



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.**

**SECOND 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.

The Company made an application to Court on February 7, 2020 and was granted a fourteen-day extension of time to February 21, 2020 to file its Proposal.

It is our view that the Company will not be in a position to file a definitive Proposal by February 21, 2020, but that a further 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.

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. 103 and MSI, through legal counsel, commenced discussions after the filing of the Notice of Intention and currently are engaged in substantive negotiations. We are advised by legal counsel to 103 that these negotiations continue, and parties are hopeful that a settlement can be reached. 103 is seeking a further extension of time of seven (7) days to file its Proposal to creditors, and we understand that MSI is agreeable to an extension of time to February 28, 2020. We are also advised by legal counsel to 103 that the Company's two secured creditors, Jesson International Investment (Canada) Ltd., and 1049019 BC Financial Business Ltd. are also in agreement to an extension of time to February 28, 2020.

We have also been advised that the principal of 103, Jesson Chen, is currently under voluntary self-quarantine after returning to Vancouver from a business trip to China as a result of the Corona virus. This makes negotiations and filing a Proposal more difficult at the present time.

An extension of time will permit the 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.

It is our opinion that:

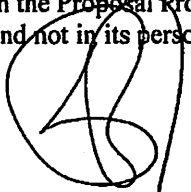
- a) The Company has acted and continues to act in good faith and with due diligence in formulating a Proposal;
- b) The Company will likely be able to make a viable Proposal if the extension applied for is granted; and

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

DATED this 21st 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