DelMar Pharmaceuticals, Inc. (OTCQB: DMPI, Target Price: $4.53)

We initiated coverage on DelMar Pharmaceuticals, Inc. ("DMPI") in January 2014, with a price target of $4.53 per share. DMPI is a biotechnology company focused on the development and commercialization of well-validated anti-cancer therapies in orphan drug indications where patients are failing modern targeted or biologic treatments. Their lead compound, VAL-083, is a potential new treatment for glioblastoma multiforme ("GBM"), the most common and aggressive form of brain cancer. On February 26, 2014, DMPI provided an update on the company's ongoing Phase I/II clinical trial for VAL-083 in GBM.

Stock Details (03/03/14)

OTCQB:	DMPI
Sector / Industry	Healthcare / Biotechnology
Price target	**$4.53**
Recent share price	$1.45
Shares o/s (mn)	31.5
Market cap (in $mn)	45.7
52-week high/low	$2.50 / $0.75

Source: Thomson Reuters, SeeThruEquity Research

Key Financial ($mn, unless specified)

	FY12	FY13E	FY14E
Revenues	0.0	0.0	0.8
EBITDA	(2.7)	(6.6)	(5.3)
EBIT	(2.7)	(6.6)	(5.3)
Net Income	(2.4)	(8.9)	(5.3)
EPS ($)	(0.18)	(0.31)	(0.17)

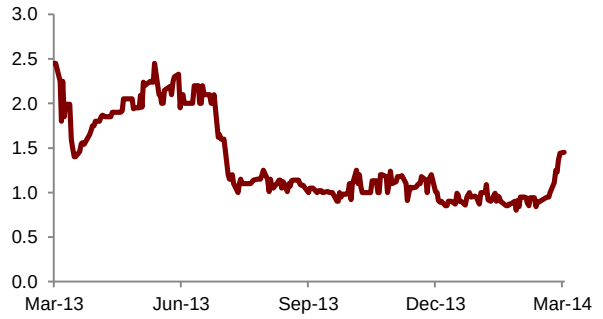
Source: SeeThruEquity Research

Key Ratios

	FY12	FY13E	FY14E
Gross margin (%)	NM	NM	NM
Operating Margin (%)	NM	NM	NM
EBITDA margin (%)	NM	NM	NM
Net margin (%)	NM	NM	NM
P/Revenue (x)	NM	NM	42.0
EV/EBITDA (x)	(9.9)	(4.0)	(5.1)
EV/Revenue (x)	NM	NM	35.5

Source: SeeThruEquity Research

Share price performance ($, LTM)



Source: Thomson Reuters

Trial Highlights

Dose escalation Cohorts continue to enroll on schedule

When DMPI last presented VAL-083 interim clinical data, in November 2013 at the 18th Annual Society for NeuroOncology ("SNO") meeting, it announced that enrollment of Cohort 5 (20mg/m2) was expected to commence in December 2013, subject to completion of the mandated safety observation period for Cohort 4 (10mg/m2). DMPI has now announced that enrollment of Cohort 5, including a mandatory safety observation period, has been completed. VAL-083 was well tolerated by patients treated in the study with no significant adverse events or dose limiting toxicity reached. DMPI reports that while clinical observations of Cohort 5 are currently ongoing, it has now begun enrollment for Cohort 6 (30mg/m2).

Last fall, DMPI announced that following an extensive safety review, the FDA had granted allowance to implement a more rapid dose-escalation scheme in the clinical trial. CEO Jeffrey Bacha had previously noted at SNO that accelerating dose escalation is not expected to significantly alter the duration of the Phase I/II trial. However, DMPI will treat fewer patients at sub-optimal doses and reach doses more likely to achieve meaningful patient benefit in a more cost efficient manner. DMPI remains on track with their dose escalation timeline and we still see the advancement of VAL-083 toward registration directed trials in refractory glioblastoma in 1H14E.

Delivering higher doses of VAL-083 than prior clinical studies

In prior National Cancer Institute ("NCI")-sponsored studies, a cumulative VAL-083 dose of 125mg/m2 delivered in a 33 day cycle in combination with radiation was demonstrated to be superior to radiation alone (Eagan et al. 1979). In a comparative 33-day cycle, Cohort 6 of DMPI's dosing regimen will deliver a total of 180/mg2, taking advantage of higher drug concentration and exposure to the tumor. In the NCI-sponsored studies, more than 40% of patients treated with VAL-083 achieved tumor regression and an additional 20% - 30% demonstrated stabilization. Reaching the 30mg/m2 dose cohort is an important clinical milestone in the development of VAL-083, as DMPI is hopeful that taking advantage of a higher concentration and higher exposure in comparison to the NCI regimen will produce improved patient outcomes and position VAL-083 as a promising new treatment option for GBM patients who have failed other available therapies.

Maintain price target of $4.53

We maintain our price target of $4.53 for DMPI. This represents 212% upside potential from the recent market price of $1.45.

QUARTERLY FINANCIAL SUMMARY

Figure 1. Income Statement Summary

Figures in $'000, unless specified	3Q13	3Q12
Operating expenses	**1,301**	**448.2**
YoY growth	190%	
Interest and other	**8,095**	**20.4**
YoY growth	NM	
Net income	**6,794**	**(427.8)**
YoY growth	NM	
Diluted EPS	**$0.16**	**$(0.03)**
YoY growth	NM	

Source: Company Earnings Release, SeeThruEquity Research

ADDITIONAL NOTES

DMPI provides update on VAL-083 glioblastoma clinical trial

- DMPI has completed enrollment of VAL-083 dose Cohort 5 (20mg/m2) and advanced to Cohort 6 (30mg/m2), in line with previous timelines set out by management.
- Enrollment of Cohort 5, including a mandatory safety observation period, has been completed. VAL-083 was well tolerated by patients treated in the study with no significant adverse events or dose limiting toxicity (DLT) reached. The maximum tolerated dose ("MTD") for VAL-083 has not yet been achieved. While clinical observations of Cohort 5 are ongoing, DMPI has now begun enrollment for Cohort 6 (30mg/m2).
- DMPI is on track to deliver higher doses of VAL-083 than have been used in prior clinical studies.In prior National Cancer Institute ("NCI")-sponsored studies, a cumulative VAL-083 dose of 125mg/m2 delivered in a 33 day cycle in combination with radiation was demonstrated to be superior to radiation alone (Eagan et al. 1979). In a comparative 33-day cycle, Cohort 6 of DMPI's dosing regimen will deliver a total of 180/mg2, taking advantage of higher drug concentration and exposure to the tumor.
- In the NCI-sponsored studies, more than 40% of patients treated with VAL-083 achieved tumor regression and an additional 20% - 30% demonstrated stabilization. Reaching the 30mg/m2 dose cohort is an important clinical milestone in the development of VAL-083, as DMPI is hopeful that taking advantage of a higher concentration and higher exposure in comparison to the NCI regimen will produce improved patient outcomes and position VAL-083 as a promising new treatment option for GBM patients who have failed other available therapies.
- DMPI will present updated interim clinical data, including available data from Cohort 6, at the upcoming American Association of Cancer Research (AACR) Annual Meeting, which is being held April 5 – 9 in San Diego, CA.
- DMPI's Phase I/II study is an open-label, single arm dose-escalation study designed to evaluate the safety, tolerability, pharmacokinetics and anti-tumor activity of VAL-083 in patients with recurrent GBM. Patients in the trial must have been previously treated for GBM with surgery and/or radiation and must have failed both Avastin® and Temodar®, unless either or both are contra-indicated. Subject to continued progress, DelMar anticipates completing the dose-escalation portion of its current clinical trial in mid-2014. The goal of the dose-escalation portion of the trial is to determine an appropriate dosing regimen for advancement into future registration-directed trials.

Maintaining price target of $4.53

- We initiated coverage of DMPI on January 8, 2014 with a $4.53 price target.
- We find this trial update very encouraging, as DMPI remains on track with their dose-escalation study and overall clinical trial program for VAL-083. We anticipate DMPI advancing VAL-083 toward registration directed trials in refractory glioblastoma in 1H14E. DMPI has previously stated that it anticipates the directed trials to be open label studies of 80-100 patients, with PFS6 & radiographic response as primary endpoints. This open label format would enable the presentation of interim data at key conferences in 2014, including AACR, ASCO and SNO.

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