



Province of Nova Scotia
Division No. 01- Halifax
Court No. 45420
Estate No. 51-2919246

IN THE MATTER OF THE BANKRUPTCY OF
COVINA BIOMEDICAL INC.
TRUSTEE'S PRELIMINARY REPORT

PURPOSE AND DISCLAIMER

The purpose of this report is to inform all interested parties about the Trustee's preliminary administration and findings of the bankrupt estate. Readers are cautioned that the Trustee has relied upon third parties for information in the preparation of this report and that such information may be incomplete and inaccurate. The Trustee's review of this information as part of the preparation of this report does not constitute an audit, nor has the Trustee extensively verified any of the information provided, unless otherwise noted. Therefore, the contents of this report should be considered "for general information purposes only".

SECTION A - BACKGROUND

On March 8, 2023, Covina Biomedical Inc. ("Covina" or the "Company") made an assignment in bankruptcy, and BDO Canada Limited ("BDO") was appointed as the Licensed Insolvency Trustee in bankruptcy (the "Trustee") over the bankrupt estate.

Covina was incorporated in 2016 in Halifax, Nova Scotia. Covina carried on business as an orthopaedic biomaterial start-up exploring bone cements and bone adhesives for various skeletal applications, including spine, joint replacement, traumatic bone fracture, and craniomaxillofacial reconstruction. The Company's research initially focused on the treatment of vertebral compression fractures in the spine, then shifted to an examination of the knee arthroplasty market, and eventually settled on research in the craniomaxillofacial reconstruction market.

Covina developed an aluminum-free glass ionomer cement which was patented in Canada, the United States of America ("USA") and Europe. However, after conducting a cadaveric feasibility study of this technology in August 2020, it was determined that this material was not suitable for use as a bone adhesive in orthopaedic applications. Covina chose to pursue a resin-composite bone adhesive technology (the "Technology").

To commercialize the Company's intellectual property portfolio in the most capably efficient manner, Covina devised a co-development strategy with multi-national medical companies. Through 2021 and 2022, Covina attempted to secure its first strategic partner in the craniomaxillofacial space to co-develop the Technology.

Covina secured \$280,000 in convertible debentures as part of a \$530,000 financing round in late 2021 to support Company operations with a goal to pursue strategic partnerships. Targeted activities for these funds were furthering the technical research and advancing the product development of the Technology, which required hiring additional personnel. Several business obstacles presented themselves through late 2021 and early 2022, which delayed the closing of a \$250,000 convertible debenture, the outstanding portion of the \$530,000 financing round noted above, and effectively eliminated opportunities for critical non-dilutive leveraging financing.

The above factors limited Covina's ability to hire the needed skillset to advance both technical research and product development activities to the extent required to secure partnerships and maximize the

likelihood of securing further investment. Technical research was prioritized with the available funds, focusing on key scientific investigations into the safety and efficacy of the Technology throughout 2022. Several notable performance limitations of the Technology were observed during these investigations, and ultimately, insufficient progress on the Technology was made throughout 2022 to advance the partnership opportunity.

Subsequent financing rounds planned by the Company were contingent upon the successful execution of business and technical development milestones. Covina was ultimately unsuccessful in completing these milestones and it was identified that macroeconomic factors (i.e., the uncertainty of a potential recession in 2023) would make it challenging for start-ups in general, and Covina in particular, to raise funding given the unsuccessful business development and limitations of the Technology. Following an internal review of requirements to successfully raise additional funding in 2023, Covina's Board of Directors formally decided to wind up the Company.

SECTION B - CAUSES OF INSOLVENCY

There were four critical factors that led to Covina's financial difficulty: the market, the global Coronavirus pandemic ("COVID-19"), macroeconomic factors, and execution challenges. Below is a summary of each factor:

Market

The clinical data requirements to gain market adoption of new technologies are substantial. Given the fact that Covina was pursuing an onerous technology (i.e., a bone adhesive) in a difficult application (bone reconstruction), the technological development path to gain regulatory approval for its products would have been immensely burdensome. The timelines and investment needed to successfully execute this development path were considerable, and the market opportunities for a bone adhesive technology are modest.

COVID-19

COVID-19 had a material effect on Covina. The most significant impact was the loss of access to key manufacturing and testing equipment, which impaired the Company's ability to iterate and test the first generation of its technology (aluminum-free GIC) and delayed the refinement of its second technology. Covina was able to secure various government support funds (Regional Relief and Recovery Fund (RRRF), Canada Emergency Business Account (CEBA), Canada Emergency Wage Subsidy (CEWS), National Research Council Industrial Research Assistance Program - Innovation Assistance Program (NRC IRAP-IAP) which allowed Covina to continue operations, explore the resin-composite bone adhesive system, and refine its business strategy.

Macroeconomic Factors

The economic uncertainty regarding a potential recession in 2023 has decreased the risk tolerance of start-up investors in private investment markets. Given this uncertainty and the precarious position, Covina found itself in at the end of 2022, the likelihood of Covina securing the investment needed to substantially advance its Technology was deemed low.

Execution Challenges

Several setbacks hindered the Company's ability to execute effectively. A particular setback consisted of key personnel leaving the Company at an inopportune time, which contributed in the delay in closing convertible debenture financing, as noted above. This delay curtailed Covina's ability to access further non-dilutive funding and put Covina in an under-resourced position, from both a personnel and financial perspective, for 2022.

With limited resources, it was necessary for the Company to focus on product development activities, and as a result, minimal progress was made on technical research activities in order to be successful in advancing both technical research and product development simultaneously. Once the convertible

debenture financing was secured, efforts focused on technical research, which identified critical flaws in the safety and adhesiveness of the Technology.

The absence of robust data supporting the safety and efficacy of the Technology resulted in a loss of a key strategic partnership to co-develop the Technology. This combination of events, in consideration with other aforementioned critical factors, ultimately meant the likelihood of securing additional investment was extremely limited.

The Company ceased operations on or around February 28, 2023.

SECTION C - ASSETS

The following table summarizes Covina’s assets and liabilities as detailed in the Statement of Affairs (“SOA”) as at March 7, 2023, including the estimated net realization value of Covina’s assets and deficiency to unsecured creditors.

Covina Biomedical Inc.		
Statement of Affairs (CAD) as of March 7, 2023	Net Book	Estimated Net
(as stated and estimated by the officer)	Value	Realization
		Value
Assets		
Cash	132,001	132,001
Accounts Receivable	6,937	9,526
SR&ED Claim	141,828	141,828
Machinery, equipment and furniture	34,530	34,530
Patents and Intellectual Property	142,141	1
Total Assets	457,437	317,886
Liabilities		
Secured Claims		250,000
Preferred Creditors		0
Unsecured Claims		799,443
Deferred/Equity Claims		1,112,000
Total Liabilities		2,161,443
Deficiency		(1,843,557)

**Disclaimer: The Statement of Affairs was prepared by the Company. The information contained and discussed herein has not been audited, reviewed, or otherwise verified by BDO, and as such BDO expresses no opinion, whether expressed or implied, regarding the accuracy of the information contained herein.*

Cash

The Trustee has requested that the Company's financial institution freeze its bank account and temporarily remain open to accept deposits only. The Trustee has also requested the funds in Covina's bank account be transferred to the Trustee to be held in trust for the general benefit of Covina's creditors. Said transfer of funds has yet to be completed as at the date of this report.

Accounts Receivable

The receivable listed on the Company's SOA was a Goods and Services Tax/Harmonized Sales Tax refund that the Company expected to receive. A payment totaling \$9,525 was deposited into the Company's bank account on March 8, 2023. This deposit included a payment adjustment of \$2,583.

As noted above, the Trustee is still in the process of transferring funds from Covina's bank account to the estate trust account.

Scientific Research and Experimental Development ("SR&ED") claim

Company management advised that the income tax return for the year ended December 31, 2022 was filed and management expected a refund attributable to an SR&ED credit. A notice of assessment from the Canada Revenue Agency ("CRA") dated March 10, 2023 indicated a refund totaling \$141,828 would be deposited into the Company's bank account. The refund was deposited into the Company's bank account on March 16, 2023.

Subsequent to the bankruptcy filing, the Company received a formal demand notice from the Atlantic Canada Opportunities Agency ("ACOA") dated March 14, 2023. ACOA made a demand for the payment of debts due totaling \$626,111 and also advised that it had requested CRA to register a set-off redirecting any refunds payable to ACOA.

Further investigation may be required by the Trustee to determine priority over the SR&ED refund.

As noted above, the Trustee is still in the process of transferring funds from Covina's bank account to the estate trust account.

Equipment and furniture

The equipment and furniture of the Company has been secured and is being stored at the Company's former offices at 1344 Summer Street, Halifax, Nova Scotia. The Trustee requested an appraisal of the assets, which were valued at \$11,750 by Castle Appraisals Limited, pursuant to an informal desk-top appraisal.

Through enquiries about potential interest by local liquidators in selling the Company's equipment and furniture via auction, and it was determined there would likely be no interest due to the low quantity and value of the assets.

The Company's principals identified a party (the "Potential Purchaser") that may be interested in the Company's more valuable equipment, namely a high temperature chamber furnace, grinding bowls and platinum crucibles. The Trustee contacted the Potential Purchaser, organized a viewing of the assets during the week ending March 17, 2023, and is awaiting an offer for the assets.

The remaining assets are of marginal value; therefore, it is the Trustee's view that the cost of realizing upon these assets would outweigh the benefit of any potential recovery.

Patents and Intellectual Property

Covina obtained four patents (CA 2,872,430; US 9,352,069; US 9,555,156; EP 2,844,620) for germanium-based glass polyalkenoate cement / aluminum-free glass ionomer cement in the bone adhesive space. Generally, the patents were implemented for the same product but covered multiple jurisdictions; namely Canada, the USA, and Europe.

The following table summarizes the patents held, or formally held, by Covina:

Jurisdiction	Patent#	Status	Expiration Date
United States of America	US 9,352,069	Active	2033
United States of America	US 9,555,156	Active	2033
Canada	CA 2,872,430	Active	May 2023
Europe	EP 2,844,620	Inactive	May 2020

The European patent registration expired in May 2020 when a fee of approximately \$7,000 was not paid. The Canadian patent registration will expire on May 3, 2023, unless an annual fee of \$700 is paid. The USA patent will expire in 2024 unless a fee is paid.

The Trustee obtained a short list of parties from Company principals that may be interested in purchasing the Covina's patents and intellectual property. The Trustee also performed research to identify other parties that may have an interest. The Trustee intends to send correspondence to the identified targets informing them of the acquisition opportunity; however, realizing on the patents is far from certain.

SECTION D - CONSERVATORY AND PROTECTIVE MEASURES

a) Conservatory and protective measures

The Trustee has taken appropriate security measures to safeguard the assets, including the following:

- i. organized the safe disposal of hazardous materials located at the Company's leased premises through working with Company principals prior to the bankruptcy;
- ii. secured the Company's equipment and furniture;
- iii. requested the Company's bank accounts be frozen and remain open on a deposit-only basis; and
- iv. arranging for the continuance of adequate insurance coverage. The Trustee confirms it was added to the Company's insurance policy as a loss payee.

b) Carrying on business

The Company ceased operations on or around February 28, 2023.

c) Books and records

The Trustee has obtained the electronic books and records of Covina.

SECTION E - LEGAL PROCEEDINGS

The Trustee is not aware of any pending or actual legal proceedings for or against Covina other than the bankruptcy proceedings.

SECTION F - PROVABLE CLAIMS

Potential claims against the Company are summarized in the following table:

	Declared on the SOA	Proofs of Claim Filed
Secured	250,000	257,876
Unsecured	799,442	676,112
Contingent	1,112,000	84,000
Preferred	Nil	Nil
Total	2,161,442	Nil

SECTION G - SECURED CREDITORS

The Trustee understands that the Company's sole secured creditor is the Nova Scotia Innovation Corporation ("NSIC"). NSIC is owed approximately \$750,000, including a secured claim for \$250,000.

All of Covina's assets were pledged as security to NSIC pursuant to the general security agreement dated July 21, 2022, covering all of the Company's present and after-acquired personal property in respect of which a Financing Statement was registered on July 21, 2022 (Instrument Number 27496629). As of the date of this report, NSIC has not enforced its security over the assets of Covina. NSIC has filed a proof claim for \$257,876, claiming rights to the above noted security.

The Trustee has not yet obtained an opinion from independent legal counsel with respect to the validity and enforceability of NSIC's security. The Trustee intends to seek the authorization of the estate inspector(s) (once appointed) to retain an estate solicitor who, thereafter, will be requested to prepare an independent legal opinion on the validity and enforceability of NSIC's security as against the Trustee. The estate solicitor will also be requested to review and determine priority on the anticipated SR&ED refund discussed in Section C of this report.

SECTION H - ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

Given the information available to the Trustee in respect of the estimated realization value of the assets and the amount owed to the secured creditor; the Trustee anticipates that there may not be any funds available for distribution to unsecured creditors.

The Trustee understands the Wage Earner Protection Program Act ("WEPPA") does not apply to this estate as the Company's employees were all officers or directors of the former employer and thus not eligible for WEPPA.

SECTION I - PREFERENCES AND TRANSACTIONS AT UNDERVALUE

The Trustee is not aware of any preferential payments or transactions at undervalue. The Trustee will report any findings to the estate inspectors, if any, for further consideration in due course.

Should any creditors have knowledge of potential preferential payments or transactions at undervalue, they are encouraged to contact the Trustee.

SECTION J - OTHER MATERIAL MATTERS NOT COVERED ABOVE

The Trustee received a retainer of \$10,000 from Covina prior to the date of bankruptcy to cover professional fees and any additional costs, or a portion thereof, related to the administration of the estate. The retainer would form part of the bankrupt estate; therefore, the Trustee intends to have the retainer applied against the Trustee's fees to administer the bankrupt estate.

Dated at Halifax, Nova Scotia this 22nd day of March 2023.

BDO CANADA LIMITED

In its capacity as Trustee in Bankruptcy of
Covina Biomedical Inc.
and not in its personal capacity

Per:



Neil Jones, CPA, CA, CIRP, LIT
Senior Vice President