

**DelMar (NASDAQ/DMPI)**
*September 18, 2019*
**BUY: Closes June Fiscal Year on an Optimistic Note**
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*DelMar management feels they now have enough capital on hand to both complete the enrollment in all arms in the U.S. trial (recurrent and adjuvant glioblastoma-GBM and the China front-line GBM trial), with data by December 2020 for both trials.*

**Investment Highlights**

**Funded Beyond Enrollment to Data.** Recall that on August 14<sup>th</sup>, DelMar announced the completion of a financial raise. Selling 6.750M shares, each with a warrant (5 years at \$1.00), generating gross proceeds to the company of approximately \$7.5M. DelMar's burn rate is modest at +/- \$1.5M per quarter. The capital should provide enough runway to see VAL-083 through key results in the China and U.S. trials.

**The China Trial – Front line GBM.** Sun Yat sen University Cancer Center hopes to evaluate the safety and efficacy of VAL 083 for n=30 newly diagnosed MGMT unmethylated GBM patients vs. historical controls (TMZ 6.9 months). We now assume the study has enrolled 20 of 30 patients. Data thus far is early but positive. For the fifteen patients who have received at least one assessment, eight patients were assessed with a best response of "Complete Response" (8/15, 53.3% CR) and seven patients were assessed with a best response of "Stable Disease" (7/15, 46.7% SD). As a reminder the Phase 2 trial is a single-arm, open-label study testing VAL-083 in combination with standard radiotherapy in GBM patients who have an unmethylated promoter of the methylguanine DNA-methyltransferase (MGMT) gene. The clinical trial in newly-diagnosed GBM patients is designed to determine if first-line treatment with VAL-083 plus radiotherapy can provide improvements over the historical efficacy of standard of care temozolomide (TMZ) plus radiotherapy. Efficacy will be measured based on tumor response to treatment, progression-free survival, progression-free survival at six months, and overall survival compared to historical results in the target population.

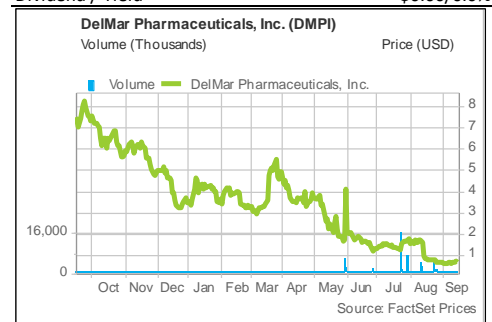
**The U.S. trial.** As a reminder DelMar recently announced that the first patient was enrolled in the adjuvant arm of the U.S. trial at MD Anderson. So, why is this important? Adding the adjuvant arm to the study is a game changer, in our opinion. The study can now provide early disease data on VAL-083 which is in contrast to those patients enrolling in the Company's original recurrent trial arm of the MDACC clinical study who have typically been heavily pre-treated with TMZ prior to disease recurrence). We note that in the recurrent setting, the trial (was previously) approved for up to 35 additional patients to this recurrent GBM study at a dose of 30 mg/m<sup>2</sup>, allowing for a total of up to 83 patients to be enrolled. To date, 56 recurrent patients have been enrolled. DelMar is actively enrolling patients for both trial arms of the clinical study at MDACC. As a reminder, the U.S. trial...is evaluating VAL-083 in MGMT-unmethylated patients in the Recurrent, Avastin naïve GBM (rGBM), post temozolomide failure setting. The primary endpoint of the trial is Median Overall Survival (mOS) at 3 months after the last enrolled patient vs. historical control.

<b>Current Price</b>	<b>\$0.65</b>
<b>Price Target</b>	<b>\$4.00</b>

Estimates	F2018A	F2019E	F2020E
<b>Expenses (\$000s)</b>	\$ 11,175	\$ 8,398	\$ 8,530
1Q March	\$ 2,679	\$ 2,006	\$ 2,047
2Q June	\$ 3,154	\$ 1,822	\$ 2,132
3Q September	\$ 2,935	\$ 1,671	\$ 2,132
4Q December	\$ 2,407	\$ 2,899	\$ 2,218
	F2018A	F2019E	F2020E
<b>EPS (diluted)</b>	\$ (0.87)	\$ (0.32)	\$ (0.14)
1Q March	\$ (0.09)	\$ (0.18)	\$ (0.04)
2Q June	\$ 0.08	\$ (0.05)	\$ (0.03)
3Q September	\$ (0.04)	\$ (0.04)	\$ (0.03)
4Q December	\$ (0.83)	\$ (0.04)	\$ (0.04)

EBITDA/Share	(\$0.53)	(\$0.09)	(\$0.07)
EV/EBITDA (x)	0.0	0.0	0.0

Stock Data		
52-Week Range	\$0.55	\$8.50
Shares Outstanding (mil.)		11.4
Market Capitalization (mil.)		\$7
Enterprise Value (mil.)		-\$2
Debt to Capital		0%
Book Value/Share		\$0.11
Price/Book		6
Average Three Months Trading Volume (K)		191
Insider Ownership		7.5%
Institutional Ownership		13.6%
Short interest (mil.)		1.6%
Dividend / Yield		\$0.00/0.0%



**Valuation. Our valuation is driven by our revenue projections for VAL-083 for its main indication in Glioblastoma Multiforme.** We do not model any revenues from this program until 2024 and project our model through the year 2030. Our models also factor in funding (dilution) using a fully diluted 2030 share count. We triangulate FCFF, discounted EPS, and sum-of-the-parts models. We then average and equally weight each model to derive an NPV, which is rounded to the nearest whole number to derive our target price. Investors should recognize that this modeling exercise, which models for ten years, while projected based on the current data and estimates, is limited in its ability to predict a 12-month target. The price of the stock will ultimately be driven near term by factors such as news flow, early trial data, and cyclic concerns of financings (dilution).

**Exhibit 1. Free Cash Flow Model.**

Average \$														4.00
Price Target \$														3
Year														2019

DCF Valuation Using FCF (mln):													
units ('000)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	20230E
EBIT	(11,138)	(8,048)	(8,530)	(8,615)	(8,701)	11,233	55,517	182,940	379,446	520,471	664,584	818,767	993,267
Tax Rate	0%	0%	0%	0%	5%	10%	20%	22%	24%	28%	29%	30%	31%
EBIT(1-t)	(11,138)	(8,048)	(8,530)	(8,615)	(8,266)	10,110	44,414	142,693	288,379	374,739	471,855	573,137	685,354
CapEx	-	-	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in NWC	-	-	-	-	-	-	-	-	-	-	-	-	-
FCF	(11,138)	(8,048)	(8,650)	(8,735)	(8,386)	9,990	44,294	142,573	288,259	374,619	471,735	573,017	685,234
PV of FCF	(6,591)	(3,663)	(3,029)	(2,353)	(1,737)	1,592	5,430	13,445	20,910	20,903	44,484	41,566	38,235
Discount Rate	30%												
Long Term Growth Rate	1%												
Terminal Cash Flow	2,386,505												
Terminal Value YE2030	133,163.58												
NPV	308,946												
NPV-Debt	-												
Shares out (thousands)	89,863	2030E											
NPV Per Share	\$	3											

Source: Dawson James

**Exhibit 2. Discounted-EPS Model.**

Current Year	2019
Year of EPS	2030
Earnings Multiple	10
Discount Factor	30%
Selected Year EPS	\$ 7.63
NPV	\$ 4

Source: Dawson James

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2030 EPS					
		5%	10%	15%	20%	25%	30%
Earnings Multiple	1	\$6.59	\$3.95	\$2.42	\$1.52	\$0.97	\$ 0.63
	5	\$32.95	\$19.75	\$12.11	\$7.58	\$4.84	\$ 3.14
	10	\$65.90	\$39.50	\$24.23	\$15.17	\$9.68	\$ 6.29
	15	\$98.84	\$59.25	\$36.34	\$22.75	\$14.52	\$ 9.43
	20	\$131.79	\$79.00	\$48.45	\$30.34	\$19.36	\$ 12.58
	25	\$164.74	\$98.76	\$60.56	\$37.92	\$24.20	\$ 15.72
	30	\$197.69	\$118.51	\$72.68	\$45.51	\$29.04	\$ 18.87
	35	\$230.64	\$138.26	\$84.79	\$53.09	\$33.88	\$ 22.01

Source: Dawson James

**Exhibit 3. Sum-of-the-Parts Model.**

Company: DMPi	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MM's	Term Val
VAL-083 USA	1%	30%	7	70%	\$878	\$3,026
NPV						\$1.88
VAL-083 China	1%	30%	5	70%	\$713	\$2,458
NPV						\$2.58
Net Margin						50%
MM Shrs OS (2030E)						90
Total						\$4

Source: Dawson James

## Risk Analysis

**Clinical and regulatory risk.** DelMar Pharmaceuticals is currently in Phase 2 clinical trials in both applications of its pipeline product focused on MGMT-unmethylated GBM. There is no assurance that their product will be approved for any additional indications and even if approved, will be reimbursed by insurance or successfully commercialized.

**Commercial risk.** The focus of the company is on successfully developing their products and eventually bring them to the mass market. It is important to note that the market opportunity in MGMT-unmethylated GMB is large and if successful VAL-083 may be introduced to the market for multiple cancer applications. We can make no assurances that the company will be able to achieve a critical level of market share to become profitable in this indication and or in additional planned indications.

**Employee risk.** DelMar Pharmaceuticals has an experienced management team in their President and CEO, CSO, and CFO. DelMar Pharmaceuticals plans to bring their proposed products to reality. DelMar Pharmaceuticals' success will depend, to a great extent, upon the experience, abilities and continued services of its senior officers, sales staff, and key scientific personnel.

**Financial risk.** The company may need to raise capital in the marketplace relatively soon, and there can be no assurances that the company will be able to successfully raise capital and do so on favorable terms.

**Intellectual property risk.** The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and the company may infringe on third party's patents.

**Reimbursement and insurance payment risk.** Insurance payment for products may be an additional hurdle for adoption.

**Exhibit 4. Income Statement**

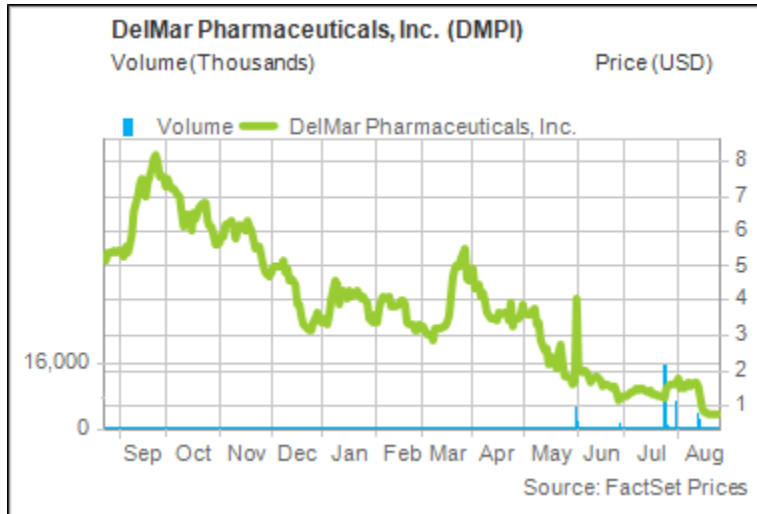
Delmar Pharmaceuticals Inc. (DMP): Income Statement ('000)	6. 2018 YE	1Q19A	2Q19A	3Q19A	4Q19A	6. 2019 A	6. 2020 YE	6. 2021 YE	6. 2022 YE	6. 2023 YE	6. 2024 YE	6. 2025 YE	6. 2026 YE	6. 2027 YE	6. 2028 YE	6. 2029 YE	6. 2030 YE
FYE-Jun 30	6.2018	3Q18A	4Q18A	1Q19A	2Q19A	6.2019 A	6.2020E	6.2021	6.2022	6.2023	6.2024	6.2025	6.2026	6.2027	6.2028	6.2029	6.2030
<b>Revenue (\$000)</b>																	
VAL-083 U.S.										0	0	27,397	101,459	204,947	329,313	456,146	614,277
VAL-083 China										22,244	70,657	184,931	329,298	382,597	418,449	463,024	498,876
License Fees and Royalties (China sales)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Product Sales</b>	-	-	-	-	-	-	-	-	-	22,244	70,657	212,327	430,758	587,544	747,762	919,170	1,113,153
<b>Total Revenue</b>	-	-	-	-	-	-	-	-	-	22,244	70,657	212,327	430,758	587,544	747,762	919,170	1,113,153
<b>Expenses</b>																	
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	2,224	7,066	21,233	43,076	58,754	74,776	91,917	111,315
COGS % of revenue								10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Sales, General and administrative expenses	4,042	986	875	936	1,940	4,736	4,831	4,879	4,928	4,978	5,027	5,078	5,128	5,180	5,231	5,284	5,337
SG&A % of revenue																	
Research and Development	7,133	1,019	947	736	960	3,662	3,699	3,736	3,773	3,811	3,849	3,887	3,926	3,965	4,005	4,045	4,086
R&D % of revenue																	
Non-GAAP, Adj																	
<b>Total expenses</b>	11,175	2,005.59	1,822.13	1,671	2,899	8,398	8,530	8,615	8,701	11,013	15,143	29,391	51,316	67,077	83,182	100,406	119,890
<b>Oper. Inc. (Loss)</b>	(11,175)	(2,006)	(1,822)	(1,671)	(2,899)	(8,398)	(8,530)	(8,615)	(8,701)	11,231	55,514	182,936	379,442	520,468	664,581	818,764	993,263
Change in fair value of derivative liability	60	0	1	2	(437)	(434)	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative liability due to change in warrant terms					126	126											
Issuance of shares to Valent																	
Loss on exchange of warrants																	
Foreign exchange gain	(57)	(6)	(5)	(6)	35	18	-	-	-	-	-	-	-	-	-	-	-
Interest expense																	
Interest income	33	20	16	13	(110)	(61)	-	-	-	-	-	-	-	-	-	-	-
<b>Total non-operating income</b>	36	14	12	9	(386)	(350)	-	-	-	-	-	-	-	-	-	-	-
<b>Pretax Income</b>	(11,138)	(1,991)	(1,810)	(1,652)	(3,672)	(8,048)	(8,530)	(8,615)	(8,701)	11,233	55,517	182,940	379,446	520,471	664,584	818,767	993,267
Income Tax Benefit (Provision)		-	-	-	-	-	-	-	(435)	1,123	11,103	40,247	91,067	145,732	192,729	245,630	307,913
Tax Rate									5%	10%	20%	22%	24%	28%	29%	30%	31%
<b>GAAP Net Income (loss)</b>	(11,281)	(1,991)	(1,810)	(1,652)	(3,672)	(8,048)	(8,530)	(8,615)	(8,266)	10,110	44,414	142,693	288,379	374,739	471,855	573,137	685,354
Preferred stock dividend	176.24	36.09	16.19		28.16	80.43											
<b>Net and comprehensive loss available to common stockholders</b>	(11,315)	(2,027)	(1,826)	(1,652)	(3,672)	(8,129)	(8,530)	(8,615)	(8,266)	10,110	44,414	142,693	288,379	374,739	471,855	573,137	685,354
<b>GAAP-EPS</b>	(0.55)	(0.09)	(0.07)	(0.05)	(1.07)	(3.16)	(0.42)	(0.22)	(0.20)	0.24	1.06	3.38	6.81	8.82	11.06	13.38	15.93
Non GAAP EPS (dil)	(0.55)	(0.09)	0.08	(0.04)	(0.83)	(3.16)	(0.32)	(0.14)	(0.13)	0.15	0.63	1.94	3.76	4.70	5.68	6.64	7.63
Wgtd Avg Shrs (Bas) - '000s	20,861	22,969	24,242	34,266	3,430	2,575	23,881	39,004	41,667	41,834	42,002	42,170	42,339	42,509	42,679	42,850	43,022
Wgtd Avg Shrs (Dil) - '000s	20,861	22,969	24,242	44,266	4,431	2,575	38,896	60,332	65,358	68,012	70,773	73,647	76,637	79,749	82,987	86,357	89,863

Source: Dawson James estimates.

Companies mentioned in this report:

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past three years:

- Initiation - June 6, 2017 – Buy – Price target 20% (12-18 months)
- Update – August 8, 2017 – Buy – Price target \$6.60
- Transfer – July 11, 2019 - Buy - \$4.00
- Update – July 15, 2019 – Buy \$4.00
- Update – July 24, 2019 – Buy \$4.00
- Update – July 31, 2019 – Buy \$4.00
- Update – August 27, 2019 – Buy \$4.00
- Update – September 18, 2019 – Buy \$4.00

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	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	28	85%	5	18%
Market Perform (Neutral)	5	15%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	33	100%	5	15%

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