

COURT FILE NUMBER 1639 of 2015

COURT COURT OF QUEEN'S BENCH OF SASKATCHEWAN

JUDICIAL CENTRE SASKATOON

APPLICANT **GOLDEN OPPORTUNITIES FUND INC.**

RESPONDENTS **PHENOMENOME DISCOVERIES INC.**

DOCUMENT **FIRST REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT APPOINTED INTERIM RECEIVER OF PHENOMENOME DISCOVERIES INC.**

January 19, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

INTERIM RECEIVER

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INTRODUCTION

1. On December 4, 2015 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as Interim Receiver (the “**Interim Receiver**”), without security, of all the assets, undertakings and properties (the “**Property**”) of Phenomenome Discoveries Inc. (“**PDI** or the “**Company**”) pursuant to an Order of this Honourable Court (the “**Interim Receivership Order**”).

2. The Interim Receivership Order authorized the Interim Receiver, among other things, to:
 - (a) receive, preserve, protect and maintain control over the Property;

 - (b) to report to, meet with and discuss with such Affected Persons (as defined in the Interim Receivership Order) as the Interim Receiver deems appropriate;

 - (c) to utilize money borrowed by the Interim Receiver to fund payment of the employee payroll obligations, wages, salaries, rent, insurance, utilities, and other obligations determined by the Interim Receiver to be integral to the preservation of the Property; and

 - (d) to report to Court and the creditors of PDI regarding the status of the business and financial affairs of PDI, including its assets, liabilities, accounts payable and other matters deemed relevant by the Interim Receiver.

3. The Interim Receivership Order provided for an initial stay of proceedings to and including January 4, 2016 or further Order of the Court. On December 21, 2015, this Honourable Court granted an order extending the Interim Receivership Order to and including January 28, 2016 and approved an initial term sheet between Golden Opportunities Fund Inc. (“**GOFI**”) and the Interim Receiver dated December 18, 2015 (the “**Interim Financing Term Sheet**”) which provided for interim financing in the amount of \$250,000 (the “**Interim Financing**”).
4. On January 14, 2016, this Honourable Court granted an order which, *inter alia*, approved a second term sheet between GOFI and the Interim Receiver dated January 8, 2016 (the “**Second Interim Financing Term Sheet**”) which increased the total borrowings under the Interim Financing to \$650,000.
5. The Interim Receiver’s reports and other information in respect of these proceedings (the “**Interim Receivership Proceedings**”) are posted on the Interim Receiver’s website at <http://cfcanada.fticonsulting.com/pdi/>.
6. The purpose of this report (this “**First Report**”) is to inform the Court as to the following:
 - (a) the status of various aspects of the Interim Receivership Proceedings;
 - (b) the Interim Receiver’s summary and comments on the various efforts being undertaken by PDI management and its board of directors since the Date of Appointment to normalize PDI’s operations and corporate governance to attempt to maximize value for all stakeholders;
 - (c) the details of PDI’s assets and liabilities including the charges, security interests and encumbrances registered against PDI;
 - (d) the Interim Receiver’s receipts and disbursements from the Date of Appointment to January 16, 2016; and

- (e) the Company's cash flow forecast for the period ending February 29, 2016 (the "**Cash Flow Forecast**").
7. The Interim Receiver is requesting the following relief from this Honourable Court:
- (a) approval of the activities of the Interim Receiver since the Date of Appointment including its receipts and disbursements; and
 - (b) an Order extending the Interim Receivership Order to February 29, 2016.

TERMS OF REFERENCE

8. In preparing this First Report, the Interim Receiver has relied upon unaudited financial information, other information available to the Interim Receiver and, where appropriate, PDI's books and records and discussions with various parties (collectively, the "**Information**").
9. Except as described in this First Report:
- (a) the Interim Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook; and
 - (b) the Interim Receiver has not examined or reviewed financial forecasts and projections referred to in this First Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.

10. Future oriented financial information reported or relied on in preparing this First Report is based on assumptions regarding future events; actual results may vary from forecasts and such variations may be material.
11. The Interim Receiver has prepared this First Report in connection with GOFI's Notice of Application dated January 18, 2016. This First Report should not be relied on for other purposes. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

BACKGROUND

12. PDI is a private entity incorporated under the laws of the Province of Saskatchewan as a human health research company that develops technology to investigate how diseases arise, to identify persons most likely to develop diseases and to design therapies to treat the causes of disease.
13. PDI has developed a portfolio of intellectual property, diagnostic tests and developmental stage drugs to treat various neurological diseases. The main assets of PDI include the following (collectively, the “**Assets**”):
 - (a) PDI has developed an innovative metabolic profiling technology. This platform allows PDI to analyze complete metabolic systems in a non-targeted fashion. PDI provides this service and other research services to clients in the agriculture, pharmaceutical, and human health field. The said technology is also used by PDI in its own discovery program;
 - (b) PDI has developed drugs to treat Alzheimer's disease and Parkinson's disease. These drugs are at various stages of development; and
 - (c) PDI has also developed a drug for the treatment of a pediatric disease called Rhizomelic Chondrodysplasia Punctata.

Assets and liabilities

14. The Companies' unaudited consolidated financial statements as at November 30, 2015 indicated the following:

- (a) book value of assets of \$4.0 million;
- (b) book value of liabilities of \$20.9 million; and
- (c) operating losses of \$3.2 million for the eight months ended November 30, 2015.

15. The table below summarizes PDI's assets and liabilities at November 30, 2015.

<i>Amounts in thousands (000s)</i>	30-Sep-15	31-Oct-15	30-Nov-15
Assets			
Current Assets			
Cash	1,008	592	207
Accounts receivable	36	32	39
Investment tax credits receivable	408	476	544
Prepaid expenses	149	137	119
Total - Current Assets	1,601	1,236	909
Property and equipment	796	784	770
Intangible assets	2,347	2,353	2,363
Total - Assets	4,744	4,373	4,042
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	1,162	1,101	1,270
Deferred revenue	12,924	12,929	12,913
Deferred tax liability	1,200	1,200	1,200
Current portion of Golden Opportunities debenture	1,084	1,093	1,103
YBCI Loan	2,618	2,696	2,777
Current portion SOCO promissory note	1,593	1,603	1,613
Total - Current Liabilities	20,580	20,622	20,876
Long-term Liabilities			
Lease inducements	4	4	4
Total - Liabilities	20,584	20,625	20,880
Shareholders' Equity	(15,840)	(16,253)	(16,838)
Total - Liabilities and Shareholders' Equity	4,744	4,373	4,042

Notes:

Source: PDI unaudited financial statements

16. A summary of the major stakeholder groups is described below:
- (a) deferred revenue relates to a sale of certain of the PDI's revenue streams related to its Assets to a third party ;
 - (b) the current portion of the GOFI debenture is more fully described below;
 - (c) the YBCI loan is an unsecured loan advanced from a related party of the Company; and
 - (d) The SOCO (as defined below) promissory note relates to unpaid rent more fully described herein.
17. The Interim Financing in accordance with the Interim Receivership Order currently totals \$250,000; however, has been authorized to total \$650,000.
18. As at November 10, 2015 the indebtedness of PDI to GOFI, for which it holds a security interest, was \$833,000 in principal, plus \$263,552.16 in accrued interest, with additional interest accrued and accruing thereon.

Operations

19. PDI remains in the pre-commercial phase. While certain Assets are considered valuable and/or saleable, PDI currently has no ongoing revenue streams which provide any meaningful funding and PDI requires ongoing funding to cover its operating costs which consist primarily of rent and employee salaries.
20. Prior to the Interim Receivership Proceedings, PDI experienced various financial challenges due to the negative cash flow and its inability to find an adequate source of financing to fund its immediate liquidity needs. The table below provides a summary of PDI's operating losses for the months of September, October and November of 2015.

Amounts in \$ (CDN)	Months Ending		
	30-Sep-15	31-Oct-15	30-Nov-15
	Act.	Act.	Act.
Cash Receipts			
Total - Cash Receipts	29,767	17,427	17,154
Expenses			
Professional Fees	2,315	21,358	138,870
Rent	42,548	42,610	47,067
Salaries and benefits	237,437	235,240	213,607
Sub-contracts	13,869	15,334	21,927
Other	86,284	61,609	128,248
Total - Expenses	382,453	376,151	549,719
Operating Income / (Loss)	(352,686)	(358,724)	(532,565)
Other Income / (Expense)	(30,608)	(32,283)	(31,197)
Net Income / (Loss)	(383,294)	(391,007)	(563,762)

Strategic Alternatives / Refinancing / Next steps

21. PDI management and PDI's board of directors recognize the need for the Company to consider various strategic alternatives to ensure that the value of the Company's Assets are maximized and that sufficient funding is secured to allow the Company to complete such a process.
22. Such potential strategic alternatives may include, but are not limited to, a further equity raise, a debt raise and/or restructuring, a sale of all or a portion of the Assets, the outright sale of the Company, or merger or other transaction, and/or alternative financing initiatives.
23. However, prior to commencement of these proceedings, certain legacy issues have impeded the Company's efforts to develop and move forward on various strategic alternatives with these issues including:

- (a) disagreements within the Company's board of directors over various corporate strategy issues including seeking various strategic alternatives and efforts to raise additional financing; and
 - (b) impractical and cumbersome documents/agreements that require re-drafting and/or updating to reflect PDI's current situation and its intent to move forward with various strategic alternatives.
24. Since the granting of the Interim Receivership Order, the Interim Receiver advises that management and the board of directors have been working to address the issues noted above in paragraph 23, and the Receiver specifically notes the following:
- (a) Since the granting of the Interim Receivership Order, PDI management has fully cooperated with the Interim Receiver to review cash needs, seeking prior approval of all payments and compiling weekly cash flow forecasts (including budget to actual results);
 - (b) Interim Financing has been arranged in accordance with the Interim Receivership Order to provide sufficient funding to PDI to cover its operational cash needs until the end of February 2016;
 - (c) On December 11, 2015, the Company held a board meeting to discuss various aspects of the Company's restructuring alternatives. The Interim Receiver attending the meeting and provided an update on the status of the Interim Receivership Proceedings and steps taken to maintain certain cash controls and reporting to maintain the Assets of the Company; and

- (d) The Interim Receiver understands that a subsequent board meeting will be held and the Company will present the various revised and updated documents and agreements which are currently being circulated for comments. The Company has advised that drafts of these revised agreements are currently in the final stages of negotiations.
25. PDI has secured Interim Financing to cover its operational needs until the end of February 2016. The next step for PDI is to complete the revised terms of the MSA and USA and other material agreements and seek approval from the PDI board of directors. Once these matters are addressed, we understand that PDI will continue with its efforts to seek various strategic alternatives. The Interim Receiver understands that the requested extension to the Interim Receivership Order to and including February 29, 2016 is to allow for a more detailed plan outlining its strategic alternatives to be completed, including further sources of funding.
26. Based on the foregoing, the Interim Receiver is of the opinion that the Company is acting reasonably and in good faith in its efforts to restructure its financials affairs through the Interim Receivership Proceedings.

INTERIM RECEIVER'S ACTIVITIES

CUSTODY AND CONTROL

27. On December 7, 2015, the Interim Receiver had an initial meeting with GOFI followed by meetings with PDI's senior management at the Company's offices, including a tour of the premises.
28. The Interim Receiver has attended the offices of PDI at regular intervals since the Date of Appointment with its initial steps comprising:

- (a) assessing controls in place and/or required with respect to the Company's operations and assets including implementing the following controls:
 - (i) the Interim Receiver's approval, in addition to PDI management approval, is required for all purchase orders that have been issued subsequent to the Date of Appointment;
 - (ii) on a weekly basis the Company provides a cash reporting document which reflects all cash inflows and outflows and a reconciliation to the Company's bank statements;
 - (iii) PDI management is required to provide a listing of all vendor payments for approval prior to funds being advanced for these amounts; and
 - (iv) PDI's cash balance is controlled by the Interim Receiver via the Interim Financing mechanism which provides liquidity to the Company on an as needed basis.
- (b) initial review of the Company books and records (including material contracts);
- (c) determining the Company's current cash position and updating the cash flow forecasts and cash needs, including estimating borrowings required under the Interim Receiver's Borrowing Charge (as set out in the Interim Receivership Order);
- (d) understanding and summarizing priority payments/vendors that required immediate payment; and
- (e) providing PDI employees with a listing of FAQs concerning the Interim Receivership Order.

INSURANCE

29. The Interim Receiver inquired as to the status of the Company's current insurance policy to review the adequacy of the insurance and to discuss the current status of the insurance coverage. The Interim Receiver has confirmed that the Company's insurance policy has been paid up to date and is in effect until the following:
- (a) commercial policy up to January 23, 2016;
 - (b) general policy up to June 16, 2016; and
 - (c) directors and Officers policy up to August 31, 2016
30. The Interim Receiver was subsequently advised that the Company was set to extend the commercial policy in the normal course of business.

EMPLOYEES

31. At the Date of Appointment PDI employed approximately 34 employees either directly or through its wholly owned subsidiary Phenomenome Laboratory Services Inc ("PLSI"). The services of the employees were deemed necessary to allow PDI's operations to continue in the normal course and to assist the Interim Receiver through the Interim Receivership Proceedings, and each has continued his or her employment under the existing terms.
32. The Company notified the Interim Receiver that all employee related expenses, including statutory remittances were current as at the Date of Appointment and the Company has continued to meet its employee related obligations through its third party payroll service.
33. The Employees have continued to assist the Interim Receiver with the operations of the Company and to maintain the books and records.

OFFICE LEASE AGREEMENT

34. At the Date of Appointment PDI was leasing its office space located at 407 Downey Road in Saskatoon, Saskatchewan from Saskatchewan Opportunities Corporation (“SOCO”). The Interim Receiver has concluded that the current physical security of PDI’s offices was sufficient and no further steps were required to secure the premises. In the Interim Receiver’s opinion the PDI offices are considered adequately secure including key-card access to the offices and laboratory areas.
35. Prior to the Date of Appointment the Company issued a promissory note to the SOCO in respect of unpaid rent accrued prior to the Interim Receivership Proceedings. All rent in respect of the leased premises has been kept current from the Date of Appointment.

STATUTORY COMPLIANCE

36. The Interim Receiver drafted and caused the statutory notice to be sent to creditors in accordance with paragraph 31 and 32 of the Interim Receivership Order.
37. The Interim Receiver established a website at the following URL coordinates, <http://cfcanada.fticonsulting.com/PDI/> (the “**Interim Receiver’s Website**”), where it has posted periodic updates on the progress of the Interim Receivership Proceedings, materials filed in connection with the Interim Receivership Proceedings and other relevant information.

OPERATIONAL REVIEW

38. On December 7, 2015, the Interim Receiver met with PDI’s senior management to discuss the current status of the Company’s operations and any urgent operational issues that required immediate attention to maintain the Company’s Assets and operations.

39. The Interim Receiver, with the assistance of the Employees, assembled a list of critical suppliers to contact to ensure the continuation of services throughout the Interim Receivership Proceedings. The Interim Receiver successfully made arrangements with these critical suppliers and consequently the Company's operations have proceeded with minimal disruption.
40. On December 9, 2015, the Interim Receiver contacted Gowlings Lafleur Henderson LLP ("**Gowlings**"), external counsel, who assists the Company in maintaining and protecting the various patents with respect to safeguarding of the Company's intellectual property. The primary purpose of the discussions with Gowlings was:
- (a) to ensure that PDI was taking all reasonable steps required to preserve and maintain its intellectual property;
 - (b) to understand Gowlings' views with respect to the arrears owed by PDI and to understand Gowlings' estimated legal cost over the next several months; and
 - (c) to confirm Gowlings' willingness to continue to work with PDI through the Interim Receivership Proceedings.
41. Based on these discussion the Interim Receiver advises the following:
- (a) Gowlings confirmed its willingness to continue to provide services to PDI on the understanding that they will be paid for current work on a monthly basis;
 - (b) Gowlings confirmed that they are ensuring that the current patents are being maintained and defended; and

- (c) In advance of each month, Gowlings is to provide the Interim Receiver and PDI with a memorandum outlining the key intellectual property related action items that need to be addressed and the estimated costs associated with doing so. The Company will then make arrangements to pay the estimated cost to ensure Gowlings is kept current. PDI management will review the monthly memo and approve the suggested action items.
42. In order to complete all of the foregoing operational matters, the Interim Receiver has drawn \$250,000 in Interim Financing in accordance with the terms of the Interim Receivership Order and as more fully set out in the description of the receipts and disbursements below.

SUMMARY OF RECEIPTS AND DISBURSEMENT

43. Receipts and Disbursements from the Date of Appointment to January 16, 2016 are summarized as follows:

Schedule of Receipts and Disbursements		Notes
Receipts		
Interim Financing	249,465	a
Opening Cash	216,898	b
Other Receipts	13,385	c
Cologic Cash Receipts	8,555	d
Foreign Exchange Gain (Loss)	2,916	e
Total - Receipts	491,219	
Disbursements		
Employee Costs	241,361	f
Rent and Utilities	61,451	g
Operating Expenses	53,958	h
Legal Fees and Disbursements	32,027	i
Other Professional Fees	16,500	j
Receiver's Fees and Costs	-	k
Total - Disbursements	405,296	
Net Cash on Hand	85,923	

- (a) Interim Financing – the Interim Receiver has issued two Interim Receiver’s Certificates and the total represents the total funds advanced from GOFI in accordance with the Interim Receivership Order;
- (b) Opening Cash – amounts in PDI bank accounts on the Date of Appointment. Note, the Company has four active bank accounts, one PDI current account, two foreign currency accounts (USD and JPY), and one account of its wholly owned subsidiary PLSI. As a result of the foreign currency accounts at any time the Company has unrealized foreign exchanges gain or losses in CDN dollars;

- (c) Collogic Cash Receipts – receipts in PDI and PLSI accounts relating to the Company’s diagnostic tests;
 - (d) Other Receipts – GST refunds and other miscellaneous collections;
 - (e) Foreign Exchange Gain (Loss) – realized foreign exchange gain resulting from transfer between PDI’s USD and JPY accounts;
 - (f) Employee Costs – amounts disbursed by the Interim Receiver relating to payroll and employee deductions and consultants;
 - (g) Rent – amount paid to the landlord in accordance with PDI lease with SOCO;
 - (h) Operating Expenses – operating expenses relating to the Assets;
 - (i) Legal Fees and Disbursements – amounts paid to the PDI’s external counsel to maintain and preserve the Company’s patents and PDI’s internal counsel for its legal fees and disbursements;
 - (j) Other Professional Fees – amounts paid to certain advisory firms engaged to help the Company market the Assets; and
 - (k) Interim Receiver Fees – Interim Receiver fees and disbursements. The Interim Receiver has accrued fees for the month of December that have not been paid to date.
44. As at January 16, 2016, the Company has approximately \$85,923 in cash on hand. Since the granting of the Interim Receivership Order, PDI’s cash receipts and disbursements have been consistent with the forecast prepared by management and the Interim Receiver at the commencement of the Interim Receivership Proceedings.

CASH FLOW FORECAST

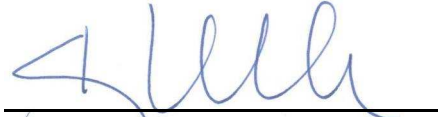
45. The Company, with the assistance of the Interim Receiver, prepared an updated Cash Flow Forecast for the seven week period ending February 27, 2016. A copy of the Cash Flow Forecast is appended to this First Report as “Appendix A”.
46. The Cash Flow Forecast indicates that the Company has sufficient liquidity to fund its operations to February 29, 2016, through a combination of cash flow from operations and the Interim Financing provided by GOFI previously approved by this Honourable Court.

INTERIM RECEIVER’S RECOMMENDATIONS

47. The Interim Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approving the activities of the Interim Receiver since the Date of Appointment including its receipts and disbursements; and
 - (b) an Order extending the Interim Receivership Order to February 29, 2016.

All of which is respectfully submitted this 19th day of January, 2016.

FTI Consulting Canada Inc. in its capacity as Interim Receiver of the assets, undertakings and properties of Phenomenome Discoveries Inc.



Name: Deryck Helkaa
Title: Senior Managing Director,
FTI Consulting Canada Inc.

Appendix A

Phenomenome Discoveries Inc.

Cash Flow Forecast

Appendix "A"

CAD	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 7
Week ending	16-Jan-16	23-Jan-16	30-Jan-16	6-Feb-16	13-Feb-16	20-Feb-16	27-Feb-16	Total
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Operating Receipts								
Cologic cash received	-	-	-	7,054	-	-	-	7,054
Other/GST Refund	-	-	-	5,980	-	-	-	5,980
Total - Operating Receipts	-	-	-	13,033	-	-	-	13,033
Operating Disbursements								
Payables/suppliers	-	-	(15,399)	(12,500)	-	-	-	(27,899)
Visa	-	-	(10,000)	-	-	-	-	(10,000)
Med-Life Discoveries Inc.	-	-	(11,800)	-	-	-	-	(11,800)
Yolbolsum Management Fee	(23,450)	-	(23,450)	-	-	-	-	(46,900)
Yasuyo (estimated CDN\$)	-	-	(9,731)	-	-	-	-	(9,731)
Rent	-	-	(61,493)	-	-	-	-	(61,493)
Payroll	(56,812)	-	(56,812)	-	-	(56,812)	-	(170,437)
Payroll Remittances	(20,229)	-	(20,229)	-	-	(20,229)	-	(60,687)
Blue Cross	-	-	(7,065)	-	-	-	-	(7,065)
Total - Operating Disbursements	(100,491)	-	(215,979)	(12,500)	-	(77,041)	-	(406,011)
Net Change in Cash from Operations	(100,491)	-	(215,979)	533	-	(77,041)	-	(392,978)
Professional Fees								
Interim Receiver Fees	-	-	(57,531)	-	-	-	-	(57,531)
Tormont Group	-	-	-	-	(8,250)	-	-	(8,250)
PDI Legal Fees	-	-	(8,173)	-	-	-	-	(8,173)
Gowling Lafleur	-	-	-	-	-	-	-	-
Total - Professional Fees	-	-	(65,703)	-	(8,250)	-	-	(73,953)
Total Net Cash Flow	(100,491)	-	(281,682)	533	(8,250)	(77,041)	-	(466,931)
Interim Financing	100,000	-	400,000	-	-	-	-	500,000
Net Change in Cash	(491)	-	118,318	533	(8,250)	(77,041)	-	33,069
Opening Cash	85,923	85,432	85,432	203,750	204,283	196,033	118,992	85,923
Ending Cash	85,432	85,432	203,750	204,283	196,033	118,992	118,992	118,992
Interim Financing in Period	100,000	-	400,000	-	-	-	-	500,000
Cumulative Interim Financing	250,000	250,000	650,000	650,000	650,000	650,000	650,000	650,000

85,923 Opening Cash Includes PDI, PDI USD, PDI JPY and PLSI Accounts
at the USD/CDN & JPY/CDN FX rates based on the Bank of Canada noon rate on 01/8/2016