



COURT NO. B-200020
ESTATE NO. 11-2603047
VANCOUVER REGISTRY

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY & INSOLVENCY**

**IN THE MATTER OF THE PROPOSAL OF
1032951 B.C. LTD.**

**REPORT TO COURT BY THE PROPOSAL LICENSED INSOLVENCY
TRUSTEE**

Introduction and Purpose

1032951 B.C. Ltd. (“103”, and the “Company”) filed a Notice of Intention to Make a Proposal pursuant to the provisions of the *Bankruptcy and Insolvency Act* (“**Notice of Intention**”) on January 8, 2020, and MNP Ltd. consented to act as Licensed Insolvency Trustee (the “**Trustee**”) in the Proposal proceedings. A Cash Flow Projection was prepared by the Company and filed with the Official Receiver on January 20, 2020.

It is our view that the Company will not be in a position to file a definitive Proposal by February 7, 2020, but that an extension in the Notice of Intention proceeding will enable the Company to present a more comprehensive and definitive Proposal to its creditors than the Company could at the present time.

Background

The Company was incorporated in British Columbia in April 2015 under its original name “Quark Venture Inc.” The name was changed to its present name on August 27, 2019. Mr. Jesson Chen (formerly Zhizhong Chen) is the Company’s sole Director.

103 is a venture capital investment company located in Vancouver, BC which focuses on equity financing of biotechnology and health sciences companies.

It is our understanding that 103 currently has no employees and does not generate revenue. We have reviewed the Company’s T2 Corporation Income Tax Return for the

year ending December 31, 2018, and financial information reported for 2015 through 2018 report various expenses but no revenue. Draft financial statements prepared by management for the fiscal year ending December 31, 2019, report a net loss of approximately \$328,500, and a retained deficit of approximately \$2,993,000. As 103 does not generate revenue, expenses incurred by the Company have been funded by way of loans from affiliated companies.

In September 2016, 103 and MSI Methylation Sciences, Inc. (“**MSI**”) entered into an investment agreement, the general terms of which set out that 103 would invest up to \$30,000,000 USD (by way of four separate payments on certain terms) and 103 would obtain a majority interest in MSI. MSI is a clinical stage pharmaceutical company located in Vancouver, B.C., and 103 was investing in MSI to continue clinical development of a proprietary product for the treatment of depression. The first payment of \$1,000,000 USD was made by 103 on September 30, 2016. No further funds were advanced by 103 under the investment agreement and in March 2017 MSI commenced an arbitration proceeding.

In June 2018, following the arbitration hearing, MSI was awarded damages of \$20,000,000 USD (the “**Award**”). In September 2018 a supplementary award was made in respect of interest and costs (the “**Supplementary Award**”). 103 applied to set aside the arbitration awards but in March 2019 the petition was dismissed and 103 was ordered to pay MSI \$20,080,066.67 USD plus interest, and MSI was granted leave to enforce the Award and Supplementary Award. In April 2019, 103 filed notices of appeal to the B.C. Court of Appeal from the B.C. Supreme Court’s decisions, but those appeals were dismissed.

103 does not currently have assets sufficient to satisfy the debt obligation owing to MSI and 103’s other creditors. We also understand that MSI has additional claims against other creditors of 103 as well as other entities related and associated to the Quark group. Management of 103 is of the view that given the Company’s current financial position, the best course of action is negotiation with MSI with the objective of reaching a settlement of the debt obligations and claims which is acceptable to both 103 and MSI, as well as 103’s other creditors. 103 and MSI, through legal counsel, have commenced discussions but require more time for substantive discussion and negotiation. 103 is seeking an extension of time of fourteen (14) days to file its Proposal to creditors, and we are advised by legal counsel to 103 that he understands that MSI, Jesson International Investment (Canada) Ltd., and 1049019 BC Financial Business Ltd. are agreeable to an extension of time to February 21, 2020 although he is awaiting final confirmation from Jesson International Investment (Canada) Ltd., and 1049019 BC Financial Business Ltd. which he will provide to the court tomorrow.

Secured Creditors

Jesson International Investment (Canada) Ltd. and 1049019 B.C. Financial Business Ltd.

Pursuant to a judgement of the BC Supreme Court of British Columbia (“BCSC”) pronounced August 23, 2019 in Action No. S196197 Jesson International Investment (Canada) Ltd. (“**Jesson International**”) recovered judgement against 103 in the amount of \$1,807,999.58 together with costs. It was also given a declaration of charge on all of the assets of 103 pursuant to a General Security Agreement granted to it by 103.

Pursuant to a judgement of the BCSC in Action No. S196196 pronounced August 23, 2019, Jesson International and 1049019 B.C. Financial Business Ltd. recovered judgement against, inter alia, 103 in the amount of \$15,069,278.10. They were also granted a declaration of charge pursuant to General Security Agreements granted to them by 103.

Canada Revenue Agency

As 103 has no employees, we are not aware of any priority claim of the Canada Revenue Agency (“CRA”) equal to the amount of payroll deductions withheld from employees’ compensation and not remitted.

CRA provided correspondence to the Trustee advising that approximately \$43,800 of unremitted Goods and Service Tax (“GST”) is owing which will rank as a general unsecured claim in the Proposal.

Assets

Cash in Bank

Bank accounts maintained by the Company were overdrawn prior to and at the date of the initial filing. We understand that as the Company does not generate any revenue, funding required by 103 for general and administrative expenses have historically been provided by affiliated parties.

Prepaid Expenses

The Company’s Balance Sheet as at December 31, 2019 reports prepaid expenses in the approximate amount of \$106,000. We are advised that this amount relates to a deposit paid by 103 and prepaid rent pertaining to premises located in Vancouver, B.C. We are further advised that the landlord is currently reviewing a proposed assignment of the lease from 103 to an affiliated company effective January 2020, and if approved, the assignee will repay the funds to 103.

Investment in Sitka Biopharma Inc.

In March 2016, 103 executed a subscription agreement to purchase certain Class A shares of Sitka Biopharma Inc. (“Sitka”). We understand that in 2016 and 2017, 103 invested \$2.4 million and purchased 6,921,429 Class A Shares without par value in the capital of Sitka. Sitka is a Canadian-Controlled Private Corporation which is based in Vancouver, B.C., and is developing a new bladder cancer treatment.

103’s financial statements prepared by management for the fiscal year ending December 31, 2019 are not yet finalized; however, the Company’s Balance Sheet as at that date values its investment in Sitka at approximately \$2,105,000.

As previously reported, 103 executed a Share Pledge in April 2018 which pledged 103’s shareholdings in Sitka as security in respect of the debt obligations to Jesson International, and Jesson International subsequently seized some or all of the share certificates.

Negotiations with Creditors

MSI is owed more than \$26,000,000 and is the Company’s largest creditor. 103 and MSI have begun discussions with the overall objective of reaching a settlement with respect to the debt obligations and claims advanced by MSI. An extension of time will permit the discussions and negotiations with MSI to continue, as well as permit further discussions with 103’s secured creditors. If the various parties are able to reach a settlement, 103 will be in a far better position to present a more comprehensive and definitive Proposal to the creditors than the Company could at the present time. We have also been advised that the principal of 103, Jesson Chen, is stranded in China on a previously scheduled business trip as a result of the Corona virus and will not be able to return until February 14, 2020. This makes the negotiations more difficult.

It is our opinion that:

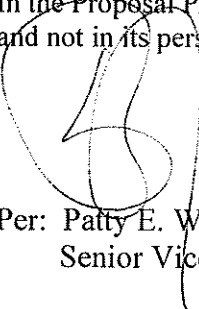
- a) The Company has acted and continues to act in good faith and with due diligence in formulating a Proposal;
- b) The Company will likely be able to make a viable Proposal if the extension applied for is granted; and

c) No creditor will be materially prejudiced if the extension sought is granted.

DATED this 6th day of February, 2020.

MNP Ltd.

In its capacity as Licensed Insolvency Trustee
In the Proposal Proceedings of 1032951 B.C. Ltd.
and not in its personal or corporate capacity



Per: Patty E. Wood CPA, CGA, CIRP, LIT
Senior Vice President