statement of projected cash flow arrached as Appendix "1" of this report (the "Cash Flow Statement") of the Company, for the period March 1, 2010 to May 28, 2010, has been prepared by the management of the Company for the purpose described in the draft Initial Order, using the Probable and Hypothetical Assumptions set out in Appendix "2".

Our review consisted in inquiries, analytical procedures and discussions related to the information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not to be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the

purpose of the Cash Flow Statement. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
b) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

Since the Cash Flow Statement is 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. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing the report.

The Cash Flow Statement has been prepared solely for the purpose described in the draft Initial Order, and readers are cautioned that it may not be appropriate for other purposes.

Respectfully submitted at Montréal, Québec this 25th day of February 2010.

RSM Richter Inc.
Proposed Monitor

Gilles Robillard, CA, CIRP