



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.**

TRUSTEE'S REPORT TO CREDITORS

BACKGROUND

1032951 B.C. Ltd. (“**103**”, and 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 reports 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.

As 103 has no assets and no operating income, management realized that the Company would not be able to deal with its debts in the normal course. Management was of the view that the best course of action would be negotiation with MSI with the objective of reaching a settlement of the debt obligations and claims acceptable to both 103 and MSI, as well as 103’s other creditors.

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.

On February 7, 2020, 103 applied for and was granted an extension of time to February 21, 2020 to file its Proposal. The Company subsequently applied to Court and was granted four (4) additional extensions of time to file its Proposal.

While we understand that 103 and MSI have been engaged in ongoing and substantive negotiations since the initial extension was granted, a settlement has not yet been reached.

Ultimately, the Company filed a Proposal on May 15, 2020. (the “**Proposal**”).

In preparing this Trustee’s Report to Creditors (the “**Report**”) and making the comments herein, the Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the Company’s books and records, discussions with employees and management and information from other third party sources (collectively, the “**Information**”). Except as described in this Report, the Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted

Assurance Standards or other standards established by the Chartered Professional Accountants of Canada.

Capitalized terms used in the Report are the same as those referenced in the Proposal. Unless otherwise stated herein, all references to currency are to Canadian currency.

SUMMARY OF PROPOSAL

A summary and major terms of the Proposal are as follows:

- The Company filed a holding proposal with the intention of filing an amended definitive Proposal on the basis that the Company, MSI and the Company's other creditors reach an agreement.
- The Proposal does not currently contain specific terms with respect to the timing and amounts to be paid by the Company for the benefit of the various creditors.
- Subject to the consent of the Trustee, at any time prior to the Creditors' Meeting, or at any time prior to the date to which the Creditors' Meeting is adjourned, if it adjourned, the Company will file a modified, amended or supplemented Proposal.
- The Trustee's fees, expenses, and legal costs arising out of the Proposal shall be paid by the Company in full, and subject to the approval of the creditors and the Court, and any Inspectors if appointed.

OPERATIONS

As reported, 103 is an investment company which has no operating income. We are advised that expenses incurred by the Company have been funded by way of loans from affiliated companies.

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 lease was assigned to an affiliated company effective January 2020. Lastly, we are advised that the assignee has been occupying the premises and for the past year was paying the lease obligations directly to the landlord. At the date of this report, we are unsure whether 103 or the affiliated party funded the initial deposit to the landlord in respect of the lease agreement dated October 7, 2016.

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 valued the investment in Sitka at approximately \$2,105,000 which represents the purchase price of \$2,400,000 less a write down in value pertaining to a 2016 operating loss reported by Sitka. The shares were valued on the Statement of Affairs at the net book value of \$2,105,000. As Sitka is a privately held company, it is difficult to estimate the current market value of the shares.

103 executed a Share Pledge in April 2018 which pledged 103's shareholdings in Sitka as security in respect of the Company's debt obligations to Jesson International Investment (Canada) Ltd. We understand that Jesson International Investment (Canada) Ltd. subsequently seized some or all of the share certificates.

Investment in MSI

The Company's Statement of Affairs values its investment in MSI at \$1.00 given the unknown value that may be attributable to this potential asset.

As previously reported, 103 and MSI entered into an investment agreement, the general terms of which set out that 103 would invest up to \$30,000,000 USD and 103 would obtain a majority interest in MSI. Only the first payment of \$1,000,000 USD was made by 103. While it is unlikely that there is any realizable value from this investment in MSI, this potential asset is subject to the claims of 103's secured creditors as reported below.

LIABILITIES

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 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 \$15,069,287.10. They were also granted a declaration of charge pursuant to General Security Agreements granted to them by 103.

Accordingly, all of the Company’s assets are subject to the secured claims of these creditors.

Canada Revenue Agency (“CRA”)

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

CRA submitted an unsecured proof of claim to the Trustee in the amount of \$43,805.75 in relation to unremitted Goods and Service Tax/Harmonized Sales Tax.

Preferred Creditors

Employees are preferred creditors pursuant to Section 136 of the *Bankruptcy and Insolvency Act*, and as such, their preferred claims must be paid in full before any payments are made to the general unsecured creditors

Landlords are afforded priority for rental obligations in arrears for the three months immediately preceding the filing of the Notice of Intention.

We do not anticipate any preferred claims from employees or landlords.

Unsecured Creditors

The Company's Statement of Affairs indicates unsecured creditors of approximately \$29,991,300, excluding the deficiency claims of secured creditors, and approximately \$44,764,000 including the deficiency claims.

Ultimately the amount owing to creditors will be based upon the proven claims filed in the Proposal proceedings.

REMUNERATION OF THE TRUSTEE

The costs of administration pertaining to the Trustee's fees and disbursements is a preferred claim, will be paid in full by the Company and will be subject to taxation and approval of the Inspectors, or the Court should no Inspectors be appointed.

Directive 16 Third-Party Deposits and Guarantees

Given the Company's financial position, and as security for the Trustee's fees and costs in administering the Proposal, the Trustee entered into a Third-Party Deposit Agreement with Global Drug Commercialization Centre Inc. and funds totaling \$40,000 have been paid to the Trustee.

ESTIMATED REALIZATION

The Trustee has not prepared a Statement of Estimated Realization to compare the estimated realization in a bankruptcy versus proposal scenario given that the Proposal does not currently contain any specified payment terms.

CONSEQUENCES OF NON-APPROVAL OF THE PROPOSAL

If the Proposal is not accepted by the creditors, the Company will be deemed to have made an assignment in bankruptcy on that date. In a bankruptcy, all the Company's realizable assets will be subject to the claims of secured creditors.

Accordingly, we recommend acceptance of this Proposal to permit the Company and its creditors additional time to continue negotiations, with the objective of reaching a settlement that would provide the general body of creditors with an informed and certain level of recovery in respect of their claims against the Company.

DATED this 26th day of May, 2020.

MNP Ltd.

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



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