

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

February 22, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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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. On January 21, 2016, this Honourable Court granted an order which, *inter alia*, extended the Interim Receivership Order to and including February 29, 2016.
6. 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/>.
7. The purpose of this report (this “**Second Report**”) is to inform the Court as to the following:
 - (a) the status of various aspects of the Interim Receivership Proceedings, including the Interim Receiver’s summary and comments surrounding the various efforts being undertaken by PDI and its board of directors to normalize PDI’s operations and corporate governance in an attempt to maximize value for all stakeholders;

- (b) the Interim Receiver's receipts and disbursements from the Date of Appointment to February 13, 2016; and
 - (c) PDI's current cash position.
8. 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 terminating the Interim Receivership Proceedings.

TERMS OF REFERENCE

9. In preparing this Second 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**").
10. Except as described in this Second 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.

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

INTERIM RECEIVERSHIP PROCEEDINGS

BACKGROUND

13. 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.
14. 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 employee related obligations and rent. PDI's current monthly cash needs are between \$350,000 and \$375,000.
15. PDI's Assets and the source of its current financial difficulties are more fully described in the Interim Receiver's First Report dated January 19, 2016.
16. The Interim Receiver has attended the offices of PDI at regular intervals since its First Report.

STRATEGIC ALTERNATIVES / REFINANCING

17. As more fully described in the Interim Receiver's First Report, PDI management and PDI's board of directors ("**BOD**") recognized 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.
18. Prior to the Date of Appointment certain parties had been retained by PDI (the "**Selling Agents**") to market certain of its Assets and/or operations (the "**Solicitation Process**"). The Interim Receiver further understands that the Solicitation Process is currently underway and preliminary update reports from the Selling Agents have been provided to PDI's management and BOD. However, while the preliminary indications of interest have been positive, the Interim Receiver understands that the completion of a transaction resulting from the Solicitation Process would likely require at least a further 120 days.
19. Since the Date of Appointment, PDI's president and CEO (Dr. Dayan Goodenowe) and certain members of the BOD have been working to address certain legacy issues surrounding material agreements which would allow the Company to be more attractive through a going concern sale. Such material agreements that were being discussed included management services agreement, shareholder agreement, and licensing agreement.

20. The PDI BOD, Dr. Goodenowe and the counter parties to these agreements had been working in good faith to resolve the outstanding issues and finalize the revised documents in order to facilitate a normalization of the Company's operations and enable a more robust outcome through the Solicitation Process. However, as discussed in further detail below, the Interim Receiver is now of the view that these agreements will not be formalized in a timely manner in order to complete the necessary restructuring of the Company in a timely fashion. Furthermore, due to the protracted negotiation of the various agreements, the Interim Receiver has been advised by GOFI, the Interim Lender, that it is unwilling to fund further amounts under the Interim Financing.
21. As discussed above, the Interim Receiver has presently drawn the full amount authorized and approved by this Honourable Court (\$650,000). As a result, PDI is currently without sufficient funds to continue to operate in the normal course.
22. The Interim Receiver has attended the last two meetings of PDI's BOD held on February 4, 2016 (the "**February 4th BOD Meeting**") and on February 19, 2016 (the "**February 19th BOD Meeting**") in addition to an update meeting on February 15, 2016 (the "**February 15th Update Meeting**"). At the February 4th BOD Meeting, the Interim Receiver advised that PDI was likely to exhaust all its funds as provided for under the Interim Financing by mid to late February 2016 and that it was imperative for PDI to resolve its various issues surrounding the documentation that GOFI required in order to provide further funding given the expected timeline to complete the Solicitation Process.
23. Due to the urgent nature of the operations, the Interim Receiver understands that GOFI and Dr. Goodenowe met during the week of February 8th to determine if the parties could resolve and finalize the revisions to the various agreements such that further Interim Financing would be made available by GOFI.

24. The Interim Receiver understands that concerted efforts were made between Dr. Goodenowe and GOFI following the February 4th BOD Meeting; however, ultimately the negotiations have since terminated. At the February 15th Update Meeting, the Interim Receiver was advised that it was unlikely that further negotiations between the parties would result in a potential resolution. Furthermore, the Interim Receiver is of the view that even if additional time was provided to negotiate the various agreements it would not result in normalization of Company's management and related agreements.
25. Further complicating PDI's current situation is the following:
- (a) PDI has no funds to continue operations in the normal course;
 - (b) on February 14, 2016, the Interim Receiver was made aware of Robertson Stromberg LLP's withdrawal of its legal representation of PDI effective immediately. Formal notice of the withdrawal was received on February 15, 2016. As of the date of this Second Report the Company has not retained replacement legal counsel;
 - (c) the departure of certain of key staff members has occurred for various reasons including the following positions:
 - (i) Senior Manager Finance;
 - (ii) Project Manager, Diagnostic Devices; and
 - (iii) Executive VP, Regulatory, Compliance & Quality Assurance.

26. In summary, the Interim Receiver advises that the current working relationship between the BOD and Dr. Goodenowe has deteriorated to essentially an unworkable arrangement. In combination with the absence of Interim Financing the Interim Receiver is of the view that that continuing with these Interim Receivership Proceedings is futile. Furthermore, even if additional funding was provided within these Interim Receivership proceedings, the Interim Receiver does not believe any resolution to the various documentation and governance issues can be resolved in a timely manner.
27. At the February 19th BOD Meeting it was resolved that the BOD would consent to an application to appoint a receiver in respect of the PDI Property.

OPERATIONAL REVIEW AND RECEIPTS AND DISBURSEMENTS

28. The Interim Receiver has worked closely with PDI staff to cease the approval of the Company's purchase requisitions as a result of the uncertainty surrounding the Company's liquidity and the availability of the Interim Financing as more fully described above. As a result, only critical and essential purchases have been approved. However, at the date of this report, PDI has insufficient funds to continue operations in the normal course.
29. A summary of Receipts and Disbursements from the Date of Appointment to February 13, 2016 is presented below along with the variance from the Forecast to and including the week ending February 13, 2016.

Schedule of Receipts and Disbursements	Forecast	Actual	Variance	Notes
Receipts				
Interim Financing	800,000	499,448	(300,553)	a
Opening Cash	216,898	216,898	-	b
Other Receipts	84,666	20,721	(63,945)	c
Cologic Cash Receipts	24,110	8,840	(15,270)	d
FX gain (loss)	-	2,366	2,366	e
Total - Receipts	1,125,674	748,273	(379,767)	
Disbursements				
Employee Costs	322,998	405,515	(82,517)	f
Rent	120,474	123,188	(2,713)	g
Operating Expenses	200,434	124,442	75,992	h
Legal Fees and Disbursements	37,173	52,199	(15,027)	i
Other Professional Fees	91,681	16,500	75,181	j
Interim Receiver Fees and Costs	148,731	-	148,731	k
Total - Disbursements	921,491	721,844	199,647	
Ending Cash	204,183	26,429	(180,120)	

- (a) Interim Financing – the Interim Receiver has issued four Interim Receiver’s Certificates and the total represents the total funds advanced from GOFI in accordance with the Interim Receivership Order. The Interim Receiver has made the final \$150,000 draw, fully utilizing the approved funding under Interim Receivership of \$650,000, however these amounts have not been advanced to PDI as at the date of this Report;
- (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 currency gain or losses in CDN dollars;
- (c) Other Receipts – GST refunds and other miscellaneous collections;

- (d) Cologic Cash Receipts – receipts in PDI and PLSI accounts relating to the Company’s diagnostic tests;
 - (e) Foreign Exchange Gain (Loss) – realized foreign exchange gain resulting from transfer between PDI’s USD and JPY accounts and foreign currency transactions;
 - (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 and January that have not been paid to date.
30. The Company has approximately \$26,429 in cash on hand, excluding \$150,000 that has been drawn and remains in the Interim Receiver’s account, as more fully discussed below. Since the Date of Appointment, PDI’s cash receipts and disbursements have been consistent with the forecast prepared by management and the Interim Receiver.

PDI'S CURRENT CASH POSITION

31. The table below summarizes PDI's obligations that have been incurred since the Date of Appointment and the current cash on hand and availability under the Interim Financing.

Proposed Payment Schedule	Forecast	Notes
Receipts		
Remaining Interim Financing	150,000	a
Opening Cash Balance	26,429	b
Total - Receipts	176,429	
Disbursements		
Interim Receiver Fees	87,345	c
Payroll (February 29th)	79,459	d
Robertson Stromberg LLP	30,000	e
Gowlings	23,156	f
Open POs	12,869	g
Blue Cross	7,250	h
Kanuka Thuringer LLP	6,136	i
Total - Disbursements	246,215	
Projected Cash at month end	(69,786)	

32. In prior weeks the Interim Receiver had made Management and the PDI BOD's aware of the Company's impending liquidity crisis and the urgent nature of securing further funding either through the Interim Financing or alternative sources of financing.
33. As more fully discussed above, to date no material progress has been made via a potential sale of a material portion of the Company's assets to fund its restructuring efforts and GOFI has informed the Company that of its position that it will no longer be able to continue to provide Interim Financing under the current circumstances.
34. The table above indicates that at the current payroll levels, a cash shortfall of approximately \$70,000 would result by February 29, 2016.

SUMMARY COMMENTS

35. The Interim Receiver is of the view that PDI's BOD and Dr. Goodenowe both appreciate the need to normalize funding on an urgent basis to allow for a completion of the Solicitation Process. However, continuing the Interim Receivership Proceedings, in the Interim Receiver's professional opinion is a futile effort.
36. The Interim Receiver understands that both GOFI and Dr. Goodenowe are currently evaluating processes which may allow for the continuation of PDI's operations in the normal course and allow for the continuation of the Solicitation Process, which may be provided to this Honourable Court.

INTERIM RECEIVER'S RECOMMENDATIONS

37. 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 terminating the Interim Receivership effective immediately.

All of which is respectfully submitted this 22nd day of February, 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.