

**PCAS PATIENT CARE AUTOMATION SERVICES INC. AND  
2163279 ONTARIO INC.**

**THIRD REPORT OF THE MONITOR**

**May 3, 2012**

Court File No. CV-12-9656-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST**

**IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
PCAS PATIENT CARE AUTOMATION SERVICES INC. AND 2163279 ONTARIO  
INC.**

**APPLICANTS**

**THIRD REPORT OF PRICEWATERHOUSECOOPERS INC.**

**In its capacity as Monitor of the Applicants**

**May 3, 2012**

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- APPENDIX "B" – First Report of the Monitor, dated April 15, 2012
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## I. INTRODUCTION

1. On March 23, 2012 (the “**Filing Date**”), PCAS Patient Care Automation Services Inc. (“**PCAS**”) and 2163279 Ontario Inc. (“**Touchpoint**”) (collectively, the “**Company**” or the “**Applicants**”) made an application under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (“**CCAA**”) and an initial order (the “**Initial Order**”) was granted by the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granting, *inter alia*, a stay of proceedings against the Applicants to April 21, 2012 (the “**Stay Period**”) and appointing PricewaterhouseCoopers Inc. (“**PwC**”) as the monitor (the “**Monitor**”). The proceedings commenced by the Company under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. PwC was previously retained by the Company to act as financial advisor to assist management and the board of directors to review strategic alternatives available to the Company for the resolution of its liquidity concerns.
3. On April 16, 2012, this Court granted an Order (the “**April 16 Order**”) which provided, *intra alia*, for approval of the Amended and Restated DIP Agreement, an increase in the limit of the DIP Facility and approval of the KERP and KERP Charge (all as defined therein).
4. On April 20, 2012, this Court granted an Order (the “**April 20 Order**”) which provided, *intra alia*, for an increase in the DIP Facility from \$3,800,000 to \$4,370,000 and extended the stay of proceedings to May 4, 2012 (“**Stay Extension**”).

## II. PURPOSE OF REPORT

5. In conjunction with the Company’s application for relief under the CCAA, on March 23, 2012, PwC in its capacity as proposed Monitor filed a report with this Court (the “**Proposed Monitor’s Report**”), which is attached hereto as **Appendix “A”**. Subsequently, on April 15, 2012, the Monitor filed a report with this Court (the “**First Report**”), which is attached hereto as **Appendix “B”**. Subsequently, on April 19, 2012, the Monitor filed a report with this Court (the “**Second Report**”), which is attached hereto as **Appendix “C”**. All such reports are attached hereto without appendices.
6. The purpose of this report (the “**Third Report**”) is to:
  - a) Provide this Court with a summary of the following:
    - (i) The Monitor’s activities since the filing of the Second Report;

- (ii) Update on the activities of the Company since the filing of the Second Report;
  - (iii) The Company's request to increase the limit of the DIP Facility from \$4,370,000 to \$4,525,000;
  - (iv) The Company's request for an extension of the stay of proceedings (the "**Extension**") to May 8, 2012;
  - (v) The Company's efforts to raise additional DIP financing and an update on the Company's discussions with the Potential Customer; and
  - (vi) The Monitor's view on the continuation of the CCAA proceedings.
- b) Recommend that this Court issue an order:
- (i) Approving the activities of the Monitor as set out in this Third Report;
  - (ii) Increasing the limit under the DIP Facility from \$4,370,000 to \$4,525,000; and
  - (iii) Approving the Company's request for an Extension to May 8, 2012.

### III. QUALIFICATIONS

7. In preparing this Third Report, the Monitor has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management and legal counsel to the Company. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance with respect to the information contained in this Third Report. Future-oriented financial information relied upon in this Third Report is based on management's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material. The Monitor expresses no opinion or other form of assurance with respect to the accuracy or completeness of any financial information contained herein. The Monitor reserves the right to refine or amend its comments and findings as further information is obtained or brought to its attention subsequent to the date of this Third Report.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Initial Order, the Proposed Monitor's Report, the First Report, the Second Report or the Affidavit of Loreto Grimaldi dated May 3, 2012 (the "**Second Grimaldi Affidavit**").

## **IV. ACTIVITIES**

### **Monitor's activities since the filing of the Second Report**

9. Since the filing of the Second Report, the Monitor has been working to assist the Company in considering its various alternatives and been in discussions with the DIP Lender regarding the DIP Lender's efforts to raise additional funds, including, among other things:
  - a) attending the Company's Oakville offices to work with the interim CFO on the preparation of the revised forecast;
  - b) discussions with the interim CFO and review of the Company's receipts and disbursements;
  - c) discussions and correspondence with A&B, counsel to the Company, on various matters;
  - d) discussions and correspondence with Osler, counsel to the Monitor, on various matters;
  - e) discussions with the Company and its counsel and the DIP Lender and its counsel regarding the framework for a potential SISF;
  - f) discussions with various interested parties seeking to obtain information in respect of DIP financing and/or on a sales process within the CCAA Proceedings;
  - g) discussions with various stakeholders on the status of the CCAA Proceedings;
  - h) discussions with the Company on its various DIP efforts and communications with shareholders;
  - i) discussions with the Company on potential cost saving and restructuring initiatives; and
  - j) discussions with the Company and the DIP Lender on potential sources of additional DIP financing.

### **Update on the Company's activities since the filing of the Second Report**

10. The Monitor reported in its Second Report that 50 terminations were made and 19 employees voluntarily resigned as of April 19. Since April 19, the Company has advised the Monitor that no employees have been terminated and an additional 18 employees have voluntarily resigned. The Company's employees are paid on a weekly basis, one week in arrears. The payroll forecast to be funded on May 8, 2012, assuming the Court grants the extension

requested by the Company, brings employees current to May 4, 2012. Accordingly, as of May 8, 2012, there will be 2 days of Accrued Payroll, which if the relief to increase the DIP Facility to \$4,525,000 is made, the Company will have sufficient funds to meet the Accrued Payroll obligation up to May 8, 2012. The Monitor and the Company are closely monitoring the Accrued Payroll in comparison to the available cash on hand to ensure that sufficient funds exist to pay for compensation earned to date.

11. As discussed in the Second Report, the Company has been in continuing discussions with the Potential Customer in order to finalize and sign a 5-year contract. As of the date of this Third Report, the Monitor has been advised by the Company that the Potential Customer has not committed to a contract and the Potential Customer has indicated that it will not make such a commitment or revisit the discussions with the Company regarding the entering into of a definitive agreement until, among other things, the Company's financial position improves, there is certainty on the long-term viability of the Company and the Company resolves certain issues regarding the technology, including the development of an acceptable timeframe for continued proof of concept testing.
12. The Company has advised the Monitor that the Potential Customer continues to test the technology and has requested that the Company continue to work on the project and not delay or slow current work plans.
13. The Company advised the Monitor that the Potential Customer remains interested in the technology and will revisit entering into a contract once the Company's situation stabilizes and the technologies are addressed.

## **V. MONITOR'S COMMENTS ON RESTRUCTURING**

14. Background on the Company and the events leading up to the CCAA filing are contained in the Proposed Monitor's Report, the Second Report and the Waugh Affidavit.
15. Certain shareholders and third parties have been supportive of the Company and have invested a further \$4,370,000 in the DIP Facility in order to support the continued existence of the Company in the CCAA Proceedings. Shareholders and third parties have been willing to fund the Company on an emergency basis; however, despite the Company's and the DIP Lender's efforts to raise sufficient DIP financing, the Company has had challenges in raising the required funding and it has not been possible to raise sufficient funding at one time to support the commencement of a SISF.

16. As noted in the Second Report, on the evening of April 18, 2012, the Monitor received an email from a current shareholder and the former CEO, advising the Monitor that certain parties have not received access to management or information as it relates to participating in the DIP Facility. The Monitor was advised subsequently that the information being sought was copies of the draft contract with the Potential Customer. Through its counsel, Osler, the Monitor advised these respective parties that the Company's position was that the information they were seeking could not be provided to them due to non-disclosure obligations in favour of third parties. The Monitor has not independently reviewed such third party non-disclosure obligations. The Monitor was advised by the Company (and advised the current shareholder and former CEO) that they have asked these third parties to permit them to disclose this information but these third parties would not provide such consent. The Company has also advised the Monitor that no other potential investors have received this information.
17. As of the date of this Report, the Monitor has been advised by the DIP Lender that it has raised an additional \$155,000 in committed DIP funding to increase the DIP Facility to \$4,525,000. The DIP Facility has been approved by the Court in an amount of \$4,370,000 and the Company has drawn an amount of \$4,175,000. The Company has advised the Monitor that with an increase in the DIP Facility to \$4,525,000 the Company will have sufficient liquidity to continue to May 8, 2012.
18. The Monitor understands that the DIP Lender received a commitment on May 2, 2012 from a third party to provide DIP funding of \$3 million, subject to, among other things, the Company raising an additional \$1 million of committed funds and subject to the DIP Agreement being amended to take into account such changes as: (i) success fee increase from 5% to 10%, and (ii) a conversion feature of \$0.275 cents per share, down from the current \$0.38 cents per share. The DIP Lender has advised the Monitor that these changes would be retroactively applied to include all parties that have contributed DIP funding to date and that the 10% success fee would be paid pending completion of a transaction, not upfront. The Monitor understands that the Company would seek approval of such amendments subject to the commitment of \$4 million in additional DIP funding. The draft amendment to the DIP Facility was provided to the Monitor late in the evening on May 2, 2012, and the Monitor has not had the opportunity to review in detail the amendment as of the date of this Third Report. The Monitor anticipates that it will provide comments on the amendment if and when the Company seeks approval to enter into such amendment.

19. The DIP Lender and the Company continue in discussions with various third parties to secure the additional \$1 million of DIP funding required by third party referred to above.
20. Given the fluid nature of the Company's current liquidity situation, the contingent commitment of \$3 million in potential DIP funds and the DIP Lender's discussions with certain potential investors, a cash flow forecast must be developed to determine the liquidity required to run a SISP. Such a forecast has not yet been completed by the Company or reviewed by the Monitor.
21. The Monitor has advised the Company and counsel to the DIP Lender that the Monitor will not be in a position to support a further extension to the stay of proceedings, unless: (i) funds are committed by May 8, 2012 that are sufficient to provide the Company with the liquidity needed to implement a SISP, or (ii) the Company has sufficient liquidity and there exists additional information or facts which enable the Monitor to support such an extension.
22. As previously reported, A&B is holding \$65,000 of third party funds in trust as security for the fees of a Trustee in Bankruptcy to meet its statutory duties. As a result of the Company having effectively no cash, limited accounts receivable and few assets available to be monetized quickly in a liquidation, it is unlikely that a Trustee in Bankruptcy will be able to appropriately take possession, market and sell the technology, intellectual property and other assets of the Company without additional financing. A bankruptcy would likely result in a permanent loss of employment, customer/supplier base and goodwill.

## **VI. COMPANY'S REQUEST FOR AN EXTENSION**

23. Pursuant to the April 20 Order, the stay of proceedings expires on May 4, 2012 (the "**Stay Period**"). The Company is now seeking an extension of the Stay Period to May 8, 2012, which corresponds with the available funds in the DIP Facility, as noted above.
24. Subject to the increase in the limit on the DIP Facility discussed above, the Company should have sufficient liquidity to continue to fund its operations during the extension of the Stay Period, if such extension is granted.
25. Notwithstanding that the Company does not have sufficient liquidity to implement a SISP, based on the commitment of \$3 million in contingent DIP funding and the continued efforts of the DIP Lender and the Company, the Monitor supports the Company's request for an extension of the Stay Period to May 8, 2012.
26. An extension of the Stay Period to May 8, 2012 will provide the DIP Lenders and the Company with additional time to attempt to secure the additional \$1 million of committed

DIP funding which, subject to the other conditions, will enable it to access the \$3 million commitment referred to above. If these commitments are secured, the Company should have funding to implement a SISP. Termination of the stay of proceedings against the Applicants would likely lead to the Company making an assignment in bankruptcy which would have a significant adverse effect on stakeholders.

27. The Monitor is of the view that the Applicants have acted and are acting in good faith and with due diligence.

## **VII. RECOMMENDATION**

28. The Monitor recommends that this Court issue an Order approving, *intra alia*;

- a) the activities of the Monitor as set out in this Third Report;
- b) the Company's request for an increase in the limit under the DIP Facility from \$4,370,000 to \$4,525,000; and
- c) the Company's request for an Extension to May 8, 2012.

Dated the 3rd day of May, 2012.

**RESPECTFULLY SUBMITTED,**



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**Paul van Eyk, CA·CIRP, CA·IFA**  
Senior Vice-President

PricewaterhouseCoopers Inc.  
In its capacity as Monitor of  
PCAS Patient Care Automation  
Services Inc. and 2163279 Ontario Inc .  
and not in its personal capacity

## **Appendix “A”**

**Report of the Proposed Monitor, dated March 21, 2012**

**PCAS PATIENT CARE AUTOMATION SERVICES INC. AND  
2163279 ONTARIO INC.**

**REPORT OF THE PROPOSED MONITOR**

March 21, 2012

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**APPLICANTS**

**REPORT OF PRICEWATERHOUSECOOPERS INC.**

**In its capacity as Proposed Monitor of the Applicants**

**March 21, 2012**

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APPENDIX "A" – Consolidated Cash Flows

## I. INTRODUCTION

1. PricewaterhouseCoopers Inc. (“PwC”) has been advised that on March 22, 2012, PCAS Automation Services Inc. (“PCAS”) and 2163279 Ontario Inc., doing business as Touchpoint (“Touchpoint”) (collectively the “Company” or the “Applicants”) will apply for protection under the *Companies’ Creditors Arrangement Act* (the “CCAA” and “CCAA Proceedings”) in order to restructure the business and affairs of the Applicants. PwC has been requested to act as the Monitor of the Applicants and PwC has consented to act as the Monitor in respect of these CCAA Proceedings (the “Proposed Monitor”).

## II. PURPOSE OF REPORT

2. This report (“Report”) is prepared by the Proposed Monitor to assist this Honourable Court in considering the Applicants’ requests for relief in the CCAA Proceedings.
3. The purpose of this Report is to provide this Honourable Court with information on:
  - (i) background information on the Applicants including their corporate history and structure;
  - (ii) the causes of the Applicants’ insolvency;
  - (iii) an overview of the Applicants’ financial condition;
  - (iv) the proposed restructuring strategy and terms and uses of the DIP Credit Agreement (as defined below);
  - (v) an overview of the Applicants’ 13-week cash flow forecast;
  - (vi) the proposed Administration, DIP Charge and D&O Charges; and
  - (vii) the Proposed Monitor’s conclusions.

## III. QUALIFICATIONS

4. In preparing this Report, the Proposed Monitor has relied upon unaudited financial information, the Company’s books and records, financial information prepared by the Company and discussions with management and legal counsel to the Company. The Proposed Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance with respect to the information contained in this Report. Future-oriented financial information relied upon in this Report is based on management’s assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy or completeness of any financial information

contained herein. The Proposed Monitor reserves the right to refine or amend its comments and findings as further information is obtained or brought to its attention subsequent to the date of this Report.

5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
6. The Proposed Monitor's affiliated accounting firm, PricewaterhouseCoopers LLP ("PwC LLP"), is not the auditor of the Applicants or any of their affiliated companies. PwC LLP did provide certain consulting services to the Applicants which were ceased in early March 2012.
7. PwC was retained by the Company on March 4, 2012 to assist in their restructuring plans. Since that date, the Proposed Monitor has been reviewing the Applicants' available financial information to gain knowledge of the business and financial affairs of the Applicants' and has been preparing for the Applicants' anticipated CCAA application.
8. Going forward, the Proposed Monitor will make copies of relevant insolvency documents pertaining to these CCAA Proceedings available on its website at [www.pwc.com/car-pcas](http://www.pwc.com/car-pcas).

#### IV. BACKGROUND

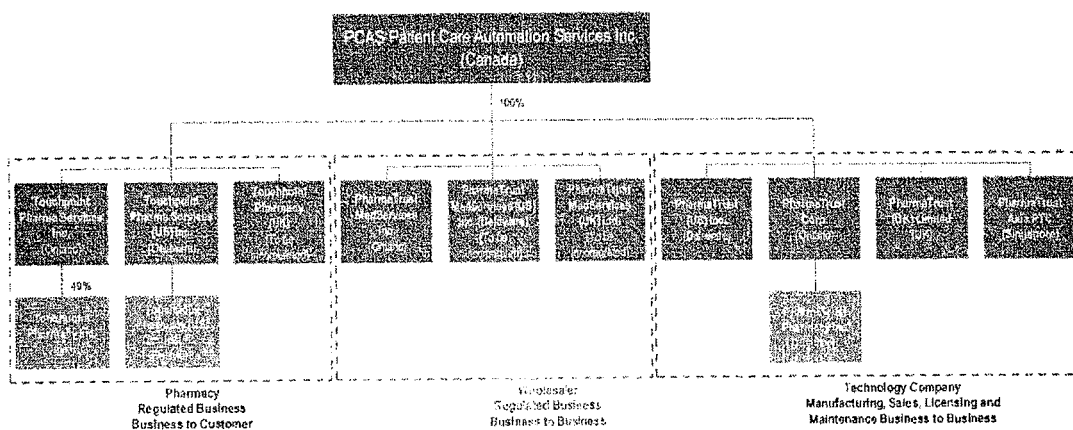
9. The Proposed Monitor has been provided with draft versions of the Affidavit of Donald Waugh, dated March 21st in support of the Applicants' CCAA filing (the "Waugh Affidavit").

##### **Corporate History, Structure and Current Situation**

10. PCAS is a privately held corporation incorporated pursuant to the *Canada Business Corporations Act* on March 3, 2006 under the name "PCAS Physician Clinic Automation Services Inc." On February 16, 2007, PCAS filed articles of amendment to change its name to its current name, "PCAS Patient Care Automation Services Inc."
11. PCAS is headquartered in Oakville, Ontario. The Company has raised over \$60 million of start-up capital to date from more than 550 non-employee shareholders including medical investment professionals and financial experts, entrepreneurs and the private investment vehicles of some of Canada's and the US's high net-worth individuals.
12. Touchpoint was incorporated pursuant to the *Business Corporations Act* (Ontario) on February 12, 2008, as "PCAS Newco Pharmacy Inc.". On July 31, 1999, articles of amendment were filed to change Touchpoint's name to "Direct Care Pharmacy Inc.". On June 13, 2011, further articles of amendment were filed to change Touchpoint's name to "Touchpoint

Pharmacy Inc.”. Finally, on November 11, 2011, articles of amendment were filed to change Touchpoint’s name to its current numbered company name.

13. Touchpoint operates a retail pharmacy business in Ontario using MedCentres. Ontario regulation 558/11, enabling remote dispensing was ratified on March 18, 2011 and the first MedCentre received approval from the Ontario College of Pharmacists on August 31, 2011. Since that time, Touchpoint has deployed 18 MedCentres in hospitals, medical centres and first nation’s communities in Ontario.
14. Under Ontario law, no corporation incorporated after 1954 can own or operate a pharmacy unless the corporation is majority-owned by pharmacists. Touchpoint is therefore 49% owned by PCAS and 51% owned by three pharmacists who are selected and employed by PCAS. PCAS does, however, under the Touchpoint shareholders’ agreement, hold veto power over any changes to the board of Touchpoint and over most other board-level decisions other than those relating to safety.
15. The Company’s corporate structure is detailed below in the following organizational chart.



16. The Company has two non-operational entities that are not shown on the above organizational chart, (i) 2246543 Ontario Inc., and (ii) Connect Care Pharma-Services Inc. (Delaware). The Company advised that these two entities have no assets nor conduct any business on behalf of PCAS and represent two old legal entities that are no longer used.
17. Since the start of 2012, the Company has attempted to raise additional funds, first with a private placement of up to \$100,000,000 in common shares and then, as well, through a private placement of up to \$30,000,000 in convertible debentures. Both offerings have been

marketed by J.P. Morgan Securities LLC, BMO Capital Markets and Goldman Sachs & Co. These offerings were not successful and have put the Company in a position that, absent additional significant funding, they do not have the liquidity to continue as a going concern.

18. Since the beginning of March 2012, the Company's cash position has been extremely tight, and on March 7, 2012 PCAS met its payroll obligations only through a last-minute factoring of certain Scientific Research & Experimental Development ("SRED") investment tax credits and Harmonized Sales Tax ("HST") refund accounts receivable by Castcan Investments Inc., ("Castcan"), a company controlled by certain existing shareholders of PCAS.

### Overview of PCAS Product

19. PCAS is a healthcare technology company that has developed and is rapidly commercializing a unique, automated pharmacy. The Company's principal technology and product is the *PharmaTrust MedCentre* (the "**MedCentre**"), a pharmacist-controlled, customer-interactive, prescription dispensing system akin to a "pharmacy in a box" or prescription-dispensing ATM that capitalizes on current healthcare and pharmacy industry trends. Each MedCentre sells for approximately \$130,000, and then the purchaser's licensed use of the technology within the MedCentres generates an income stream for the life of the unit.
20. The MedCentre facilitates live pharmacist counseling via two-way audio-video communication with the ability to dispense prescription medicines under pharmacist control on a 24/7 basis and has the capacity to store over 2,500 items. The MedCentre offers the potential to lower the cost of dispensing prescriptions and expand access to care while providing significant improvements in convenience to patients and improving drug-utilization, compliance and patient safety. The MedCentre provides benefits to all major stakeholders in the pharmacy dispensing value chain including patients, pharmacies, physicians, governments and payers.
21. On October 25, 2011, PCAS signed a 5-year customer Memorandum of Understanding ("**MoU**") with a national pharmacy retail chain in the United States. Assuming a successful pilot and adoption rates, the MoU contemplates this national chain purchasing up to 2,900 MedCentre units over the period 2012 to 2014, representing potential revenue of \$438 million over this period. PCAS is also in active discussions with another 15 large enterprise clients.
22. PCAS' second technology focus is on the development of the *PharmaTrust MedHome* (the "**MedHome**"). The MedHome is a personal in-home device that dispenses unit doses to patients at pre-set times and provides patient monitoring and reminders to ensure patient

health and safety. The MedHome also enables patients to immediately connect with a pharmacist, physician, caregiver or emergency response at the touch of a button.

### **Company Operations**

23. As referenced above, the Company's main operations are based in Oakville, Ontario. The Company operates from leased facilities in the following locations:

- a) Global/Canadian head office and Canadian manufacturing: 2880 Brighton Road, 2910 Brighton Road and 2440 Winston Park Drive, Oakville, Ontario (all leased facilities);
- b) US head office – 1468 Elmhurst Road, Elk Grove Village, Illinois, USA (leased)
- c) US sales office – 8120 Penn Avenue South, Suite 100T, Bloomington, Minnesota, USA (leased)
- d) UK sales office – 26-28 Hammersmith Grove, London, England (leased)

24. The Proposed Monitor is advised that the Company is currently in the process of shutting down its UK sales office.

25. As of March 12, 2012, the Company had approximately 240 employees and/or contractors working for the various Canadian, US and UK offices. The total number of employees and contractors by country are as follows;

- a) Canada 211 Total Employees, (i) full-time 191, (ii) part-time 15, (iii) contract 5;
- b) United States 2 full-time employees; and
- c) United Kingdom 1 contract employee.

26. The Proposed Monitor understands that the Company is reviewing its employee costs and may need to reduce (perhaps materially) head-count further in order to preserve liquidity during these CCAA Proceedings.

27. The Company does not have any defined benefit or defined contribution plans for any of its employees.

28. The Applicants next payroll was March 22, 2012 for approximately \$696,000. Without DIP financing, discussed below, the Company was not able to meet this obligation. With the approval of DIP financing, management intends to pay this outstanding amount immediately.

### **Causes of Insolvency**

29. The primary reasons for the current financial situation of the Company are as outlined in the Waugh Affidavit and include:

- a) The Company has been unable to raise additional capital via a planned share issuance due to the current market conditions and lack of interest in the above mentioned equity and debt raise;
- b) As noted above, the Company is incurring a substantial liquidity burn as it ramps up the production of its MedCentres to meet customer expectations (i.e., significant labour and contractor costs); and
- c) The Company does not have a strong enough balance sheet (i.e., accounts receivable, inventory) nor a proven revenue model to allow it to access traditional debt financing.

30. As noted above, the Company's continuing losses have eliminated its liquidity, leaving it without funds to operate or restructure.

### Historical Financial Results

31. The Company's most recent year-to-date ("YTD") consolidated income statement and its previous year-end income statement (December 31, 2011) are presented below. These financial results show a loss at February 29, 2012 YTD of approximately \$2.6 million, with a December 31, 2011 loss of over \$30 million. The Proposed Monitor notes the below income statement summary is for consolidated operations and is based on unaudited financial results.

<b>PCAS</b>			
Statement of Income (Consolidated)			
CDN\$ (ooo's)			
	Two-Months Ending		Year-end
	February 29, 2012		December 31, 2011
Sales	\$	(11)	\$ 1,009
Cost of Goods Sold		21	1,430
Gross Profit		(32)	(421)
Expenses		2,601	29,778
Net income (loss)	\$	(2,633)	\$ (30,200)

Source: Company prepared information

32. As noted above the Company remains in the pre-commercialization stages for its products and as a result the Company has incurred significant net losses in fiscal 2011 and YTD fiscal 2012.

33. Below is a summary of the Company's unaudited consolidated balance sheet as at February 29, 2012.

<b>PCAS</b>			
Consolidated balance sheet as at February 29, 2012			
(\$000)			
<b>ASSETS</b>		<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash	\$ 984	Trade and other payables	\$ 4,114
Accounts receivable	868	Loans payable	865
Inventories	2,931	Deferred revenue	642
Investment tax credits	1,095	Other current liabilities	121
Other current assets	376	<b>Total Current Liabilities</b>	<b>\$ 5,742</b>
<b>Total Current Assets</b>	<b>\$ 6,254</b>		
<b>Non-current Assets</b>		<b>Total Non-current Liabilities</b>	
Property, plant and equipment	\$ 4,381		\$ 130
Other non-current assets	2	<b>Shareholders' Equity</b>	
<b>Total Non-current Assets</b>	<b>\$ 4,383</b>	Capital stock and warrants (net of costs)	68,564
		Contributed surplus	2,513
		Retained earnings (deficit)	(66,315)
<b>Total Assets</b>	<b>\$ 10,636</b>	<b>Total Shareholders' Equity</b>	<b>\$ 4,763</b>
		<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 10,636</b>

Source: Company prepared information

34. The February 29, 2012 balance sheet reflects that:

- (i) The Company has an accumulated retained earnings deficit of approximately \$66 million;
- (ii) The Company assets exceed its liabilities; however the Company does not have sufficient borrowing capability to fund operational costs which run on average about \$1 million every two weeks as per the Company.

35. As a result of the sustained losses, the Company exhausted its liquidity and had an inability to raise additional equity capital, which was the primary source of capital for the company.

36. As at the date of this Report, we understand the Company has limited funds available and urgently requires the DIP financing.

**Key Creditors**

37. As outlined in the Waugh Affidavit, PCAS and Royal Bank of Canada (“RBC”) are parties to a credit letter agreement dated October 12, 2011, and Touchpoint has guaranteed all of the obligations of PCAS to RBC to a maximum principal amount of \$3,800,000. As of the date of this report, RBC is owed approximately \$870,000.
38. Kohl & Frish Limited (“KFL”) is a major drug supplier to Touchpoint. KFL is owed \$43,646 as at the date of this Report. KFL and RBC are parties to a priority agreement dated November 2011 in which KFL agreed to subordinate its security interests in all of the assets of the Applicants with the exception of inventory supplied by KFL.
39. Castcan recently purchased certain investment tax credit accounts receivable. The receipt of these recoveries by the Applicants’ are identified as repayments in the Consolidated Cash Flow Statement attached as Appendix A. Castcan has a security interest registered and the Company has identified repayments to Castcan in its cash flows.

#### V. RESTRUCTURING OF THE COMPANY AND TERMS AND USES OF THE PROPOSED DIP CREDIT AGREEMENT

40. The Proposed Monitor has been advised that the principal strategy to be pursued is a sale of the Company’s assets as a going concern within the CCAA Proceedings.
41. The Company’s liquidity position remains severe. In order to continue day-to-day operations and to facilitate the restructuring of PCAS, the Applicants will require additional and immediate liquidity during formal insolvency proceedings if they are to successfully conduct a sale of its assets.
42. The Proposed Monitor understands that a consortium of shareholders (the “DIP Lender”) has agreed pursuant to a proposed senior secured, debtor-in-possession credit agreement (the “DIP Credit Agreement”) to extend debtor-in-possession financing (the “DIP Facility”) to the Company to support the operations of the Company during the sales process. The DIP Lender informed the Company that their willingness to provide such financing was predicated, in part, on the Applicants bringing an independent application for protection under the CCAA.
43. It is important to note that the amount of the DIP Commitment is approximately \$2.8 million and based on the 13-week cash flows, discussed below, this emergency funding will only provide the Company with about 3 weeks of liquidity. The Company has advised that they know they must raise additional DIP financing from its current shareholder group and/or new parties to maintain the business as a going-concern.

### **Key Elements of the DIP Credit Agreement**

44. Some of the principal terms of the DIP Credit Agreement include, without limitation, the following:

- a) The DIP Facility consists of a non-revolving credit facility in an aggregate amount of approximately \$2,800,000 (the "DIP Commitment") at any time, with a term of three months from the date of the CCAA approval.
- b) Pricing under the DIP Credit Agreement is at 15%. Interest on DIP Commitment will be in arrears and payable upon maturity of the DIP Facility.
- c) The DIP Charge requested will be subordinated to RBC and Castcan.
- d) The DIP Lender has the right to convert all or any portion of the indebtedness into common shares at one (1) common share for \$0.38 of indebtedness converted.
- e) The consortium involved in the DIP financing are party to a Pari Passu Priority Agreement.

45. The Company has had discussions with certain other potential groups as to provide DIP financing, and a third party actually presented a DIP commitment; however this third party subsequently withdrew their commitment. At the date of this Report, the Proposed Monitor is unaware of any interested parties that could facilitate a DIP arrangement on an expedited basis in order to address the Company's immediate liquidity concerns.

46. As it relates to the DIP Credit Agreement, the Applicants have advised the Proposed Monitor that:

- a) The DIP Credit Agreement represents the best alternative available to the Applicants to address short-term liquidity constraints;
- b) The DIP Credit Agreement should ensure the continuation of the Applicants operations and employment of certain employees during the CCAA Proceedings while the Company addresses the need to source additional DIP financing;
- c) The contemplated sales process would be at risk if the DIP Credit Agreement were not approved by this Honourable Court; and
- d) Substantially all of the assets of the Company are already pledged to RBC and/or Castcan. The DIP Financing contemplates a DIP Charge that is subordinated to RBC and Castcan's secured positions and to therefore provide these stakeholders with some comfort as to the reasonableness of the preservation of their secured position.

47. The Company has advised the Proposed Monitor that the Company will use the funds advanced under the DIP Facility for working capital, general corporate purposes, transaction/restructuring costs and post-filing expenses. The Proposed Monitor understands that the Company is in immediate need of the financing in order to ensure payroll is paid to the approximate 211 employees/contractors in Canada, US and the UK, and to allow the Applicants to continue operating and meeting customer order requirements.
48. Given the Company's poor financial results and its immediate liquidity concerns, the Company is unlikely to secure any additional capital outside of a Court-approved facility. As such, the Proposed Monitor is of the view that the DIP Facility represents the only alternative available to the Company to ensure the continuation of the Company's operations through these proceedings.

## VI. OVERVIEW OF THE 13-WEEK CASH FLOW STATEMENT

49. The Company has prepared a consolidated 13-week cash flow forecast (the "**Consolidated Cash Flow Statement**") that estimates its financing requirements during the CCAA Proceedings. A copy of the Consolidated Cash Flow Statement is attached hereto as Appendix A and projects that the Company will have limited short-term liquidity available to allow them to operate under CCAA Proceedings and afford the Company the opportunity to raise additional DIP financing and run a court-approved sales process.
50. The Consolidated Cash Flow Statement estimates that for the period March 23, 2012 to June 15, 2012, the Applicants will have total receipts of approximately \$1.8 million and total disbursement of approximately \$10.6 million for net cash outflow of \$8.9 million.
51. From a review of the Consolidated Cash Flow Statement, it is important to note that the Company's liquidity becomes increasingly tight with limited flexibility as the Company approaches the 4 week mark. The Company will need to arrange additional DIP financing in order to provide it with sufficient time to execute on a transaction. There is the potential that the Company will not have sufficient liquidity to continue as a going-concern if additional DIP financing is not raised. The Company is actively considering various alternatives to reduce costs, including significant headcount reductions through temporary lay-offs, in order to preserve cash and extend the period of time available for raising additional financing.
52. It should be noted that to the extent that suppliers supply goods or services after the date of the Initial Order (if obtained) on credit, there is a risk that the Applicants will not have sufficient liquidity to satisfy their obligations (which could include payments owing to

employees for services performed in the preceding pay period) unless the DIP Lender provides additional credit, additional DIP financing is arranged, or a purchase transaction is completed in which the purchaser agrees to assume such obligations.

53. As at March 19, 2012, the amount of pre-filing trade debt of the Applicants that will be stayed as a result of the CCAA Proceedings is approximately \$6.3 million.

54. The Consolidated Cash Flow Statement attached hereto as Appendix A has been prepared by the Company using Probable and Hypothetical Assumptions as set out in the notes to the Consolidated Cash Flow Statement.

55. Pursuant to section 23(1)(b) of the CCAA, the Proposed Monitor is required to provide this Honourable Court with the Proposed Monitor's findings with respect to its review of the Consolidated Cash Flow Statement as to its reasonableness. Our review consisted of inquiries, analytical procedures and discussions related to information supplied to by the management of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Consolidated Cash Flow Statement. We have also reviewed the support provided by the Company for the Probable Assumptions. The Probable Assumptions of the Consolidated Cash Flow Statement are as follows:

- a) all disbursements are made assuming suppliers pre-filing amounts are stayed and post-filing amounts are paid on significantly reduced credit terms in light of the commencement of these CCAA Proceedings;
- b) no significant changes in input prices from key suppliers;
- c) intercompany accounts payable and loans, as at the date of filing, are stayed;
- d) payments are made to RBC and to Castean based on the receipt of investment tax credits;
- e) interest accruing on the direct indebtedness of the DIP Credit Agreement is paid monthly at the rates agreed to in the DIP Credit Agreement; and
- f) professional fees associated with the planned CCAA proceedings have been estimated by the professionals involved.

56. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) The Hypothetical Assumptions are not consistent with the purpose of the Consolidated Cash Flow Statement;
  - b) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plan of the Company or do not provide a reasonable basis for the Consolidated Cash Flow Statement, given the Hypothetical Assumptions; or
  - c) The Consolidated Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.
57. As noted above, the Company will require additional DIP financing, above the amount of \$2,800,000 in order to continue as a going-concern.
58. The Proposed Monitor will monitor the receipts and disbursements and report to this Honourable Court any material concerns that may arise.

## **VII. SUMMARY OF PROPOSED COURT-ORDERED CHARGES**

59. The Administration Charge provides for an amount of \$500,000 for the Monitor, the Monitor's counsel, and the Applicants' counsel, as security for professional fees and disbursements incurred before and after the making of the Initial Order in respect of these CCAA Proceedings. The Administration Charge has been established based on the respective professional's previous history and experience with restructurings of a similar magnitude and complexity.
60. The Company further proposes a charge in favor of the DIP Lender (the "**DIP Charge**") in an amount not to initially exceed \$3 million charging all of the assets of the Company, except the above Administrative Charge and prior existing registered security interests. This \$3 million DIP Charge would provide for the accrual of a certain amount of interest.
61. The directors' and officers' charge (the "**D&O Charge**"), as described in the Waugh Affidavit and the draft Initial Order, provides for a charge in the amount of \$1,500,000 million as security for various indemnities provided to the directors and officers by the Applicants' in the draft Initial Order.
62. The Proposed Monitor has been advised that the D&O Charge is necessary for the continued service of the Applicants' directors and officers during the Company's restructuring and that the quantum has been calculated relative to certain employee-related obligations of the Applicants' for which the directors and officers may be held liable.

63. Given that the Applicants' will require the committed involvement of its directors and officers to successfully restructure, the Proposed Monitor believes the D&O Charge is required under the circumstances. The Proposed Monitor has not been provided with a detailed breakdown by employee; however the Company has provided the Proposed Monitor with a summary of the quantum requested.
64. The Proposed Monitor is of the view that the proposed D&O Charge and the proposed DIP Charge and rankings are required and reasonable in the circumstances of the CCAA Proceedings, in order to preserve the Company's operations and maintain an enterprise value and, accordingly supports the granting of and the proposed priority ranking of these court-ordered charges. The Proposed Monitor understands that RBC and Castcan have received notice of these proceedings.

#### **VIII. CREDITOR NOTIFICATION**

65. The draft Initial Order requires the Proposed Monitor to send notice of the Initial Order, within ten (10) days, to every known creditor, having a claim of more than \$1,000. The Proposed Monitor will attempt to ensure that creditors owed less than \$1,000 will receive notice of the Initial Order by posting the Initial Order on its website.

#### **IX. CONCLUSIONS**

66. The Proposed Monitor is of the view that the restructuring and continuation of the business as a going concern is the best option available for a variety of reasons, including, *inter alia*:
- a) A going concern restructuring or sale of the assets would preserve the value of the Company whereas a liquidation and wind-down of the Company would likely result in a significantly reduced value and recovery for creditors';
  - b) A CCAA Proceeding affords the Company additional time to secure further DIP financing; and
  - c) A going-concern sale of the business has the potential to preserve a significant number of jobs if the Company is able to continue or sold as a going concern.
67. In these circumstances, the Proposed Monitor is supportive of the Company's efforts to obtain DIP financing so as to avoid a liquidation and provide time to address additional DIP financing and facilitate a restructuring and sale of its assets through CCAA Proceedings.

68. The Proposed Monitor understands that the DIP Lender is only willing to extend credit to the Applicants' under the conditions of the DIP Credit Agreement. The Proposed Monitor further understands that the Company does not have any satisfactory alternative financing arrangements available.

69. The Proposed Monitor understands that, without access to financing under the DIP Credit Agreement, the Company would face an imminent liquidity crisis, an inability to purchase materials for new customer orders, and more importantly an inability to pay its employees. The Proposed Monitor recognizes the need for the Applicants' to obtain this Honourable Court's approval of the DIP Credit Agreement and DIP Charge as part of the Initial Order.

70. Further to the Proposed Monitor's review of the proposed draft Initial Order, the Proposed Monitor supports the charges and financial thresholds proposed in the draft Initial Order, including:

- a) the Administration Charge of \$500,000;
- b) the DIP Charge of \$3,000,000;
- c) the D&O Charge of \$1,500,000; and
- d) notices to creditors with outstanding balances of \$1,000 or more.

All of which is respectfully submitted at Toronto, Ontario, this 21<sup>st</sup> day of March 2012.

**PRICEWATERHOUSECOOPERS INC.**

In its capacity as Proposed Monitor of  
Patient Care Automation Services Inc.



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**Paul van Eyk, CA·CIRP, CA·IFA**  
Senior Vice-President

## **Appendix “B”**

**First Report of the Monitor, dated April 15, 2012**

**PCAS PATIENT CARE AUTOMATION SERVICES INC. AND  
2163279 ONTARIO INC.**

**FIRST REPORT OF THE MONITOR**

**April 15, 2012**

Court File No. CV-12-9656-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST**

**IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
PCAS PATIENT CARE AUTOMATION SERVICES INC. AND 2163279 ONTARIO  
INC.**

**APPLICANTS**

**FIRST REPORT OF PRICEWATERHOUSECOOPERS INC.**

**In its capacity as Monitor of the Applicants**

**April 15, 2012**

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## APPENDICIES

- APPENDIX "A" – Proposed Monitor's Report, dated March 22, 2012
- APPENDIX "B" – Confidential unredacted KERP
- APPENDIX "C" – Cash flow variance analysis for the period to April 6, 2012
- APPENDIX "D" – Revised Forecast to June 15, 2012

## I. INTRODUCTION

1. On March 23, 2012 (the “**Filing Date**”), PCAS Patient Care Automation Services Inc. (“**PCAS**”) and 2163279 Ontario Inc. (“**Touchpoint**”) (collectively, the “**Company**” or the “**Applicants**”) made an application under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (“**CCAA**”) and an initial order (the “**Initial Order**”) was granted by the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granting, *inter alia*, a stay of proceedings against the Applicants to April 21, 2012 (the “**Stay Period**”) and appointing PricewaterhouseCoopers Inc. (“**PwC**”) as the monitor (the “**Monitor**”). The proceedings commenced by the Company under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. PwC was previously retained by the Company to act as financial advisor to assist management and the board of directors to review strategic alternatives available to the Company for the resolution of its liquidity concerns.

## II. PURPOSE OF REPORT

3. In conjunction with the Company’s application for relief under the CCAA, on March 23, 2012, PwC in its capacity as proposed Monitor filed a report with this Court (the “**Proposed Monitor’s Report**”) attached hereto as **Appendix “A”**.
4. The purpose of this, the Monitor’s first report (the “**First Report**”) is to:
  - a) Provide this Court with a summary of the following:
    - (i) The Monitor’s activities since the date of the Initial Order;
    - (ii) The Company’s request to increase the authorized borrowing limit of the DIP Facility to \$10,000,000 and to correspondingly increase the DIP Lender’s Charge (both as defined in the Initial Order);
    - (iii) The Company’s request that it be authorized to amend the terms of the DIP Facility;
    - (iv) The Company’s request for the approval of a key employee retention plan (“**KERP**”) and a KERP Charge (as defined below);
    - (v) The Company’s Cash Flow Variance Analysis for the period March 23 to April 6, 2012; and
    - (vi) The Company’s Revised Forecast (as defined below) for the period April 7 to June 15, 2012.

b) Recommend that this Court issue an order:

- (i) Approving the activities of the Monitor as set out in this First Report and the Proposed Monitor's Report;
- (ii) Increasing the Company's authorized borrowing limit under the DIP Facility from \$2,800,000 to \$10,000,000 and correspondingly increasing the amount of the DIP Lender's Charge;
- (iii) Approving the Amended and Restated DIP Agreement;
- (iv) Approving the Company's request for approval of the KERP and granting the KERP Charge; and
- (v) Sealing Confidential Appendix "B" hereto containing the unredacted KERP.

### III. QUALIFICATIONS

5. In preparing this First Report, the Monitor has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management and legal counsel to the Company. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance with respect to the information contained in this First Report. Future-oriented financial information relied upon in this First Report is based on management's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material. The Monitor expresses no opinion or other form of assurance with respect to the accuracy or completeness of any financial information contained herein. The Monitor reserves the right to refine or amend its comments and findings as further information is obtained or brought to its attention subsequent to the date of this First Report.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined are as defined in the Initial Order or in the Affidavit of Loreto Grimaldi dated April 13, 2012 (the "**Grimaldi Affidavit**").

### IV. ACTIVITIES

#### **Monitor's activities since March 23, 2012**

7. The Company has provided the Monitor with its full co-operation and unrestricted access to their premises, books and records. The Monitor has implemented procedures for the daily monitoring of receipts and disbursements and is assisting the Company in the preparation of a weekly cash flow forecast and variance analysis of actual results against the cash flow

forecast, which the Company provides to the DIP Lender under the terms of the DIP Loan Agreement.

8. The Monitor has established a dedicated telephone number, (416) 687-8316, which creditors and other interested parties can use to contact the Monitor. In addition, the Monitor has established a website at [www.pwc.com/car-pcas](http://www.pwc.com/car-pcas) at which all materials filed by the Company or the Monitor in the Ontario Court and all orders granted by the Ontario Court will be made available to creditors and other interested parties in electronic form. In accordance with paragraph 44 of the Initial Order and in accordance with section 23(1) of the CCAA, the Monitor:
  - a) sent a notice of the CCAA filing, on March 27, 2012, in the prescribed form to all known creditors as set out in the Company books and records, and to the Office of the Superintendent of Bankruptcy (“OSB”);
  - b) arranged for publication of a notice in the Globe and Mail once a week for two consecutive weeks commencing on March 28, 2012;
  - c) posted a list showing the names and addresses of creditors and the estimated amount of those claims on the Monitor’s website (with the exception of employee claims which amounts have not been posted for privacy reasons); and
  - d) filed the necessary forms with the OSB within the prescribed time limits.
9. Since the date of its appointment, the Monitor has been working to fulfill its duties and obligations and to assist the Company to prepare for a sale or restructuring of its business and to assist the Company in its discussions with counsel to the DIP Lender regarding the potential structure of the DIP Facility, including, among other things:
  - a) attending the Company’s Oakville offices to work with the interim CFO on the preparation of the Revised Forecast;
  - b) discussions with the interim CFO and review of the Company’s receipts and disbursements;
  - c) discussions and correspondence with Aird & Berlis LLP (“A&B”), counsel to the Company, on various matters;
  - d) discussions and correspondence with Osler, Hoskin & Harcourt LLP (“Osler”), counsel to the Monitor, on various matters;

- e) discussions with the Company and its counsel regarding the framework for a potential sale and investor solicitation process (“SISP”), and review of Company prepared draft SISP documentation;
  - f) discussions with various interested parties seeking to obtain information in respect of DIP financing and/or on a sales process within the CCAA Proceedings;
  - g) discussions with numerous creditors and shareholders on the status of the CCAA Proceedings;
  - h) discussions with the Company on the proposed KERP;
  - i) discussions with the Company on potential contract repudiations and other cost saving and restructuring initiatives ;
  - j) discussions with the Company and the DIP Lender and their counsel on the proposed Amended and Restated DIP Agreement (as defined below);
  - k) discussions with the Company and the DIP Lender on potential sources of additional DIP financing; and
  - l) Discussions with counsel to certain of the secured creditors regarding, among others, the CCAA Proceedings and the Company’s efforts to arrange for additional DIP funding and commence a sale process
10. Prior to the Company’s application under the CCAA, the third-party guarantor provided \$65,000 to A&B to be held in trust for payment of the fees of a Trustee in Bankruptcy should a successful restructuring or sale of the business not be possible. These fees remain with A&B as at the date of this First Report and, at this point, will not be released.

**Company’s activities since March 23, 2012**

- 11. Since the start of the CCAA Proceedings, the Company’s senior management team has, among other things, been working with employees, customers and suppliers to ensure that the stability of operations and its technology is maintained.
- 12. The Company has been working in coordination with the DIP Lender to aggressively market and increase the DIP Facility in order to obtain sufficient funds to enable the commencement of a SISP. A significant amount of the time of senior management and the Board of Directors has been dedicated to strategies to increase investment in the DIP Facility in order to provide the Company sufficient time to implement a restructuring or sale.

13. Subsequent to the Filing Date, three individuals have joined the PCAS Board of Directors, bringing the total to four Board Members. On the Filing Date, the only director was Mr. Don Waugh, Chairman and Co-Founder. Subsequently, Mr. Kym Anthony joined as Chairman and Mr. Farouk Ahamed and Mr. Jim McClocklin joined as Directors and Mr. Waugh became Vice Chair. These Board Members have been actively involved in meeting with Company management to address the issues facing the Company, most notably raising investment in the DIP Facility.

#### **SUPPLIER AND CUSTOMER COMMUNICATION**

14. The Company has contacted certain key suppliers by phone and has sent letters electronically to substantially all of their other customers advising of the CCAA Proceedings and of the Company's efforts to continue operations as normal without disruption.

#### **EMPLOYEES**

15. Pursuant to paragraph 5 of the Initial Order, the Company has continued their existing payroll arrangements with its employees and has been paying outstanding wages earned prior to March 23, 2012, and wages earned after that date. Additionally, the Company has been reimbursing employees for valid and authorized expenses incurred as part of their employment. The payments have included amounts owing to self-employed individuals whose services are retained by the Company on a contractual basis.
16. In order to reduce costs, the Company has implemented a head-count reduction plan, with 49 terminations made on March 29, 2012. All terminated staff have been paid their outstanding wages, as well as any outstanding vacation pay and outstanding expense claims. In addition to the planned terminations, as of April 4, 2012, 11 employees had voluntarily resigned and were paid outstanding wages and vacation pay.
17. Prior to the commencement of the CCAA Proceedings, PCAS offered its staff the choice to accept shares in PCAS in lieu of cash payments for wages earned. At the date of filing, there were 28 employees who continued to take shares in lieu of cash. PCAS advised employees at the time of making the offer of the risks associated with accepting shares in lieu of cash and obtained a signed acknowledgement of these risks and the impact on the employees' compensation in a formal restructuring proceeding. The Monitor and its counsel have reviewed this acknowledgement and consider it sufficient in informing employees of the risk of accepting shares in lieu of cash payments for wages. The acknowledgment includes a warning that accepting shares in lieu of wages might reduce the employee's potential claim under the Wage Earner Protection Program.

### **COST REDUCTION ACTIVITIES**

18. The Company continues to undertake various cost reviews to reduce the on-going cash requirements of the business. These cost reduction activities include a review of necessary material purchases and further headcount reductions if required.
19. In the interest of pursuing a SISP, the Company intends to engage a third party advisor to assist with this process. The Company is currently in discussions to finalize the terms of such an agreement. Should sufficient funds be raised in the DIP facility, it is intended that the Company will return to Court to seek the approval of a SISP. The Monitor will report to this Court further on the proposed SISP at such time together with any engagement of a third party financial advisor to assist any proposed SISP.
20. The Company is evaluating its contracts in order to identify those that it intends to repudiate pursuant to the provisions of the Initial Order in order to minimize costs. To date, the Company has not issued any repudiation notices.

### **OTHER MATTERS**

21. On March 29, 2012, the Company received an HST refund of \$160,086 which was subject to Castcan Investments Inc.'s ("**Castcan**") security. As set out in the cash flow forecast filed with the application for the Initial Order, the Company paid this amount to Castcan on account of its secured claim. The Company also intends to return certain expired and soon to be expired drugs to Kohl & Frisch Limited ("**KFL**") that is subject to the security that is in favour of KFL.
22. As discussed in the Proposed Monitor's Report, the Company has been in continuing discussions with a national pharmacy retail chain in the United States with which it signed a 5-year memorandum of understanding ("**MoU**") on October 25, 2011. The Company continues to seek to finalize and sign a contract with this customer providing for sales of up to 2,900 MedCentre units over the period 2012 to 2014, representing potential revenue of \$438 million over this period. In addition, PCAS remains in active discussions with several other large enterprise clients. As at the date of this First Report, the Monitor is not aware of any signed commitments.
23. Since the Filing Date, the Company has made payments of \$13,450 on account of balances owing from prior to the filing date. These payments were made to a critical vendor without whom the Company would not have been able to continue its operations. The Monitor was

made aware of this critical payment and supported this payment in the interest of continuing and stabilizing the business.

## **V. DIP FACILITY AND DIP LENDER'S CHARGE**

24. The Initial Order authorized and empowered to the Applicants to obtain and borrow under a credit facility from 2320714 Ontario Inc. (the "**DIP Lender**") to a maximum principal amount of \$2,800,000 (the "**DIP Facility**") subject to further order of this Court. Additionally, the Initial Order provided for a charge in favour of the DIP Lender (the "**DIP Lender's Charge**").
25. The Company has drawn the DIP Facility's full \$2,800,000 limit. As of April 13, 2012, there was \$825,000 of cash in respect of the additional DIP finding which could be drawn by the Company without any conditions other than obtaining an Order increasing the principal limit on the DIP Facility. It is estimated that these additional funds will allow the Company to continue to operate, net of accrued payroll, to on or about April 18, 2012
26. As further discussed below, to the extent that the Company is not able to raise the additional funds, the Company will no longer have funds to continue to operate as a going concern and make its payroll (accrued wages only, excluding accrued vacation pay), professional fees and other obligations as per the Revised Forecast after on or about April 18, 2012. Accordingly, it is the Monitor's understanding that in those circumstances it is the Company's intention to make an assignment in bankruptcy. The Monitor intends to provide a report to the Court and the Service List on the Company's efforts to raise this additional financing on or about April 18, 2012.
27. The DIP Lender has engaged a financial advisor for the purpose of assisting the DIP Lender with acquiring additional investment in the DIP Facility. The Company has acknowledged the terms of this engagement. The engagement is success based with \$200,000 payable from the DIP Facility upon successfully raising sufficient funds to fund a SISP and hourly based fees payable from the DIP Facility for restructuring or transaction advisory services (with a minimum fees of \$100,000). The Monitor understands that there are no funds payable by the Company thereunder.
28. The Company, with the assistance of the Monitor, has prepared a consolidated cash flow projection of its receipts, disbursements and financing requirements for the period ending June 15, 2012 as discussed below. This forecast indicates that the Company will require an additional \$6.4 million in order to fund its operations from April 21 to June 15, 2012.

Accordingly, the ability to borrow additional funds is vital to providing the necessary stability and cash flow for the Company's business while it seeks to restructure or sell its assets.

29. As set out in the forecast filed with the Proposed Monitor's Report (the "**Initial Forecast**") and as set out in the Cash Flow Variance Analysis reported in paragraph 45 below, the Company has used the funds available to date to fund its payroll and operations and there remains no further availability in the DIP Facility to fund ongoing operations.
30. The Company is requesting an increase in the DIP Facility limit from \$2,800,000 to \$10,000,000 in order to fund the Company's operations and to provide for the ability to complete a SISP if possible. The Company is to fund payroll on April 17, 2012 and requires that the limit on the DIP Facility be increased in order to allow sufficient funds to cover the immediate payroll to be released.
31. If the Company is successful in raising the funding required, the Company will return to Court for an extension of the Stay Period and a request for approval of a SISP. If the Company is not able to raise the required funds, then the Monitor understands that the Company will likely make an assignment in bankruptcy.
32. At this time, the Company is not seeking any material extension to the Stay Period as the Company does not have certainty of funding beyond April 18, 2012. The Monitor understands that the Company may seek an extension of the Stay Period to Monday, April 23, 2012, in order to remove any confusion caused by the Stay Period expiring on a weekend as it presently does. The Monitor supports these decisions regarding extension of the Stay Period and, as discussed above, will report further to this Court on or about April 18, 2012.

## **VI. AMENDMENTS TO THE DIP FACILITY**

33. In order to increase the attractiveness of the DIP Facility to investors, the Company is seeking the approval of revised terms to the DIP Facility (the "**Amended and Restated DIP Agreement**"). Under the original DIP Facility, investors could convert their investment in the DIP Facility into common shares in PCAS at a rate of \$0.38/share (the "**Base Conversion Privilege**"). The Amended and Restated DIP Agreement now limits the Base Conversion Privilege to the period prior to the closing of any transaction by which PCAS raises enough new funding (either by debt or equity) to (a) repay all amounts owing in connection with the DIP Facility and (b) provide sufficient working capital to enable the Applicants to get a plan of arrangement or compromise approved in the CCAA proceedings (a "**Refinancing Transaction**").

34. The Amended and Restated DIP Agreement now provides, in addition to the original terms of the DIP Facility as outlined in the Proposed Monitor's Report, the following additional terms:

a) In the instance of a Refinancing Transaction:

- (i) the right, upon closing of a Refinancing Transaction, for the investor to convert all or any portion of their investment in the DIP Facility either (i) into common shares and warrants at a conversion rate calculated as a function of any valuation in the Refinancing Transaction of the issued and outstanding common shares (the "**Refinancing Equity Conversion Privilege**") or (ii) into whatever type of securities (if any) that PCAS issues to the party providing the financing in a Refinancing Transaction (the "**Refinancing Party**") at the same price and upon the same terms as offered to the Refinancing Party (the "**Refinancing Securities Conversion Privilege**", and together with the Refinancing Equity Conversion Privilege, the "**Refinancing Conversion Privileges**", and together also with the Base Conversion Privilege, the "**Conversion Privileges**");
- (ii) to the extent Conversion Privileges have not been exercised, the right to receive a refinancing success fee calculated as the amount repaid to the DIP Lender (other than by way of common shares, warrants or other securities upon exercise of Conversion Privileges) expressed as a percentage of the aggregate amount of the DIP Facility, and then multiplied by the amount that is 5% of the aggregate amount of the DIP Facility (the "**Refinancing Success Fee**"); where the Refinancing Conversion Privileges would be exercised at the request of individual investors (in the same manner as the Base Conversion Privilege), and the Refinancing Success Fee would be shared pro rata among the investors in the DIP Facility to the extent each investor has not exercised any Conversion Privilege.

b) in the case of a sale of all or substantially all of the assets, property and undertaking of the Applicants, the Amended and Restated DIP Agreement gives the investors in the DIP Facility the right, subject to certain thresholds being met that ensure all creditors are paid in full, to receive warrants allowing them to acquire up to 25% of the common shares, on a pro rata basis (the "**Sale Warrants**"). The number of Sale Warrants

issued would be decreased by the amount of any decrease in the investment resulting from the exercise of Conversion Privileges.

- c) In any scenario discussed above, any return to an investor in the DIP Facility would be capped to ensure, if necessary, that the actual interest rate payable to an investor in the DIP Facility does not exceed sixty percent (60%) over an annualized one year period
35. A copy of the Amended and Restated DIP Agreement is attached as exhibit "E" to the Grimaldi Affidavit.
36. The Monitor understands that the DIP Facility was marketed primarily to the 550 existing non-employee shareholders given the urgency of raising the funds and the shareholders pre-existing knowledge of the Company's business and situation. The Company's limited realizable value in a forced liquidation makes it unlikely that the Company would be able to secure additional funding from a third party and, even if it could, funding would likely be very limited, expensive and not timely. As such, the Monitor is of the view that the terms of the Amended and Restated DIP Agreement are appropriate to provide the Company's access to sufficient funding in order to continue the Company's operations through these CCAA Proceedings.
37. The Monitor has considered the equity terms of the Amended and Restated DIP Agreement and should the Company be sold for a significant premium over its total liability value, these equity terms have the potential to create a significant return for a DIP investor, however the Monitor is of the view that this incentive is required to attract interest in the DIP Facility in order to obtain sufficient investment to be able to fund a restructuring or SISF. The Monitor has reviewed the principal financial terms of the DIP Facility and is of the view that the terms and conditions of the DIP Facility appear to be reasonable in the circumstances.

## **VII. PROPOSED KERP, KERP CHARGE AND EMPLOYEE RETENTION**

38. The Company has determined that a KERP is necessary in order to ensure that certain employees who are key to a SISF or have specific knowledge that would be valuable to a purchaser or investor are retained during the CCAA Proceedings. Additionally, the Company is seeking a charge to secure the Applicant's obligation under the KERP (the "**KERP Charge**"). The KERP Charge is to rank immediately behind the Administration Charge, the claims of certain secured creditors, the DIP Lender's Charge and the Directors' Charge (each as defined in the Initial Order).

39. The KERP is limited to 20 employees (approximately 13% of the total number of employees) who have been identified by the Company as being key to ensuring the value of the Company in a SISP or a restructuring. The Monitor considers that the terms of the KERP are reasonable in the circumstances and supports the creation of the KERP Charge.
40. There are two components to the KERP, a staged cash payout of approximately \$500,000 which is payable upon reaching certain criteria or milestones and an equity component which incentivizes the employees in the longer term.
41. The key terms of the KERP include the following:
- a) A cash component payable as follows:
    - (i) 20% upon \$8,000,000 being raised by the DIP Lender for funding the DIP Facility, and PCAS receiving authorization of this Court to borrow up to or in excess of that amount;
    - (ii) 20% at the midway mark of a SISP; or
    - (iii) 60% upon the earliest of the closing of a sale or Court approval of a plan of arrangement or compromise in the CCAA Proceedings.
  - b) An equity component which provides, after the closing of a refinancing transaction, for a pool of 10% of the issued and outstanding common shares of PCAS to be allocated amongst the KERP participants, other employees, directors of PCAS and certain other parties subject to their involvement in the development of the refinancing transaction.
  - c) KERP Participants cannot have resigned, been terminated for cause or have failed to perform his or her duties and responsibilities diligently, faithfully and honestly.
42. A copy of the unredacted KERP which contains individually identifiable personal and financial information of the KERP participants is attached hereto as **Confidential Appendix "B"** (the "**Confidential Appendix**"). In order to protect the KERP participants and to minimize disruption during the CCAA Proceedings, the Applicants are seeking an order sealing the Confidential Appendix until further order of this Court.
43. The Monitor understands that the DIP Lender has been consulted in the preparation of the KERP and is supportive of the proposed KERP in order for the Company to maintain its key employees during any SISP. The Amended and Restated DIP Agreement provides for the payment of a KERP in priority to payment of any of the new terms above which are proposed to be added to the DIP Facility.

44. The KERP will only be payable and earned upon the raising of substantially all of the DIP funding required to run a SISP.
45. In addition, the Monitor has been advised that the Company is seeking to apply the savings created by employee resignations to the salaries of certain remaining key, non-management, technology employees. Management has advised that this is necessary to mitigate an immediate threat of losing key employees during the CCAA Proceedings. Management is working to establish the specifics of this allocation, and the Monitor has been advised that the allocation of these funds to individuals would be consistent with the ranges provided for in the KERP and that the net reallocation will not exceed the forecast payroll costs. In the Monitor's view, this is appropriate for the purpose of maintaining the value of the business during an eventual restructuring or sale of the Company's assets.

## **VIII. CASH FLOW VARIANCE ANALYSIS**

46. A summary of the Applicants' actual versus forecast cash flow for the period March 23 to April 6, 2012, is shown below. The actual cash balance at April 6, 2012, was in accordance with the cash flow forecast filed as part of the application for the CCAA Proceedings (the "**Initial Forecast**"):

**PCAS****Cash flow variance analysis****For the period March 23 to April 6, 2012****CDN\$ (000's)**

	Forecast	Actual	Variance	
			Favourable / (Unfavourable) (\$)	(%)
<b>RECEIPTS</b>				
New AR Collections	35	15	(20)	(56%)
SRED Recovery	243	-	(243)	(100%)
HST Recovery	160	160	0	0%
<b>TOTAL RECEIPTS</b>	<b>438</b>	<b>175</b>	<b>(263)</b>	<b>(60%)</b>
<b>DISBURSEMENTS</b>				
Employee and contractor costs	1,477	1,783	(306)	(21%)
Operating costs	268	-	268	100%
Lease costs	142	89	53	37%
SG&A	302	105	197	65%
DIP Interest	-	-	-	0%
Principal payment	445	160	285	64%
Professional Fees	625	316	309	49%
HST Payments	145	58	88	60%
<b>TOTAL DISBURSEMENTS</b>	<b>3,404</b>	<b>2,511</b>	<b>893</b>	<b>26%</b>
<b>NET CASH FLOW</b>	<b>(2,966)</b>	<b>(2,336)</b>	<b>630</b>	<b>21%</b>
<b>BEGINNING CASH</b>				
DIP Draw / (Repayment)	-	61	61	100%
<b>CLOSING CASH BALANCE</b>	<b>(166)</b>	<b>525</b>	<b>691</b>	<b>417%</b>
<b>Accrued Payroll</b>		<b>(294)</b>		
<b>Net Cash Balance</b>		<b>231</b>		

47. During the Period, the Company experienced a net cash outflow of \$2,336k resulting in a net favourable variance from forecast of \$630k. This variance is comprised of an unfavourable difference in receipts of \$263k as well as a favourable variance in disbursements of \$893k. A further analysis of the variances from forecast is attached hereto as **Appendix "C"**.

48. The majority of variance results from the deferral of all but critical payments during the period. In addition to these cost deferrals, the primary variances from forecast include:

- a) The forecast SRED receipt of \$243k was anticipated to be recovered in the period; however this amount was received on March 22, 2012, before the CCAA application. As these funds were part of Castcan's security package, they were paid to Castcan in advance of the CCAA filing and so are not reflected in the actual results for the Period.
- b) The unfavourable Employee and Contractor Costs variance resulted from delays in terminating employees post-filing while restructuring decisions were being made. Accordingly, approximately 50 employees were paid for an additional week

(approximately \$230k) compared to forecast. In addition, vacation pay of \$70k was paid for terminated employees in accordance with the CCAA Order, however this payment had been excluded from the original forecast. The headcount is currently 154 which is below the number anticipated in the forecast of 162.

#### **CURRENT ACCRUED COSTS**

49. The Company is generally paying suppliers on cash-on-delivery terms except where otherwise agreed to with suppliers. The Company's employees are paid on a bi-weekly basis, one week in arrears. The most recent payroll was funded on April 2, 2012 for compensation for the period to March 30, 2012. Accordingly, the next payroll will be funded on April 17, 2012 for compensation earned up to April 13, 2012. The Monitor and the Company are closely monitoring the accrued payroll in comparison to the available cash on hand to ensure that sufficient funds exist to pay for compensation earned to date. In order to reduce this accrual, the Company's intend to move to a weekly payroll cycle, ideally paying employees current each week; however as a result of administrative timing delays by the payroll provider, this change is not expected to occur until the end of April 2012.

#### **IX. REVISED FORECAST**

50. The Company has prepared a revised cash flow forecast for the period from April 9 to June 15, 2012 (the "**Revised Forecast**"). A schedule detailing the Revised Forecast by week is attached as **Appendix "D"**.

51. The Revised Forecast is based on the following hypothetical and probable assumptions:

- a) A cash requirement of approximately \$1 million for the two week period ending April 20, 2012, subject to the availability of the existing DIP Facility while the DIP Lender raises additional funds as a result of marketing the more favourable DIP Facility provided for in the Amended and Restated DIP Agreement.
- b) A cash outflow of an additional \$6.4 million assuming a going concern business albeit on a reduced basis, including the strategic purchase of drugs, drug packaging and regular operating costs for the balance of the forecast period in order to maintain the value of the business in support of the SISP.

52. The Revised Forecast indicates that the Company will require in excess of \$6.4 million of new DIP financing to fund operations through the period of the forecast.

53. To summarize, the forecasted DIP financing of additional \$6.4 million is in line with the forecast included in the report of the Proposed Monitor dated March 22, 2012 for the period ending June 15, 2012. It should be noted, that in the event the Company cannot raise this total amount on a timely basis, the cash needs of the Company will increase beyond June 15<sup>th</sup> as a SISP is implemented.
54. As discussed above, the Monitor is working closely with the Company to monitor receipts and disbursements and will report to this Court further on the status of the Company's efforts to raise additional DIP financing on or about April 18, 2012. As noted above, the DIP Facility's current funding of \$825,000 will fund the Company until on or about April 18, 2012.

## **X. INDEPENDENT REVIEW OF SECURITY**

55. The Monitor requested that Osler conduct a security review and provide an opinion on the validity and enforceability of documentation in connection with the following:
- a) The security granted by PCAS and Touchpoint in respect of supply arrangements between PCAS and KFL (the "**KFL Security**");
  - b) The Credit Facilities provided to PCAS by the Royal Bank of Canada and the security granted by PCAS and Touchpoint in connection therewith (the "**RBC Loan and Security**"); and
  - c) The factor loan provided to PCAS and Touchpoint by Castcan and the security granted by PCAS and Touchpoint in connection therewith (the "**Castcan Loan and Security**").
56. In connection therewith, Osler has advised that it has prepared a security review opinion in the Province of Ontario (the "**Opinion**"), which it will render shortly.
57. The Opinion will provide that, subject to the customary assumptions, qualifications and limitations contained therein:
- a) the KFL Security, the RBC Loan and Security and Castcan Loan and Security constitute legal, valid and binding obligations of the parties thereto, enforceable against such parties in accordance with their respective terms; and
  - b) the KFL Security, the RBC Security and Castcan Security create valid security interests in favour of the applicable secured parties in the collateral described therein and such

security interests, to the extent capable of perfection by registration, have been validly perfected by registrations made in Ontario.

## **XI. CURRENT STAY OF PROCEEDINGS**

58. If the Company is able to raise the additional DIP funds required to commence and complete a SISP, it is expected that the Company will return to Court to seek an extension of the Stay Period, among other things. If the Company is unable to raise additional financing, it is expected that the Company will assign itself into bankruptcy at the time that it is no longer able to meet its obligations under the Revised Forecast.
59. The current stay period ends on Saturday, April 21, 2012, and accordingly the Company anticipates that it would return to Court for an extension of the Stay Period, if required, on or before Monday, April 23, 2012.
60. The Monitor is of the view that the Applicants have acted and are acting in good faith and with due diligence.

## **XI. RECOMMENDATION**

61. The Monitor recommends that this Court issue an Order approving, *intra alia*;
  - a) the activities of the Monitor,
  - b) the proposed Amended and Restated DIP Agreement;
  - c) the Company's request for an increase in the limit of the DIP Facility and a corresponding increase in the DIP Lender's Charge from \$2,800,000 to \$10,000,000; and
  - d) the proposed KERP and the KERP Charge.

Dated the 15<sup>th</sup> day of April, 2012.

**RESPECTFULLY SUBMITTED,**



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**Paul van Eyk, CA·CIRP, CA·IFA**  
Senior Vice-President

PricewaterhouseCoopers Inc.  
In its capacity as Monitor of  
PCAS Patient Care Automation  
Services Inc. and 2163279 Ontario Inc .  
and not in its personal capacity

**Appendix “C”**

**Second Report of the Monitor, dated April 19, 2012**

**PCAS PATIENT CARE AUTOMATION SERVICES INC. AND  
2163279 ONTARIO INC.**

**SECOND REPORT OF THE MONITOR**

**April 19, 2012**

Court File No. CV-12-9656-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST**

**IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS  
AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
PCAS PATIENT CARE AUTOMATION SERVICES INC. AND 2163279 ONTARIO  
INC.**

**APPLICANTS**

**SECOND REPORT OF PRICEWATERHOUSECOOPERS INC.**

**In its capacity as Monitor of the Applicants**

**April 19, 2012**

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### APPENDICIES

APPENDIX "A" –	Report of the Proposed Monitor, dated March 21, 2012
APPENDIX "B" –	First Report of the Monitor, dated April 15, 2012
APPENDIX "C" –	Confidential Salary Reallocation schedule
APPENDIX "D" –	Confidential Revised KERP Summary
APPENDIX "E" –	April 19 Revised Forecast to June 15, 2012

## I. INTRODUCTION

1. On March 23, 2012 (the "**Filing Date**"), PCAS Patient Care Automation Services Inc. ("**PCAS**") and 2163279 Ontario Inc. ("**Touchpoint**") (collectively, the "**Company**" or the "**Applicants**") made an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended ("**CCAA**") and an initial order (the "**Initial Order**") was granted by the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") granting, *inter alia*, a stay of proceedings against the Applicants to April 21, 2012 (the "**Stay Period**") and appointing PricewaterhouseCoopers Inc. ("**PwC**") as the monitor (the "**Monitor**"). The proceedings commenced by the Company under the CCAA are referred to herein as the "**CCAA Proceedings**".
2. PwC was previously retained by the Company to act as financial advisor to assist management and the board of directors to review strategic alternatives available to the Company for the resolution of its liquidity concerns.
3. On April 16, 2012, this Court granted an Order (the "**April 16 Order**") which provided, *intra alia*, for approval of the Amended and Restated DIP Agreement, an increase in the limit of the DIP Facility and approval of the KERP and KERP Charge (all as defined therein).

## II. PURPOSE OF REPORT

4. In conjunction with the Company's application for relief under the CCAA, on March 23, 2012, PwC in its capacity as proposed Monitor filed a report with this Court (the "**Proposed Monitor's Report**"), which is attached hereto as **Appendix "A"**. Subsequently, on April 15, 2012, the Monitor filed a report with this Court (the "**First Report**"), which is attached hereto as **Appendix "B"**.
5. The purpose of this report (the "**Second Report**") is to:
  - a) Provide this Court with a summary of the following:
    - (i) The Monitor's activities since the date of the April 16 Order;
    - (ii) The Company's request to increase the limit of the DIP Facility from \$3,800,000 to \$4,370,000;
    - (iii) The Company's request for approval of the Salary Reallocation (as defined below), including the names of individuals and the amount of increases for such individuals to be set out in **Confidential Appendix "C"** (the "**Confidential Salary Reallocation Appendix**");

- (iv) The Company's Revised KERP Summary (defined below);
  - (v) The Company's April 19 Revised Forecast (as defined below) for the period April 16 to June 15, 2012;
  - (vi) The Company's request for an extension of the stay of proceedings to May 4, 2012;
  - (vii) The Company's efforts to continue to raise additional DIP financing and an update on the Company's discussions with the Potential Customer (defined below); and
  - (viii) The Monitor's view on the requested extension of the stay of proceedings in light of the Company's liquidity position and its recent discussions with the Potential Customer.
- b) Recommend that this Court issue an order:
- (i) Approving the activities of the Monitor as set out in this Second Report;
  - (ii) Increasing the limit under the DIP Facility from \$3,800,000 to \$4,370,000;
  - (iii) Approving the Company's request for approval of the Salary Reallocation;
  - (iv) Sealing the Confidential Salary Reallocation Appendix;
  - (v) Sealing the Confidential Revised KERP Appendix (as defined below); and
  - (vi) Approving the Company's request for an extension to May 4, 2012.

### III. QUALIFICATIONS

6. In preparing this Second Report, the Monitor has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management and legal counsel to the Company. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance with respect to the information contained in this Second Report. Future-oriented financial information relied upon in this Second Report is based on management's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material. The Monitor expresses no opinion or other form of assurance with respect to the accuracy or completeness of any financial information contained herein. The Monitor reserves the right to refine or amend its comments and findings as further information is obtained or brought to its attention subsequent to the date of this Second Report.

7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Initial Order, the Proposed Monitor's Report, the First Report or the Affidavit of Donald Waugh dated April 19, 2012 (the "**Second Waugh Affidavit**").

#### **IV. ACTIVITIES**

##### **Monitor's activities since April 16, 2012**

8. Since April 16, 2012, the Monitor has been working to assist the Company in considering its various alternatives and to assist the DIP Lender to raise additional funds, including, among other things:
  - a) attending the Company's Oakville offices to work with the interim CFO on the preparation of the April 19 Revised Forecast;
  - b) discussions with the Chairman of the Board regarding the Company's efforts to commercialize the MedCentres;
  - c) discussions with the interim CFO and review of the Company's receipts and disbursements;
  - d) discussions and correspondence with A&B, counsel to the Company, on various matters;
  - e) discussions and correspondence with Osler, counsel to the Monitor, on various matters;
  - f) discussions with the Company and its counsel and the DIP Lender and its counsel regarding the framework for a SISP;
  - g) discussions with various interested parties seeking to obtain information in respect of DIP financing and/or on a sales process within the CCAA Proceedings;
  - h) discussions with various stakeholders on the status of the CCAA Proceedings;
  - i) discussions with the Company on its marketing efforts and communications with shareholders;
  - j) discussions with the Company on the proposed Salary Reallocation;
  - k) discussions with the Company on potential cost saving and restructuring initiatives; and

- l) discussions with the Company and the DIP Lender on potential sources of additional DIP financing.
9. The Monitor has been made aware that one of the individuals on the KERP list approved by this Court on April 16, 2012 is an independent contractor rather than an employee. Accordingly, the Company has revised the KERP to remove this individual from being a participant on the KERP. The effect of this is the aggregate amount payable under the KERP has been reduced to \$478,000 (the "**Revised KERP Summary**"). Accordingly, the Company has prepared a revised KERP schedule, attached as **Confidential Appendix "D"** (the "**Confidential Revised KERP Appendix**") to the Second Report, which is intended to replace Confidential Appendix B attached to the First Report.

#### **Update on the Company's activities since the First Report**

10. The Monitor reported in its First Report that 49 employee terminations were made and 11 employees voluntarily resigned as of April 4. Since April 4, the Company has advised the Monitor that one employee has been terminated and an additional eight employees have resigned.
11. The Company advised the Monitor that it has returned certain expired and unexpired drugs to Kohl & Frisch Ltd on Friday, April 13, 2012, with a net book value (after handling costs) of approximately \$4,963 and \$17,389, respectively.
12. As discussed in the First Report, the Company has been in continuing discussions with a national pharmacy retail chain in the United States (the "**Potential Customer**") in order to finalize and sign a contract with potential revenue of \$438 million over a five year period. On April 17, 2012, the senior management and certain key staff of the Company traveled to meet with the senior management of the Potential Customer for the purpose of finalizing the contract.
13. The Monitor and its counsel met with the Company, the Chairman of the Board, counsel to the Company and counsel to the DIP Lender on the morning of April 19, 2012. At the meeting, the Company advised the Monitor that the meeting with the Potential Customer was very positive as a result of a significant milestone contained in the MOU that was met by the Company on Friday April 13, 2012. A further description of the milestone and the effect it has on the ability of the MedCentres to become operational under the terms of the MOU with the Potential Customer are more fully described in the Second Waugh Affidavit. As a result of meeting this milestone, the Company advised that prospects of finalizing a contract forthwith with the Potential Customer has significantly improved.

14. In addition, the Company is currently undertaking a third-party assessment of its technology platform. The Company advised that the completion of the third-party technology assessment is the last significant milestone to be met before the contract with the Potential Customer can be finalized. The third-party technology assessment is expected to be completed and presented to the Board of Directors on Monday, April 23, 2012. The Company also advised the Monitor that the Potential Customer indicated that prior to proceeding to finalize the agreement, it would require access to the key findings of such third-party technology assessment.
15. The Monitor understands that once the Potential Customer has received the findings on the third-party technology assessment, a finalization of the contract should, absent other requirements of the Potential Customer, take approximately one to two weeks. Assuming the Company is able to complete its third-party technology assessment by April 23, 2012, the Company has advised the Monitor that the contract should be finalized during the week ending May 4, 2012.
16. The Company has also advised the Monitor that some of the potential investors/financiers that it is currently in discussions with are reluctant to provide additional capital or commitments to refinance or acquire the business until the contract with the Potential Customer is finalized. The Company advises that once the contract is executed, the discussions with the potential investors/financiers will be accelerated such that a support transaction in respect of a restructuring proposal or sale is far more likely to occur. The Company anticipates that such a support transaction will take some additional time to negotiate and bring to this Court for approval. The Company and the DIP Lenders are also intending that this support transaction could be the basis of a stalking horse transaction to support a SISP.

## **V. DIP FACILITY**

17. The Monitor provided a description of the DIP Facility, the DIP Lender's Charge and the Amended and Restated DIP Agreement in paragraphs 24-35 of the First Report. Additional information regarding the DIP Facility is contained in the Second Waugh Affidavit.
18. The April 16 Order revised the terms of the Initial Order and authorized and empowered the Applicants to borrow up to a maximum principal amount of \$3,800,000 under the DIP Facility.
19. As of April 18, 2012, the Company has drawn on the DIP Facility in the amount of \$3,615,000.

20. In an effort to raise additional funds to enable the Company to continue to operate during these CCAA Proceedings, the Monitor has been advised by the DIP Lender's counsel that the DIP Lender has, among other things:
- a) contacted shareholders as further described in the Second Waugh Affidavit;
  - b) contacted third party sources of capital; and
  - c) engaged a financial advisor to assist in identifying potential sources of capital.
21. As further described in the Second Waugh Affidavit, the Company provided notice of the CCAA Proceedings and the opportunity to invest in the DIP Facility to approximately 550 shareholders.
22. The Monitor has been advised by counsel to the DIP Lender that the DIP Lender, its financial advisor and the Company have sent information on the DIP Facility to 48 potential investors in addition to the non-employee shareholders referred to above. To date, 41 investors have committed a total of \$4,370,000. Of the total amount committed, the Company has received cash of \$3,615,000.
23. Accordingly, as of April 19, 2012, subject to an Order made by the Court approving an increase in the amount available to be borrowed under the DIP Facility, the additional amount available to be borrowed under the DIP Facility in accordance with the terms of the Amended and Restated DIP Agreement is \$570,000 for an aggregate amount of \$4,370,000. These funds are estimated to allow the Company to continue to operate, net of accrued wages (excluding accrued vacation pay) ("**Accrued Payroll**"), to May 4, 2012.

## VI. SALARY REALLOCATION

24. As reported in paragraph 45 of the First Report, the Company is seeking to apply the savings created by employee attrition to the salaries of two key non-management employees who are critical to the operations of the Company and to any potential SISP (the "**Salary Reallocation**"). These two employees are not KERP participants. The quantum of the Salary Reallocation is \$15,000 on an annual basis.
25. A copy of the unredacted Salary Reallocation, which contains individually identifiable personal and financial information of the Salary Reallocation participants, is attached hereto as the Confidential Salary Reallocation Appendix. In order to protect the personal identification of these two individuals, the Applicants are seeking an order sealing the Confidential Salary Reallocation Appendix until further order of this Court.

26. The Monitor understands that the DIP Lender is supportive of the proposed Salary Reallocation.
27. Given that the quantum of the Salary Reallocation is not material and the Company desires to maintain the employment of these individuals to assist the Company in the CCAA Proceedings and any potential SISP, the Monitor supports the Company's request for the Salary Reallocation and the sealing of the Confidential Salary Reallocation Appendix. The Monitor notes that the net Salary Reallocation does not exceed the forecasted payroll costs.

## VII. CASH FLOW VARIANCE ANALYSIS

28. In the First Report, the Monitor provided a cash flow variance analysis based upon the Company's initial cash flow forecast filed at the commencement of the CCAA Proceedings.
29. The Company has been working to provide a summary of the Applicants' actual cash flow versus the Revised Forecast that was filed with the Company's materials in connection with the April 16 Order, for the period March 23 to April 19, 2012. To date, this cash flow variance is not available. As of the date of the Second Report, the Monitor is not aware of any negative variances that are material.

### CURRENT ACCRUED COSTS

30. The Company is generally paying suppliers on cash-on-delivery terms except where otherwise agreed to with suppliers. As noted in the Proposed Monitor's Report, the company has trade debt and current liabilities of approximately \$5.7 million.
31. The Company's employees are paid on a bi-weekly basis, one week in arrears. The most recent payroll was funded on April 17, 2012 for compensation for the period to April 13, 2012. In order to reduce this accrual, the Company is changing to a weekly payroll cycle effective the week of April 27, 2012. Accordingly, the next payroll will be funded on April 24, 2012 for compensation earned up to April 20, 2012. The Monitor and the Company are closely monitoring the Accrued Payroll in comparison to the available cash on hand to ensure that sufficient funds exist to pay for compensation earned to date.

## VIII. REVISED FORECAST

32. On a daily basis, the Company is preparing a revised cash flow forecast with the Monitor's assistance to ensure that the Company is able to meet its commitments during the CCAA Proceedings. A schedule detailing the revised cash flow forecast for the period from April 16 to June 15, 2012 (the "**April 19 Revised Forecast**") is attached as **Appendix "E"**.

33. The April 19 Revised Forecast is based on the following hypothetical and probable assumptions:

- a) The Company intends to operate at a reduced cost structure requiring an estimated \$1,051,000 for the period ending May 4, 2012 while working with the DIP Lender to raise additional funds as result of potentially finalizing the contract with the Potential Customer during this period;
- b) The Revised Forecast assumes that beyond May 4, 2012, the Company will return to a more sustainable operating level, including the purchase of drugs and materials costs required to continue the operation and development of the MedCentres. At this threshold, it will require a further \$3,865,000 to fund operations through to the week ended June 8, 2012; and
- c) Certain costs have been included in the week ended June 15, 2012 for indicative purposes, including full repayment of the RBC loan, payment of the KERP. The amount and timing of these payments are unknown however they have been included to indentify the cost of the Company's commitments within these CCAA Proceedings.

34. As discussed above, the Monitor is working closely with the Company and will continue to report to this Court on the Company's cash flow position. The DIP Facility's current commitment of \$4,370,000 will fund the Company until May 4, 2012. As discussed in greater detail below, the Monitor has discussed with counsel to the DIP Lender and the Company that if sufficient additional funds cannot be raised, the Monitor may no longer be in a position to continue to support a further extension of a stay of proceedings beyond May 4, 2012.

## **IX. MONITOR'S COMMENTS ON RESTRUCTURING**

35. As discussed in the Proposed Monitor's Report, PCAS is in a pre-commercialization stage. Other than the DIP Facility, to date, \$60 million of start-up capital has been invested by more than 550 shareholders. While in the process of working with J.P. Morgan Securities LLC, BMO Capital Markets and Goldman Sachs & Co. to raise \$100 million in order to bring the MedCentres to commercialization, the Company's substantial liquidity burn consumed its existing resources. Accordingly, the Company required emergency funding that was only available through a CCAA process or the Company faced an immediate shut down and liquidation of its assets.

36. As more fully described in the Waugh Affidavit, the Company's negotiations for a \$10 million loan from a potential DIP lender were unsuccessful on the eve of the CCAA filing. As a result, the Company was required to appeal to its existing shareholders for emergency DIP financing.
37. Certain of the shareholders and other third parties have invested a further \$4,370,000 in the DIP Facility in order to support the continued operation of the Company in the CCAA Proceedings. These shareholders and third parties have been willing to fund the Company on an emergency basis; however, despite the Company's and the DIP Lender's efforts to raise sufficient DIP financing, such financing has not yet been raised. As discussed in this Second Report, the Company advised that the recent positive developments in respect of finalizing the contract with the Potential Customer should help facilitate the raising of the additional required funding to support the implementation of a SISP.
38. During the course of the CCAA Proceedings, there has been interest in the Company's business and technology and a number of parties approached the Monitor and the Company regarding a potential investment or acquisition of the Company. Prior to the CCAA Proceedings, the Company was in discussion with interested parties seeking to invest up to \$100 million in conjunction with the capital raise the Company was working on. Since the commencement of the CCAA Proceedings, two parties have provided the Company with LOIs indicating a willingness to invest capital under certain circumstances. In addition, the Monitor has been contacted by four parties interested in understanding how to purchase the business in the context of the CCAA Proceeding. Although the Monitor is taking all these parties' interests in investing or acquiring the business seriously, the Monitor has not undertaken a detailed review of the LOIs or engaged in detailed conversations with the potential investors and acquirers given: (a) that the Company's current liquidity situation and its inability to complete a transaction without additional DIP financing; and (b) that the Company and the DIP Lender are leading all discussions and negotiations with interested parties and have not formalized a SISP that the Monitor can consider.
39. On the evening of April 18, 2012, the Monitor received an email from a current shareholder and the former CEO advising the Monitor that certain parties have not received access to management or information as it relates to participating in the DIP Facility. The Monitor has discussed this with the Company and has been advised by the Company that the information that this specific party is looking to receive is subject to non-disclosure rights in favour of third parties. The Company has also advised that it has requested that these third parties waive the non-disclosure rights which request has been refused. The Company also advised the Monitor that such information has not been provided to any other potential financier or

- investor, or any shareholder and all parties who have signed a non-disclosure agreement with the Company have access to the same information.
40. The Monitor understands that the Company has created and is managing an electronic dataroom and will continue to update that dataroom as new information becomes available to be disclosed to parties who have signed a non-disclosure agreement.
  41. As discussed above, the Company has advised the Monitor that subject to the completion of the third-party technology assessment, the review of this assessment by the Potential Customer and the finalization of the execution of the contract with this Potential Customer, the Company believes that it will be in a better position to obtain sufficient funding to complete a SISP in the CCAA Proceedings.
  42. As discussed above, as per the April 19 Revised Forecast, the Company is forecasted to have sufficient liquidity to allow it to operate in its current state to May 4, 2012. Assuming the finalization of the third-party technology assessment is completed by no later than April 23, 2012, the Company has advised that the Potential Customer should be in a position to execute the contract no later than the week ending May 4, 2012. Furthermore, the Company expects that additional DIP financing and a support transaction for an investment in or acquisition of the business will be far more likely if the contract with the Potential Customer is executed. Accordingly, the Company will need to raise the additional DIP financing prior to the expiry of the proposed extension of the stay of proceedings in order to be able to engage with the potential investors/financiers on a more stable footing to raise the capital required to implement a SISP.
  43. The Monitor has advised the Company and counsel to the DIP Lender that the Monitor may not be in a position to continue to support a further extension of the stay of proceedings unless: (a) funds are committed by May 4, 2012 that are sufficient to provide the Company with the liquidity needed to negotiate and enter into a support transaction that is capable of being implemented through a SISP or to implement a SISP; or (b) the Company has sufficient liquidity and there exists additional information or facts which enable the Monitor to support such an extension. The Monitor will report to the Court with respect to any further request for a stay extension.
  44. In the event that the Company is unable to obtain required liquidity, the Monitor understands that the Company will make an assignment in bankruptcy. As reported in the First Report, A&B is holding \$65,000 of third party funds in trust as security for the fees of a Trustee in Bankruptcy to meet its statutory duties. As a result of the Company having effectively no cash,

limited accounts receivable and few assets available to be monetized quickly in a liquidation, it is unlikely that a Trustee in Bankruptcy will be able to appropriately take possession, market and sell the technology, intellectual property and other assets of the Company without additional financing.

45. Under the circumstances, the continuation of these CCAA Proceedings to provide the Company with the additional time to finalize the contract with the Potential Customer and to raise the additional funding necessary to enter into a support transaction and/or implement a SISP is the most viable process to maximize the value of the Company, to maintain employment and to realize value for the Company's stakeholders. A bankruptcy will likely result in a permanent loss of employment, customer/supplier base and goodwill.

## **X. COMPANY'S REQUEST FOR AN EXTENSION**

46. Pursuant to the April 16 Order, the stay of proceedings expires on April 20, 2012 (the "**Stay Period**"). The Company is now seeking an extension of the Stay Period to May 4, 2012. As described earlier in this report, the Company's actual cash flow during the CCAA Proceedings is within its overall forecasts and, subject to the increase in the limit on the DIP Facility discussed above, the Company will have sufficient liquidity to continue to fund its operations during the extension of the Stay Period, if such extension is granted.
47. An extension of the Stay Period should provide the Company with the opportunity to complete its third-party technology assessment and finalize the contract with the Potential Customer. Termination of the stay of proceedings against the Applicants would likely lead to the Company making an assignment in bankruptcy which would have a significant adverse effect on stakeholders.
48. The Monitor believes that, based on the information currently available and notwithstanding the net cash outflow reflected in the April 19 Revised Forecast, an extension of the Stay Period will allow the Company and the DIP Lender to continue their discussions with potential investors to determine whether the Company can source sufficient capital to run a SISP.
49. While the Monitor supports the requested extension of the stay of proceedings, the Monitor is concerned about the Company's current liquidity situation and is working closely with the Company to monitor its cash flows. The Monitor and the Company are also working cooperatively to ensure that the Company's efforts in the CCAA Proceedings are concentrated on furthering a restructuring or sale of the business.

50. The Monitor is of the view that the Applicants have acted and are acting in good faith and with due diligence.

## **XI. RECOMMENDATION**

51. The Monitor recommends that this Court issue an Order approving, *intra alia*;
- a) the activities of the Monitor as set out in this Second Report;
  - b) the Company's request for an increase in the limit under the DIP Facility from \$3,800,000 to \$4,370,000;
  - c) the Company's request for approval of the Salary Reallocation and the sealing of the Confidential Salary Reallocation Appendix, attached as Confidential Appendix "C" hereto containing the unredacted Salary Reallocation;
  - d) The Company's request for the sealing of the Confidential Revised KERP Appendix attached as Confidential Appendix "D"; and
  - e) the Company's request for an extension of the stay of proceedings to May 4, 2012.

Dated the 19<sup>th</sup> day of April, 2012.

**RESPECTFULLY SUBMITTED,**



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**Paul van Eyk, CA·CIRP, CA·IFA**  
Senior Vice-President

PricewaterhouseCoopers Inc.  
In its capacity as Monitor of  
PCAS Patient Care Automation  
Services Inc. and 2163279 Ontario Inc.  
and not in its personal capacity

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36, AS AMENDED**

Court File No. CV-12-9656-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
PCAS PATIENT CARE AUTOMATION SERVICES INC. AND 2163279 ONTARIO INC.**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at Toronto

**THIRD REPORT OF  
PRICEWATERHOUSECOOPERS INC. IN ITS  
CAPACITY AS COURT APPOINTED  
MONITOR OF PCAS PATIENT CARE  
AUTOMATION SERVICES INC. AND 2163279  
ONTARIO INC. DATED MAY 3, 2012**

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