

COURT FILE NUMBER Q.B. 1639 of 2015

COURT COURT OF QUEEN'S BENCH OF SASKATCHEWAN

JUDICIAL CENTRE SASKATOON

APPLICANT **GOLDEN OPPORTUNITIES FUND INC.**

RESPONDENTS **PHENOMENOME DISCOVERIES INC. and PHENOMENOME LABORATORY SERVICES INC.**

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

April 8, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

RECEIVER

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INTRODUCTION

1. On February 25, 2016 (the “**Date of Appointment**”), FTI Consulting Canada Inc. (“**FTI Consulting**”) was appointed as receiver and manager (the “**Receiver**”) of all the assets, undertakings and properties (the “**Property**”) of Phenomenome Discoveries Inc. (“**PDI**”) and Phenomenome Laboratory Services Inc. (“**PLSI**” and together with PDI collectively, the “**Company**”) pursuant to an Order of the Court of Queen’s Bench of Saskatchewan (the “**Receivership Order**”).

2. The Receivership Order authorized the Receiver, among other things, to:
 - (a) take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;

 - (b) manage, operate and carry on the business of the Company , including the power to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Company;

 - (c) market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;

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

 - (e) borrow up to \$400,000 by way of a revolving facility or otherwise charged against the Property by way of the Receiver’s Borrowing Charge (as defined in the Receivership Order) as security for the payment of the monies borrowed, together with interest charges thereon.

3. The Receiver's reports and other publically available information in respect of these proceedings (the "**Receivership Proceedings**") are posted on the Receiver's website at <http://cfcanada.fticonsulting.com/pdi> (the "**Receiver's Website**").

4. The purpose of this report ("**First Report**") is to inform the Court as to the following:
 - (a) the status of various aspects of the Receivership Proceedings;
 - (b) the Receiver's receipts and disbursements from the Date of Appointment; to April 7, 2016;
 - (c) the Receiver's proposed sales solicitation process (the proposed "**Sales Process**");
 - (d) the proposed key employee retention plan ("**KERP**"); and
 - (e) the Receiver's request to increase the maximum amount borrowed and subject to the Receiver's Borrowing Charge to complete the proposed Sales Process and administer the Receivership Proceedings.

5. The Receiver is requesting the following relief from this Honourable Court:
 - (a) approval of the activities of the Receiver since the Date of Appointment including its receipts and disbursements;
 - (b) approval of the proposed Sales Process;
 - (a) approval of the proposed KERP; and
 - (b) approval of the proposed increase to the Receiver's Borrowing Charge.

TERMS OF REFERENCE

6. In preparing this First Report, the Receiver has relied upon unaudited financial information, other information available to the Receiver and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
7. Except as described in this First Report:
 - (a) the 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 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.
8. 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.
9. The Receiver has prepared this First Report in connection with the Receiver's Application dated April 8, 2016. This First Report should not be relied on for other purposes.
10. Information and advice described in this First Report that has been provided to the Receiver by its counsel, Blake, Cassels & Graydon LLP (the "**Receiver's Counsel**"), has been provided to assist the Receiver in considering its course of action, is not intended as legal or other advice to, and may not be relied upon by, any other person.

11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

COURT PROCEEDINGS

12. On December 4, 2015, upon application of counsel on behalf of Golden Opportunities Fund Inc. (“**GOFI**”), this Honourable Court originally appointed FTI Consulting as Interim Receiver pursuant to the Interim Receivership Order. The Interim Receivership Order provided for an initial stay of proceedings to and including January 4, 2016 or further Order of the Court. The Court subsequently granted the following Orders:
 - (a) 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 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**”);
 - (b) 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;
 - (c) on January 21, 2016, this Honourable Court granted an order which, *inter alia*, extended the Interim Receivership Order to and including February 29, 2016; and
 - (d) on February 25, 2016, this Honourable Court granted an order which, *inter alia*, terminated the Interim Receivership Order and granted the Receivership Order.

13. Further details of the events leading up to the termination of the Interim Receivership Proceedings are described in the affidavit of Douglas Banzet sworn on February 22, 2016.

RECEIVERSHIP PROCEEDINGS

Background

14. PDI is a private entity incorporated under the laws of the Province of Saskatchewan and is a human health research company whose principal line of business is to develop technology to investigate how diseases arise, to identify persons most likely to develop diseases and to design therapies to treat the causes of disease.

15. The Company's asset portfolio is summarized below:
 - (a) the diagnostic discovery platform which consists of a number of regulatory approved risk assessment test kits and a pipeline of pre-commercial diagnostic markers in additional diseases. The Company's primary areas of focus for risk assessment are cancer (the "**Cancer Diagnostics**") and neurological disease (the "**Neurological Diagnostics**") and together with the Cancer Diagnostics, collectively the "**Diagnostic Assets**");

- (b) the Company is developing a novel disease modifying target for the treatment of Alzheimer's Disease and has validated in several large case-control and longitudinal population studies involving thousands of subjects. The Company's lead drug candidate is orally bioavailable and restores the target to a healthy condition and has the potential to enter human trials in 2016. The Company also has therapeutic programs with the potential to enter human testing in Parkinson's Disease and the rare genetic pediatric disease Rhizomelic Chondrodysplasia Punctata. The Company's drug products (the "**Therapeutic Assets**") are protected with composition of matter and use patents;
 - (c) PLSI is a wholly owned subsidiary of PDI and is certified by the College of American Pathologists (CAP) and Clinical Laboratory Improvement Amendments (CLIA) to process samples from its collaborators. PLSI is ISO17025 compliant and has a Class IX medical laboratory license from the College of Physicians and Surgeons of Saskatchewan (CPSS), and has the first provincial medical laboratory testing license issued in Saskatchewan in over 30 years (the "**Laboratory License**"). Additionally, the Company has ownership of certain equipment associated with operating the laboratory (the "**Laboratory Equipment**" and together with the Laboratory License, collectively the "**Laboratory Assets**"); and
 - (d) the Company has cumulative non-capital losses of approximately \$20.8 million on its 2015 tax return and other fixed assets owned by the Company (the "**Other Assets**" and together with the Drug Assets, the Therapeutic Assets and the Laboratory Assets collectively, the "**Assets**").
16. PDI remains in the pre-commercial phase and while certain of the Assets are considered valuable and/or marketable, PDI currently has no significant revenue. The source of the Company's financial difficulties is more fully described in the Affidavit of Gavin Preston sworn November 23, 2015 (the "**Preston Affidavit**").

17. As at January 31, 2016, the PDI's unaudited consolidated financial statements indicated the following:
- (a) \$5.2 million of current assets (\$4.3 million due from PLSI);
 - (b) \$742,000 of property and equipment;
 - (c) \$4.2 million of intangible assets (\$1.8 million loan receivable from PLSI);
 - (d) \$1.1 million in secured debt owed to GOFI including accrued interest and expenses (\$1.3 million as at March 31, 2016);
 - (e) \$1.6 million owing under a promissory note (the "**Promissory Note**") issued by PDI to the Saskatchewan Opportunities Corporation ("**SOCO**") and registered at the PPSA (\$1.7 million as at March 31, 2016);
 - (f) \$3.0 million unsecured loan owed to a related party;
 - (g) \$1.4 million in accounts payable and accrued liabilities;
 - (h) \$650,000 owed to GOFI and secured by the Interim Receiver's Borrowing Charge.
18. On November 10, 2015, GOFI issued a demand for payment and a notice of intention to enforce security pursuant to section 244(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 ("**BIA**") as described in the Preston Affidavit.

Custody and Control

19. On the Date of Appointment, the Receiver attended the Company's leased premises at 204, 407 Downey Road, Saskatoon, Saskatchewan to meet with the Company's employees and consultants to advise that the Receivership Order had been granted and to take possession of the Company's Property in accordance with the terms of the Receivership Order. The Receiver indicated its intent to continue the Company's operations in order to facilitate an orderly sale of the Assets to maximize the return for all stakeholders.
20. Prior to the Date of Appointment, the Company had reduced its office staff and as a result, the Receiver did not terminate any employees until a further evaluation of the staffing needs was completed.
21. As at the Date of Appointment, all employee related obligations and statutory deductions were current and the Company's payroll was funded by the Receiver via the Company's payroll service on February 26, 2016. The Receiver made arrangements to continue the Company's payroll service during the Receivership Proceedings.
22. On or around the Date of Appointment, the Receiver also completed the following administrative tasks:
 - (a) prepared the Notice and Statement of the Receiver as required under section 245 and 246 of the BIA and mailed the notice to all known creditors as well as posting all relevant documents to the Receiver's website;
 - (b) in accordance with the Receivership Order, froze the Company's bank accounts and transferred the remaining balance to the Receiver's account;
 - (c) investigated the status of the Company's insurance coverage;

- (d) contacted the Company's landlord to facilitate discussions surrounding the status of the sublease agreement with SOCO (discussed in greater detail below); and
- (e) communicated with numerous creditors and stakeholders regarding the Receivership Proceedings.

Statutory Compliance

- 23. On March 3, 2016, the Receiver mailed the notice and statement of receiver in accordance with subsection 245(1) and 246(1) of the BIA to the Superintendent of Bankruptcy and to all known creditors.
- 24. The Receiver established the Receiver's Website, where it has posted periodic updates on the progress of the Receivership Proceedings, materials filed in connection with the Receivership Proceedings and other relevant information.
- 25. The Receiver notified the Canada Revenue Agency (the "CRA") of the Receiver's appointment and to establish new remittance accounts for the goods and service tax and employee related obligations arising subsequent to the Date of Appointment.

Insurance

- 26. The Receiver contacted the Company's insurance provider, Aviva Insurance Company, to amend the Company's existing insurance policies to reflect the Receiver's interest in the Assets, to review the adequacy of the insurance and to discuss the current status of the insurance coverage.
- 27. The Company's corporate insurance policy was renewed and is valid until January 23, 2017.

Office Sublease Agreement

28. The Company's office sublease with SOCO is valid until November 30, 2016, and the Receiver has contacted SOCO to discuss the potential to defer the monthly sublease payments until the conclusion of the Receivership Proceedings in order to conserve the Company's cash on hand for operations. These discussions are ongoing and subject to agreement between the Receiver and SOCO.
29. On December 1, 2011, PDI granted a Promissory Note to SOCO pursuant to an expired lease in the principal amount of \$1,163,107.32 plus interest, accruing at the prime lending rate on the date of default plus 5% per annum.

Employees

30. On Date of Appointment, the Company employed approximately 32 employees either by PDI or through its wholly owned subsidiary PLSI. The services of the employees were deemed necessary to allow PDI's operations to continue in the normal course and to assist the Receiver through the Receivership Proceedings and maximize the value for the Company's stakeholders. The employees agreed to continue his or her employment under the existing terms.
31. The employees have continued to assist the Receiver with the operations of the Company and to maintain its books and records. As of the date of this Report all employee related obligations have been kept current.

Med-Life Discoveries LP Dispute

32. PDI and Med-Life Discoveries LP, by and through its general partner Med-Life Discoveries GP Inc. ("MLD"), executed a purchase and sale agreement (the "Agreement") made effective June 30, 2015. A copy of the Agreement is provided to the Court as Confidential Appendix I, but is not attached to this First Report due to the confidential and commercially sensitive nature of its contents.

33. On February 22, 2016, MLD filed an application to have a dispute between MLD and PDI (the “**MLD Dispute**”) resolved by arbitration in accordance with the provisions of the Agreement. The MLD Dispute is outlined in greater detail in the Affidavits of David Dube and Craig Bell sworn on November 23, 2015.

RECEIPTS AND DISBURSEMENT

34. Receipts and Disbursements from the Date of Appointment to April 7, 2016, are summarized in the Schedule of Receipts and Disbursements below:

Schedule of Receipts and Disbursements	
As of April 7, 2016	
Receipts	
Receiver Certificate	400,000
Bank Account Transfer	72,726
Opening Cash	54,467
Total - Receipts	527,193
Disbursements	
Employee Obligations	132,001
Outside Consulting	30,541
Interim Receivership Payables	27,155
Other Professional Fees	17,715
Insurance	11,783
Operating Expense	11,324
Other Disbursements	9,945
GST/PST Paid	5,021
Total - Disbursements	245,484
Net Cash on Hand	281,709

35. The amounts set out in the Schedule of Receipts and Disbursements are as follows:

- (a) Receiver Certificate – in accordance with the Receivership Order the Receiver issued a Receiver Certificate and the total represents the funds advanced from GOFI, Concorde Centres Inc. and PIC Flight Services Inc. (the “**Syndicate**”);

- (b) Bank Account Transfer – balances in the Company’s bank accounts on the Date of Appointment which were transferred to the Receiver’s account;
 - (c) Opening Cash – cash balance held by FTI Consulting in its capacity as Interim Receiver pursuant to the Interim Financing;
 - (d) Employee Obligations – amounts disbursed by the Receiver in respect of employee related obligations;
 - (e) Outside Consulting – amounts disburses to the Company’s consultants;
 - (f) Interim Receivership Payables – amounts paid by the Receiver for approved expenses from the Interim Receivership period;
 - (g) Other Professional Fees – amounts paid to the Company’s external legal counsel to maintain and protect its intellectual property;
 - (h) Insurance – amounts paid to maintain the Company’s insurance policy;
and
 - (i) Operating Expenses – operating expenses relating to maintaining the Assets.
36. As at April 7, 2016, the Receiver holds \$281,709 in cash on hand as summarized in the Schedule of Receipts and Disbursements above.
37. Through previous Orders of this Honourable Court the Receiver has secured financing in the amount of \$400,000 secured by the Receiver’s Borrowing Charge.

PROPOSED SALES PROCESS

38. Prior to the Date of Appointment the Company had engaged four separate sales agents to seek interest in certain Assets as well as potential investments in the Company. However, no transaction(s) was ever completed through this process. As a result, the Company has compiled marketing materials and the Receiver anticipates that a comprehensive marketing package can be prepared in short order.
39. The Receiver has contacted all of the agents that were previously engaged by the Company and informed them that their prior agreements had been terminated. The Receiver has contemplated engaging these parties, and any others that express interest to the Receiver, in a standard form of agency agreement (the “**Agency Agreement**”). The Agency Agreement contemplates a commission of 2% to any party that has duly registered the eventual purchaser.
40. The proposed Sales Process sets out the parameters pursuant to which the Receiver, on behalf of the Company, will solicit offers to purchase the Company and/or its Assets and the requirements for the submission of the offers by interested parties.
41. The following table summarizes the proposed timeline for the major steps contemplated by the proposed Sales Process.

Task	Completion Date	Days from Launch
Finalize construction of VDR and marketing materials	15-Apr-16	(3)
Launch Sales Process (subject to Court Approval)	18-Apr-16	-
Bid Deadline	29-Jul-16	102
Seek Court Approval	19-Aug-16	123
Close Transaction	2-Sep-16	137

Marketing and Advertisement

42. The proposed Sales Process contemplates that:
- (a) as soon as reasonably possible after receiving approval from this Honourable Court the Receiver shall cause a notice of the Sales Process and such other relevant information which the Receiver, in consultation with the Company, considers appropriate to be published in the Globe and Mail;
 - (b) as soon as reasonably possible after receiving approval from this Honourable Court the Company shall issue a press release setting out the notice and such other relevant information as it may consider appropriate in form and substance satisfactory to the Receiver on the Company's website;
 - (c) as soon as reasonably possible after receiving approval from this Honourable Court the Receiver, in consultation with the Company, shall prepare and distribute a teaser with respect to the Company and its Assets for distribution to prospective purchasers (the "**Teaser**");
 - (d) as soon as reasonably possible after receiving approval from this Honourable Court the Receiver, in consultation with the Company, shall prepare and distribute a confidential information memorandum with respect to the Company and its Assets for distribution to prospective purchasers (the "**CIM**");
 - (e) as soon as reasonably possible after receiving approval from this Honourable Court the Receiver will make available a confidential virtual data room ("**VDR**") describing the opportunity to acquire all or a portion of the Assets to prospective purchasers that have executed a non-disclosure agreement with the Receiver; and

- (f) the Receiver and selected members of the Company will engage in a marketing road show to present the opportunity to acquire all or a portion of the Assets to prospective purchasers throughout select markets. The Receiver anticipates that this process will include presentations in the following markets:
 - (i) Europe – Copenhagen (May 10th through May 12th);
 - (ii) Asia – Tokyo, Shanghai and Hong Kong (May 23rd, May 25th and May 27th, respectively); and
 - (iii) North America – San Francisco (June 6th through June 9th);
- (g) the Receiver will engage public relations firms with efforts to place stories in targeted local or national publications relating to the Company’s Assets.

Participation Requirements

- 43. In order to participate in the Sales Process, each prospective purchaser must deliver to the Receiver an executed non-disclosure agreement (“**NDA**”) in form and substance satisfactory to the Receiver, at which time the potential bidder shall be considered a qualified bidder (“**Qualified Bidder**”).
- 44. The Receiver shall provide any person deemed to be a Qualified Bidder with access to the VDR.

Timing and Status

Phase 1 – Qualified Bids

45. The Receiver will be soliciting offers to purchase the Assets whether in whole, groups, or individually. Qualified Bidders will be asked to submit their bid in the form provided for by the sale and purchase agreement (the “SPA”) prepared by the Receiver’s Counsel and made available in the VDR, subject only to revisions as agreed to by the Receiver.
46. A Qualified Bidder wishing to submit a bid, will deliver a fully executed SPA (a “**Qualified Bid**”) by no later than 5:00 p.m. (Mountain Standard Time) on July 29, 2016, or such other date or time as may be agreed by the Receiver (the “**Bid Deadline**”).
47. The SPA will outline the potential for Qualified Bidders to bid on the Assets whether in whole, groups, or individually in order for the Receiver to effectively compare the Qualified Bids and determine the best realizable value that can be reasonably obtained for the Assets. As such, a Qualified Bidder may subscribe value to any one of the following either individually or as a whole:
 - (a) the Cancer Diagnostics;
 - (b) the Neurological Diagnostics;
 - (c) the Therapeutic Assets;
 - (d) the Lab License and the Laboratory Equipment; and
 - (e) the Other Assets.
48. A Qualified Bid will be considered as such only if the Qualified Bid complies, at a minimum, with the following:

- (a) it contains a duly executed SPA in the form substantially available in the VDR;
 - (b) is accompanied by a deposit of 10% of the purchase price;
 - (c) it provides written evidence of financial commitment or other evidence of the ability to consummate the sale satisfactory to the Receiver;
 - (d) it is not conditional upon any other matters and can be consummated subject only to Court approval; and
 - (e) it is received by the Bid Deadline.
49. The Receiver, may in its sole and unfettered discretion, waive compliance with any one or more of the requirements specified herein and deem such non-compliant bids to be Qualified Bids.
50. The Receiver may, following the receipt of any Qualified Bid, seek clarification with respect to any of the terms or conditions of such Qualified Bid and/or request and negotiate one or more amendments to such Qualified Bid prior to determining the most favourable Qualified Bid(s) which are to be negotiated and finalized by August 12, 2016 (the "**Successful Bid(s)**").

Phase 2 – Bid Assessment and Court Approval

51. After Phase 1 has been completed the Receiver shall apply to the Court (the "**Approval Motion**") for an order approving the Successful Bid(s) and vesting title to the purchased property in the name of the Successful Bidder(s) (the "**Approval Order**"). The Approval Motion will be heard on a date to be scheduled by the Receiver's Counsel and confirmed by the Court upon application by the Receiver, who shall use their best efforts to schedule the Approval Motion on or before August 19, 2016.

Phase 3 – Close Sale

52. As soon as reasonably possible after the Approval Order, the Receiver will endeavor to close the transaction. The target date to close the transaction is September 2, 2016.

The Receiver's comments with respect to the proposed Sales Process

53. In the Receiver's view the proposed Sales Process is fair and reasonable in the circumstances based on the following:
- (a) the Sale Process was developed in consultation with major stakeholders and marketing agents and consultants who have considerable experience marketing assets of this nature, and the parties have agreed that the timeline of the proposed Sales Process is fair and reasonable in the circumstance;
 - (b) the marketing and advertisement contemplated in the Sales Process will ensure the Assets are adequately exposed to the market;
 - (c) the bidding process provisions allows adequate assessments of the legitimacy of the bidders and their ability to close a transaction;
 - (d) the due diligence period and information available through the VDR and the ability to meet with management of the Company and perform site visits, provides potential purchasers with the time and information required to make an informed offer for the Assets; and
 - (e) the Sales Process allows for a fair transparent process to solicit offers for the Company and the Assets. The timelines set out in the Sales Process provide a reasonable opportunity for all interested parties to put forward their best offers for the Company and its Assets.

PROPOSED KERP

54. The Receiver is seeking the approval of a KERP. If approved, the Company's employees, each of whom is considered by the Company and the Receiver to be critical to the successful completion of the Receivership Proceedings, will participate in the KERP. For greater certainty, the Receiver notes that the Company has a number of consultants, including the President and CEO of the Company, however, these consultants are not eligible to participate in the KERP. Additionally, the Company has three employees that are currently on leave and two casual employees and these employees are not eligible to participate in the KERP.

55. The key elements of the KERP are as follows:

- (a) eligible participants will receive a specific cash retention payment equal to 20% of their annual base salary on the earlier the date on which they are terminated without cause, and the date on which a sale of a material portion of the Company's Assets closes;
- (b) employees who resign or who are terminated with cause are not eligible to participate; and
- (c) the maximum aggregate amount of cash retention payments to all beneficiaries is estimated to be \$199,980.

The Receiver's comments and recommendation with respect to the proposed KERP

56. The Receiver has reviewed information available in respect of similar cases where employee retention plans have been approved and compared these retention plans to the proposed KERP.

57. Due to the nature of the Company's operations, the current employees are highly trained and the Receiver anticipates that it would be difficult to find suitable replacements with the same level of knowledge and training required to maintain the value of the Assets.
58. The Receiver believes that the departure of any employees may be detrimental to its business and operations, especially given the proposed timing of attempting to complete the assets sales in the current marketplace, and could impair the likelihood of a successful Sales Process. The approval of the KERP should provide incentive for the employees to remain in their employment for the duration of the Receivership Proceedings.
59. From its review of prior court-approved retention plans, the Receiver is satisfied that the KERP is consistent with current practice for retention plans and that the quantum of the proposed payments under the KERP, both to individuals and in the aggregate, are reasonable in the circumstances.
60. Further, the Receiver advises that the Company's secured lender, GOFI and the Company's largest shareholder, Yolbolsum Canada Inc., have reviewed the details of the KERP and are in support of such arrangement.
61. Based on the foregoing, the Receiver is of the opinion that the KERP is reasonable in the circumstances and its implementation would be beneficial to the Company's stakeholders.
62. Accordingly, the Receiver respectfully recommends that the KERP be approved by this Honourable Court. The Receiver also supports the granting of the KERP Charge to secure the obligations thereunder, as discussed in further detail below.

CASH FLOW FORECAST

63. The Company, with the assistance of the Receiver, has prepared a cash flow forecast (the “**Forecast**”) for the period of April 1, 2016 to September 30, 2016 (the “**Forecast Period**”). A copy of the Forecast is attached hereto as Appendix A.
64. The Forecast indicates the following for the Forecast Period:
- (a) total cash receipts excluding advances under the proposed Receiver’s Borrowings of \$339,614;
 - (b) total operating disbursements of \$1.6 million;
 - (c) total disbursements relating to the professional fees and the proposed Sales Process of \$1.7 million; and
 - (d) total estimated cash need of an additional \$2.1 million.
65. The Forecast has been prepared solely for the purposes of determining the liquidity requirements of the Company during the Receivership Proceedings, using probable and hypothetical assumptions, and readers are cautioned that it may not be appropriate for other purposes.

PROPOSED INCREASE TO THE RECEIVER’S BORROWING CHARGE

66. In accordance with the Receivership Order, the Receiver has borrowed \$400,000 from the Syndicate since the Date of Appointment.

67. Through the proposed Sales Process the Receiver aims to solicit offers to purchase the Assets and complete a transaction that is commercially reasonable in the circumstances and in the best interest of the Company's stakeholders. In order to complete the foregoing the Receiver is seeking Court approval to increase the principal amount of the Receiver's Borrowings to \$3.0 million. The Forecast indicates that \$400,000 of the Receiver's Borrowings is required during the next thirty days.
68. The Syndicate has expressed its intention to increase its commitment under the Receiver's Borrowing Charge by an additional \$400,000 (the "**Term Sheet**"). A copy of the executed Term Sheet is attached hereto as Appendix B.
69. Subject to the terms and conditions of the Term Sheet, the Syndicate has agreed to lend, at a minimum an additional \$400,000, bringing the total borrowings to \$800,000 (the "**Maximum Loan Amount**") to the Receiver to initiate the Sales Process. The advances under the Loan are to be advanced in accordance with the terms of the Term Sheet with the key terms summarized below:
- (a) the borrowings under the Term Sheet will bear interest at 11% per annum, such interest shall accrue daily and is payable monthly in arrears;
 - (b) a commitment fee of \$4,000 (100 basis points) is payable from the first advance under the Loan; and
 - (c) the borrowings under the Term Sheet are repayable in full on completion of the Sales Process from the funds received by the Receiver for the Assets.
70. The Syndicate has indicated to the Receiver that it would likely be willing to fund up to \$3.0 million if a mutually agreeable settlement is reached with respect to the MLD Dispute.

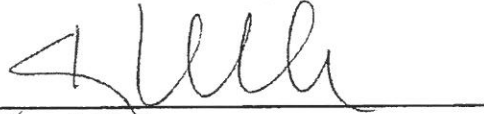
71. The Receiver is of the opinion that the value of the Assets may be eroded if approval of the proposed Sales Process is delayed and as such is seeking the authority of this Honourable Court to increase the commitment under the Receiver's Borrowing Charge to \$3.0 million.
72. In the event that MLD and the Receiver do not reach a mutually agreeable settlement to the MLD Dispute and the Syndicate is not willing to fund the proposed increase in the commitment under the Receiver's Borrowing Charge the Receiver will seek alternative financing arrangements under the same or similar commercial terms in order to complete the proposed Sales Process.
73. Subject to approval of this Honourable Court, the proposed increase to the Receiver's Borrowing will be rank *pari passu* with other amounts advanced under Receiver's Borrowings and subordinate only to the Interim Receiver's Charge, the Interim Receiver's Borrowing Charge and the Receiver's Charge.

CONCLUSIONS AND RECOMMENDATIONS

74. The Receiver respectfully requests that this Honourable Court grant the following relief:
 - (a) approving the activities of the Receiver since the Date of Appointment including its receipts and disbursements;
 - (b) approving the proposed Sales Process;
 - (c) approving the KERP; and
 - (d) approving the increase in the Receiver's Borrowing Charge.

All of which is respectfully submitted this 8th day of April, 2016.

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



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

APPENDIX "A"

APPENDIX "B"

A Lending Syndicate Comprising:
Golden Opportunities Fund Inc.
Concorde Centres Inc.
PIC Flight Services Inc.

c/o Golden Opportunities Fund Inc.
Suite 830, 401 – 22nd Street East
Saskatoon, SK S7K 5T6
Phone: (306) 652-5557
Fax: (306) 652-8186

April 6, 2016

Deryck Helkaa
FTI Consulting Inc.
c/o Phenomenome Discoveries Inc.
204 – 207 Downey Road
Saskatoon, SK S7N 4L8

Attention: Mr. Helkaa

RE: Receivership Financing Terms

Pursuant to a letter agreement dated March 1, 2016 (the "Agreement"), Golden Opportunities Fund Inc. ("GOF"), Concorde Centres Inc. and PIC Flight Services Inc., together constituting a lending syndicate (the "Syndicate"), agreed to provide financing ("Receiver's Borrowings") in the form of a credit facility (the "Credit Facility") to FTI Consulting Canada Inc., in its capacity as Court appointed Receiver ("FTI Consulting", or the "Receiver") of the property ("Property") of Phenomenome Discoveries Inc. ("PDI") and Phenomenome Laboratory Services Inc. ("PLSI"), for the purposes of the loan described in more detail in the Agreement.

The relative interest of each party in the Syndicate is as follows:

Golden Opportunities Fund Inc.	-50%
Concorde Centres Inc.	-25%
PIC Flight Services Inc.	-25%

The Syndicate has granted GOF irrevocable authority to represent and bind the Syndicate as the agent of the Syndicate.

The Syndicate is pleased to provide an increase in the Receiver's Borrowings set out in the Agreement pursuant to the terms set out below (the "Amending Agreement").

Borrower: FTI Consulting Canada Inc., in its capacity as Receiver.

Receiver: FTI Consulting of Calgary, Alberta has been appointed Receiver of the Property pursuant to s. 243 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 ("BIA") on the order pronounced by the Court of Queen's Bench of Saskatchewan (the "Court") on February 26, 2016 (the "Receivership Order").

Purpose: To provide the Receiver's Borrowings in order to support the operations of PDI while it reorganizes its affairs under the Receiver and pursuant to the Receivership Order.

Credit Facility: The sum of \$800,000 in Receiver's Borrowings (the "Principal Sum"). (This represents an increase from the \$400,000 credit facility contemplated in the Agreement.)

Interest Rate: 11% per annum, calculated daily and payable monthly not in advance. Interest on unpaid interest shall be calculated and paid at the same rate and in the same manner as interest accruing on the Principal Sum.

Repayment: The Principal Sum, together with interest thereon, will be repaid upon the discharge of the Receiver or upon the sale of assets of PDI other than in the ordinary course of business. Any payments received are to be applied firstly in payment of interest owing at the time of payment and the balance shall be applied in reduction of principal.

Prepayment: The Receiver shall have the right to prepay all or any portion of the Credit Facility at any time without notice.

Fee: A commitment fee of \$4,000 is due and payable upon the first advance of funds of the aforesaid \$400,000 in Receiver's Borrowings.

Security: Pursuant to the Receivership Order, the whole of the property of PDI and PLSI shall be charged by way of fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest charges thereon, by the Receiver from GOF. The Receiver's Borrowings Charge shall rank in priority to all security interests, trusts, liens, charges and encumbrances, statutory and otherwise, in favor of any person, except (1) the Interim Receiver's Charge; (2) the Interim Receiver's Borrowings Charge; and (3) the Receiver's Charge, each as defined in the Receivership Order. The Receiver's Borrowings Charge is evidenced by the fully executed Receiver Certificate attached as Schedule "A" hereto.

Advance Process: Funds will be advanced from the Syndicate (*pro rata* based on each party's interest in the Syndicate) to FTI Consulting from time to time upon GOF's receipt of a fully executed Receiver Certificate.

Reporting: The Receiver shall provide weekly status updates including reports on earnings, cash flows, and financial position of PDI.

Court Approval: This Amending Agreement is conditional upon Court approval of the increase in the authorized amount of Receiver's Borrowings from \$400,000 to at least \$800,000 on or before April 18, 2016.

Facsimile and Counterpart Execution: This Amending Agreement may be executed in one or more counterparts, including facsimile transmission thereof, each of which shall be deemed an original and when so executed all such counterparts taken together shall form one agreement.

If the terms and conditions are acceptable, please indicate your acceptance by signing and returning this letter to the undersigned on or before 5:00 pm (Saskatoon time) on April 8, 2016, failing which this Amending Agreement will forthwith terminate and be null and void and of no force or effect whatsoever.

Yours truly,

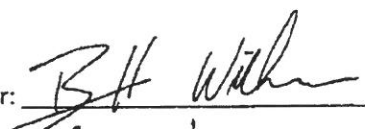


Doug Banzet
Chief Financial Officer

Golden Opportunities Fund Inc.
830, 401-22nd Street East
Saskatoon, SK S7K 5T6

Acceptance

The undersigned agrees to the foregoing as of April 8, 2016.

Per: 
Brett Wilson

[Print Name]
FTI Consulting Inc.

SCHEDULE "A"

RECEIVER CERTIFICATE

CERTIFICATE NO. 2

AMOUNT \$400,000

1. THIS IS TO CERTIFY that FTI Consulting, Inc., appointed by Order of the Court of Queen's Bench of Saskatchewan (the "Court") issued the 26th day of February, 2016 (the "Order"), as receiver (the "Receiver") of all of the assets, undertakings and properties of Phenomenome Discoveries Inc. and Phenomenome Laboratory Services Inc. (together, the "Debtor"), including all proceeds thereof (the "Property"), has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$400,000, being part of the total principal sum of \$800,000.00 which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded daily after the date hereof at a notional rate per annum equal to the rate of eleven percent (11%) per annum.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act* (Canada) and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Suite 830, 401 – 22nd Street East, Saskatoon, SK S7K 5T6.
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.
6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.
7. The Receiver does not undertake any personal liability to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the _____ day of _____, 2016.

FTI CONSULTING, INC., solely in its capacity as Receiver of the Property, and not in its personal capacity.

Per: _____
Name:
Title: