M Pharmaceutical, Inc. (CSX: MQ; OTCQB:MPHMF), Target Price: CAD $0.79; USD $0.65)

We initiate coverage on M Pharmaceutical, Inc. (CSX: MQ "M Pharma") with a price target of CAD $0.79 (USD $0.65) per share. Based in Vancouver, Canada, M Pharma is a development stage biomedical company focused on developing solutions to improve the health and quality of life people suffering from obesity and diabetes. The company has exclusive rights to an innovative family of biomedical technologies including: **1) Trimeo** weight loss capsules; 2) the **Trimtec** gastric management system, a intended to deliver a "realistic, patient centered" approach with reduced invasiveness; and 3) **eMosquito**, a wearable blood monitor that utilizes novel micro-electromechanical technology for automatic and autonomous monitoring of blood glucose levels. We see M Pharma as potentially being a hidden gem in the biotechnology sector. The company is a newly public entity with strong leadership and a novel portfolio of biomedical technologies targeting the large and growing global markets of morbid obesity and diabetes.

INVESTMENT HIGHLIGHTS

Large market opportunity targeting obesity and diabetes

We see tremendous potential for M Pharma if it can successfully develop and achieve clearance for its promising family of biomedical technologies. The company is targeting the large and growing multi-billion dollar markets of obesity and diabetes. Indeed, global weight management market is expected to rise from $148.1Bn in 2014 to $206.4Bn in 2019E, representing a compound annual growth rate of 6.9%. Similarly, Frost & Sullivan has estimated the global market for blood glucose products to be $8.67Bn per year.

New public company building momentum in healthcare

After becoming a public company through a merger transaction with First Sahara Energy, Inc. in February 2015, M Pharma has wasted little time building product momentum and articulating a compelling approach for managing obesity and diabetes. The company recently completed several key strategic actions in its corporate structure, including the completion of a 10:1 share consolidation to bring shares outstanding more in line with peers and finalizing three strategic acquisitions to fuel growth and development. Currently, M Pharma shares trade on the CSX, and we were pleased to see that the company announced on June 15, 2015, that it was granted approval to trade on the OTCQB under the ticker MPHMF. We see this as a nice development that will expand the company's potential institutional shareholder base.

Impressive leadership team taking place

Given that M Pharma is a development stage enterprise targeting a large potential market, we view its management team as core to any investment thesis. We were pleased to see that M Pharma announced that medical technology pioneer Dr. Martin Mintchev accepted the position as President and CEO on April 15, 2015. Dr. Mintchev brings a wealth of industry expertise and leadership experience to the company, as well as a deep understanding of M Pharma's innovative family of biomedical technologies. Indeed, Mintchev was the primary developer of the medical technologies held by M Pharma. We were also impressed to see the addition of Douglas Janzen to M Pharma's Scientific Advisory Board. Janzen is co-founder and managing partner of Northview Ventures and has completed over $1bn in equity financing and over $1bn in licensing deals in the biotechnology sector. He is also CEO of Aequus Pharmaceuticals (TSXV: AQS) and a director of Neovasc Inc. (NASDAQ: NVCN).

Initiate coverage with a price target of CAD $0.79

Our analysis indicates a fair value estimate of CAD $0.79 (USD $0.65) per share (detailed on pages 9-10), implying an upside of 315.8% from the recent price of $0.19. We view M Pharma as an intriguing high risk / high reward investment targeting a large and growing segment of the healthcare industry.

Stock Details (6/17/2015)

CSX; OTCQB:	MQ; MPHMF
Sector / Industry	Healthcare /Medical Appliances
Price target	**CAD $0.79, USD $0.65**
Recent share price	$0.19
Shares o/s (mn)	27.8
Market cap (in $mn)	5.3
Stock Price high/low	$0.35 - $0.12

Source: Bloomberg, SeeThruEquity Research

Key Financials (CAD $mn unless specified)

	FY15E	FY16E	FY17E
Revenues	0.1	0.3	0.3
EBITDA	(1.7)	(1.1)	(1.3)
EBIT	(1.7)	(1.1)	(1.4)
Net income	(1.7)	(1.1)	(1.4)
EPS ($)	(0.07)	(0.03)	(0.04)

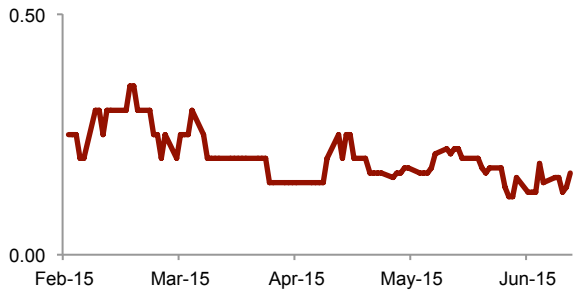
Source: SeeThruEquity Research

Key Ratios

	FY15E	FY16E	FY17E
Gross margin (%)	100	100	100
Operating margin (%)	(1,724)	(440)	(540)
EBITDA margin (%)	(1,724)	(428)	(524)
Net margin (%)	(1,732)	(444)	(544)
P/Revenue (x)	52.7	21.1	21.1
EV/Revenue (x)	50.9	20.3	20.3

Source: SeeThruEquity Research

Share Price Performance ($CAD)



Source: Bloomberg

SUMMARY TABLE

Figure 1. Summary Table (As of June 16, 2015)

Share data		B/S data (As of fiscal 1Q15)		Key personnel:	
Recent price:	$0.19	Total assets:	1.1mn	CEO:	Dr. Martin Mintchev
Price target:	CAD $0.79 / USD $0.65	Total debt:	0.0mn		
Stock Price Range:	$0.35 / 0.12	Equity:	0.6mn		
Average volume:*	18,180	W/C:	0.1mn		
Market cap:	$5.3mn	ROE:	NM		
Book value/share:	$0.01	ROA:	NM		
Cash/share	$0.00	Current ratio:	1.5		
Dividend yield:	0.00%	Asset turnover:	0.0		
Risk profile:	High / Speculative	Debt/Cap:	10.3%		

** three month average volume (number of shares) ; figures in CAD unless noted*

	Estimates				Valuation	
FY December	**Rev ($mn)**	**EBITDA ($mn)**	**EPS ($)**	**P/Rev (x)**	**EV/Rev (x)**	**P/E (x)**
1Q15A	0.0	(0.5)	(0.00)	NM	NM	NM
2Q15E	0.0	(0.4)	(0.02)	NM	NM	NM
3Q15E	0.0	(0.5)	(0.02)	NM	NM	NM
4Q15E	0.1	(0.4)	(0.01)	13.2x	12.7x	NM
2015E	0.1	(1.7)	(0.07)	52.7x	50.9x	NM
2016E	0.3	(1.1)	(0.03)	21.1x	20.3x	NM
2017E	0.3	(1.3)	(0.04)	21.1x	20.3x	NM
2018E	0.5	(1.5)	(0.04)	10.5x	10.2x	NM
2019E	3.6	(0.8)	(0.03)	1.5x	1.4x	NM

Source: SeeThruEquity Research, estimates in CAD

INVESTMENT THESIS

We initiate coverage of M Pharmaceuticals, Inc. (CSX: MQ; OTCQB: MPHMF, "M Pharma") with a price target of CAD $0.65 (USD $0.53). M Pharma is a development stage biomedical company developing innovative solutions to improve the health and quality of life for people suffering from obesity and diabetes. The company has acquired exclusive global rights to a compelling portfolio of biomedical technologies targeting the multi-billion dollar markets of morbid obesity and diabetes. The company's portfolio includes: **Trimeo** drug-free weight loss capsules; the **Trimtec** gastric management system, and **eMosquito**, a wearable blood monitor utilizing proprietary technology for monitoring glucose levels. Each product in development is well aligned to support the company's broader strategy of providing differentiated solutions that offer realistic, patient-centered approach to the treatment of diabetes / morbid obesity, with reduced invasiveness and enhanced effectiveness in comparison to competitors and the current standard of care.

Based in Vancouver, Canada, M Pharma became a public company through a merger transaction with First Sahara Energy, Inc. in February 2015. The company has recently completed several key strategic actions in its corporate structure, including the appointment of industry pioneer Dr. Martin Mintchev as CEO, a 10:1 share consolidation to bring shares outstanding more in line with peers, three strategic acquisitions to fuel growth and development, and several impressive additions to its Board of Directors and Scientific Advisory Board. Currently, M Pharma shares trade on the CSX, though on June 15, 2015, the company announced that its stock was recently was granted approval to trade on the OTCQB under the ticker MPHMF. We see M Pharma as potentially being a hidden gem in the biotechnology sector. The company is a newly public entity with strong leadership and a novel portfolio of biomedical technologies targeting the large and growing global markets of morbid obesity and diabetes.

Innovative portfolio targeting obesity and diabetes

Through a series of strategic acquisitions in 2015, M Pharma has assembled exclusive global rights to an innovative family of three biomedical technologies intended to deliver a realistic, patient-centered approaches to diabetes and morbid obesity. We like the strategy of bringing three distinct but synergistic products to market, as it offers reduced regulatory and development risks through product diversification while building a differentiated brand focused on realistic, patient-centered approaches with enhanced effectiveness and reduced invasiveness compared to competitors and the current standard of care.

Figure 2. M Pharma's biomedical technology family

eMosquito TriMeo TriMtec

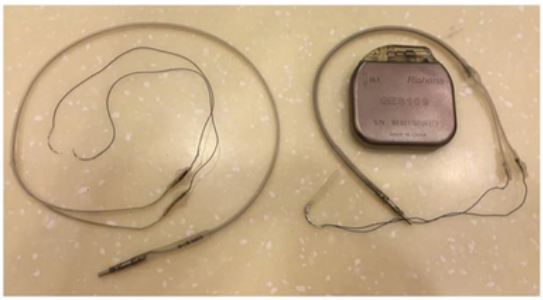
M Pharma's family of biomedical technologies currently includes: 1) **Trimeo** weight loss capsules that utilize incorporate temporary-controllable pseudo bezoars for non-invasive dynamic gastric volume displacement; 2) the **Trimtec** gastric management system, an implantable gastrointestinal neurostimulator with the potential to offer a less invasive surgical option for the treatment of obesity; and 3) **eMosquito**, a wearable blood monitor that utilizes novel micro-electromechanical technology for automatic and autonomous monitoring of blood glucose levels. The company has acquired rights to the intellectual property for each of these biomedical technologies, which are supported by a portfolio of over 18 patents and pending patents covering the US, Canada, Europe, Brazil and Latin America.

Trimeo and Trimtec both target the large and growing market for obesity, which has been linked as a causal factor for type 2 diabetes. Trimeo is a weight loss capsule, which utilizes self-disintegrating, all natural pseudo bezoars to provide superior dynamic gastric volume displacement when compared with existing standards of care. Trimeo is a third-generation technology that has been designed as a realistic, patient-friendly non-surgical option for obese patients. The capsules are fully controllable and safe at any time by drinking a cup of hot tea (>45 degrees Celsius) as well as providing a non-caloric fiber effect. Trimeo also appears to achieve higher efficacy by achieving significantly higher contact with gastric, duodenal, and intestinal mechanoreceptors. Indeed, in a placebo-controlled, two month study of 16 overweight volunteers published in *Current Obesity Reports* in 2012, Trimeo was shown to reduce obesity in all anthropometric indicators of obesity including Average Body Weight, Average Body Mass Index, Average Waist Measurement, and Average Hip Measurements.

Figure 3. Trimeo effectiveness across anthropometric indicators

Obesity Measurement	Observation	% Change	Statistically Significant
Bodyweight	93.8kg to 88.4kg	6% reduction	YES
BMI	33.2kg/m2 to 31.3 kg/m2	6.1 reduction	YES
Waist Measurement	102cm to 96.5cm	5.6% reduction	YES
Hip Measurement	114.3cm to 109cm	4.3% reduction	YES

Trimtec also holds significant promise as a relatively less invasive surgical approach to obesity. M Pharma will produce Trimtec in a fully-implantable condition, and we note that Trimtec is a safe, effective laparoscopically implantable technology controlling gastric motility. The company plans to market Trimtec as a medical device in the United States, a clearance process that will likely take several years. M Pharma is initially contemplating an FDA 510(k) application based on EnteroMedics' predicate device, the Maestro® Rechargeable System, delivering vBloc® Neurometabolic Therapy, which was FDA approved in 2014. Trimtec should offer a much better safety profile than alternative surgical options including the vBloc®, which stimulates the vagal nerve which branches into



the heart and brain. In animal studies Trimtec has shown promising data, including statistically significant weight loss in a sham-controlled study of eight healthy dogs published in *Obesity Surgery* in 2014.

Large market opportunity for M Pharmaceuticals

M Pharma's three product families target obesity and diabetes – both of which are multi-billion dollar markets with significant growth potential given global health and diet trends. The company's eMosquito product line, which utilizes proprietary technology for dynamic glucose-level monitoring, targets a market opportunity of 85mn insulin-dependent diabetics comprising 30mn type 1, and 55mn insulin-dependent type 2. We estimate the cost of eMosquito at $3 per cell – which includes a needle and an actuator. This is in line with the current cost of a fingerpricking test stripe, and we see eMosquito as developed to take aim at the $8.5Bn global fingerpricking blood glucose market. Within this multi-billion dollar opportunity, the closest analogous subcategory to the eMosquito is the continuous glucose monitoring market, which is expected to grow at a CAGR of 19.6% from to 2014 to 2019E to reach $783.9mn, according to *BCC Research*. Initially M Pharma management has publicly stated a goal for eMosquito to attempt to capture a $200mn portion of the global fingerpicking market initially, with the aspiration of reaching $1Bn in the future, after incorporating planned product enhancements.

Trimeo and Trimtec are intended to help treat obesity and morbid obesity, which is also a growing global epidemic and a multi-billion dollar market opportunity for the company. There are over 1Bn overweight people worldwide, according to the World Health Organization, with 600mn of those being obese. We see these figures rising rapidly, as research from the *McKinsey Global Institute* predicts that over half the world's adult population will be overweight by 2030. Importantly, the current standard of care, which includes surgery and a limited number of drugs, can have unwanted adverse events and / or limited efficacy. Further, physicians may be hesitant to prescribe drugs for obesity due to their safety profile.

In light of this, we view M Pharma's realistic, non-invasive and patient-focused approaches to obesity as offering substantial promise. Trimeo addresses a clear need for orally delivered, safe, easily reversible, drug free therapy for obesity. Similarly, Trimtec is a safe, effective laparoscopically implantable technology controlling gastric motility, which should offer a much better safety profile than alternative surgical options. According to 2013 research from MarketsandMarkets, the North American weight loss / obesity management market alone is expected to reach $139.5Bn by 2017. We have assumed that Trimeo capsules are priced at $2 per pill and initially target a potential pool of 75mn non-morbidly obese with a BMI >30. We have assumed that the Trimtec medical device is priced at $2,000 in volume production, with initial applicability for half of a target pool of 25mn morbidly obese. Combining these, and adjusting for manufacturing cost and shared revenues, we estimate the company's potential addressable market for obesity is $40bn per year.

Strong leadership team and advisory board

Given that M Pharma is a development stage enterprise targeting a large potential market, we view its management team as core to any investment thesis. M Pharma announced that medical technology pioneer Dr. Martin Mintchev accepted the position as President and CEO on April 15, 2015. Dr. Mintchev brings a wealth of industry expertise and leadership experience to the company, as well as a deep understanding of M Pharma's innovative family of biomedical technologies. Indeed, Mintchev was the primary developer of the medical technologies held by M Pharmaceutical.

Dr. Mintchev has decades of experience developing and delivering realistic solutions that reduce invasiveness and enhance effectiveness for people suffering from obesity and diabetes. Currently, he serves as a professor at the Schulich School of Engineering at the University of Calgary. Dr. Mintchev received his combined B.Sc./M.Sc. degree in Electronics from the Technical University of Sofia, Bulgaria in 1987, and his PhD in Biomedical Engineering from the University of Alberta in Edmonton, Alberta, Canada in 1994. Dr. Mintchev is well-known and respected in the medical technology industry, having appeared on CTV National News, CBC Radio and Television, Global Television Networks, and in numerous newspapers, magazines and newscasts in Canada. Dr. Mintchev has also authored more than 100 peer-reviewed publications in prestigious biomedical journals, books and international conferences, as well as more than 10 issued or pending patents. The company has also made several impressive additions to its Board of Directors and Scientific Advisory Board, including the appointment of life sciences industry leader Douglas

Janzen as a Senior Clinical Advisor. Janzen adds over 20 years of leadership and experience in the biotechnology sector and has completed over $1bn in equity financing and over $1bn in licensing deals in the biotechnology sector. Janzen is co-founder and managing partner of Northview Ventures. Janzen has also served as CEO of Aquus Pharmaceuticals and CEO of Cardiome.

Improved capital and trading structure

Following the appointment of Dr. Martin Mintchev as CEO in April, M Pharmaceuticals has begun taking steps to improve its capital structure and trading liquidity. On April 21, 2015, the company effected a 10-for-1 consolidation of its issued and outstanding shares. The move resulted in a more palatable share count, and one that is more similar to industry peers – after the reverse split, the company had approximately 23mn common shares outstanding. More recently, on June 15, 2015, M Pharmaceuticals also announced it would begin trading in the United States, on the OTCQB marketplace. The development should provide the company with improved trading liquidity given the increased access to US-based investors and institutions.

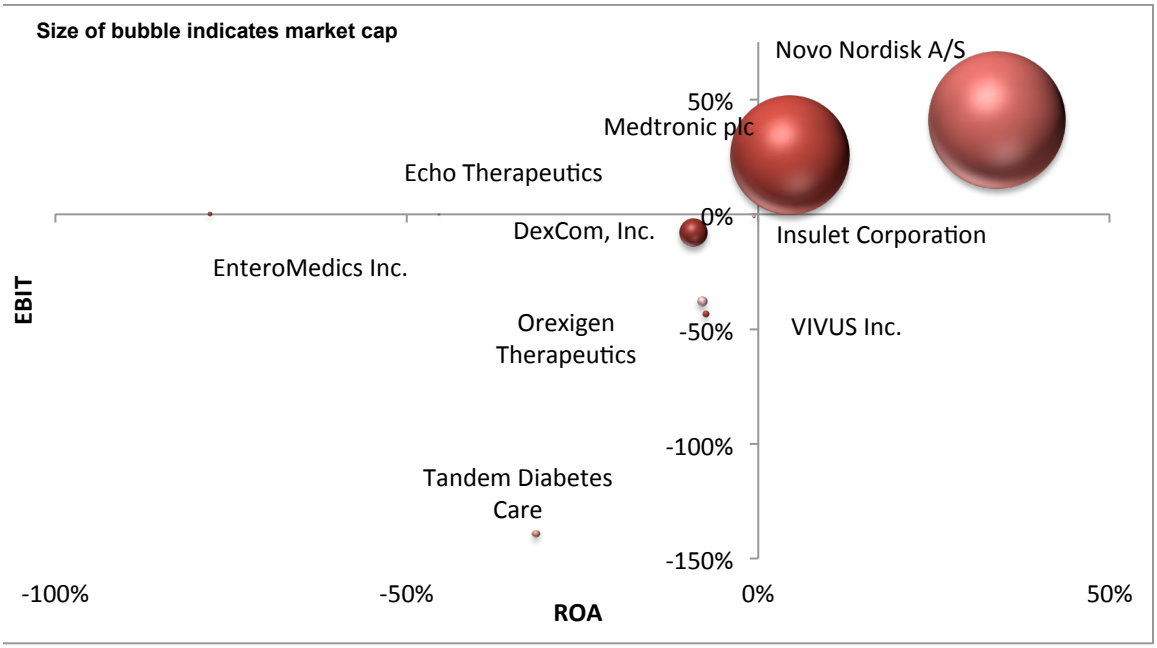
COMPETITIVE LANDSCAPE

M Pharmaceutical is a development stage company focused commercializing biomedical technologies for the management of obesity and diabetes. Obesity and diabetes represent large, growing and costly health epidemics. M Pharma's glucose monitoring technology, eMosquito, is designed as a patient-centric, more effective, and less invasive alternative to the $8.4Bn global market for glucose fingerpricking. Indeed, the product is potentially applicable to all 85mn insulin-dependent diabetics (30mn type 1; 55mn insulin-dependent type 2). Similarly, there are over 100nm obese individuals worldwide (BMI >30), 25mn of which are morbidly obese. These figures are expected to rise rapidly, as an increasing portion of the world's population becomes overweight. According to a *McKinsey Global Institute* study, half of the world's population is expected to be overweight by 2030.

Given that both obesity management and diabetes monitoring are large and growing multi-billion dollar markets, M Pharma faces intense competition from numerous companies. In the diabetes monitoring market, the company's competitors include Novo Nordisk, Medtronic, Dexcom, and Insulet, among others. In the obesity management market, the company's competitors include EnteroMedics, as well as privately held Obalon Therapeutics, ReShape Medical, GI Dynamics, Inc., among others. We see EnteroMedics as a close competitor to M Pharma's Trimtec product line. We expect M Pharma to compete based on a product differentiation strategy given that Trimtec offers strong efficacy potential and should have an enhanced safety given that its procedure is less invasive than EnteroMedics.

In the following graphic we examined key size and profitability metrics for a group of competitors and peer companies of M Pharma. Our peer group considers large competitors entrenched in the space, such as Novo Norkdisk and Medtronic, as well as mid-sized companies with a novel approach to diabetes management, including Dexcom, Tandem Diabetes Care, and Insulet Corporation. We also included companies targeting obesity, such as EnteroMedics – the closest peer company in our view. We found that while margins can be negative in the early stages of growth, established players have been able to generate very attractive margins.

Figure 2. ROA vs. EBIT– M Pharma Peers



Source: Thompson Financial, Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Development / Commercialization Timetable

M Pharma is development stage company that has not generated revenues or cash flows to date. While the company may generate revenue from grants or from an agreement to license its technology, we do not believe M Pharma will generate a recurring base of revenue from marketing and distributing its products until it has received regulatory clearance for one of more of its biomedical technologies: Trimeo, Trimtec, and eMosquito. Our analysis assumes the company is able to execute operationally and raise sufficient capital to commercialize these product lines. The following paragraphs outline our assumptions for the commercialization of M Pharma's product family.

Trimeo

Although Trimeo can be sold legally in Europe as a dietary supplement, the company is in the process fof registering Trimeo as a medical device in the EU (in Bulgaria). This will likely be a multi-year process that we believe will take through 2018E to complete. In the near term, potential milestones to watch in the company's medical device registration process are the completion of a regulatory dossier with Lloyds, and manufacturing the necessary quantities of the product in an ISO-certified medical device manufacturing facility to initiate safety and efficacy studies. We expect the company to initiate and complete a safety study of 60 patients during 2016E, with an efficacy study of 120 patients during 2017E. We would expect the company to complete the registration process in the EU and receive CE mark clearance to commercialize the product during 2018E, assuming favorable outcomes from the studies. Concurrently, we expect M Pharma to find pursue a licensing partner in Brazil, in particular, to lead the regulatory and commercialization processes in Latin America. We expect to hear a progress update from M Pharma management on its efforts to complete a licensing agreement covering Latin America by the end of 2015. We do not expect M Pharma to pursue the US market until 2019E, when we believe the company will initiate an FDA approval process for Trimeo.

Trimtec

For Trimtec, M Pharma plans to market the product as a medical device in the United States, a process which will take several years until Trimtec can be commercialized (assuming ultimate FDA approval). M Pharma plans to an FDA 510(k) application based on EnteroMedics' predicate device, the Maestro® Rechargeable System, delivering vBloc® Neurometabolic Therapy, which was FDA approved in 2014. We expect M Pharma will receive a response from the FDA by the end of 2017E, and have forecast commercialization to commence by the end of 2018E with initial revenues in 2019E. The company is in the midst of selecting an ISO-compliant manufacturing partner in China, and we expect the company will be in a position to announce an exclusive manufacturing agreement by the end of 2015E.

eMosquito

M Pharma recently updated investors with its development plans for its eMosquito glucose device. During 2015, we expect the company to complete and begin testing an eMosquito pilot prototype. We also expect the company to prepare a medical device registration strategy for the eMosquito by the end of 3Q15. We expect initial research and development costs for these initiatives will be funded via a research grant, which may flow through the income statement as one-time revenue of $0.1mn. We have adopted what we believe is a conservative stance toward the regulatory clearance and commercialization timeline for eMosquito. We estimate the company will achieve regulatory clearance by 2019E and begin commercialization by he end of 2019E.

Revenue Drivers / Forecast

Our forecast for M Pharma assumes the company successfully reaches commercialization of Trimeo by the end of 2018E, with the first year of revenue being 2019E. We have forecast Trimtec's first full year of commercialization in 2019E as well. For eMosquito, we have assumed revenue begins in 2019E. We have also assumed a small line item comprised of grants, license fees, royalties, and other. We believe the company will announce a license agreement covering development of Trimeo in Latin America by the end of 2015E, and expect the company will pursue similar agreements for the rest of its portfolio, as well as potential licensing partners in Asia and/or the Middle East. Given the uncertainty of the terms and potential for licensing deals, we have made conservative growth assumptions for this line over time. If the company achieves our other estimates for Trimeo, Trimtec, and eMosquito, there is potential for upside from licensing agreements outside of North America and Europe. The following table provides an overview of the projected revenue drivers for M Pharma in our model.

Figure 3. M Pharma Estimated Revenue Drivers

Fiscal Period (000s)	2018E	2019E	2020E	2021E	2022E	2023E
Trimeo (EU & NA)	-	1,056	2,400	9,600	16,800	24,000
Trimtec	-	400	3,750	5,000	4,000	7,000
eMosquito	-	1,500	4,500	9,000	22,500	39,875
Grants, Licensing & Other	500	650	845	1,099	1,500	1,900
Total	**500**	**3,606**	**11,495**	**24,699**	**44,800**	**72,775**

Source: SeeThruEquity Research, estimates in thousands CAD

Margins/Expenses

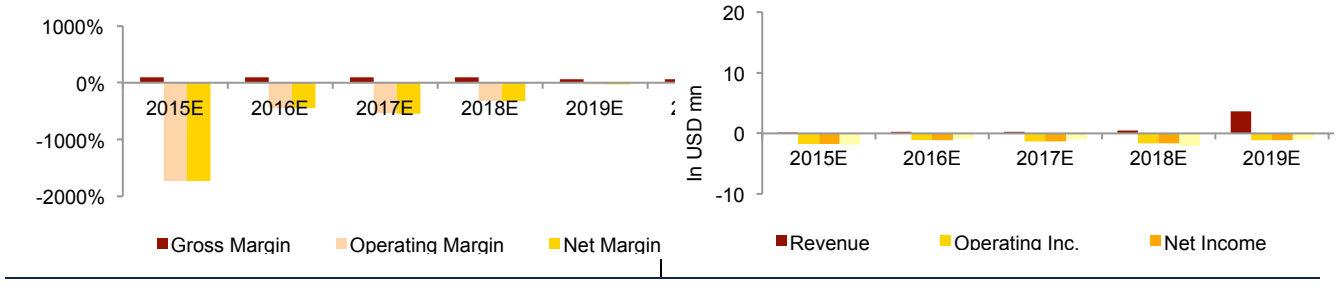
We have forecast moderately high gross margins for Trimeo. Management has indicated that expects to structure agreements for Trimeo commercialization that will result gross margins of approximately 50%, with the potential for improvement over time. We expect the key operating expenses for the company over the next two years will be for the development of an eMosquito prototype, to prepare an FDA filing in 2016 for Trimtec, and operational expenses get the CE mark in Europe for Trimeo. We expect the company to report net losses through 2019E before generating profits in 2020E, with margins expanding thereafter as the company benefits from incremental high margin revenue. Our 2015E and 2016E EPS estimates for M Pharma are ($0.07) and ($0.03), respectively.

Balance Sheet & Financial Liquidity

We see the balance sheet and financial liquidity as a noteworthy item to watch for M Pharma. The company's independent auditor, BDO Canada LLP, issued a going concern opinion for the company, and we have estimated M Pharma will need to successfully raise at least $5mn of capital over the next three years in our analysis.

M Pharma ended 1Q15 with cash on hand of $244,862 and current assets of $608,329, versus current liabilities of $414,609. In 1Q15, the company used $0.6mn of cash during from operations and reported a net loss of ($522,052). M Pharma ended the quarter with shareholder's equity of $596,383.

Figure 4. Key Performance Indicators of M Pharma, FY15E–19E



Source: Company filings, SeeThruEquity Research; figures in CAD unless noted

VALUATION

We utilized discounted cash flow (DCF) analysis and peer group multiples to value M Pharmaceutical, Inc. M Pharma is a pre-revenue company that has several years and must also achieve regulatory approval before it can begin commercialization of its products. Consequently we expect the company to have negative cash flows until 2020E and note that there is also uncertainty that industry valuation multiples will be the same in the future as they are in the present.

Our blended valuation, which combines these two methodologies, yields a fair value of CAD$0.79 per share (USD $0.65). Relative to the recent price of $0.19, our target of CAD$0.65 represents upside potential of 315%.

DCF

We expect M Pharma will use cash from 2015E through 2020E as the company invests in attaining regulatory clearance for its products, and invests in research and development for its eMosquito glucose monitoring technology. We have assumed 2019E is the first year of commercialization for the company, and that M Pharma begins to generate positive operating income in 2020E, with free cash flow after investments in working capital reaching $0.3mn in 2020E and growing thereafter. We do not expect material capital spending requirements for the company in our forecast period given the strategy to pursue an outsourced manufacturing model.

We project free cash flow of ($1.7mn) in FY15E. We have modeled the company to use ($4.97mn) in free cash flow from 2016E through 2019E and before turning positive at $5.4mn in FY21E. Thereafter we have assumed rapid growth in free cash flow as the company should benefit from high earnings leverage.

We discounted cash flows at a weighted average cost of capital of 22% and assumed a terminal growth rate of 4% at the end of FY2023E to arrive at an enterprise value of $18.9mn. We adjusted for the company's modest cash and debt balances outstanding as of 1Q15, arriving at a fair value of CAD $0.69 per share.

Figure 5. Discounted Cash Flow Analysis

$000 CAD	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
EBIT	(1,724)	(1,100)	(1,350)	(1,625)	(1,072)	1,703	5,669	10,480	23,697
Less: Tax	0	0	0	0	0	0	849	3,560	8,054
NOPLAT	(1,724)	(1,100)	(1,350)	(1,625)	(1,072)	1,703	4,820	6,920	15,643
Change in W/C	(136)	298	450	(325)	425	(900)	950	485	965
D&A.	0	28	40	100	300	450	675	850	1,000
Capex	0	(80)	(120)	(240)	(700)	(900)	(1,000)	(1,200)	(1,400)
FCFF	**(1,860)**	**(854)**	**(980)**	**(2,090)**	**(1,047)**	**353**	**5,445**	**7,055**	**16,208**
Discount factor	0.91	0.75	0.63	0.52	0.43	0.36	0.30	0.25	0.21
PV of FCFE	(1,689)	(644)	(614)	(1,089)	(453)	127	1,627	1,752	3,343
Sum of PV of FCFE									2,359
Terminal cash flow									103,076
PV: Terminal cash flow									11,909
Enterprise value									23,621
Less: Debt									68
Add: Cash									255
Equity value									**23,808**
Shares Outstanding (mn)									27.8
Fair value per share ($)									**0.86**

Source: SeeThruEquity Research, estimates in 000s CAD except per share data

Summary conclusions		Key assumptions	
DCF FV (CAD$ per share)	0.86	Beta	2.0
Recent price ($ per share)	0.19	Cost of equity	20.5%
Upside (downside)	351.5%	Cost of debt (post tax)	9.0%
WACC	20.4%	Terminal Growth Rate	4.0%

Source: SeeThruEquity Research, estimates in 000s CAD except per share data

Figure 6. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

		WACC (%)				
Terminal growth rate (%)		19.4%	19.9%	20.4%	20.9%	21.4%
	3.00%	0.92	0.86	0.81	0.76	0.71
	3.50%	0.95	0.89	0.83	0.78	0.73
	4.00%	0.98	0.92	**0.86**	0.80	0.75
	4.50%	1.02	0.95	0.89	0.83	0.78
	5.00%	1.05	0.98	0.92	0.86	0.80
	5.50%	1.09	1.02	0.95	0.88	0.83

Source: SeeThruEquity Research

Peer Group Valuation

We compared M Pharma with publicly traded peers operating in the company's core markets of diabetes and obesity. We considered direct competitors in each market, as well as publicly traded companies pursuing treatments alternative for obesity and diabetes, which may not be direct competitors of the company but nevertheless target the same diseases. Because M Pharma is not generating revenues, and we do not expect the company to begin generating revenues until 2019E, we used our estimates for M Pharma in FY2020E in this analysis, and then applied a discount rate to determine present value. We note that there is inherently uncertainty in this valuation exercise, as we have assumed both that M Pharma is able to commercialize its products successfully in 2019E – and also that forward multiples in the peer group are similar in the future.

The peer group includes large established competitors in the diabetes fingerpricking market, such as Novo Nordisk (NVO) and Medtronic (MDT), as well as emerging diabetes monitoring companies such as DexCom (DXCM) and Insulet Corporation (PODD). We also considered companies developing obesity therapies and obesity management solutions, such as EnteroMedics (ETRM). In our view, ETRM is the closest publicly traded company to M Pharma, as M Pharma plans to use ETRM's device as a predicate device for registering Trimtec as a medical device in the United States. Additionally, we note pending IPO Gelesis (GLSS) is a close comparable company to M Pharma. Gelesis is a Boston, MA-basd pre-revenue company developing first-in-class products to induce weight loss and improve glycemic control in overweight and obese patients – including those with prediabetes and Type 2 diabetes. GLSS recently postponed a $52mn IPO on the NASDAQ that valued the company at a market capitalization of $179mn at the midpoint of the price range. The company's lead product, Gelesis100, is an orally administered capsule containing hydrogel particles to induce weight loss and improve glycemic control. We see the company as a close comparable to M Pharma and will continue to track developments in its IPO.

We arrived at a fair value range of $0.52 to $0.53 per share based on EV/Revenue and P/Sales multiples of selected peers, respectively. We used our fiscal 2020E estimate of $11.5mn and applied a 50% discount to the FY15 peer average EV/Revenue multiple of 8.6x sales to determine a fair value, and then used a 24.8% discount rate to arrive at a present value $0.52 per share. Similarly, we applied a 50% discount to the 2015E P/Revenue peer average multiple of 8.7x to our FY20E revenue estimate for M Pharma, using a 24.8% discount rate to arrive at a present value of $0.53 per share. We applied the 50% reduction to the peer average to reflect the uncertainty of FY20E projections for M Pharma, which has not yet achieved regulatory approval for its medical products.

Figure 7. Comparable Valuation (Data as of 6/17/15)

Company	Mkt cap ($ mn)	EV/Revenue(x)		Price/Sales (x)	
		FY15E	FY16E	FY15E	FY16E
DexCom, Inc.	5,772	15.6x	11.4x	15.9x	11.5x
VIVUS Inc.	249	2.2x	1.4x	2.8x	1.8x
EnteroMedics Inc.*	84	105.0x	19.9x	120.1x	22.7x
Medtronic plc	108,094	4.3x	4.2x	3.8x	3.6x
Echo Therapeutics, Inc	18	NM	NM	NM	NM
Tandem Diabetes Care, Inc	345	3.7x	2.6x	4.8x	3.4x
Insulet Corporation	57	5.8x	5.0x	0.2x	0.2x
Orexigen Therapeutics, Inc	586	9.5x	5.5x	11.7x	6.7x
Arena Pharmaceuticals, Inc.	1,050	18.3x	13.4x	21.7x	15.9x
Novo Nordisk A/S	142,428	9.1x	8.9x	9.0x	8.8x
Zafgen, Inc.	981	NM	NM	NM	NM
Average **FY15 excludes ETRM*		**8.6x**	**8.0x**	**8.7x**	**8.3x**
M Pharma	5	NM	NM	NM	NM
Premium (discount)		NM	NM	NM	NM

Source: Bloomberg, SeeThruEquity Research

RISK CONSIDERATIONS

Financial Solvency

We see access to new capital to fund development, the regulatory approval process, operations and potential commercialization as a key risk for M Pharma. We expect the company will need to raise fresh capital at multiple points in the future, and have assumed the company use equity-based instruments to do so in our analysis. M Pharma has not generated cash flows or revenues in its operating history, and we do not expect the company to generate recurring revenues for several years. We have assumed the company will need to raise at least $5mn to fund its strategic operating plan.

M Pharma ended 1Q15 with cash on hand of $0.3mn. The company had current assets of $0.6mn versus current liabilities of $0.4mn, and shareholder's equity of $0.6mn. The company reported a net loss of ($0.5mn) in 1Q15 and used $0.6mn in cash from operations.

Competition

M Pharma is a development stage company creating biomedical technologies addressing the diabetes and obesity markets. These are large and highly competitive markets, which include companies with substantially greater access to financial resources, research laboratories, brand recognition and sales distribution channels. M Pharma is seeking to compete with a strategy of product differentiation, focused on presenting solutions it believes are more effective and less invasive than those of competitors.

Going Concern

M Pharma's independent auditors, BDO Canada LLP, have prepared the company's consolidated financial statements on the basis of accounting principles applicable to a going concern. We note that the company has a need for financing working capital, product development, and sales and marketing. We have also assumed in this analysis that M Pharma will be able to raise sufficient capital to fund its operations and bring its products through the necessary development and regulatory processes required for commercialization and ultimately the generation of free cash flow.

Dilution potential

We expect M Pharma to raise fresh capital by the issuance of equity instruments, including common equity, preferred equity, options and warrants, among other possibilities. Holders of common equity may have their positions diluted as the company raises new capital. We also expect that the company may use equity instruments for the compensation of employees, consultants, and vendors, which may also cause dilution to equity holders.

Regulation Risk

M Pharma is developing biomedical technologies for the treatment of obesity and diabetes. The development of pharmaceuticals and medical devices is a highly regulated industry. To market and distribute Trimeo, Trimtec, and eMosquito in the United States, for example, the company must obtain clearance from the Food & Drug Administration (FDA), which is a time consuming and costly process, often requiring expensive clinical studies / trials. Although Trimeo is approved for sale as a dietary supplement in the EU, we expect M Pharma to seek regulatory clearance to market Trimeo as a medical device. We estimate it will likely require at least three years, possibly more, for the company to obtain CE clearance to market Trimeo as a medical device in Europe. We note that approval in the United States does not guarantee that devices will secure regulatory approval in other countries.

Management Team and Board of Directors

Dr. Martin Mintchev, PhD, PEng, President & CEO

- Professor, Schulich School of Engineering, University of Calgary, Adjunct Professor of Surgery, University of Alberta
- B.Sc./M.Sc. degree in Electronics, Technical University, Sofia, Bulgaria, PhD, Biomedical Engineering, University of Alberta
- Fellow of the American Institute for Medical and Biological Engineering, member of the American Gastroenterological Association, Senior IEEE Member, and a registered Professional Engineer in the Province of Alberta, Canada

Dr. Christopher Andrews, M.D., MSc, FRCPC, Director

- Gastroenterologist, faculty member of the Department of Medicine at the University of Calgary and graduate of the Mayo Clinic in Rochester, MN
- Specialist in stomach disorders and physiology, with advanced training in gastrointestinal motility and function
- Masters Degree in Clinical Health Research from the Mayo Clinic

George Tsafalas, Director

- Senior Business Executive with Experience as Chief Financial Officer, Executive Board Member, Audit Committee Chair of multiple Companies
- Specialized Expertise in strategic budget plan implementation, operational management, corporate finance in private and public sectors
- Successful track record in raising capital through private equity, including angel and venture investment groups and firms

D. Richard Skeith, BA/JD, Director

- BA (Hons) in Economics, University of Alberta; JD Faculty of Law, University of Alberta
- Practicing Lawyer with specialized focus on publicly traded companies
- Extensive experience as an Officer or Director of multiple public companies in sectors including pharmaceuticals, mining, oil and gas and real estate

Scientific Advisory Board

Douglas Janzen, Senior Clinical Advisor

- 20 plus years of leadership in the life sciences and bio-technology sector
- Director of Neovasc NASDAQ:NVCN, Former CEO of Cardiome
- Co Founder and Managing Director of Northview Ventures and CEO of Aequus Pharmaceuticals
- Completed over $1 billion in equity financing and over $1 billion in licensing deals in the bio-tech sector

Dr. Orly Yadid-Pecht

- B.Sc., M.Sc., D.Sc., Department of Electrical Engineering, Technion – Israel Institute of Technology
- National Research Council (USA) research fellow 1995-97 for Advanced Image Sensors at the Jet Propulsion Laboratory, California Institute of Technology
- Founder VLSI Systems Center, specializing in CMOS Image Sensors, Ben-Gurion University, Israel, iCore Professor of Integrated Sensors, Intelligent Systems, University of Calgary

Dr. Michel Fattouche

- Professor, Department of Electrical and Computer Engineering, University of Calgary
- “Prairies Entrepreneur of the Year” and “Calgarian of the Year” (2000), Registered Professional Engineer in Alberta
- Pioneering work has led to 19 Patents being issued, including W-OFDM (Wide-band Orthogonal Frequency Division Multiplexing), Co-Founder of Wi-LAN Inc, Co-Founder Cell-Loc Inc.

FINANCIAL SUMMARY

Figure 8. Income Statement

Figures in $CAD mn unless specified	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Revenue	**0.1**	**0.3**	**0.3**	**0.5**	**3.6**	**11.5**
YoY growth	NM	NM	0.0%	100.0%	621.2%	218.8%
Cost of Sales	0.0	0.0	0.0	0.0	1.5	4.8
Gross Profit	**0.1**	**0.3**	**0.3**	**0.5**	**2.1**	**6.7**
Margin	NM	NM	100.0%	100.0%	59.0%	58.3%
Operating expenses	1.8	1.4	1.6	2.1	3.2	5.0
EBIT	(1.7)	(1.1)	(1.4)	(1.6)	(1.1)	1.7
Margin	NM	NM	(540.0%)	(325.0%)	(29.7%)	14.8%
EBITDA	**(1.7)**	**(1.1)**	**(1.3)**	**(1.5)**	**(0.8)**	**2.2**
Margin	NM	NM	(524.0%)	(305.0%)	(21.4%)	18.7%
Other income/ (expense)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Profit before tax	(1.7)	(1.1)	(1.4)	(1.6)	(1.1)	1.7
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**(1.7)**	**(1.1)**	**(1.4)**	**(1.6)**	**(1.1)**	**1.7**
Margin	NM	NM	(544.0%)	(327.0%)	(30.0%)	14.7%
EPS (per share)	**(0.07)**	**(0.03)**	**(0.04)**	**(0.04)**	**(0.03)**	**0.04**

Source: SeeThruEquity Research

Figure 9. Balance Sheet

Figures in $CADmn, unless specified	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Current assets	0.7	2.5	4.5	3.2	4.9	10.1
Other assets	0.7	0.8	0.8	2.5	2.9	3.3
Total assets	**1.4**	**3.3**	**5.3**	**5.7**	**7.8**	**13.4**
Current liabilities	0.5	1.1	1.9	3.1	5.3	7.8
Other liabilities	0.1	0.1	0.1	0.1	0.0	0.0
Shareholders' equity	0.8	0.8	3.3	2.6	2.5	5.6
Total liab and shareholder equity	**1.4**	**2.0**	**5.3**	**5.7**	**7.8**	**13.4**

Source: SeeThruEquity Research

Figure 10. Cash Flow Statement

Figures in $CADmn, unless specified	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Cash from operating activities	(1.7)	(0.4)	(0.3)	(2.5)	0.6	2.6
Cash from investing activities	(0.4)	(0.1)	(0.1)	(0.2)	(0.7)	(0.9)
Cash from financing activities	2.3	2.0	2.0	0.0	(0.1)	0.0
Net inc/(dec) in cash	**0.2**	**1.5**	**1.6**	**(2.7)**	**(0.1)**	**1.7**
Cash at beginning of the year	0.0	0.3	1.8	3.4	0.7	0.6
Cash at the end of the year	**0.3**	**1.8**	**3.4**	**0.7**	**0.6**	**2.4**

Source: SeeThruEquity Research

About M Pharmaceutical Inc.

M Pharmaceutical Inc. is committed to developing and commercializing innovative biomedical technologies that improve the health and quality of life of people affected by obesity and diabetes. The Company currently has or has agreed to acquire the exclusive rights to a family of biomedical technologies including (i) the eMosquito, for automatic and autonomous monitoring of blood glucose by diabetics; (ii) temporary controllable pseudobezoars, an innovative method for non-invasive dynamic gastric volume reduction for weight loss that has been recently tested in blind, placebo-controlled human studies; and (iii) gastrointestinal neurostimulators, using a laparoscopically-implantable technique for the treatment of obesity without permanent anatomical modification of the stomach. Commercial development of eMosquito, Trimeo and Trimtec biomedical technologies will require successful coordination and execution of a wide variety of technology disciplines

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