



Healthcare Industry Update

Wednesday, February 28th, 2018



THE ORIGIN RX

Buddying Up with Cannabis Companies

There have been 90 licenses issued by Health Canada under the Access to Cannabis for Medical Purposes Regulations (“ACMPR”) - 48 licenses in Ontario, 19 in BC and the remaining 23 among 7 provinces (excluding Newfoundland/Labrador and the Territories). Statistics Canada estimates some 5 million Canadians spent almost \$6 billion on cannabis in 2017 - this compares to \$1 billion on tobacco products and \$22 billion on alcohol products. The market is expected to grow significantly following legalization this summer, driven by improved consumer experiences at retail/online and branding efforts. Plus, differentiated strategies for new and improved ways to consume cannabis, CBD and THC in food & beverage, natural health products and Rx.

Today we are looking at partnerships involving cannabis companies. There has been a flurry of recent partnering activity by companies seeking exposure to what is expected to be a gigantic market for cannabis and potentially wanting to offset an anticipated drop in sales. According to recent studies in the US, medical marijuana reform has reduced alcohol sales by approximately 15% in some states. Following are some examples of these partnerships and their rationale:

- Pharmacy partners locking up branded cannabis products for retail - PharmaChoice/Cannimed (Mar 2017), Shoppers/Aphria (Dec 2017), Shoppers/Aurora (Feb 2017)
- Cannabis producers seeking retail distribution - Aurora/Liquor Stores (Feb 2018)
- Pharma and Licensed Producers seeking to diversify with innovative cannabis products - Apotex/CannTrust (Aug 2017), Aphria/Scientus Pharma (Aug 2017)
- Licensed producers seeking to diversify with premium craft brands - Canopy Growth/Delta 9 (Nov 2017), CannaRoyalty/FloraCal (Feb 2018)
- Alcohol partners seeking to develop and sell cannabis-infused beverages - Constellation Brands/Canopy Growth (Nov 2017)

Of course, cannabis companies aren't the only ones to use strategic partnerships to leverage what others have. Common examples include drug developers and sellers partnering for distribution (Strongbridge Pharma/Aeterna Zentaris) as well as those working together for access to new geographies (Harbin Pharma/GNC for China market).

Whatever type of company or the rationale, strategic partnerships make sense when they bring not only money but also validation and access to new products/expertise/resources. Successful partnerships depend on a range of factors, such as: the amount and structure of the investment, alignment of goals, consensus regarding the right amount of partner involvement, and the less tangible “fit”.

Stock prices will rise and fall. But take your time, be smart and build your business. And get good advice.

CATHY STEINER, PRINCIPAL





BIGGEST MOVERS

Recent News¹

The second half of February has not been as volatile as the first, with the TSX increasing 1.7% and the Nasdaq increasing 1.0%. It's been a mixed bag in healthcare subsectors, which follow in this report. A summary of the largest share price movers in the healthcare space during the recent period is included below:

- **TransEnterix, Inc.** (NYSE:ITGR, +43%): TransEnterix is a medical device company focusing on the development and commercialization of surgical robotic systems. Strong recent share performance was driven by an announcement that the company filed an FDA submission to include laparoscopic inguinal hernia and gallbladder removal surgery in the indicated list of covered procedures, which would effectively double the company's addressable market if approved.
- **Apellis Pharmaceuticals, Inc.** (NasdaqGS:APLS +22%): Apellis is a Kentucky based clinical-stage biopharmaceutical company that focuses on discovering and developing therapeutic compounds for autoimmune and inflammatory diseases. Strong recent performance was driven by recent positive news of the company's Phase 2 trial of its complement C3 inhibitor, APL-2, in patients with geographic atrophy (GA). Over the 18-month trial, APL-2 was shown to significantly reduce the growth of GA in patients.
- **Xencor, Inc.** (NasdaqGM:XNCR, +20%): Xencor is a clinical-stage biopharmaceutical company developing engineered monoclonal antibodies for the treatment of autoimmune diseases, asthma allergies and cancer. Shares performed well of late due to the announcement of its first patient beginning treatment in the company's Phase 1 clinical trial of XmAb®18087. This represents Xencor's first bispecific antibody targeting solid tumors to enter into clinical trials.
- **Nektar Therapeutics** (NasdaqGS:NKTR, +12%): Nektar is a developer of drug candidates based on its PEGylation and polymer conjugate technology platforms, based in the United States. Recent strong performance has been driven by the announcement of the company's strategic collaboration with Bristol-Myers Squibb Company to develop and commercialize NKTR-214, as well as strong 2017 operating results.
- **Brookdale Senior Living Inc.** (NYSE:BKD, -23%): Brookdale Senior Living is an owner and operator of senior living communities in the United States. Recent share performance has been driven by the release of poor operating performance for 2017 and the announcement that the board rejected a conditional indication of interest to acquire the Company for \$9.00 per share.
- **MiMedx Group, Inc** (NasdaqCM:MDXG, -52%): MiMedx is a biopharmaceutical company developing and marketing regenerative biologics utilizing human placental tissue allografts. Recent share performance has been driven by reports that the company is under investigation by the U.S. Department of Justice regarding certain sales and distribution practices.

Note 1: For the period February 15th to February 27th, 2018

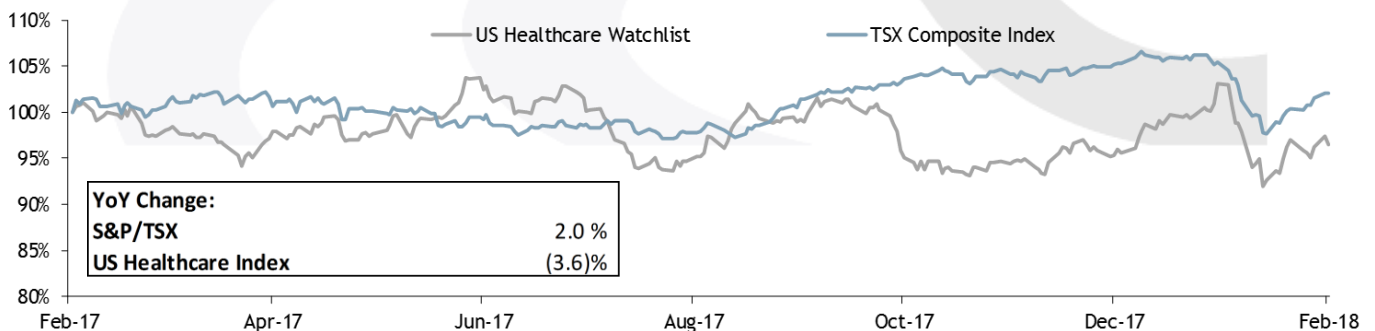


US HEALTHCARE WATCHLIST

News Scan¹

- The US Healthcare Watchlist index lost approximately 4% over the last twelve months, while the TSX Composite Index gained 2% over the same period. Some events making news this February:
- On Feb. 13th, **Mallinckrodt plc** announced it acquired **Sucampo Pharmaceuticals**, a biopharmaceutical company that primarily focuses on gastroenterology, ophthalmology, and oncology-related disorders, for approximately US\$1.2 billion. The acquisition is expected to bring near-term net sales and earnings accretion while bolstering Mallinckrodt's pipeline in the rare disease sector. The purchase will be funded through borrowings under Mallinckrodt's existing revolving credit facility, a new secured term loan facility and cash on hand. Following the transaction, Mallinckrodt intends to utilize its significant cash generation to focus on reducing outstanding debt over time
- On Feb. 15th, **Berkshire Hathaway Inc** disclosed a new stake in **Teva Pharmaceutical Industries Ltd** composed of 18.9 million depository receipts, worth approximately US\$358 million. Teva shares rose more than 10 percent after market hours the day of the announcement, reflecting what investors perceive as Berkshire's seal of approval for the Israeli drugmaker
- On Feb. 15th, **Roche Holding AG** announced it will acquire the remaining 87.4% of **Flatiron Health** for US\$1.9 billion, following on from an existing equity stake of 12.6%. Flatiron, backed by Alphabet Inc, utilizes data on individual cancer cases to help doctors select optimal approaches for their patients. Roche expects Flatiron's algorithms to improve not only its research and trials, but also support its arguments during head-to-head price talks with payers as new combinations of its therapies hit the market
- On Feb. 20th, **Albertsons Cos Inc** announced it will acquire **Rite Aid Corp**, a retail drugstore chain with approximately 2,569 stores, for an undisclosed amount. The announcement comes less than one year after Ride Aid sold 1,932 drugstores to **Walgreens Boots Alliance Inc** for US\$4.38 billion. Albertsons plans to convert its existing pharmacies to Rite Aid stores and let existing Rite Aid outlets operate as stand-alone pharmacies
- On Feb. 21st, **Merck & Co., Inc.** announced that it will acquire **Vivalytics Limited**, an Australian company focused on oncolytic immunotherapy treatments for a range of cancers, for approximately US\$394 million. Merck hopes to further build on Vivalytics' science to harness the immune system to improve long-term disease control and survival outcomes for cancer patients

Relative Performance Index



Note 1: For the period February 15th to February 27th, 2018

US Healthcare Watchlist Constituents: Johnson & Johnson, Pfizer Inc., Roche Holding AG, Novartis AG, Merck & Co., Inc., AbbVie Inc., Amgen Inc., Medtronic plc, Gilead Sciences, Inc., Bayer AG, Abbott Laboratories, Bristol-Myers Squibb, GlaxoSmithKline plc, Eli Lilly and Company, AstraZeneca PLC, Celgene Corporation, Allergan plc, Boston Scientific Corporation, Mylan N.V., Teva Pharmaceutical Industries, Mallinckrodt Public Limited Company, Endo International plc

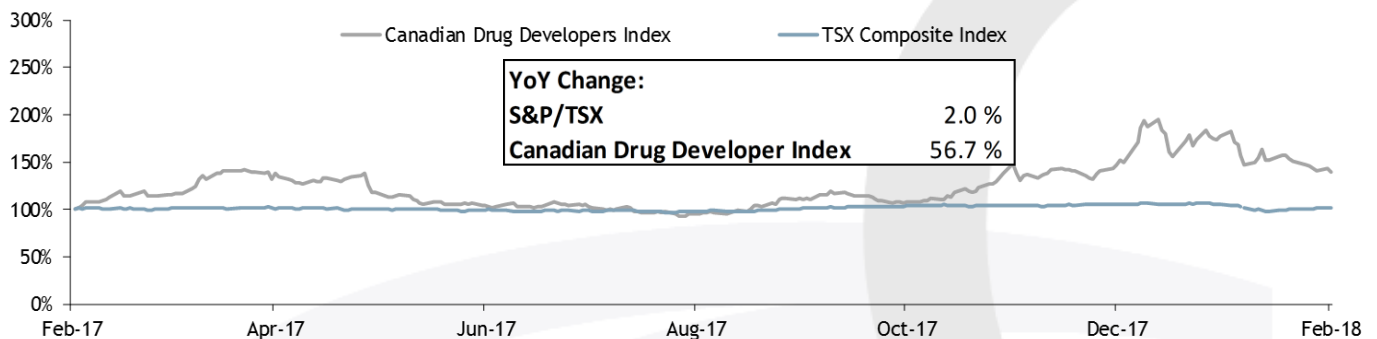


CANADIAN DRUG DEVELOPERS

News Scan¹

- Last twelve-month performance of the Canadian Drug Developer index was an impressive 56.7%, significantly outperforming the TSX Composite Index which gained 2% over the same period. In the news February 2018:
- On Feb. 15th, **Prometic Life Sciences Inc.**, a biopharmaceutical company that develops bioseparations, plasma-derived therapeutics, and small-molecule therapeutic products, announced that an orphan drug designation status was granted to its Inter-Alpha-Inhibitor-Protein by the FDA. The designation provides Prometic with a seven-year period of U.S. marketing exclusivity upon marketing approval for the designated indication, as well as tax credits for clinical research costs, clinical research trial design assistance and the waiver of prescription drug user fees
- On Feb. 15th, **Arbutus Biopharma Corporation** and **Roivant Sciences** announced the two companies entered into an exclusivity agreement for a period that expires on March 15, 2018. During this period, Arbutus and Roivant agree to negotiate on an exclusive basis the terms and conditions of a proposal to jointly develop Arbutus' nucleic acid delivery platform based on its Lipid Nanoparticle technology and GalNAC technology

Relative Performance Index



Note 1: For the period February 15th to February 27th, 2018

Canadian Drug Developers Constituents: ProMetic Life Sciences Inc., Clementia Pharmaceuticals Inc., Aurinia, Pharmaceuticals Inc., Arbutus Biopharma Corporation, Resverlogix Corp., Aquinox Pharmaceuticals, Inc., Zymeworks Inc., ImmunoVaccine Inc., InMed Pharmaceuticals Inc., Sierra Oncology, Inc., Tetra Bio-Pharma Inc., Oncolytics Biotech Inc., Cardiome Pharma Corp., Acerus, Pharmaceuticals Corporation, ProMIS Neurosciences Inc., Aeterna Zentaris Inc., Trillium Therapeutics Inc.

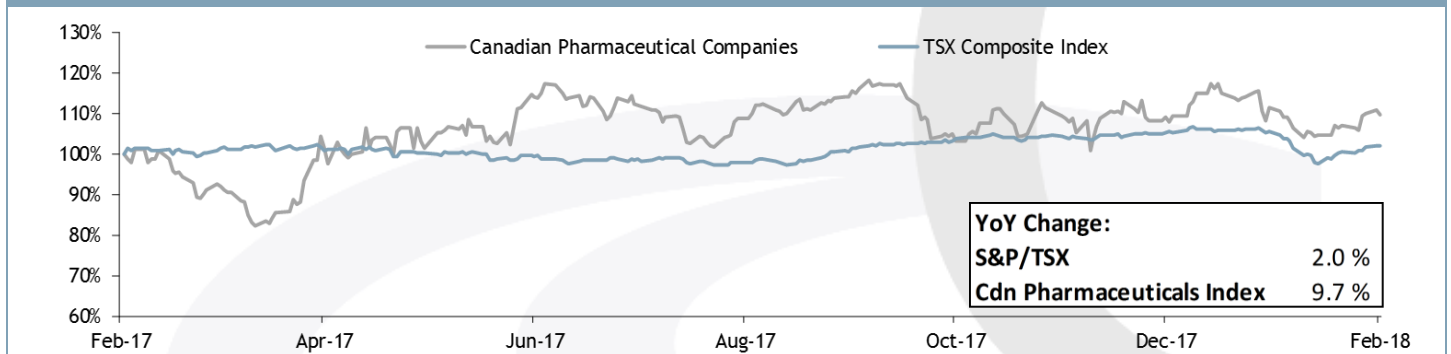


CANADIAN PHARMACEUTICALS

News Scan¹

- The Canadian Pharmaceutical index gained approximately 10% over the last twelve months, beating the TSX Composite Index which gained 2% over the same period. News for Canadian-listed pharmaceutical companies in February 2018:
- On Feb. 15th, **Ortho Dermatologics**, a subsidiary of **Valeant Pharmaceuticals** that provides dermatologist recommended and prescribed skincare products, announced the FDA accepted the new drug application for JEMDELT M1 lotion with a PDUFA action date of Oct. 5, 2018. If approved, JEMDEL will be the first high-potency topical steroid treatment for plaque psoriasis with dosing for as long as eight weeks
- On Feb. 15th, **Knight Therapeutics Inc.**, a Canadian speciality pharmaceutical company, announced that its New Drug Submission for NETILDEX has been accepted for review by Health Canada. NETILDEX focuses on the treatment of inflammatory ocular conditions of the anterior segment of the eye, including post-operative cases, where risk of bacterial infection exists
- On Feb. 20th, pursuant to the early warning requirements of National Instrument 62-103, **Knight Therapeutics** announced an increase in its interest in the securities of **Crescita Therapeutics Inc.** On Feb 16th, 2018, Knight received 2,079,973 rights of Crescita issued under the rights offering dated Feb. 2nd. Each two rights entitle Knight to subscribe for one common share of Crescita at a subscription price of \$0.53 per share. Should Knight exercise the rights in full, Knight will acquire an additional 1,039,986 shares, representing a 6.9% stake of Crescita

Relative Performance Index



Note 1: For the period February 15th to February 27th, 2018

Canadian Pharmaceuticals Constituents: Valeant Pharmaceuticals International, Inc., Knight Therapeutics Inc., Concordia International Corp., Aralez Pharmaceuticals Inc., Theratechnologies Inc., Zomedica Pharmaceuticals Corp.

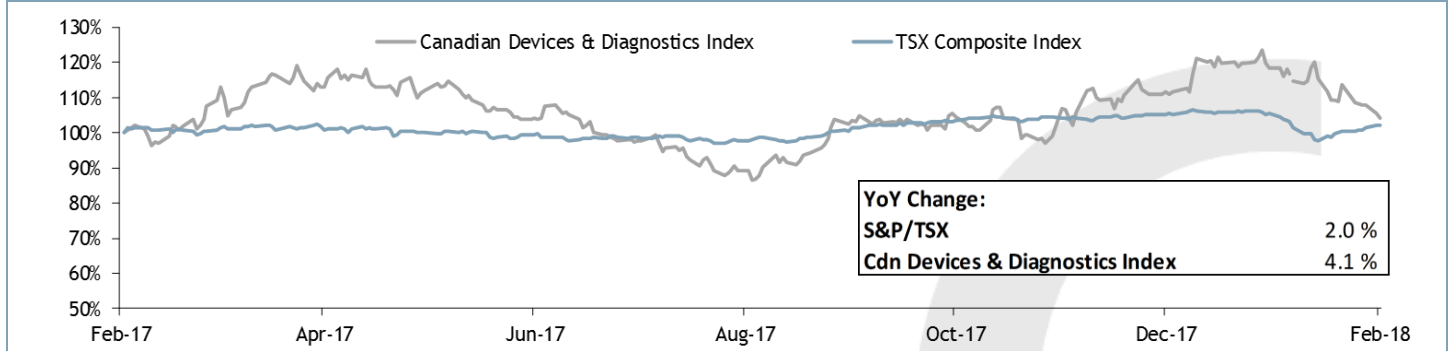


CANADIAN DEVICES & DIAGNOSTICS

News Scan¹

- The Canadian Devices & Diagnostics index gained approximately 4% over the last twelve months, beating the TSX Composite Index which gained 2% over the same period. Newsmakers for February 2018:
- On Feb. 15th **Spectral Medical Inc.** announced Health Canada approved the Spectral Apheresis Machine (SAM) for use in continuous renal replacement therapy (CRRT), therapeutic plasma exchange and hemoperfusion. The company has exclusive license rights for SAM in North America for all CRRT applications and worldwide exclusivity for hemoperfusion applications

Relative Performance Index



Note 1: For the period February 15th to February 27th, 2018

Canadian Devices and Diagnostics Constituents: CRH Medical Corporation, TSO3 Inc., Titan Medical Inc., Opsens Inc., Neovasc Inc., ChromedX Corp., Profound Medical Corp., Covalon Technologies Ltd., Spectral Medical Inc., Hamilton Thorne Ltd.

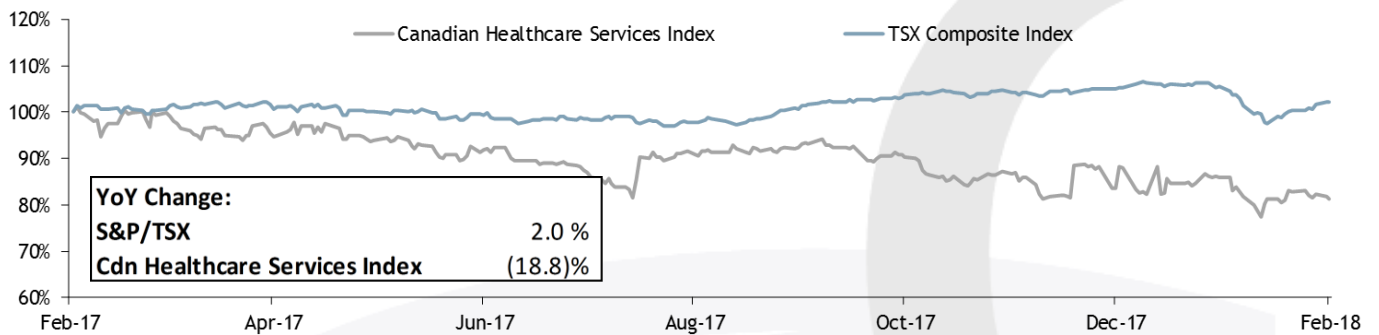


CANADIAN HEALTHCARE SERVICES

News Scan¹

- The Canadian Healthcare Services index experienced a decline of approximately 18.8% over the last twelve months, lagging the TSX Composite Index which gained 2% over the same period. February 2018 news highlights among the group:
- On Feb. 21st, **Penfund**, an independent provider of junior capital to middle market companies in the US and Canada, announced the completion of an investment in **CBI Health Group**, a portfolio company of OMERS Private Equity. Penfund provided a C\$55 million lead order for a new C\$70 million subordinated credit facility to support a dividend recapitalization of CBI. Penfund also acted as sole underwriter and agent of the subordinated credit facility
- On Feb. 26th, **Extendicare Inc.**, a senior care service provider in Canada, announced it will acquire **Lynde Creek Retirement Community** for C\$34.5 million. The property includes 93 independent and assisted living suites as well as a 113-unit townhome development in Whitby, Ontario. The purchase price represents an implied capitalization rate of 6.3%, and operations are expected to be immediately accretive to the Extendicare's adjusted funds from operations

Relative Performance Index



Note 1: For the period February 15th to February 27th, 2018

Canadian Healthcare Services Constituents: Sienna Senior Living Inc., Extendicare Inc., Medical Facilities Corporation, Akumin Inc, Centric Health Corporation

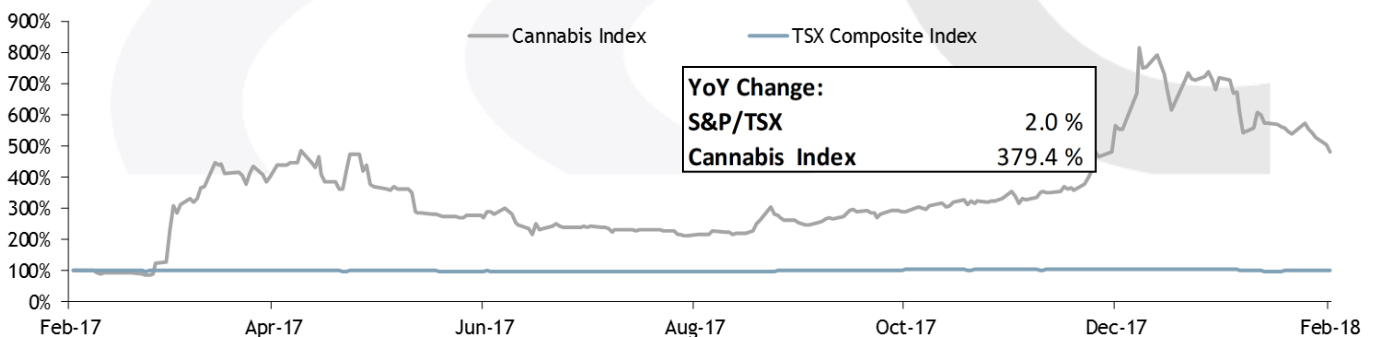


CANNABIS

News Scan¹

- Last twelve-month performance of the Canadian Pharmaceutical index was approximately 379%, dwarfing the 2% gain of the TSX Composite Index over the same period. Highlights of cannabis news for February 2018:
- On Feb. 27th, **Pivot Pharmaceuticals Inc.** announced it acquired California-based **ERS Holdings, LLC**, for an undisclosed amount. ERS has developed a patented technology called Ready-To-Infuse-Cannabis which covers the transformation of cannabis oil into powder for infusion into various food and beverage products. In addition, the company announced a private placement offering of senior secured convertible debentures with a conversion price of \$1.74 per common share for aggregate gross proceeds of C\$5 million. Origin Merchant Partners acted as the financial advisor on the private placement
- On Feb. 27th, **Aurora Cannabis Inc.** announced it entered into a supplier agreement with **Shoppers Drug Mart**. Subject to Health Canada's approval of Shoppers Drug Mart's application to be a licensed producer, Aurora will supply Shoppers Drug Mart with Aurora branded medical cannabis products. The products are expected to be sold online, as Canadian regulations currently restrict the sale of medical cannabis in retail pharmacies
- On Feb. 22nd, **North Bud Farms Inc.** announced that it acquired **GrowPros MMP Inc.** from **Tetra Bio-Pharma Inc.** for C\$0.4 million as well as 15 million common shares of the company following its initial public offering. The 15 million shares will represent a 41% stake of North Bud Farms. As part of the transaction, North Bud has agreed to advance GrowPros' late stage ACMPR application through the application process with Health Canada
- On Feb. 13th, **Aphria Inc.** announced it acquired a 99.86% stake in **Broken Coast Cannabis Ltd.** for approximately C\$217 million. Broken Coast operates a fully licensed indoor cannabis production facility on Vancouver Island, which will reach an annual capacity of 10,500 kg per year after its Phase IV expansion. The acquisition and expansion will raise Aphria's forecasted annual production to 230,000 kg while also providing it with geographic diversification and a cross-Canada distribution platform
- On Feb. 14th, **The Hydrophocary Corporation** announced it signed a letter of intent with **Société des alcools du Québec** for the supply of cannabis for the Quebec market. Under the terms of the LOI, Hydrophocary will supply 20,000 kg of cannabis products in the first year of adult-use recreational cannabis

Relative Performance Index



Note 1: For the period February 15th to February 27th, 2018

Cannabis Index Constituents: Canopy Growth Corporation, Aurora Cannabis Inc., Aphria Inc., MedReleaf Corp., CannTrust Holdings Inc., CanniMed Therapeutics Inc., Cannabis Wheaton Income Corp., OrganiGram Holdings Inc., The Supreme Cannabis Company, Inc., The Hydrophocary Corporation



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