



Court No.32-1633396
Estate No.32-1633396

IN THE MATTER OF THE BANKRUPTCY OF
2163279 Ontario Inc.
of the City of Oakville, in the Province of Ontario

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

I BACKGROUND

2163279 Ontario Inc., operated under the name "Touchpoint" ("**Touchpoint**" or the "**Company**"), was a privately held corporation incorporated under the Business Corporations Act (Ontario) and operated a retail pharmacy business in Ontario. Touchpoint's head office was located in leased premises at 2-2880 Brighton Road, Oakville, Ontario.

Touchpoint was 49% owned by PCAS Patient Care Automation Services Inc. ("**PCAS**") and 51% owned by three pharmacists who were selected and employed by PCAS. In addition to Touchpoint, PCAS is the parent company of the following Canadian entities: (i) PharmaTrust MedServices Inc. ("**MedServices**"); and (ii) PharmaTrust Corp. ("**PharmaTrust**"). MedServices and PharmaTrust are collectively referred to as the ("**Related Entities**").

PCAS was a healthcare technology company that developed and commercialized a unique, automated pharmacy. The Company's principal technology and product was the PharmaTrust MedCentre ("**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. PCAS's second technology focus was on the development of the PharmaTrust MedHome device, a personal in-home device that dispenses unit doses to patients at pre-set times and provided patient monitoring and reminders to ensure patient health and safety.

Ontario regulations 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 deployed 18 MedCentres in hospitals, medical centres and first nation communities in Ontario.



PCAS raised over \$60 million of start-up capital from more than 550 non-employee shareholders. Since 2012, PCAS made significant efforts to raise additional funds, with offerings of common shares and convertible debentures and engaged investment banks to assist in these efforts. However, these offerings were not successful and put the Company in a position that absent additional significant funding, they did not have the liquidity to continue as a going concern.

On March 23, 2012, PCAS and Touchpoint (collectively the “**Companies**”) took steps to restructure the business and applied for and were granted protection from their creditors pursuant to the *Companies Creditors Arrangement Act* (“**CCAA Proceedings**”), and PricewaterhouseCoopers Inc. (“**PwC**”) was appointed as monitor (the “**Monitor**”) pursuant to an order of the Court dated March 23, 2012.

During the CCAA Proceedings, the Monitor’s role was extended by order of the Court dated May 7, 2012, to assist the Companies to commence and implement an expedited sale and investor solicitation process (the “**SISP**”), whereby prospective bidders could bid to purchase the Companies’ property or make an investment in the Companies’ business. It was subsequently determined, as reported in the Monitor’s fifth report dated May 11, 2012, that the Companies would take the lead in implementing the SISP and take the lead in soliciting qualified bids.

During the CCAA Proceedings, the Monitor filed seven reports with the Court (the “**Monitor’s Reports**”), which among other things provided the Court with information relating to the CCAA Proceedings, described the Monitor’s activities and conduct, the Companies’ cash-flow, the Companies’ credit facility with its secured lenders, including 2320714 Ontario Inc. (the “**DIP Lender**”), the Companies’ post-filing strategy, including details of the SISP and the results of the SISP. Copies of these reports and orders granted by the Court can be obtained from the Monitor’s website at www.pwc.com/car-pcas.

During the CCAA Proceedings, PwC Corporate Finance Inc. (an affiliate of the Trustee) assisted the Companies in facilitating the SISP. The SISP resulted in a purchase and sale agreement (the “**APA**”) between the Companies and DashRx LLC (the “**Purchaser**”), for the sale of substantially all of the Companies’ business and assets (the “**Transaction**”). The Transaction was approved by order of the Court dated June 6, 2012 (the “**June Order**”) and closed on June 6, 2012. Pursuant to the provisions of the APA, the Purchaser agreed to fund the operating needs of the Companies in the CCAA Proceedings (up to \$250,000).



As set out in the Monitor's Reports, the APA provided for a purchase price that consists of a combination of cash, secured notes and unsecured notes to be paid to the Company's creditors, including its unsecured creditors, but did not provide for any recovery to the Company's shareholders. The Purchaser provided an unsecured promissory note in the amount of \$500,000 and an additional contingent promissory note no greater than \$1,039,000 (collectively, the "**Promissory Note**") for the Companies' unsecured creditors. The only cash available to the Trustee from the APA was funds of \$100,000 held as a reserve to fund the costs of the bankruptcy proceedings of Touchpoint, PCAS and the Related Entities.

The June Order approved a scheme of distribution for the cash proceeds of the Transaction and the non-cash proceeds of the Transactions and directed that the amount of certain tax refunds be paid to the DIP Lender on receipt. The apportionment of the Promissory Note as between the creditors of PCAS and the Company will be determined in accordance with the provisions of the *Bankruptcy and Insolvency Act* ("**BIA**") and in consultation with the Inspectors.

Following the closing of the Transaction, the only asset not transferred to the Purchaser were certain excluded assets, which included prescription pharmaceutical drugs, all pharmacy customer files, certain tax credit entitlements, and all tax refunds in respect thereof. In accordance with the requirements of the Ontario College of Pharmacists, all prescription pharmaceutical drugs were returned to suppliers and all pharmacy customer files were transferred to a licensed pharmacist.

On June 7, 2012, Touchpoint and PCAS and the Related Entities each filed an assignment in bankruptcy for the general benefit of its creditors pursuant to the provisions of the BIA and PwC was named as trustee in bankruptcy of Touchpoint, PCAS and each of the Related Entities (the "**Trustee**"), subject to affirmation by the creditors or substitution of another trustee by the creditors.

Pursuant to the June Order, the CCAA Proceedings were terminated effective as of June 8, 2012, the date the Monitor's discharge certificate was filed with the Court and PwC was discharged as Monitor of PCAS and Touchpoint.

On June 13, 2012, notice of the first meeting of creditors, a list of creditors, a proof of claim form and a proxy were sent to all known creditors of the Company and on June 15, 2012, notice of the bankruptcy and the first meeting of creditors was published in the *Globe and Mail* (National Edition).

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.



II CAUSES OF BANKRUPTCY AND FINANCIAL POSITION

The Companies' consolidated financial statements show a year-end loss to December 31, 2011 of approximately \$30.2 million and a year-to-date loss to February 29, 2012, of approximately \$2.6 million. As noted above, the Company was in a pre-commercialization stage for its products and incurred significant net losses.

The Trustee understands that the cause of bankruptcy includes:

- the Company was unable to raise additional capital via a planned share issuance;
- the Company incurred substantial liquidity burn as it ramped up the production of its MedCentres to meet customer expectations, with significant labour and contract costs; and
- the Company did not have a strong enough balance sheet, nor a proven revenue model, to allow it to access traditional debt financing.

As a result of the sustained losses, the Companies exhausted available liquidity and had an inability to raise additional equity capital, which was the primary source of capital for the Company, and elected on March 23, 2012 to commence the CCAA Proceedings.

III FINANCIAL POSITION/ASSETS

As detailed in the Statement of Affairs, Touchpoint's only asset is Harmonized Sales Tax refunds, expected to be approximately \$517,000 (the "**HST Refund**"). In addition, it is expected that Touchpoint is entitled to receive a portion of the Promissory Note resulting from the Transaction.

Pursuant to the June Order, the HST Refund is payable to the DIP Lender upon receipt in accordance with the terms of the DIP Lender's security over the assets of the Company. It is anticipated that the Promissory Note will be held by the Trustee until maturity, expected to be June 6, 2015, at which time Touchpoint's portion of these funds will become available to Touchpoint's unsecured creditors. The entitlement of the unsecured creditors to the Promissory Note will be determined through the statutory claims process provided under the BIA.

IV SECURED CREDITORS

At the commencement of the CCAA Proceedings, the Companies' secured lenders were Kohl & Frisch Limited, Royal Bank of Canada and Castcan (the "**Secured Lenders**").



The law firm of Osler, Hoskin & Harcourt LLP (“**Osler**”) was engaged by the Monitor to complete an independent review of the validity and enforceability of the security held by each of the Secured Lenders. As detailed in the Monitor’s Reports, based on its review, and subject to the customary assumptions, qualifications and limitations contained therein, Osler was of the opinion that the security held by each of the Secured Lenders were affective and constituted legal, valid and enforceable security with the exception of Castcan’s claims against HST refunds. As part of the Transaction, on June 6, 2012, the Court ordered that, *inter alia*, all tax proceeds received by the Companies be transferred to the DIP Lender without deduction on account of the DIP Lender’s Charge (as defined in the Court Order dated March 23, 2012, as amended) and on account of the DIP Lender paying out the claims of the Secured Lenders. The Companies’ Secured Lenders were repaid by the DIP Lender during the CCAA Proceedings on closing of the Transaction as detailed in the Monitor’s Reports and accordingly, in addition to the DIP Lender’s Charge, the DIP Lender has been subrogated to the claims of the Secured Lenders.

As at the date of bankruptcy, the Company’s primary secured lender is the DIP Lender, who is owed approximately \$442,000. As indicated earlier in this report, the June Order authorized the HST Refund to be remitted to the DIP Lender upon receipt to satisfy the balance of the indebtedness owed to the DIP Lender.

V SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

Pursuant to the Company’s payroll records, all employees were employees of PCAS. As a result, Touchpoint had no employees.

VI PREFERRED CREDITORS

Touchpoint’s Statement of Affairs indicates that there were no known preferred creditors as at the date of bankruptcy.

VII UNSECURED CREDITORS

Touchpoint’s Statement of Affairs indicates that there are approximately 60 unsecured creditors with claims totalling approximately \$7.3 million.



VIII PROVABLE CLAIMS

As at the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Number	(\$)	Proxy in favour of the Trustee
Unsecured	6	7,021,313	3
TOTAL	<u>6</u>	<u>7,021,313</u>	<u>3</u>

IX PREFERENCE PAYMENTS AND TRANSFERS AT UNDER VALUE

The Trustee has not performed a review of Touchpoint's books and records with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the Inspectors to be appointed at the first meeting of creditors.

X TRUSTEE'S FEES

The APA provided \$100,000 as funding for the bankruptcy of the Companies and the Related Entities. The Trustee's fees and disbursements will be funded out of the bankrupt estate of Touchpoint, subject to the provisions of the BIA and taxation by the Court.



Further information relating to the CCAA Proceedings and the bankruptcy proceeding may be obtained from PwC's website at www.pwc.com/car-pcas.

Dated at Toronto, Ontario, this 25th day of June, 2012.

PRICEWATERHOUSECOOPERS INC.,
in its capacity as Trustee of the estate of
2163279 Ontario Inc.
and not in its personal capacity

A handwritten signature in cursive script that reads 'T. Weaver'.

Tracey Weaver
Vice-President