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DelMar Pharmaceuticals (Nasdaq/DMPI)

BUY VAL-083 Progressing in Refractory GBM

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DelMar is a biopharmaceutical company focused on the development and commercialization of new cancer therapies

Investment Highlights

1) DelMar is making solid progress on its key STAR-3 Phase 3 clinical trial using VAL-083 in refractory (Temodar- and Avastin-failed) glioblastoma multiforme, or GBM. Most recently, in July the Company announced the completion of the first site initiation visit for the trial, at the Dent Neurological Institute (“Dent”), the largest private neurological center in North America. Dent, based in Buffalo, NY, sees more than 250,000 patients each year. Dr. Laszlo Mechtler, Medical Director at Dent and also Chief of Neuro-Oncology at Buffalo’s Roswell Park Cancer Institute, will serve as principal investigator for STAR-3 at Dent. STAR-3 is planned for enrollment up to 180 eligible patients at up to 25 centers in the US. Near-term, the Company plans to complete seven more site initiation visits in the US for STAR-3 by early September, for eight total, with the first patient enrolled as early as September 1. Longer-term, DelMar’s goal is to publish interim analysis of STAR-3 sometime next year with final data released in 2019 and NDA (through the 505(B)2 pathway) submission by 2020.

2) Also in July, DelMar made major headway in its Phase 2 clinical program in newly diagnosed GBM patients. DelMar received approval last month from China’s Human Genetic Resources Administration (HGRAC) to initiate a Phase 2 clinical trial using the Company’s VAL-083 combined with chemo-radiation in newly diagnosed patients as an alternative to current standard-of-care in China, which is temozolomide (Temodar). In the trial, which is being funded through support by Guangxi Wuzhou, the Company’s partner in China, enrollment is expected to open up this summer at Sun Yat-sen University Cancer Center in Guangzhou. Up to 30 newly-diagnosed GBM patients whose tumors exhibit high-expression of the DNA-repair enzyme MGMT will be treated with VAL-083 in combination with radiotherapy. DelMar hopes that this study may one day provide a guideline for a larger, global study using this combination in first-line therapy for GBM. Ultimately, the Company

Current Price \$1.73
Price Target \$6.60

Estimates	F2015A	F2016A	F2017E
Revenues(\$000s)	\$0	\$0	\$0
1Q September	0	0	0 A
2Q December	0	0	0 A
3Q March	0	0	0 A
4Q June	0	0	0 E
EPS (diluted)	(\$0.46)	(\$0.81)	(\$0.58)
1Q September	0.00	(0.15)	(0.20) A
2Q December	0.00	(0.24)	(0.12) A
3Q March	0.00	(0.10)	(0.18) A
4Q June	0.00	(0.32)	(0.15) E

EBITDA/Share	(\$0.46)	(\$0.46)	(\$0.53)
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$1.66-\$7.54
Shares Outstanding (mil.)	13.5
Market Capitalization (mil.)	\$23.4
Enterprise Value (mil.)	\$13.3
Debt to Capital (3/17)	0.0%
Book Value/Share (3/17 Pro Forma)	\$0.68
Price/Book	2.5 x
Average Trading Volume (3-Month)	128,300
Insider Ownership	20.6%
Institutional Ownership	1.1%
Short interest	120,000
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 yrs:
 Updated - August 8, 2017 - Buy - Price Target \$6.60

hopes to be able to publish interim data on the China trial by later this year or early next year. Meanwhile, enrollment continues in DelMar's open label Phase 2 trial in first-recurrence GBM patients, who also exhibit unmethylated-MGMT, a study which has been partnered with MD Anderson in the US, and the Company hopes to provide interim updates on this trial later this year or early next year as well. Finally, the Company has been busy this year with its non-GBM clinical pipeline, including presenting early-stage data supporting VAL-083 against several other cancer indications, including ovarian cancer, lung cancer, and pediatric brain tumors.

3) The Company recently reported financial results for their Q3/17 quarter (ending March), including a net loss of \$1.9 million or (\$0.18) per share compared with a net loss of \$1.1 million or (\$0.10) per share in the prior year period. The increased net loss this year was due to higher R&D expenses, up 37% to \$1.1 million this year, and higher general and administrative costs, up 11% to \$700,000 in Q3/17, both due to increased R&D activity for VAL-083 programs. However, net losses in Q3/17 also included higher non-cash charges; without these charges operating cash burn increased more modestly for DelMar this year, to approximately \$1.6 million from \$1.2 million in the same period one year ago. At the end of the third quarter the Company had \$2.1 million in cash on hand, which was augmented significantly by an additional \$8.0 million in net proceeds from an April 2017 public equity offering. DelMar management has recently stated that the Company has adequate funds to support operations through the next 18-24 months.

Conclusion/Stock Valuation

We are maintaining our BUY rating on DelMar Pharmaceuticals based on recent positive clinical progress, but initiating a \$6.60 Price Target on these shares to provide more guidance to investors. Based on an 8-member comparable group of similar-stage oncology stocks (particularly targeting brain cancer), which include CytRx (CYTR, Not Rated), ImmunoCellular Therapeutics (IMUC, Not Rated), Inspyr Therapeutics (NSPX, Not Rated), Medicenna Therapeutics (MDNA, Not Rated), Merrimack Pharmaceuticals (MACK, Not Rated), Northwest Biotherapeutics (NWBO, Not Rated), Tocagen (TOCA, Not Rated), and Vascular Biologics (VBLT, Not Rated). DMPI shares currently trade at a considerable discount to others in this group. Using an average market capitalization of slightly less than \$90 million for our comparable group, we estimate a stock valuation of \$6.60 for DMPI shares, and therefore we are re-iterating our BUY rating on DMPI shares and initiating a 12-18 month price target of \$6.60 per share.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by DelMar with other companies in the industry, we believe an investment in DMPI involves the following risks:

- **Reliance on key management** – At present, DMPI relies on several key members of its management team who either founded the Company or have been in key executive positions for an extended period of time. Should one or more of these key executives leave the Company, DMPI could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on partnerships** – To date, DMPI has signed a number of development partnerships for its pharmaceutical technologies and products. Thus, in the future certain factors related to product commercialization and new product development may be determined by third parties and out of the control of Company management.
- **Limited stock liquidity** – Trading volume in DMPI stock is comparatively light and these shares have a relatively limited history of trading on major US stock exchanges compared with other healthcare

stocks. As such, news regarding DMPI, its target market, partners and/or competitors could lead to significant volatility in the stock price.

- **Competitive Markets** – The Company and its partners compete in its target pharmaceutical product markets with a number of companies, many of which are considerably larger than the Company. There can be no assurance that the Company and its partners will be able to successfully compete and launch new products into these competitive markets in the future.
- **FDA and regulatory risks** – DMPI and its partners are subject to regulatory review for its ongoing research and development activities, principally the US Food and Drug Administration's application processes. In addition, the quality assurance and manufacture of the Company's pharmaceutical products are subject to ongoing oversight and regulation, and any negative correspondence from the FDA or other regulatory agencies could have an adverse effect on the ongoing operations of the Company.
- **Lack of historic profitability** - DMPI has not achieved operating profitability on a quarterly basis for several years, and according to our forecasts may not be expected to do so in the near future. Although the Company maintains adequate cash reserves at the present time, there can be no assurance the Company will not need to raise additional working capital in the future should operating losses continue.
- **Need to defend patents and other intellectual property** – DMPI currently holds a number of US and International patents on its product develop candidates and related technologies, some of which expire in the near future. The Company may be required to defend its patents in the US and overseas in the future, and there can be no assurance these defenses will be successful.

DelMar Pharmaceuticals, Inc.
Consolidated Statements of Income
 (In 000s, except per share data)

FYE June	2015	1Q16 September	2Q16 December	3Q16 March	4Q16 June	2016	1Q17 September	2Q17 December	3Q17 March	4Q17E June	2017E	2018E
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Expenses												
Research and development	2,556	604	789	790	1,178	3,361	733	1,121	1,086	1,200	4,140	5,000
General and administrative	2,169	474	891	630	858	2,853	1,317	571	698	800	3,386	4,000
Other operating expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	4,725	1,078	1,680	1,421	2,036	6,214	2,049	1,692	1,784	2,000	7,526	9,000
Income (loss) from operations	(\$4,725)	(\$1,078)	(\$1,680)	(\$1,421)	(\$2,036)	(\$6,214)	(\$2,049)	(\$1,692)	(\$1,784)	(\$2,000)	(\$7,526)	(\$9,000)
Other loss (income)	377	(544)	(967)	280	(1,421)	(2,651)	(241)	370	(84)	(200)	(155)	(400)
Net income (loss) before taxes	(\$4,348)	(\$1,621)	(\$2,647)	(\$1,140)	(\$3,457)	(\$8,865)	(\$2,290)	(\$1,322)	(\$1,868)	(\$2,200)	(\$7,681)	(\$9,400)
Series B preferred stock dividend	0	0	0	0	0	0	(307)	(160)	(210)	0	(677)	0
Net income (loss) to common	(\$4,348)	(\$1,621)	(\$2,647)	(\$1,140)	(\$3,457)	(\$8,865)	(\$2,598)	(\$1,482)	(\$2,078)	(\$2,200)	(\$7,004)	(\$9,400)
Basic income per share	(\$0.46)	(\$0.15)	(\$0.24)	(\$0.10)	(\$0.32)	(\$0.81)	(\$0.20)	(\$0.12)	(\$0.18)	(\$0.15)	(\$0.58)	(\$0.65)
Diluted income per share	(\$0.46)	(\$0.15)	(\$0.24)	(\$0.10)	(\$0.32)	(\$0.81)	(\$0.20)	(\$0.12)	(\$0.18)	(\$0.15)	(\$0.58)	(\$0.65)
Basic shares outstanding	9,517	10,620	10,995	11,077	10,948	10,948	11,302	11,424	11,574	14,300	12,150	14,500
Diluted shares outstanding	9,517	10,620	10,995	11,077	10,948	10,948	11,302	11,424	11,574	14,300	12,150	14,500
Key ratios:												
Revenue growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
G &A/revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R&D/revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deprec, amort & non-cash comp.	(32)	600	1,200	640	1,400	3,840	875	(430)	360	460	1,265	2,000
Cash Flow/share	(\$0.46)	(\$0.10)	(\$0.13)	(\$0.05)	(\$0.19)	(\$0.46)	(\$0.13)	(\$0.15)	(\$0.13)	(\$0.12)	(\$0.47)	(\$0.51)
EBITDA/share	(\$0.46)	(\$0.10)	(\$0.13)	(\$0.05)	(\$0.19)	(\$0.46)	(\$0.13)	(\$0.15)	(\$0.13)	(\$0.12)	(\$0.53)	(\$0.51)

Balance Sheets

(\$000s)

Assets:	6/30/16	3/31/17
Current Assets		
Cash and equivalents	\$6,157	\$2,100
Taxes and other receivables	18	71
Prepaid expenses and other current assets	144	146
Total current	6,320	2,316
Intangibles and other long-term assets	36	24
Total Assets	\$6,356	\$2,341
Liabilities:		
Current liabilities		
Accounts payable and accrued liabilities	\$584	\$792
Related party payables	43	70
Current portion of derivative liability	0	157
Total current	627	1,019
Stock option liability	176	
Derivative liability	694	92
Total liabilities	1,497	1,111
Stockholders' equity	4,859	1,230
TOTAL LIAB & EQ	\$6,356	\$2,341

Quarterly Earnings Comparisons

	September	December	March	June	Total
Revenues (in \$Mill)					
2015					0
2016	0	0	0	0	0
2017E	0	0	0	0	0
Earnings per Share (diluted)					
2015					(\$0.46)
2016	(\$0.15)	(\$0.24)	(\$0.10)	(\$0.32)	(\$0.81)
2017E	(\$0.20)	(\$0.12)	(\$0.18)	(\$0.15)	(\$0.58)

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Updated – Buy – August 8, 2017 – Price Target \$6.60

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	9	69%	2	22%
Market Perform (Neutral)	0	0%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Ratings Suspension*	4	31%	4	100%
Total	13	100%	6	46%

*Suspensions are ratings under review for possible change due to unusual market-moving news, and/or analyst departure/change

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