

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.**

**FOURTH 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.

On February 7, 2020, the Company applied for and was granted an extension of time to February 21, 2020 to file its Proposal. On February 21, 2020, the Company sought a further extension and an Order was granted whereby the time to file the Proposal was extended to February 28, 2020. On February 28, 2020 the Company sought a third extension and an Order was granted whereby the time to file the Proposal was extended to March 20, 2020.

It is our view that the Company will not be in a position to file a definitive Proposal by March 20, 2020, but that a further extension in the Notice of Intention proceeding will enable the Company to continue its negotiations with creditors and 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.

As set out in the Trustee’s Report to Court dated February 6, 2020 (the “**Trustee’s First Report**”), we are advised that 103 currently has no employees, does not generate revenue, and that expenses incurred by the Company have historically 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.

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.

Negotiations with Creditors

MSI is owed more than \$26,000,000 and is the Company's largest creditor. 103 does not currently have assets sufficient to satisfy the debt obligation owing to MSI and 103's other creditors.

As set out in the Trustee's First Report, Management 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.

As set out in the Trustee's Report to Court dated February 28, 2020 (the "**Trustee's Third Report**"), 103 and MSI have been engaged in ongoing and substantive negotiations since the initial extension was granted. We are advised by legal counsel to 103 that these negotiations continue, and offers and counteroffers have been exchanged between the parties. We understand that while progress continues to be made, an agreement has not yet been reached that would support a Proposal. 103 is seeking a further extension of time of one month to file its Proposal to creditors, and we understand that MSI is agreeable to an extension of time to April 20, 2020. We understand that the Company's two secured creditors, Jesson International Investment (Canada) Ltd., and 1049019 BC Financial Business Ltd. also do not oppose an extension of time to April 20, 2020.

An extension of time will permit MSI and 103 to complete their negotiations, 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.

It is our opinion that:

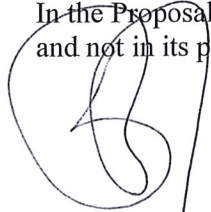
- a) The Company has acted and continues to act in good faith and with due diligence in formulating a Proposal;
- b) The Company will likely be able to make a viable Proposal if the extension applied for is granted; and

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

DATED this 20th day of March, 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

A handwritten signature in black ink, appearing to be 'Patty E. Wood', is written over the text of the signature block.

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