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B. WEREZAK  
DEPUTY LOCAL REGISTRAR

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 SECOND REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT APPOINTED RECEIVER OF PHENOMENOME DISCOVERIES INC. and PHENOMENOME LABORATORY SERVICES INC.

July 13, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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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 (in such capacity and not in its personal or corporate capacity, the “**Receiver**”) of all the assets, undertakings and properties (the “**Property**”) of Phenomenome Discoveries Inc. (“**PDI**”) and Phenomenome Laboratory Services Inc. (“**PLSI**” and together, the “**Company**”) pursuant to an Order of the Court of Queen’s Bench for Saskatchewan granted on February 26, 2016 (the “**Receivership Order**”).
2. On April 15, 2016, this Honourable Court granted an order (the “**KERP Order**”) which, *inter alia*, approved the KERP and the increase in the Receiver’s Borrowing Charge from \$400,000 to \$800,000.
3. On May 2, 2016, this Honourable Court granted an order (the “**Sales Procedures Order**”) which, *inter alia*, approved the Sales Procedures and the increase in the Receiver’s Borrowing Charge from \$800,000 to \$3,000,000.
4. 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**”).
5. The purpose of this report (the “**Second Report**”) is to inform the Court as to the following:
  - (a) the status of various aspects of the Receivership Proceedings including the Sales Procedures;
  - (b) the Receiver’s receipts and disbursements from the Date of Appointment to July 8, 2016 and budget to actual results for the Revised Forecast Period (as defined below); and

- (c) the status of the MLD Dispute, as defined and described in the First Report.
6. At an application currently returnable on July 18, 2016, 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;
  - (a) advice and directions on how to resolve the MLD Dispute; and
  - (b) sealing the Confidential Supplement (as defined below) to the Second Report.

#### **TERMS OF REFERENCE**

7. In preparing this Second 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**").
8. Except as described in this Second 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 Second Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.

9. 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.
10. The Receiver has prepared this Second Report in connection with the Receiver's Application dated July 13, 2016. This Second Report should not be relied on for other purposes.
11. Any information and advice described in this Second Report has been provided to the Receiver by its counsel, Blake, Cassels & Graydon LLP (the "**Receiver's Counsel**"), in order 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.
12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meaning defined in the First Report.

## **RECEIVERSHIP PROCEEDINGS**

### ***Background***

13. Since the date of the First Report the Company's operations have continued without any material disruptions and the employees continue to provide support to the Receiver as necessary in the circumstances to continue the operations in the normal course.
14. To date, the following tasks have been completed as prescribed by the Sales Procedures Order:
  - (a) on June 1, 2016, the Receiver caused notice of the Sales Procedures to be published in the Globe and Mail (National Edition);

- (b) on May 5, 2016, the Company, in a form satisfactory to the Receiver, announced the Sales Procedures had been approved by this Honourable Court and released publically available information relating to the Assets and timeline on its website;
- (c) on or around May 5, 2016, the Receiver, in consultation with the Company, prepared and delivered a Teaser and Confidential Information Memorandum to numerous targeted industry contacts in North America, Europe and Asia, including pharmaceutical companies, diagnostics companies and private equity funds;
- (d) pursuant to the Sales Procedures Order two parties have entered into the Agency Agreements with the Receiver to market and solicit interest in the Assets;
- (e) the Receiver has engaged certain consultants to assist with the marketing and Sales Procedures;
- (f) the Receiver and select members of the PDI management team and its consultants engaged in the marketing roadshow as described in the Sales Procedures Order to meet with prospective purchasers, which included attending various meetings in the following locations:
  - (i) Asia – Tokyo, Shanghai and Hong Kong on May 23<sup>rd</sup>, May 25<sup>th</sup>, and May 27<sup>th</sup> respectively;
  - (ii) the BIO Conference in San Francisco on June 6<sup>th</sup> through June 9<sup>th</sup>; and
  - (iii) a Cancer Diagnostic Conference in Rome on June 13<sup>th</sup> through June 15<sup>th</sup>.

15. The Receiver engaged two public relations firms to place targeted advertisements and issue Press Releases to a large multi-National audience in order to present the recent developments of the Assets to the marketplace.
16. On July 5, 2016, Dr. Goodenowe, the Company's president and CEO, submitted his resignation to the Receiver citing the potential conflict of continuing in his capacity as president and CEO and the ability of a related party (YBCI), which he controls, to participate in the Sales Procedures.
17. Dr. Goodenowe advised that he would be willing to assist the Receiver on an hourly basis in the event that his services are required to maintain the value of the assets until the completion of the Receivership Proceedings. The Receiver does not anticipate any issues with maintaining the integrity of the Sales Procedures in the absence of Dr. Goodenowe.
18. Further, to the extent that Dr. Goodenowe and/or YBCI participate in the Sales Procedures, they will be treated like all other bidders in accordance with the Sales Procedures.

#### **RECEIPTS AND DISBURSEMENT**

19. Receipts and Disbursements from the Date of Appointment to July 8, 2016 are summarized in the Schedule of Receipts and Disbursements below:

<b>Schedule of Receipts and Disbursements</b>	
As of July 8, 2016	
<b>Receipts</b>	
Receiver Certificate	2,000,000
Bank Account Transfer	72,726
Opening Cash	54,444
Other	436
<b>Total - Receipts</b>	<b>2,127,606</b>
<b>Disbursements</b>	
Employee Related Obligations	482,816
Receiver's Fees and Disbursements	289,287
Occupation Rent	232,928
Consultants	190,324
Other Professional Fees	133,456
Asset Marketing Expense	99,870
Operating Expense	73,477
Interim Receivership Payables	62,599
GST/PST Paid and Remitted	45,372
Insurance	11,783
MLD Royalty Interest	8,751
Other Miscellaneous Disbursements	6,721
Legal Fees and Disbursements	2,790
<b>Total - Disbursements</b>	<b>1,640,174</b>
<b>Net Cash on Hand</b>	<b>487,432</b>

20. 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 has issued Receiver Certificate's 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 Canada Inc. in its capacity as Interim Receiver pursuant to the Interim Financing;
- (d) Other Receipts – including bank interest and GST refunds;
- (e) Employee Related Obligations – amounts paid by the Receiver in respect of employee related obligations including payroll, payroll remittances, health insurance;
- (f) Receiver’s Fees and Disbursements – amounts paid to the Receiver for fees and disbursements provided in these Receivership Proceedings to and including March 31, 2016;
- (g) Occupation Rent – amounts paid to the Company’s landlord pursuant to its occupation rent to and including June 30, 2016;
- (h) Consultants – amounts paid to consultants, including management consulting services provided by the president and CEO, the Company’s representative providing business and contract research services in Japan and consultant engaged by the Receiver to assist with the Sales Procedures;
- (i) Other Professional Fees – amounts paid to the Company’s external legal counsel to maintain and protect its intellectual property;
- (j) Asset Marketing Expense – amounts paid by the Receiver relating to the Sales Procedures including, amounts paid to public relations firms, attend conferences, maintain the VDR and travel expenses of members attending the marketing events (note these amounts do not include the costs of the Receiver attending the same);
- (k) Operating Expenses – operating expenses relating to maintaining the Assets;



- (l) Interim Receivership Payables – amounts paid by the Receiver for approved expenses from the Interim Receivership period;
  - (m) Insurance – amounts paid to maintain the Company’s insurance policy;
  - (n) MLD Royalty Interest – amounts paid to MLD pursuant to the quarterly payments owing under the Agreement;
  - (o) Miscellaneous Disbursements – amounts including bank charges, filing fees paid to the official receiver, payroll services charges and other miscellaneous disbursements; and
  - (p) Legal Fees and Disbursements – amounts paid to the Receiver’s Counsel for fees and disbursements provided in these Receivership Proceedings to date.
21. As at July 8, 2016, the Receiver holds \$487,432 in cash on hand as summarized in the Schedule of Receipts and Disbursements above.
22. Through previous Orders of this Honourable Court the Receiver has secured financing in the amount of \$3,000,000 secured by the Receiver’s Borrowing Charge.

#### **CASH FLOW FORECAST**

23. The Company, with the assistance of the Receiver, prepared a revised cash flow statement (the “**Revised Forecast**”) for the period of April 30, 2016 to October 1, 2016 (the “**Revised Forecast Period**”). A copy of the Revised Forecast is attached hereto as Appendix A.
24. The Revised Forecast indicates the following for the Revised Forecast Period:

- (a) total cash receipts excluding advances under the Receiver's Borrowings of \$324,826;
- (b) total operating disbursements of \$1.34 million;
- (c) total disbursements relating to the professional fees and the Sales Procedures of \$1.68 million; and
- (d) cumulative borrowings under the Receiver's Borrowing Charges of \$3.0 million for the Revised Forecast Period.

25. A summary of the budget to actual results for the period ending July 8, 2016 with explanations of the material variances is presented in the tables below.

Revised Forecast Period	Forecast	Actual	Variance	Notes
<b>Receipts</b>				
Receiver Certificate	2,200,000	1,200,000	(1,000,000)	a
Opening Cash	521,529	521,529	-	b
Other Receipts	302,326	293	(302,034)	c
Cologic Cash Receipts	22,500	-	(22,500)	d
<b>Total - Receipts</b>	<b>3,046,355</b>	<b>1,721,822</b>	<b>(1,324,534)</b>	
<b>Disbursements</b>				
Receiver Fees and Disbursements	1,053,752	289,287	764,464	e
Occupation Rent	428,321	232,928	195,393	f
Asset Marketing Expenses	283,702	121,172	162,530	g
Employee Related Obligations	553,291	235,260	318,032	h
Consultants	223,474	131,812	91,662	i
Legal Fees and Disbursements	141,781	2,790	138,992	j
Other Professional Fees	104,152	115,742	(11,590)	k
Operating Expenses	125,174	66,695	58,479	l
Receiver Certificate Interest	94,783	-	94,783	m
GST Paid / Remitted	12,854	38,704	(25,850)	
<b>Total - Disbursements</b>	<b>3,021,285</b>	<b>1,234,389</b>	<b>1,786,896</b>	
<b>Ending Cash</b>	<b>25,070</b>	<b>487,432</b>	<b>462,362</b>	

- (a) Receiver's Certificate – timing variance expected to reverse in future periods, primarily related to deferred payment of professional fees as described below;
- (b) Opening Cash – no variance in cash on hand on the date of the Revised Forecast;
- (c) Other Receipts – timing variance expected to reverse in future periods, GST refunds have not been received to date;
- (d) Cologic Cash Receipts – timing variance expected to reverse in future periods, customers have continued to deposit funds in the Company's accounts and these amounts have not been transferred into Receiver's account to date;
- (e) Receiver's Fees and Disbursements – timing variance expected to reverse in future periods, the Receiver's fees and disbursements have only been paid to and including March 31, 2016;
- (f) Occupation Rent – timing variance expected to reverse in future periods, July rent is currently outstanding;
- (g) Asset Marketing Expense – amounts paid by the Receiver relating to the Sales Procedures including, amounts paid to public relations firms, attending conferences, maintaining the VDR and travel expenses of members attending the marketing events have been lower than forecast, however these amounts do not include the costs of the Receiver attending the same;
- (h) Employee Related Obligations – employee related obligation have been lower than forecast to date;

- (i) Consultants – amounts paid to consultants including, management consulting services provided by the president and CEO, the Company’s representative providing business and contract research services in Japan and the consultant engaged by the Receiver to assist with the Sales Procedures have been in line with forecast;
  - (j) Legal Fees and Disbursements – timing variance expected to reverse in future periods, the Receiver’s Counsel fees and disbursements are currently outstanding;
  - (k) Other Professional Fees – amounts paid to the Company’s external legal counsel to maintain and protect its intellectual property have been higher than forecast to date;
  - (l) Operating Expenses – operating expenses have been lower than forecast to date; and
  - (m) Receiver’s Certificate Interest – timing variance expected to reverse in future periods, amounts owing pursuant to the terms of the Receiver’s Borrowing Charge are expected to be paid at the completion of the Receivership Proceedings.
26. 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.
27. Since the date of the Revised Forecast no material events have occurred that are expected to affect the liquidity needs of the Company for the Revised Forecast Period.

## **MLD DISPUTE**

28. The Receiver has attached as a confidential supplement to the Second Report (the “**Confidential Supplement**”) the information pertaining to the MLD Dispute. The Receiver will be seeking a sealing order over the Confidential Supplement and is prepared to provide a copy of it to all stakeholders who may have an interest in the MLD Dispute provided that an agreement or undertaking is received in respect of the use of the information contained in the Confidential Supplement.

## **CONCLUSIONS AND RECOMMENDATIONS**

29. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approve the activities of the Receiver since the Date of Appointment including its receipts and disbursements;
  - (b) provide advice and direction on how to resolve the MLD Dispute; and
  - (c) granting a sealing order over the Confidential Supplement.

All of which is respectfully submitted this 13<sup>th</sup> day of July, 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.

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