

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
REORGANIZATION AND COMPROMISE 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

**THIRD REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
May 19, 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. On April 16, 2010, the Petitioner filed a Motion requesting an extension to the stay of proceedings until May 21, 2010, in order to allow the Petitioner to conclude the sale and investment process ("SI Process") and initiate the claims process. On April 20, 2010, the Court granted an order extending the stay of proceedings until May 21, 2010.
4. On April 28, 2010, the Petitioner filed a Motion to Establish a Claims Process and a Claims Bar Date of May 31, 2010. On April 29, 2010 the Court rendered an order approving the Claims Process ("Claims Process Order").
5. In early May 2010, the Petitioner drafted a proposed Plan of Reorganization and Compromise ("Plan").
6. On May 13, 2010, the Petitioner filed a Motion for an Order setting the procedures with respect to the convening and the conduct of a Meeting of Creditors. On May 17, 2010, the Court rendered an order setting the procedures for a Meeting of Creditors ("Creditors' Meeting Order").
7. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
8. This third 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
9. 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.

10. 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")

11. Over the course of the last few months Bloom Burton & Co. Inc. ("Bloom Burton"), investment bankers retained by the Petitioner, have had meetings with approximately 30 investor groups (including the 4 main debenture holders, representing approximately 89% of the total debt) who expressed a potential interest in forming a group to recapitalize ConjuChem.
12. In this process, a group of investors interested in recapitalizing and restructuring ConjuChem were identified. The contemplated recapitalization of ConjuChem provides sufficient capital to resume the development of its products and funds to finance a distribution to creditors under the Plan.
13. The consummation of the proposed transaction is dependent on the approval of the Plan by the unsecured creditors and the debenture holders.
14. Bloom Burton informed us that the four (4) primary debenture holders who collectively represent 93% of the outstanding debentures or 89% of the total estimated unsecured claims have been informed of the contemplated transaction and of the terms and conditions of the Plan and that they support same.
15. Given the nature of the proposed recapitalization and restructuring, we believe that at this time, the specific terms of the proposed transaction should be kept confidential pending the finalization of the negotiations.
16. With the view of maximizing the recovery to all creditors, the Petitioner believes that it is imperative that it continue to work with Bloom Burton and the Monitor in order to finalize the proposed recapitalization and restructuring transaction and hold a meeting of creditors to vote on the Plan. Accordingly, the Petitioner is requesting an extension of the stay proceedings to June 30, 2010.

FINANCIAL POSITION

17. In conjunction with the filing of the Motion for the Second Extension of an Initial Order on April 16, 2010, the Petitioner submitted weekly cash flow projections for the eleven (11) weeks ended July 2, 2010 as (Exhibit R-1) to that Motion. Updated cash flow projections are being submitted herewith as Appendix "2".
18. As at May 14, 2010, the Petitioner's cash position amounted to \$2.143MM, as compared to the projected balance of \$2.179MM as at the same date. The \$36K variance is attributable to the following:
 - Cash disbursements are lower than projected by \$46K, primarily due to timing differences that will likely be reversed in the upcoming weeks;
 - Understatement of the opening bank position due to the overstatement of checks in circulation by \$10K.
19. 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".
20. Since the filing of the CCAA, the Petitioner has not incurred significant additional liabilities and is paying its post-filing suppliers based on negotiated terms or upon receipt of invoices.

CASH FLOW PROJECTIONS

21. The Petitioner presents to this Court its Cash Flow Projections for the 7 week period from May 17, 2010 to July 2, 2010 ("Period") (Appendix "2").
22. 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 May 17, 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.

23. The basic underlying assumptions utilized in the preparation of the Cash Flow Projections are as follows:
- The Petitioner will maintain its current headcount of 13 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.
24. The Monitor believes the Cash Flow Projections for the Period are reasonable.
25. The projected cash flow reflects the following:
- Net negative cash flow from operations of \$1,145K over the Period;
 - No cash receipts are 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 (\$258K), professional fees for patent legal and maintenance fees (\$333K), restructuring professional fees (\$300K), and other operating expenses (\$254K).

ACTIVITIES OF THE MONITOR

26. The Monitor's activities have included the following:
- The Monitor participated in numerous conference calls with the Petitioner's management and Bloom Burton, in view of keeping them apprised of material developments with respect to the recapitalization transaction;
 - The Monitor addressed numerous queries from the Petitioner's suppliers, debenture holders, shareholders 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 fulfilled its obligation with respect to the Claims Process Order, including the placement of newspaper notices, the mailing to the Creditors, the posting on its website of all relevant information and the reconciliation of Proof of Claims as received;
 - The Monitor fulfilled its obligations with respect to the Creditors' Meeting Order, including, preparation of the Meeting Materials, the posting on its website of all relevant information, communications with Participants, mailings to Creditors and Newspaper notices;
 - 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 investors involved in the recapitalization transaction 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

27. The Petitioner formulated a Plan of Reorganization and Compromise and obtained a Creditors' Meeting Order which was mailed to all known creditors, including Participants (as defined in the Creditors' Meeting Order) with the Meeting Materials. The Petitioner is requesting the extension of the Stay of Proceedings to June 30, 2010 for the following reasons:
- To allow the Creditors sufficient time to file their Proof of Claims, by the Claims Bar Date of May 31, 2010, as per the Claims Process Order;
 - To provide the Creditors sufficient time to obtain the Meeting Materials, take cognizance of the proposed Plan and complete the Proxy and Voting forms on or before the Creditors' Meeting, scheduled for June 11, 2010, as per the Creditors' Meeting Order.
 - To conclude the proposed recapitalization and reorganization transaction;
 - To hold the Creditors' Meeting and vote of the Plan on June 11, 2010;
 - To attend Court on June 15, 2010 in order to sanction the Plan.
28. The Petitioner has been paying for any and all approved goods and services received subsequent to the date of the filing of the CCAA. The Petitioner has sufficient funds on hand in order to continue to meet its obligations up to and including June 30, 2010.
29. 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.
30. The Monitor is supporting the extension of the Initial Order until June 30, 2010.

31. 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, obtain proof of claims and votes on the Plan from Affected Creditors and hold the Creditors' Meeting.
- 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 19th day of May, 2010.

RSM Richter Inc.
Court-Appointed Monitor



Gilles Robillard, CA, CIRP

ConjuChem Biotechnologies Inc.
Weekly Actuals
For the 4 weeks ended May 14, 2010

Appendix "1"

Week Ended	4 Weeks Ended May 14, 2010			Notes
	Actuals	Budget	Variance	
Cash Receipts				
GST/QST Receivable	-	-	-	
R&D Tax Credits Receivable	-	-	-	
Withholding tax receivable	-	-	-	
	-	-	-	
Cash Disbursements				
Research				
Supplies	-	4,000	4,000	1
Maintenance contract	-	-	-	
Development				
Manufacturing	2,750	-	(2,750)	1
Regulatory	3,361	3,000	(361)	1
Clinical Insurance	-	-	-	
Operating & Overhead Expen				
Wages & levies	169,876	165,500	(4,376)	2
Director's Fees	-	-	-	
Rent	108,287	105,000	(3,287)	3
Municipal and School Taxes:	18,773	20,000	1,227	-
Insurance	125	2,000	1,875	-
Administration	28,573	19,500	(9,073)	4
Investor Relations	19,521	12,000	(7,521)	4
Housing and Airfare	10,490	24,500	14,010	4
Interest on debentures	-	-	-	
Professional Fees				
Legal - Gowlings	13,431	50,000	36,569	5
Legal - McCarthy	120,965	50,000	(70,965)	5
Legal - Patent Fees	271,972	275,000	3,028	5
Consultant - RSM	54,489	50,000	(4,489)	5
Auditors - E&Y	-	-	-	5
PWC	-	-	-	5
Total Disbursements	822,614	780,500	(42,114)	
Opening Cash and Investments	2,959,865	2,959,865	-	
Foreign exchange	(3,942)	-	3,942	6
Adjustment to Opening Inve	9,887	-	(9,887)	7
(-) Net Cash Flow	(822,614)	(780,500)	42,114	
Closing Cash and Investments	2,143,197	2,179,365	36,168	

Note 1 The Research and Development costs are overall consistent with projected amounts.

Note 2 Wages and levies are greater than projected due to the under estimation of annual CSST costs and the rehiring of a two employees.

Note 3 Rent expense represents the payment of March and April rent for negotiated reduced space. The actual costs are relatively consistent with the projected amounts.

Note 4 The administration, investor relations and travel expenses are overall \$3K greater than projected, which is primarily attributable to timing differences which will likely reverse themselves in future weeks.

Note 5 Professional fees as a whole are \$36K greater than projected which is attributable timing and to greater legal costs than anticipated with respect the proposed recapitalization and reorganization transaction.

Note 6 The foreign exchange adjustment is attributable to the restatement of \$US opening cash at par, which more accurately reflects the current rates.

Note 7 Opening cash was erroneously understated by \$10K, due to the overstatement of checks in circulation as of Feb.26, 2010.

ConjuChem Biotechnologies Inc.
Cash Flow Projections
For the 7 weeks ended July 2, 2010

Appendix "2"

Week Ended	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	7,000
Maintenance contract	-	-	-	-	-	-	-	-
Development								
Manufacturing	-	-	-	-	-	-	-	-
Regulatory	-	-	-	-	-	-	-	-
Clinical Insurance	-	-	-	-	-	-	-	-
Operating & Overhead Expenses								
Wages & levies	-	86,500	-	-	-	86,500	-	258,000
Director's Fees	-	44,000	-	-	-	-	-	44,000
Rent	-	-	36,000	-	-	-	36,000	72,000
Municipal and School Taxes:	-	-	-	-	-	20,000	-	20,000
Insurance	-	22,000	-	-	-	22,000	-	46,000
Administration	-	2,500	4,000	500	5,000	2,500	4,000	18,500
Investor Relations	-	-	12,000	-	-	-	12,000	24,000
Housing and Airfare	1,500	1,500	13,000	1,500	1,500	1,500	1,500	22,000
Interest on debentures	-	-	-	-	-	-	-	-
Professional Fees								
Legal - Gowlings	-	-	50,000	-	-	50,000	-	100,000
Legal - McCarthy	-	-	50,000	-	-	50,000	-	100,000
Legal - Patent Fees	-	250,000	-	-	-	55,000	-	305,000
Consultant - RSM	-	-	50,000	-	-	50,000	-	100,000
Auditors - E&Y	-	18,000	-	-	-	-	-	18,000
PWC	-	10,000	-	-	-	-	-	10,000
Total Disbursements	2,500	435,500	216,000	88,000	7,500	338,500	54,500	1,144,500
Opening Cash and Investments	2,143,197	2,140,697	1,705,197	1,489,197	1,401,197	1,393,697	1,055,197	2,143,197
(-) Net Cash Flow	(2,500)	(435,500)	(216,000)	(88,000)	(7,500)	(338,500)	(54,500)	(1,144,500)
Closing Cash and Investments	2,140,697	1,705,197	1,489,197	1,401,197	1,393,697	1,055,197	1,000,697	998,697

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.