

RICHTER

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Court File No. CV-18-603054-00CL

**FIFTH REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

December 4, 2018

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**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

**FIFTH REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

DECEMBER 4, 2018

I. INTRODUCTION

1. On August 10, 2018 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Initial Order**”) granting Aralez Pharmaceuticals Inc. (“**API**”) and Aralez Pharmaceuticals Canada Inc. (“**Aralez Canada**” and together with API, the “**Companies**”) protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing Richter Advisory Group Inc. (“**Richter**”) as Monitor of the Companies in the CCAA proceedings (the “**Monitor**”). The Initial Order provided the Companies with a stay of proceedings until September 7, 2018 (the “**Stay Period**”). The Companies’ CCAA proceedings are referred to herein as the “**CCAA Proceedings**”.
2. Also on the Filing Date, Aralez Pharmaceuticals Management Inc., Aralez Pharmaceuticals R&D Inc., Aralez Pharmaceuticals U.S. Inc., POZEN Inc. (“**Pozen**”), Halton Laboratories LLC, Aralez Pharmaceuticals Holdings Limited and Aralez Pharmaceuticals Trading DAC (“**Aralez DAC**” and collectively with each of the foregoing entities, the “**Chapter 11 Entities**”, and with the Companies, collectively the “**Aralez Entities**”) each filed voluntary petitions with the United States Bankruptcy Court for the Southern District of New York (the “**U.S. Court**”) for relief under title 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1532 (the “**Chapter 11 Proceedings**”).
3. On September 5, 2018, the Court issued the Amended and Restated Initial Order (the “**Amended Initial Order**”), which incorporated certain amendments to the Initial Order granted on August 10, 2018. On September 5, 2018, the Court also issued an order extending the stay of proceedings in respect of the Companies to November 14, 2018.
4. On October 10, 2018, the Court granted orders approving, among other things:
 - (i) the proposed sales process (the “**Sales Process**”), including the bidding procedures (the “**Bidding Procedures**”) and bid protections to be used in connection with the Sales Process (the “**Sales Process Order**”);
 - (ii) the share purchase agreement (the “**Canadian Stalking Horse Agreement**”) dated September 18, 2018, between the Companies and Nuvo Pharmaceuticals Inc. (“**Nuvo**”) for the sale of all of the shares of Aralez Canada (the “**Canadian Assets**”), which would serve as a stalking horse bid as part of the Sales Process;
 - (iii) the procedure (the “**Claims Procedure**”) to solicit claims (the “**Claims Procedure Order**”) against the Companies and any of the Companies’ current and former directors and officers; and
 - (iv) an extension of the stay of proceedings in respect of the Companies to December 7, 2018.

5. On October 25, 2018, the Court granted an order approving a cross-border insolvency protocol (the “**Cross-Border Protocol**”) to provide coordination and cooperation between the Court and the U.S. Court overseeing the Chapter 11 Proceedings.
6. On November 16, 2018, the Court granted an order approving, among other things, the Companies’ proposed key employee retention plan (the “**KERP**”). On November 28, 2018, the Court granted an order approving the Companies’ proposed key executive incentive plan (the “**KEIP**”) and granting a charge in favour of the participants under the KERP and the KEIP, including the priority ranking thereto.
7. Richter, in its capacities as Proposed Monitor and Monitor, has previously provided this Court with five reports. A copy of the report of the Proposed Monitor dated August 10, 2018 (the “**Pre-Filing Report**”), the first report of Monitor dated August 30, 2018 (the “**First Report**”), the second report of Monitor dated October 5, 2018 (the “**Second Report**”), third report of Monitor dated October 23, 2018 (the “**Third Report**”), and fourth report of Monitor dated November 14, 2018 (the “**Fourth Report**”), are attached hereto (without appendices) as **Appendices “A”, “B”, “C”, “D”, and “E”**, respectively.
8. Copies of the Amended Initial Order and copies of other material documents pertaining to the CCAA Proceedings are available on the Monitor’s website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>.

II. PURPOSE OF REPORT

9. The purpose of this report of the Monitor (the “**Fifth Report**”) is to provide information to the Court pertaining to:
 - (i) an overview of the activities of the Monitor since the date of the Fourth Report;
 - (ii) the Companies’ reported receipts and disbursements for the period from October 20, 2018, to November 23, 2018, including a comparison of reported to forecast results;
 - (iii) the Companies’ revised cash flow forecast (the “**Revised Cash Flow Forecast**”) for the period from November 24, 2018, to February 1, 2019 (the “**Forecast Period**”);
 - (iv) the results of the Sales Process;
 - (v) an overview of the proposed transaction (the “**Transaction**”) between the Companies and Nuvo for the Canadian Assets pursuant to the Share Purchase Agreement (as defined hereafter);
 - (vi) an update on the Claims Procedure;
 - (vii) the termination of the CCAA Proceedings as against Aralez Canada;
 - (viii) the Companies’ request for an extension of the Stay Period to February 1, 2019; and

- (ix) the Monitor's support for the Companies' request that this Court grant Orders:
- (a) approving the Transaction contemplated by the Canadian Stalking Horse Agreement between the Companies and Nuvo;
 - (b) approving the Pre-Closing Reorganization (as defined hereinafter) and authorizing the Companies to complete any steps or transactions necessary to consummate the Pre-Closing Reorganization;
 - (c) vesting in Nuvo, upon the closing of the Transaction, API's right, title and interest in and to all of the shares in the capital of Aralez Canada;
 - (d) terminating the CCAA Proceedings and discharging Richter as Monitor in respect of Aralez Canada, effective upon the filing of the Monitor's Certificate upon the closing of the Transaction;
 - (e) terminating, releasing and discharging the Charges (as defined in the Amended Initial Order) as against Aralez Canada and its property;
 - (f) discharging and releasing any liabilities and obligations of Aralez Canada to Deerfield (as defined below), API, or any of the other Aralez Entities;
 - (g) forever barring and releasing any Claims not filed prior to the Claims Bar Date or the Restructuring Claims Bar Date (as each of those terms is defined below), as applicable, or determined not be a valid Claim, as against Aralez Canada, its property, and its directors and officers; and
 - (h) approving the Pre-Filing Report, the First Report, the Second Report, the Third Report, the Fourth Report, the Fifth report, and the activities, actions and the conduct of the Monitor set out therein.

III. TERMS OF REFERENCE

10. In preparing this Fifth Report, the Monitor has relied solely on information and documents provided by the Aralez Entities and their financial advisor, Alvarez & Marsal Canada Inc. and Alvarez & Marsal Healthcare Industry Group LLC (collectively, "**A&M**"), including unaudited financial information, declarations and affidavits of the Companies' executives and other information from the Companies' financial advisor (collectively, the "**Information**"). In accordance with industry practice, Richter has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants of Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

11. Unless otherwise stated, all monetary amounts noted herein are expressed in United States dollars, which is the Companies' common reporting currency.
12. Capitalized terms used but not defined in this Fifth Report are defined in the Canadian Stalking Horse Agreement or the Affidavit of Mr. Adrian Adams sworn November 29, 2018 (the "**November 29 Adams Affidavit**") filed in support of the within motion. This Fifth Report should be read in conjunction with the November 29 Adams Affidavit, as certain information contained in the November 29 Adams Affidavit has not been included herein in order to avoid unnecessary duplication.

IV. ACTIVITIES OF THE MONITOR

13. Since the date of the Fourth Report, the Monitor's activities have included:
 - (i) monitoring of the Companies' cash flows and reviewing analyses on variances to the Companies' cash flow forecast;
 - (ii) approving the payment of certain pre-filing obligations of the Companies pursuant to the terms of the Amended Initial Order;
 - (iii) dealing with the Companies, A&M, and other stakeholders, and attending at Court, in connection with the motion to approve the KEIP, the KERP and the Key Employees Charge;
 - (iv) attending at the Companies' premises and meeting with the Companies' management to discuss the Companies' operations and the CCAA Proceedings;
 - (v) corresponding and communicating extensively with the Companies and their advisors with respect to the Canadian Assets and the Sales Process, and with respect to other potential sale transactions;
 - (vi) corresponding and communicating with Deerfield Private Design Fund III, L.P. and Deerfield Partners, L.P. (collectively, "**Deerfield**" or the "**DIP Lender**") and its legal counsel;
 - (vii) corresponding and communicating with the Monitor's legal counsel, Torys LLP ("**Torys**");
 - (viii) monitoring the Chapter 11 Proceedings and matters of interest to the Companies in the Chapter 11 Proceedings;
 - (ix) responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings, the Claims Process and the KEIP and KERP;
 - (x) attending to administrative matters, including maintaining the Monitor's website in respect of the CCAA Proceedings;
 - (xi) preparing this Fifth Report; and

(xii) otherwise monitoring and assisting the Companies in the performance of their operations.

V. CASH RECEIPTS AND DISBURSEMENTS FROM OCTOBER 20, 2018, TO NOVEMBER 23, 2018

14. The Companies' consolidated cash flow projection for the period from September 29, 2018, to December 7, 2018 (the "**September 29 Cash Flow Forecast**"), was filed with the Court in support of the Companies' application returnable October 10, 2018, seeking, *inter alia*, an extension of the Stay Period.
15. The Companies have continued to provide the Monitor with their co-operation and access to their premises, books and records. The Monitor has implemented procedures for monitoring the Companies' receipts and disbursements on a weekly basis. The Monitor, with the assistance of A&M, has also worked with the Companies to prepare forecast to actual variance analyses with respect to their weekly cash flows as compared to the September 29 Cash Flow Forecast.
16. A comparison of the Companies' actual cash receipts and disbursements as compared to the September 29 Cash Flow Forecast for the period from September 29, 2018, to October 19, 2018, was included in the Third Report and is not repeated herein. A comparison of the Companies' actual to forecast results for the subsequent 5-week period ending November 23, 2018, is summarized as follows:

Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. Cash Flow Variance Analysis For the Period October 20 to November 23, 2018			
<i>(C\$ in Millions)</i>	Forecast	Actual	Variance
OPERATING RECEIPTS			
Net Sales Receipts	\$2.7	\$3.5	\$0.8
Net Operating Receipts	\$2.7	\$3.5	\$0.8
OPERATING DISBURSEMENTS			
Inventory Purchases	(\$2.2)	(\$0.3)	\$1.9
Royalty Payments	(2.0)	(1.0)	1.0
Payroll Related Expenses	(0.6)	(0.6)	0.0
Operating Expenses	(0.9)	(0.9)	0.0
Rent	(0.0)	(0.0)	0.0
API Operating Expenses	(0.6)	(0.0)	0.6
Total Operating Disbursements	(\$6.5)	(\$3.0)	\$3.5
NET OPERATING CASH FLOW	(\$3.8)	\$0.5	\$4.3
NON-OPERATING DISBURSEMENTS			
Professional Fees	(\$1.1)	(\$0.5)	0.6
Total Non-Operating Disbursements	(\$1.1)	(\$0.5)	\$0.6
Net Operating and Non-Operating Cash Flow	(\$4.9)	(\$0.0)	\$4.9
DIP Drawdown	\$4.5	\$0.0	(\$4.5)
Total Net Cash Flow	(\$0.3)	(\$0.0)	\$0.3
CASH BALANCE			
Beginning Balance	\$3.6	\$5.5	\$1.9
Total Net Cash Flow	(0.3)	(0.0)	0.3
Ending Balance	\$3.3	\$5.5	\$2.2

17. As reflected in the summary table above, the Companies reported a break-even net cash flow over the period, and the Companies had a cash balance of approximately CAD\$5.5 million, as at November 23, 2018. The actual cash balance was approximately CAD\$2.2 million higher than forecast.
18. The favourable cash flow variance of approximately CAD\$2.2 million principally relates to:
 - (i) Permanent differences due to: (a) higher than forecasted sales; (b) lower than anticipated operating expenses relating to API; and (c) certain contingencies or reserves included in the September 29 Cash Flow Forecast for payment of certain pre-filing amounts that have not proven to be necessary during the period, and which have been excluded from the Revised Cash Flow Forecast; and
 - (ii) Timing differences associated with lower than anticipated inventory purchases, royalty payments and professional fees. The Monitor understands that these favourable variances may reverse in the coming weeks.
19. In accordance with the Amended Initial Order, any payments made by the Companies for expenses incurred prior to the Filing Date were made in consultation with the Monitor and the DIP Lender. These expenses were determined by the Companies to be necessary for the continued operation of the business or essential for the preservation of value for the Sales Process. As at November 23, 2018, the Companies have made approximately CAD\$1.2 million in payments relating to expenses incurred prior to the Filing Date, which is less than had been forecasted by the Companies over the same period, as discussed below.

VI. REVISED CASH FLOW FORECAST

20. Pursuant to the Canada DIP Credit Agreement, the Companies were required to provide an updated cash flow forecast to the DIP Lender prior to December 1, 2018, in a form acceptable to the DIP Lender. The Companies, with the assistance of A&M and in consultation with the Monitor, prepared the Revised Cash Flow Forecast, representing a revised forecast of its receipts, disbursements and financing requirements during the Forecast Period.
21. For purposes of the Revised Cash Flow Forecast, the Companies have assumed that operations will continue in the normal course, although the Monitor notes that it is currently contemplated that, if approved by the Court, the Transaction will close during the Forecast Period, at which time, the Purchaser would control Aralez Canada's operations and the CCAA proceedings in respect to Aralez Canada would terminate. The Monitor understands from its discussions with the Companies and A&M that the Revised Cash Flow Forecast was approved by the DIP Lender on or about November 30, 2018.

22. A copy of the Revised Cash Flow Forecast, including the notes and assumptions thereto, together with Management's Report on the Revised Cash Flow Forecast is attached hereto as **Appendix "F"** and is summarized below:

Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. 10-Week Cash Flow Forecast For the Period Ending February 1, 2019	
<i>(C\$ in Millions)</i>	
OPERATING RECEIPTS	
Net Sales Receipts	\$5.1
Other Receipts	0.0
Net Operating Receipts	\$5.1
OPERATING DISBURSEMENTS	
Inventory Purchases	(2.8)
Royalty Payments	(1.0)
Payroll Related Expenses	(1.2)
Operating Expenses	(2.3)
Rent	(0.1)
API Operating Expenses	(1.0)
Total Operating Disbursements	(\$8.4)
NET OPERATING CASH FLOW	(\$3.3)
NON-OPERATING DISBURSEMENTS	
Professional Fees	(2.8)
Total Non-Operating Disbursements	(\$2.8)
Net Operating and Non-Operating Cash Flow	(\$6.1)
DIP Drawdown	3.2
Total Net Cash Flow	(\$2.9)
CASH BALANCE	
Beginning Balance	\$5.5
Total Net Cash Flow	(2.9)
Ending Balance	\$2.6

23. As noted, the Companies had approximately CAD\$5.5 million of cash on hand as at November 23, 2018. The Revised Cash Flow Forecast projects that the Companies will experience a net cash outflow, prior to any DIP draws, of approximately CAD\$6.1 million over the Forecast Period, comprised of:
- (i) cash receipts of approximately CAD\$5.1 million, primarily related to the collection of existing receivables and new sales generated from the product portfolio of Aralez Canada; and
 - (ii) cash disbursements of approximately CAD\$11.2 million, primarily related to procurement of post-filing inventory, royalties, payroll and benefits and operating expenses, as well as the costs of the CCAA Proceedings.
24. The Revised Cash Flow Forecast projects borrowings under the Canada DIP Credit Agreement in the amount of CAD\$3.2 million over the Forecast Period, which will result in an ending cash balance of approximately CAD\$2.6 million as at February 1, 2019.

25. The Monitor is of the view that the material assumptions supporting the Revised Cash Flow Forecast are reasonable in the circumstances. The Monitor's Report on the Revised Cash Flow Forecast is attached hereto as **Appendix "G"**.

VII. SALES PROCESS

The Stalking Horse Agreements

26. As described in greater detail in the Second Report, the Companies and Nuvo entered into the Canadian Stalking Horse Agreement on September 18, 2018, pursuant to which Nuvo has agreed to purchase the Canadian Assets, subject to higher or otherwise better offers, and approval of the Court.
27. Concurrently with the execution of the Canadian Stalking Horse Agreement, certain of the Chapter 11 Entities entered into agreements to sell certain of the assets of the Aralez Entities in the U.S., as follows:
- (i) Nuvo Pharmaceuticals (Ireland) Limited (the "**Vimovo Purchaser**"), an affiliate of the Canadian Stalking Horse Bidder, entered into an agreement (the "**Vimovo Stalking Horse Agreement**") with Pozen and Aralez DAC for the purchase of, among other things, Vimovo-related royalties (the "**Vimovo Assets**") for the purchase price of \$47,500,000; and
 - (ii) Toprol Acquisition LLC (the "**Toprol Purchaser**" and together with the Vimovo Purchaser and the Canadian Stalking Horse Bidder, the "**Stalking Horse Bidders**"), an affiliate of Deerfield, entered into an agreement (the "**Toprol Stalking Agreement**" and together with the Vimovo Stalking Horse Agreement and the Canadian Stalking Horse Agreement, the "**Stalking Horse Agreements**") with Aralez DAC for the purchase of, among other things, the Toprol-XL Franchise (the "**Toprol Assets**" and together with the Vimovo Assets and the Canadian Assets, the "**Purchased Assets**") for consideration of \$130,000,000 through a credit bid of Deerfield's outstanding advances to the Aralez Entities.
28. The Companies were not parties to either the Vimovo Stalking Horse Agreement or the Toprol Stalking Horse Agreement, but the Canadian Stalking Horse Agreement and the Vimovo Stalking Horse Agreement were cross-conditioned on one another, meaning that the Canadian Stalking Horse Bidder had the right to terminate the Canadian Stalking Horse Agreement in the event the Vimovo Purchaser is not the Successful Bidder (as defined hereinafter) with respect to the Vimovo Assets.

Results of the Sales Process

29. The Sales Process provided for an orderly and competitive process through which potential acquirers could submit higher or otherwise better offers to the Stalking Horse Agreements, pursuant to the Bidding Procedures. The key aspects of the Sales Process and its results are summarized as follows:

- (i) commencing upon the issuance of the Sales Process Orders, the Aralez Entities, with the assistance of Moelis, contacted 156 potential acquirers (the “**Potential Bidders**”), including approximately 30 financial parties, with regards to the opportunity to acquire some or all of the Purchased Assets and to advise of the Sales Process. The Monitor understands, based on discussions with Moelis, that the Potential Bidders included parties previously contacted by Moelis as part of the pre-filing marketing process. Further, each Potential Bidder received an email outlining the key dates pursuant to the Bidding Procedures, a copy of the non-disclosure agreement (“**NDA**”), and a non-confidential overview of the Aralez Entities and the Purchased Assets;
- (ii) Potential Bidders interested in obtaining additional information regarding the Purchased Assets were required to execute the NDA to obtain a confidential information memorandum on the Aralez Entities and access to the electronic data rooms (the “**Data Rooms**”) maintained by the Aralez Entities and Moelis. A total of 24 parties executed the NDA (the “**Interested Parties**”);
- (iii) each Data Room contained financial, operational and other data of the applicable Aralez Entities, as well as an electronic version of the applicable Stalking Horse Agreement, and in the case of the Data Room for the Canadian Assets, a copy of the Disclosure Letter provided by API to the Canadian Stalking Horse Bidder;
- (iv) throughout the course of the Sales Process, the Aralez Entities, through Moelis and/or their Canadian legal counsel, provided periodic updates to the Monitor on the status of the Sales Process. The Monitor understands, based on discussions with Moelis, that the other Consultation Parties, including the Official Committee of Unsecured Creditors (the “**UCC**”) appointed in the Chapter 11 Proceedings, also received regular updates on the status of the Sales Process. Further, the Monitor understands that the Aralez Entities, with the assistance of its advisors, facilitated due diligence efforts by, among other things, providing management presentations to Interested Parties, as requested;
- (v) Interested Parties were required to submit “Qualified Offers” to the Notice Parties on or before 5pm EST on November 26, 2018 (the “**Bid Deadline**”); and
- (vi) no offers were submitted to the Notice Parties in respect of the Canadian Assets on or before the Bid Deadline. As a result, on November 29, 2018, the Companies advised Nuvo (hereinafter referred to as the “**Purchaser**”) that it was the only “Qualified Bidder”, and the Canadian Stalking Horse Agreement

(hereinafter referred to as the “**Share Purchase Agreement**”) was declared the “Successful Bid”, in respect of the Canadian Assets.

30. The Monitor notes that two offers were received prior to the Bid Deadline in the Chapter 11 Proceedings, one in respect of the Vimovo Assets and the other in respect of the Toprol Assets. The offer for the Toprol Assets was determined not to be a “Qualified Bid” pursuant to the Bidding Procedures. The offer for the Vimovo Assets, submitted by PDL BioPharma, Inc. (“**PDL**”), was determined to be a Qualified Bid; however, after consultation with the Consultation Parties in the U.S., the Aralez Entities determined not to conduct an Auction. On November 29, 2018, the Chapter 11 Entities issued a notice declaring the Toprol Purchaser as the “Successful Bidder” with respect to the Toprol Assets and the Vimovo Purchaser as the “Successful Bidder” with respect to the Vimovo Assets, subject to approval by the U.S. Court. PDL agreed to act as Back-Up Bidder with respect to the Vimovo Assets.
31. The Chapter 11 Entities intend to seek approval of the transactions contemplated under the Vimovo Stalking Horse Agreement and the Toprol Stalking Horse Agreement in the U.S. Court at a hearing scheduled for 11:00 a.m. (EST) on December 4, 2018. The Monitor will attend the hearing telephonically so as to be able to update the Court concerning any developments relevant to the CCAA Proceedings.

VIII. THE TRANSACTION

32. The key provisions and terms of the Share Purchase Agreement were described in the Second Report and below is a summary of certain material terms as they relate to the closing of the Transaction:
- (i) Purchase Price: The aggregate consideration payable by the Purchaser to API for the Canadian Assets is \$62,500,000 (the “**Gross Purchase Price**”), subject to certain adjustments for Net Working Capital, Closing Indebtedness and Closing Net Cash.
 - (ii) Payment of Purchase Price: At least 2 days prior to Closing, the Companies shall provide to the Purchaser their estimates of Net Working Capital, Closing Indebtedness and Closing Net Cash. Based on these estimates, the Purchaser shall pay to the Monitor on Closing the sum of: (a) the Gross Purchase Price, plus; (b) the amount of the working capital adjustment, if any, minus; (c) Closing Indebtedness, plus; (d) Closing Net Cash.
 - (iii) Pre-Closing Reorganization: Pursuant to the Approval and Vesting order, the Companies are seeking the authority to complete a series of pre-closing restructuring transactions (the “**Pre-Closing Reorganization**”) as contemplated in the Share Purchase Agreement and detailed in the Disclosure Letter. The purpose of the Pre-Closing Reorganization is to, among other things, preserve the tax attributes of Aralez Canada, unwind or eliminate intercompany debt between Aralez Canada and the other

Aralez Entities, and release Aralez Canada of its secured debt obligations to Deerfield. A copy of the Pre-Closing Reorganization is attached as Exhibit "D" to the November 29 Adams Affidavit.

- (iv) Conditions Precedent: The Share Purchase Agreement is subject to certain closing conditions, including, but not limited to: (a) the satisfaction or waiver of certain conditions in the Vimovo Stalking Horse Agreement; (b) receipt of each of the Required Consents; and (c) entry of the Aralez Canada CCAA Termination Order, as discussed in greater detail below. As noted in the November 29 Adams Affidavit, the Companies anticipate all closing conditions will be satisfied or waived, before or at closing of the Transaction.
 - (v) Delivery of Closing Date Statement: Within 75 days of the Closing Date, the Purchaser shall prepare and provide to API a statement setting forth the Purchaser's calculation of Closing Net Working Capital, Closing Indebtedness and Closing Net Cash, as well as any resulting adjustments based on the estimated amounts provided prior to Closing.
 - (vi) Closing Date: Closing of the Transaction is to occur 16 days following the date (the "**Closing Date**") that all conditions have been satisfied or waived, or such earlier date as the Purchaser and the Companies may agree, provided that the Closing Date shall be the same as the date of the closing of the transactions contemplated under the Vimovo Stalking Horse Agreement. The Monitor understands that the Companies and the Purchaser intend to work diligently to close the Transaction as soon as practicable upon issuance of the Approval Order, and in any event prior to the end of this calendar year. Upon the waiver or satisfaction of the conditions precedent, the Monitor will file a certificate (the "**Monitor's Certificate**") with the Court attesting that the Transaction has been completed and confirming the closing of the sale for the Canadian Assets.
33. As noted in the Second Report, Closing Indebtedness does not include normal course liabilities, but rather specific extraordinary obligations or liabilities (the "**Specified Amounts**") of Aralez Canada, as detailed in the Disclosure Letter provided by the Companies to Nuvo. As discussed below, the Monitor has received Claims pursuant to the Claims Procedure from certain of the creditors related to the Specified Amounts (the "**Specified Amounts Claims**"), although no resolution regarding the validity of such claims has been determined at this time. As noted above, the Specified Amounts Claims would result in a \$7 million reduction to the Purchase Price, unless determined not be valid Claims prior to Closing. The Monitor understands that based on discussions with the Companies' advisors that the Companies dispute the validity of some or all of the Specified Amounts Claims. In the event any Specified Amounts Claims are disallowed as Claims, in whole or in part, post-Closing the Purchase Price will be adjusted accordingly or, if past the Adjustment Date, the Purchaser will remit such amounts to the Monitor.

IX. UPDATE ON CLAIMS PROCESS

34. Unless otherwise defined herein, capitalized terms used in this section shall be as defined in the Claims Procedure Order.
35. The Claims Procedure Order was issued on October 10, 2018. Since that date, in accordance with the Claims Procedure Order the Monitor has:
- (i) notified each known creditor of the Claims Procedure by delivering to such creditors a copy of the Claims Package on behalf of the Companies;
 - (ii) published notice of the Claims Procedure in the Globe and Mail (National Edition) on October 16, 2018, a copy of which is attached hereto as **Appendix “H”**;
 - (iii) Posted copies of the documents and motion materials related to the Claims Procedure on the Monitor’s website for the CCAA Proceedings;
 - (iv) corresponded with creditors regarding the Claims Procedure and provided a copy of the Claims Package to parties that made such request; and
 - (v) provided the Companies with periodic updates on Claims filed with the Monitor.
36. Pursuant to the Claims Procedure Order, all creditors making Pre-Filing Claims and/or D&O Claims were required to file claims with the Monitor by November 29, 2018, by 5:00 p.m. (EST) (the **“Claims Bar Date”**). Further, all creditors making Restructuring Claims were required to file claims with the Monitor by the later of: (i) the Claims Bar Date and (ii) 10 days after the date on which the Monitor sends a Claims Package with respect to a Restructuring Claim (the **“Restructuring Claims Bar Date”**). As of the date of this Fifth Report, the Monitor has not sent Claims Packages with respect to a Restructuring Claim to any creditors of the Companies.
37. As of the Claims Bar Date, the Monitor received 50 Claims filed by creditors, including intercompany claims, against the Companies and/or the Directors and Officers, including 2 Specified Amounts Claims. The Claims Procedure Order does not establish a process for the resolution or adjudication of Claims. The Monitor understands that the Companies plan to seek a further order of the Court at a later date to determine and resolve any disputed claims.
38. In the interim, the Monitor is working with the Companies and its advisors to reconcile the amounts of the filed Claims with the books and records of Aralez Canada. Where a material discrepancy exists, the Companies have asked the Monitor to communicate with creditors to provide additional information or support for their Claim, or otherwise amend or withdraw the Claim forthwith. Unless resolved prior to Closing, the Monitor understands the

Pre-Filing Claims will factor into the Companies' estimates for Net Working Capital. Any Pre-Filing Claims that are subsequently disallowed as Claims, in whole or in part, will be adjusted as part of the Closing Date Statement.

39. It is contemplated that valid Pre-Filing Claims against Aralez Canada will be unaffected and paid in the normal course or as otherwise agreed to with the respective creditor. Further, as discussed below, the proposed Aralez Canada CCAA Termination Order provides that all Claims against Aralez Canada not preserved in accordance with the Claims Procedure Order will be forever barred and released as against Aralez Canada.

X. ARALEZ CANADA CCAA TERMINATION ORDER

40. As noted above, the Transaction consists of a share purchase transaction and the solvency of Aralez Canada will be restored as a result of the Transaction and the Pre-Closing Reorganization. Accordingly, a condition precedent to the Closing of the Transaction is the entry of an order (the "**Aralez Canada CCAA Termination Order**") terminating the CCAA Proceedings as against Aralez Canada effective upon the closing of the Transaction, in order to allow the Purchaser to continue the operations of Aralez Canada, in the ordinary course, post-closing.
41. To be clear, the CCAA Proceedings will continue in respect of API and are not affected by the Aralez Canada CCAA Termination Order.
42. Upon the delivery of the Monitor's Certificate, the Aralez Canada CCAA Termination Order, if granted by the Court, provides that, among other things:
- (i) the stay of proceedings in respect of Aralez Canada shall be lifted, and the Charges (as defined in the Amended Initial Order) shall be automatically terminated, released and discharged as against Aralez Canada and its property;
 - (ii) any liabilities and obligations of Aralez Canada to Deerfield, API, or any of the other Aralez Entities, shall be fully discharged and released as against Aralez Canada and its property;
 - (iii) any liabilities and obligations of API, or any of the other Aralez Entities, to Aralez Canada shall be fully discharged and released as against API (or the other Aralez Entities, as applicable) and its property;
 - (iv) all agreements, contracts, leases or arrangements to which Aralez Canada is a party will remain in full force and effect; and
 - (v) Richter shall be discharged as Monitor of Aralez Canada and shall have no further obligations, responsibilities, duties or rights as Monitor in respect of Aralez Canada, other than with respect to the resolution of the Claims.

43. In addition to the above, the Aralez Canada CCAA Termination Order provides that any Claims not received by the Monitor prior to the Claims Bar Date or the Restructuring Claims Bar Date, as applicable, shall be forever barred and released as against Aralez Canada, its property, and its directors and officers, unless otherwise ordered by the Court or agreed to by the Purchaser.
44. Notwithstanding its discharge, the proposed Aralez Canada CCAA Termination Order contemplates that the Monitor will continue to have the protections afforded to it at law, or pursuant to the CCAA, the Initial Order, as amended and restated, and other orders issued in these proceedings to the extent the Monitor is required to address any sundry matters that arise following the termination of these proceedings against Aralez Canada. It is the Monitor's experience that this is a standard term in most discharge orders and the Monitor believes it is appropriate in the circumstances in order for the Monitor to be able to deal with issues that may arise with Aralez Canada that require the Monitor's involvement.
45. The Monitor understands the Companies served notice of the within motion, including a copy of the proposed Aralez Canada CCAA Termination Order, to, among others, all known creditors of Aralez Canada that were sent a Claims Package, all provincial and federal taxing authorities, and all contractual counterparties to Material Contracts with Aralez Canada.

XI. STAY EXTENSION

46. The current stay period expires on December 7, 2018, which is the date of the within motion and prior to the anticipated closing of the Transaction. As such, the Companies are seeking an extension of the Stay Period to February 1, 2019, in order to allow for the Closing of the Transaction and address any post-closing matters related to the Transaction.
47. The Monitor supports the Companies' request for an extension of the stay of proceedings from December 7, 2018, to February 1, 2019, for the following reasons:
 - (i) the Companies are acting in good faith and with due diligence;
 - (ii) the extension will provide the opportunity for the Closing of the Transaction;
 - (iii) it will allow the Monitor and the Companies the opportunity to review the Claims received and develop a process to adjudicate any disputed claims;
 - (iv) the granting of the extension does not materially prejudice any creditor of the Companies as the Revised Cash Flow Forecast reflects that the Companies are projected to have sufficient funding to continue to operate in the normal course through the proposed stay extension period; and

- (v) Deerfield, being the secured lender and DIP Lender in these CCAA Proceedings, supports the stay extension.

XII. MONITOR'S CONCLUSION AND RECOMMENDATIONS

- 48. The Monitor is of the view that the relief requested by the Companies on the within motion is both appropriate and reasonable, based on the following:
 - (i) the Sales Process was designed to solicit interest from *bona fide* parties that would be familiar with the industry and the nature of the Canadian Assets. The market was extensively canvassed prior to the Filing Date, and as part of the Sales Process, and all likely bidders have been provided with an opportunity to bid on the Canadian Assets;
 - (ii) the consideration payable under the Share Purchase Agreement is fair and reasonable, represents the highest or otherwise best offer for the Canadian Assets, and would be more beneficial for the creditors of the Companies than a sale or disposition in a bankruptcy context;
 - (iii) the Pre-Closing Reorganization and the Aralez Canada CCAA Termination Order are necessary to implement the Transaction; and
 - (iv) the Share Purchase Agreement provides for a going-concern sale to the Purchaser, which preserves significant value and maintains important customer, vendor and employee relationships of Aralez Canada, and based on the alternatives available to the Companies, the Transaction is in the best interest of the creditors and stakeholders of the Companies;
- 49. Based on the foregoing, the Monitor recommends that this Court make orders granting the relief sought by the Companies on the within motion, as detailed in section 9(ix) of this Fifth Report.

All of which is respectfully submitted this 4th day of December, 2018.

Richter Advisory Group Inc.
In its capacity as Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc. and not
in its personal or corporate capacity

Per:



Paul van Eyk,
CPA, CA-IFA, CIRP, LIT, Fellow of INSOL
Senior Vice President



Pritesh Patel,
MBA, CFA, CIRP, LIT
Vice President

APPENDIX A

RICHTER

Richter Advisory Group Inc.
181 Bay Street, 33rd Floor
Toronto, ON M5J 2T3
www.richter.ca

Court File No.: _____

ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.

**REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS PROPOSED MONITOR**

August 10, 2018

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APPENDIX "A" – CASH FLOW FORECAST

Court File No.: _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC., AND ARALEZ PHARMACEUTICALS CANADA INC.**

**REPORT OF THE PROPOSED MONITOR
RICHTER ADVISORY GROUP INC.**

AUGUST 10, 2018

I. INTRODUCTION

1. Richter Advisory Group Inc. (“**Richter**” or the “**Proposed Monitor**”) understands that Aralez Pharmaceuticals Inc. (“**API**”) and Aralez Pharmaceuticals Canada Inc. (“**Aralez Canada**” and together with API, the “**Applicants**”) will make an application (the “**CCAA Application**”) before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) returnable on August 10, 2018, seeking an Initial Order (the “**Proposed Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) to obtain a stay of proceedings in favour of the Applicants until September 9, 2018, and to seek other related relief, with a view to allowing them an opportunity to restructure their business and affairs. The Applicants’ CCAA proceedings are referred to herein as the “**CCAA Proceedings**”.
2. The Proposed Initial Order, contemplates that Richter be appointed as Monitor of the Applicants in the CCAA Proceedings (in such capacity, the “**Monitor**”).
3. Concurrently with the CCAA Application, Aralez Pharmaceuticals Management Inc., Aralez Pharmaceuticals R&D Inc., Aralez Pharmaceuticals U.S. Inc., POZEN Inc. (“**Pozen**”), Halton Laboratories LLC, Aralez Pharmaceuticals Holdings Limited (“**APHL**”) and Aralez Pharmaceuticals Trading DAC (“**Aralez DAC**” and collectively with each of the foregoing entities, the “**Chapter 11 Entities**”, and with the CCAA Entities, collectively the “**Aralez Entities**”) filed for creditor protection in the United States Bankruptcy Court for the Southern District of New York (the “**U.S. Court**”) for relief under title 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1532 (the “**Chapter 11 Proceedings**” and together with the CCAA proceedings, the “**Restructuring Proceedings**”).

II. PURPOSE OF REPORT

4. This report (the “**Report**”) has been prepared by Richter as the Proposed Monitor of the Applicants’ in the CCAA Proceedings. The purpose of the Report is to provide information to the Court pertaining to:
 - (i) Richter’s qualifications to act as Monitor;
 - (ii) background on the Applicants, including their corporate history, operations, financial position and creditors;
 - (iii) the Applicants’ decision to commence the CCAA Proceedings and to seek a stay of proceedings;
 - (iv) the Applicants’ thirteen week cash flow forecast (the “**Cash Flow Forecast**”) for the period from August 9, 2018 to November 2, 2018 (the “**Forecast Period**”);

- (v) the Applicants' request that they be authorized and empowered to obtain and borrow interim financing, including the terms of the debtor-in-possession ("**DIP**") facility with Deerfield Private Design Fund III, L.P., and Deerfield Partners, L.P., as lenders (collectively, "**Deerfield**") and Deerfield Management Company L.P., as administrative agent ("**Deerfield Management**", and collectively with Deerfield, the "**DIP Lender**") in the maximum principal amount of \$10 million (the "**Deerfield DIP Facility**");
- (vi) the charges proposed in the Proposed Initial Order;
- (vii) an update on the Applicants intention to return to the Court for a motion (the "**Comeback Motion**") seeking various other relief; and
- (viii) the Proposed Monitor's conclusions and recommendations.

III. TERMS OF REFERENCE

5. Capitalized terms used but not defined in this Report are defined in the Affidavit of Mr. Andrew Koven sworn August 9, 2018 (the "**Koven Affidavit**"), filed by the Applicants as part of their materials in support of the CCAA Application and the Proposed Initial Order. This Report should be read in conjunction with the Koven Affidavit, as certain information contained in the Koven Affidavit has not been included herein in order to avoid unnecessary duplication.
6. In preparing this Report, the Proposed Monitor has relied solely on information and documents provided by the Applicants and their advisors, including unaudited financial information, declarations and affidavits of the Applicants' executives and other information from the Applicants' financial advisor, Alvarez & Marsal Canada Inc. ("**A&M Canada**") (collectively, the "**Information**"). In accordance with industry practice, except as otherwise described in the Report, Richter has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants of Canada Handbook* and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
7. Future orientated financial information contained in the Cash Flow Forecast is based on the Applicants' estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved.

8. If the Proposed Initial Order is granted, and Richter is appointed as Monitor, Richter will make available all Court documents and other material documents pertaining to the CCAA Proceedings on its website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>. In addition, Richter has arranged for a toll-free hotline (1-877-676-4390) and an email address (aralez@richter.ca) through which the Applicants' creditors or other interested parties can make inquiries related to the CCAA Proceedings.
9. Unless otherwise stated, all monetary amounts noted herein are expressed in United States dollars, which is the Applicants' common reporting currency.

IV. RICHTER'S QUALIFICATIONS TO ACT AS MONITOR

10. On July 31, 2018, Richter was retained by the Applicants to assist them, their legal counsel and A&M Canada with contingency planning and the preparation of materials for the CCAA Application.
11. Richter is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). Richter is not subject to any of the restrictions to act as Monitor set out in section 11.7(2) of the CCAA and, in particular, neither Richter nor any of its representatives has been at any time in the two preceding years:
 - (i) a director or an employee of the Applicants;
 - (ii) related to the Applicants or to any director or officer of the Applicants; or
 - (iii) the auditor of the Applicants.
12. Paul van Eyk and Pritesh Patel, the individuals at Richter with primary carriage of this matter, are certified Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees. Further, Messrs. van Eyk and Patel have acted in cross-border restructurings and matters of a similar nature under the CCAA, and therefore are well-suited for this role.
13. Should the Court grant the Applicants' request to make the Proposed Initial Order, Richter has consented to act as Monitor. Furthermore, the Proposed Monitor has retained Torys LLP ("**Torys**") to act as its legal counsel in the CCAA Proceedings.

V. OBJECTIVES OF THE CCAA PROCEEDINGS

14. The primary objectives of the Applicants' CCAA Proceedings are to:
 - (i) facilitate the ongoing operations of the Applicants;

- (ii) ensure the Applicants have the necessary working capital to maximize the value of their businesses for the benefit of the Applicants' stakeholders, while providing the opportunity to restructure their business and affairs, and implement the Stalking Horse Sales Process; and
- (iii) identify one or more parties interested in pursuing a going-concern transaction in connection with the business or assets of the Applicants through a court-supervised sales process.

VI. BACKGROUND

15. Detailed information with respect to the Applicants' business, operations, products and causes of insolvency are detailed extensively in the Koven Affidavit. The information contained herein represents only a summary of the background to the CCAA Proceedings.

Corporate Structure

16. As noted in the Koven Affidavit, the Aralez Entities are a speciality pharmaceutical company focused on acquiring, marketing, developing and commercializing products primarily related to cardiovascular health and pain management. As described below, the Aralez Entities' product offering is comprised of: (i) products that were co-developed with other pharmaceutical companies, (ii) third-party products purchased by the Aralez Entities for sale under various banners of the Aralez Entities, and (iii) products under agreements with third-parties to license and/or distribute under the Aralez Entities' banner.
17. API, the ultimate parent of the Aralez Entities, was formed for the purpose of facilitating the business combination of Pozen, a Delaware corporation, and Tribute Pharmaceuticals Canada Inc. (now known as Aralez Canada), a corporation incorporated under the laws of the Province of Ontario, Canada, pursuant to a transaction which closed on February 5, 2016. This merger was initiated to take advantage of a more diverse array of products owned by the pre-merger entities, and to leverage debt and equity financings associated with the merger to increase the product portfolio and scale up sales and marketing.
18. The Aralez Entities' business and operations are mainly within Canada and the U.S., with some supply chain management, quality control and IP-holding functions located in Ireland. API has four direct or indirect subsidiaries located outside of Canada and the U.S.: (i) Aralez DAC and APHL, each subsidiaries incorporated under the laws of Ireland that are located in Dublin, Ireland, and included among the Chapter 11 Entities, (ii) Aralez Luxembourg Finance ("**Luxco**"), a wholly-owned subsidiary of APHL that was incorporated under the laws of Luxembourg, and (iii) Tribute Pharmaceuticals International Inc. ("**Tribute Barbados**"), a wholly-owned subsidiary of Aralez Canada that was incorporated under the laws of Barbados. Luxco and Tribute Barbados, together with the Aralez Entities, are collectively referred to herein as the "**Aralez Group**".

19. Luxco and Tribute Barbados are not subject to the Restructuring Proceedings. The Proposed Monitor understands that Tribute Barbados is a dormant entity with no operations or significant assets (other than minimal cash on hand), and Luxco has no employees and its only assets are minimal cash reserves and intercompany receivables (unsecured) due from certain of the Aralez Entities. The Proposed Monitor further understands that the Aralez Entities are currently considering their next steps in dealing with their interest in both Tribute Barbados and Luxco.
20. A copy of the API organizational chart is attached as Exhibit "A" to the Koven Affidavit.

API

21. API is a public company incorporated under the British Columbia *Business Corporations Act*, S.B.C. 2002, c.57, as amended, with its registered office located at 666 Burrard Street, Vancouver, British Columbia, and its head office located at 7100 West Credit Avenue, Suite 101, Mississauga, Ontario (the "**Head Office**"). The leased Head Office serves as the global headquarters for the Aralez Entities.
22. API is registered on the NASDAQ Global Market ("**NASDAQ**") and the Toronto Stock Exchange ("**TSE**") and trades under the following symbols: NASDAQ:ARLZ and TSE:ARZ. As per the Koven Affidavit, API's authorized share capital consists of an unlimited number of common shares and preferred shares; however, as at August 6, 2018, only common shares are issued and outstanding. The Proposed Monitor understands that API is the public company shell of the Aralez Group with no operations or employees, and its assets principally consist of cash, investments in the other Aralez Entities and intercompany receivables.

Aralez Canada

23. Aralez Canada is the wholly-owned, direct subsidiary of API. Aralez Canada was amalgamated under the *Business Corporations Act*, R.S.O. 1990, B-1616, as amended, with its registered office located at the Head Office.
24. Aralez Canada is the Canadian operating company of the Aralez Entities. It is engaged in a variety of product offerings including the commercialization of cardiovascular, pain management, dermatological, allergy and certain other products primarily sold to the Canadian market. The Proposed Monitor understands the majority of the Applicants' revenues are derived from domestic sales.

25. The Applicants obtain protection for their products, proprietary technology and licenses by means of patents, trademarks and contractual arrangements. As noted in the Koven Affidavit, Aralez Canada owns approximately a dozen patents (in various jurisdictions) related to two products and other members of the Aralez Entities hold patents (in various jurisdictions) related to other drug products.
26. Certain key products of Aralez Canada, which comprise approximately 75% of its gross revenue, are summarized below:
- (i) Cambia – a non-steroidal anti-inflammatory drug for the acute treatment of migraine attacks in adults over 18 years of age that Aralez Canada licensed in 2010 from Nautilus Neurosciences, Inc. (“**Nautilus**”) for the exclusive rights in Canada, which was subsequently assigned by Nautilus to Depomed Inc. in 2013. Cambia is manufactured in Italy.
 - (ii) Blexten – a second generation antihistamine drug for relief of allergic rhinitis and hives that Aralez Canada exclusively licensed in 2014 from Faes Farma, S.A. (“**Faes**”), a Spanish pharmaceutical company, pursuant to a license and supply agreement between the parties that is set to expire in May 2036, subject to renewal for a further five year term. In April 2016, Aralez Canada received regulatory approval from Health Canada to sell Blexten in Canada. Blexten is manufactured in Spain by Faes. Aralez Canada makes royalty and milestone payments to Faes based on conditions being met in the license and supply agreement.
 - (iii) Novartis Products – Fiorinal and Fiorinal C, which are used for the treatment of tension headaches and Visken and Viskazide, which are used for the treatment of hypertension (collectively the “**Novartis Products**”). In October 2014, Aralez Canada entered into an agreement with Novartis AG and Novartis Pharma AG for the Canadian rights to manufacture, market and promote, distribute and sell Novartis Products. The Novartis Products are manufactured in Canada.
 - (iv) Soriatane – used for the treatment of severe psoriasis. In January 2018, Aralez Canada entered into an exclusive distribution agreement with Allergen Inc. (“**Allergen**”) that expires in 2023. Aralez Canada pays Allergen a revenue-based royalty that is subject to an annual minimum amount. Soriatane is manufactured in France.
 - (v) Proferrin – an iron supplement used to prevent or treat iron deficiencies. Aralez Canada has a distribution agreement with Colorado Biolabs Inc. for exclusive distribution in Canada for a term ending in 2031. Proferrin is manufactured in the U.S.

- (vi) Bezalip – used to treat high cholesterol. Aralez Canada is the exclusive licensee authorized to market Bezalip in Canada and the U.S.; however, the Proposed Monitor understands that Aralez Canada currently only markets this product in Canada. The exclusive license agreement is with Allergen. Bezalip is manufactured in France.
27. In addition to the products noted above, Aralez Canada markets certain other drug products, both non-prescription and prescription, which comprise approximately 25% of Aralez Canada's gross revenues.
28. As of August 3, 2018, Aralez Canada owed approximately CAD\$5 million in accrued royalty and milestone payments to certain third-party licensors.
29. Aralez Canada customers are comprised of wholesale pharmaceutical distributors and chain accounts. As of December 31, 2017, Aralez Canada had four significant customers, each of which is a well-known and established entity, which accounted for approximately 90% of net product revenue.
30. In accordance with industry practice, Aralez Canada enters into arrangements with certain of its customers to provide rebates, discounts, fee-for-services, allowance for returns, etc. with respect to the purchase of Aralez's products (collectively the "**Customer Programs**"). Aralez Canada accrues obligations due to customers in connection with the Customer Programs, some of which the Proposed Monitor understands will not have been paid as at the date of the CCAA Application hearing.
31. Aralez Canada's products are inventoried and shipped by a third party logistics provider ("**3PL**") to wholesalers and chain accounts. These customers place orders with the 3PL, who then manages the inventory order, completes the sale on behalf of Aralez Canada and remits the sale proceeds to Aralez Canada, less a service fee.

The Chapter 11 Entities

32. The Chapter 11 Entities, each of which are direct or indirect wholly-owned subsidiaries of API, own the rights to certain drugs that are only sold in the U.S. and other non-Canadian markets. The Chapter 11 Entities also out-license certain products in exchange for royalties and/or other consideration. The most significant products in the Chapter 11 Entities drug portfolio include (or included) Toprol-XL, Zontivity, Vimovo and Yosprala, each of which is further described in the Koven Affidavit.
33. With the exception of Aralez DAC and APHL, each of the Chapter 11 Entities is incorporated in Delaware and have operations primarily located Princeton, New Jersey. Further background information regarding the Chapter 11 Entities is provided in the Koven Affidavit.

Operational Interdependencies

34. Due in large part to the initiatives undertaken by management of the Aralez Entities to build a global pharmaceutical company, there is a high degree of operational interdependency between the Applicants and the other Aralez Entities, including sharing certain executive management personnel, cash management/financing functions, pharmacovigilance efforts (monitoring the effects of medical drugs after they have been licensed for use) and legal, human resources and IT services.
35. As part of the above operational interdependencies, there has historically been intercompany transactions and movement of cash between the Applicants and the Chapter 11 Entities to fund various costs and ensure that entities have the required funds to operate. The Proposed Monitor has not yet had an opportunity to examine in detail any intercompany transactions that occurred prior to the CCAA Application. The Proposed Monitor intends to discuss with management the nature and quantum of any recent intercompany transactions.
36. The Proposed Monitor understands that the Aralez Entities will not engage in any further intercompany lending or transfers of cash during the Restructuring Proceedings, as any necessary funding is to be supported by the proposed interim financing, as detailed below. However, intercompany support functions are expected to continue in the ordinary course, and will be tracked and reconciled among the Aralez Entities.

Employees of Aralez Canada

37. As at August 2, 2018, Aralez Canada had 43 employees, all of whom are located in Canada. Of the 43 employees, 22 are sales people who are paid sales commissions on a quarterly basis, in arrears, and 3 are sales managers. In addition to its employees, Aralez Canada has 11 contract workers that perform sales work and back office functions.
38. Aralez Canada's employees are members of a defined contribution Registered Retirement Savings Plan, in which Aralez Canada matches, dollar for dollar, contributions up to 4% of earnings, which is funded semi-monthly. The Applicants do not have any defined benefit pension plans, nor are the Applicants subject to a collective bargaining agreement.

Historical Financial Results

39. Included in the Koven Affidavit are copies of API's fiscal 2017 consolidated audited financial statements. The financial results for the Aralez Entities, including Aralez Canada, are included as part of the consolidated reporting for API. Set out below is a summary of API's consolidated income statement for: (i) the fiscal period ending December 31, 2016 (ii) the fiscal period ending December 31, 2017 and (iii) the three month period ending March 31, 2018 (unaudited):

Aralez Pharmaceuticals Inc.			
Consolidated Statement of Operations			
<i>(US\$, in millions)</i>	3-months ended	Year ended	Year ended
	31-Mar-18	31-Dec-17	31-Dec-16
Total revenues, net	\$ 38.1	\$ 105.9	\$ 54.3
Costs and expenses			
Cost of product revenues	\$ 11.5	\$ 13.5	\$ 11.8
Selling, general and administrative	26.5	116.6	118.5
Research and development	-	2.3	8.8
Amortization of intangible assets	9.0	34.3	12.6
Change in fair value of contingent consideration	5.1	35.7	0.8
Impairment of intangible assets	-	-	4.4
Total costs and expenses	\$ 52.1	\$ 202.4	\$ 156.9
Loss from operations	\$ (14.0)	\$ (96.5)	\$ (102.6)
Interest expense	(6.7)	(27.0)	(6.1)
Other income (expense), net	(0.2)	0.7	5.7
Loss before income taxes	\$ (20.9)	\$ (122.8)	\$ (103.0)
Income tax expense (benefit)	(1.2)	2.4	(0.1)
Net loss	\$ (19.7)	\$ (125.2)	\$ (102.9)
<i>Source: Information provided by the Applicants</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>

40. As detailed above, API experienced significant net losses over the past 2 fiscal years due, in large part, to the significant marketing, personnel, and other costs incurred by the Chapter 11 Entities related to the unsuccessful launch of Yosprala and the relaunch of Zontivity, both of which failed to reach anticipated levels of commercial success in the U.S. Zontivity and Yosprala were discontinued by the Chapter 11 Entities in 2018.
41. Set out below is API's consolidated balance sheet as at March 31, 2018:

Aralez Pharmaceuticals Inc.			
Consolidated Balance Sheet - as at March 31, 2018			
<i>(US\$, in millions; unaudited)</i>			
Assets		Liabilities	
Cash and cash equivalents	\$ 43.9	Accounts payable	\$ 10.6
Accounts receivable, net	40.7	Accrued expenses	89.9
Inventory	5.7	Short-term contingent consideration	10.5
Prepaid expenses and other current assets	3.1	Other current liabilities	5.9
Total current	\$ 93.4	Total current	\$ 116.9
Property and equipment, net	6.6	Long-term debt	274.6
Goodwill	79.7	Deferred tax liability	2.5
Other intangible assets, net	299.6	Long-term contingent consideration	90.8
Other long-term assets	2.0	Other long-term liabilities	3.1
Total assets	\$ 481.3	Total liabilities	\$ 487.9
		Total shareholders' equity	(6.6)
		Total liabilities and shareholders' equity	\$ 481.3
<i>Source: Information provided by the Applicants</i>			

42. As presented above, API had total assets of approximately \$481.3 million on a consolidated basis as at March 31, 2018. The majority of API's assets consist of intellectual property (comprised of acquired patents and license rights). API's total liabilities as at March 31, 2018 were approximately \$487.9 million, the majority of which was related to long-term debt owing to Deerfield of \$274.6 million (as discussed in further detail below). As at March 31, 2018, the book value of API's total liabilities exceeded the book value of its total assets.
43. As noted, Aralez Canada does not independently report its financial results, which are included as part of API's consolidated financial reporting. Set out below is a summary of Aralez Canada's internal financial results for: (i) the year ending December 31, 2017 and (ii) the three months ended March 31, 2018:

Aralez Pharmaceuticals Canada Inc.		
Statement of Operations		
<i>(US\$, in millions)</i>	3-months ended 31-Mar-18	Year ended 31-Dec-17
Total revenues, net	\$ 6.7	\$ 26.8
Costs and expenses		
Cost of product revenues	\$ 2.6	\$ 9.7
Selling, general and administrative	3.3	11.5
Research and development	0.5	1.5
Amortization of intangible assets	2.1	6.9
Total costs and expenses	\$ 8.5	\$ 29.6
Loss from operations	\$ (1.8)	\$ (2.8)
Other income (expense), net	(0.9)	0.9
Loss before income taxes	\$ (2.7)	\$ (1.9)
Income tax expense (benefit)	(1.1)	0.6
Net loss	\$ (1.6)	\$ (2.5)
EBITDA	\$ 0.3	\$ 4.0
<i>Source: Information provided by the Applicants</i>	<i>(unaudited)</i>	<i>(audited)</i>

44. As detailed above, despite reporting a net loss of approximately \$1.6 million and \$2.5 million for the three month period ended March 31, 2018 and the year ended December 31, 2017, respectively, Aralez Canada generated EBITDA of approximately \$0.3 million and \$4.0 million for the same periods. However, the Proposed Monitor notes the EBITDA generated by Aralez Canada was not sufficient to offset the significant losses generated by the other Aralez Entities, or service the Aralez Entities' obligations pursuant to the Facility Agreement (as defined below).

45. Set out below is Aralez Canada's internal balance sheet as at March 31, 2018:

Aralez Pharmaceuticals Canada Inc.			
Balance Sheet - as at March 31, 2018			
<i>(US\$, in millions; unaudited)</i>			
Assets		Liabilities	
Cash and cash equivalents	\$ 5.9	Accounts payable	\$ 0.6
Accounts receivable, net	2.8	Accrued expenses	4.8
Inventory	5.7	Other current liabilities	3.0
Prepaid expenses and other current assets	0.4	Total current	\$ 8.4
Intercompany Receivables	(3.5)	Long-term liabilities	0.3
Investment in Subsidiary	-	Long-term taxes payable	2.5
Total current	\$ 11.3	Total liabilities	\$ 11.2
Property and equipment, net	0.6	Total shareholders' equity	136.6
Goodwill	75.4		
Product rights, net	60.5		
Total assets	\$ 147.8	Total liabilities and shareholders' equity	\$ 147.8

Source: Information provided by the Applicants

46. As at March 31, 2018, Aralez Canada had total assets of approximately \$147.8 million, the majority of which were related to goodwill of approximately \$75.4 million and product rights of approximately \$60.5 million. While Aralez Canada's balance sheet lists total liabilities of approximately \$11.2 million, the Proposed Monitor notes that this does not consider Aralez Canada's obligations to Deerfield, as guarantor, pursuant to the Facility Agreement, as discussed below.
47. Given that API is a shell company with no operations or employees, and its assets principally consist of cash, investments in the other Aralez Entities and intercompany receivables, the Proposed Monitor has not separately reported API's unconsolidated financial position or results herein.

Secured Creditors

48. API, Aralez Canada and Pozen entered into a loan agreement on June 8, 2015 (as amended) with Deerfield, as lender (the "**Facility Agreement**"). API is the borrower under the Facility Agreement in the principal amount of \$275.0 million, comprised of the following:
- (i) \$75.0 million aggregate principal of 2.5% senior secured convertible notes, which mature in February 2022 (the "**Secured Notes**"); and
 - (ii) \$200.0 million aggregate facility agreement bearing interest at 12.5% due to be repaid in October 2022 (the "**Secured Credit Facility**").

49. The Proposed Monitor understands that the Secured Notes and the Secured Credit Facility were mainly used to fund acquisitions, including Aralez Canada, and the U.S. and Canadian rights to key products. As of August 6, 2018, the Proposed Monitor has been advised that approximately \$281.5 million, comprised of principal and accrued payment-in-kind (“**PIK**”) interest, remains outstanding under the Facility Agreement.
50. The Proposed Monitor understands that the Secured Credit Facility and the Secured Notes are guaranteed by the Aralez Entities (other than API), as well as Luxco and Tribute Barbados (collectively, the “**Guarantors**”).
51. The Proposed Monitor further understands that, as security for the Secured Credit Facility and the Secured Notes, Deerfield has a first priority security interest in substantially all present and after-acquired property of API and the Guarantors, including intangible property (collectively, the “**Deerfield Security**”).
52. On June 29, 2018, in light of their liquidity issues, the Aralez Entities announced that they had entered into an amendment to the Facility Agreement, pursuant to which Deerfield agreed to accept PIK interest due and payable on July 1, 2018, with respect to the Secured Credit Facility and the Secured Notes through August 15, 2018.
53. The Proposed Monitor has received a verbal opinion from its independent counsel, Torys, that subject to the typical assumptions and qualifications for opinions of this nature, the Deerfield Security is valid and enforceable in the Province of Ontario. The Proposed Monitor expects to receive a written opinion to this effect shortly from Torys.
54. At present, the Proposed Monitor has not obtained any other verbal or written opinion regarding the validity and enforceability of the Deerfield Security in other relevant Canadian jurisdictions (i.e. British Columbia). The Proposed Monitor does note that, with the exception of the Deerfield Security, there are no other registered security interests against the Applicants in British Columbia and that, in any event, there are only minimal assets, properties and undertakings of the Applicants located in British Columbia.

Unsecured Creditors

55. As at August 7, 2018, the Proposed Monitor understands that the Applicants had approximately CAD\$17 million of unsecured liabilities (excluding any intercompany liabilities), including CAD\$8.3 million of accounts payable and accrued liabilities of Aralez Canada.

56. The Proposed Monitor also understands that included in the above is approximately CAD\$623,000 of employee related amounts for accrued vacation pay, commissions, expenses and bonuses. The Proposed Initial Order provides the Applicants with the authority, but not requirement, to pay employee related expenses in the normal course during the CCAA Proceedings.

VII. DECISION TO COMMENCE CCAA PROCEEDINGS AND STAY OF PROCEEDINGS

57. The pharmaceutical industry is highly competitive and the Aralez Entities have had to deal with many market factors, including: (i) the costs associated with operating in a highly regulated industry, (ii) the need to invest significantly in marketing and infrastructure costs with unpredictable, and often minimal returns, (iii) competition from approved generic drugs, (iv) legal costs associated with maintaining and defending patents, and (v) pricing and/or pharmaceutical products being subject to increased pressure from various governments and other payors.

58. The primary reasons for the Aralez Entities' current financial difficulties, as discussed in the Koven Affidavit, include:

- (i) *Unsuccessful Product Launches* – The Aralez Entities committed significant resources to the anticipated launch of Yosprala in 2016 and the relaunch of Zontivity in 2017 in the U.S., both of which were unsuccessful and ultimately discontinued in 2018;
- (ii) *High Costs Structure / Significant Debts* – Increased operational costs supported by significant long term debt, and the corresponding debt servicing costs; and
- (iii) *Generic Competition* – The Aralez Entities face increased competition from generic competitors on existing and new products, which has significantly impacted current and future revenue streams.

Strategic Review

59. Given their financial difficulties, which were further exacerbated following the market's reaction to API's public filing of its financial results for the fiscal quarter ending March 31, 2018 (which raised substantial doubt regarding API's ability to continue as a going concern), the Aralez Entities realized the need to reduce costs and consider strategic options. On May 8, 2018, the Aralez Entities formally announced that they were putting in place a comprehensive strategic review to evaluate opportunities to streamline their business, reduce costs and improve their capital structure and liquidity position (collectively the "**Strategic Review**").

60. The Aralez Entities also announced that they had retained Moelis & Company LLC (“**Moelis**”) to serve as their strategic adviser to consider strategic alternatives and establish a sales process for various lines of business. At the same time, the Aralez Entities engaged a cash management and restructuring advisor, Alvarez & Marsal Healthcare Industry Group LLC (“**A&M US**”) and, in Canada, A&M Canada (collectively, “**A&M**”), to assess the Aralez Entities’ current business plans and assist with managing liquidity in both Canada and the U.S.
61. The key aspects of the Strategic Review included:
- (i) streamlining of the Aralez Entities’ U.S. business and infrastructure costs with a focus on winding down certain U.S. product lines (i.e. Zontivity in June 2018);
 - (ii) working with Moelis on the Pre-Filing Sales Process (as defined below);
 - (iii) exploring and evaluating alternative financing options; and
 - (iv) examining opportunities to generate additional liquidity, including commercialize, divest or out-license certain products (i.e. sale of Yosprala in July 2018).
62. Despite these efforts, the Aralez Entities have exhausted their liquidity and will not have sufficient cash to sustain operations and service their obligations under the Facility Agreement. In addition, the Aralez Entities have not been able to enter into any further amendments or forbearances under the Facility Agreement on terms that would result in a long term going concern solution. The Proposed Monitor further understands that the Aralez Entities were unable to raise additional capital on reasonable terms.
63. In the circumstances, the Aralez Entities ultimately determined that the appropriate approach was to proceed with a sale of substantially all of their assets through a court-supervised process pursuant to: (i) the CCAA with respect to the Applicants, and (ii) section 363 of the United States Bankruptcy Code with respect to the Chapter 11 Entities.

Sales Process

64. The Proposed Monitor understands that Moelis commenced an extensive marketing and sales process in respect of the Aralez Entities prior to the commencement of the Restructuring Proceedings (the “**Pre-Filing Sales Process**”).
65. The Proposed Monitor has also been advised that as part of the Pre-Filing Sales Process, Moelis had discussions with a number of arms-length parties interested in acquiring the assets and/or business of the Aralez Entities. Additionally, the Proposed Monitor understands Moelis received non-binding letters of intent

from certain potential purchasers interested in acquiring certain of the assets of the Applicants, the Chapter 11 Entities, or combinations thereof.

66. As noted in the Koven Affidavit, the Aralez Entities intend to enter into two separate purchase agreements in connection with the following:
 - (i) an agreement among Aralez DAC, Pozen, Aralez Canada and Deerfield to purchase the Toprol-XL franchise through a credit bid of \$140 million; and
 - (ii) an agreement among API, Pozen, Aralez Canada, Nuvo Pharmaceuticals Inc. and Nuvo Pharmaceuticals Ireland (Limited) (collectively, “**Nuvo**”) to purchase the Aralez Entities’ Canadian operations and its rights to royalties from Vimovo for \$110 million.
67. The Proposed Monitor understands the applicable Aralez Entities have signed letters of intent (the “**LOIs**”) with Deerfield and Nuvo, respectively, that contain the material terms of the proposed transactions.
68. The Proposed Monitor understands that the Applicants intend to return to Court to seek approval of a sales process (the “**Stalking Horse Sales Process**”) pursuant to which Nuvo and Deerfield will act as stalking horse bidders for the assets currently subject to the LOIs. The Proposed Monitor will report further to the Court on the Pre-Filing Sales Process, the LOIs and any asset purchase agreement(s) entered into by the Applicants, when these matters are next before the Court. The Applicants expect that the Chapter 11 Entities will return to the U.S. Court to seek similar approval, and the Aralez Entities intend to coordinate the sales process.

VIII. OVERVIEW OF THE CASH FLOW FORECAST

69. The Applicants, with the assistance of A&M Canada and in consultation with the Proposed Monitor, have prepared the Cash Flow Forecast for the purpose of projecting the Applicants’ estimated liquidity needs during the Forecast Period. A copy of the Cash Flow Forecast is attached hereto as **Appendix “A”**.
70. The Cash Flow Forecast has been prepared by the Applicants on a conservative basis using probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast. The Cash Flow Forecast reflects the Applicants’ estimates of receipts and disbursements on a weekly basis over the Forecast Period.
71. The Proposed Monitor’s review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to Information supplied to it by the Applicants and/or their advisors. Since the probable and hypothetical assumptions need not be supported, the Proposed Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed

Monitor also reviewed the support provided by management of the Applicants for the probable and hypothetical assumptions, and the preparation and presentation of the Cash Flow Forecast.

72. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:
- (i) the probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;
 - (ii) as at the date of this Report, the probable and hypothetical assumptions developed by the Applicants and its advisors are not suitably supported and consistent with the restructuring plan of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast; or
 - (iii) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.
73. As at August 9, 2018, the Applicants had approximately CAD\$6.0 million of cash on hand. The Cash Flow Forecast projects that the Applicants will experience a net cash outflow of approximately CAD\$8.7 million (before any DIP drawdown) over the Forecast Period, comprised of:
- (i) cash receipts of approximately CAD\$7.3 million, primarily related to the collection of existing receivables and new sales generated from the product portfolio of Aralez Canada; and
 - (ii) cash disbursements of approximately CAD\$16.0 million, primarily related to payroll and benefits, operating expenses, procurement of post-filing inventory, as well as the payment of certain pre-filing expenses (as discussed below) and the costs of the CCAA Proceedings.
74. The Cash Flow Forecast forecasts borrowings under the Deerfield DIP Facility in the amount of CAD\$6.0 million over the Forecast Period.
75. As evidenced by the Cash Flow Forecast, without access to interim financing, the Applicants lack sufficient liquidity to maintain operations. The Deerfield DIP Facility will provide the Applicants with sufficient funding during the Forecast Period to ensure continued operations during the CCAA Proceedings.
76. The Proposed Monitor notes that the Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

IX. PROPOSED DIP AGREEMENT

77. As noted above, based on the Cash Flow Forecast, the Applicants will require interim financing in order to maintain sufficient liquidity to continue operations and implement the Stalking Horse Sales Process. The

Chapter 11 Entities will also require interim financing to facilitate their restructuring. As the pre-filing financing of the Applicants is intertwined with the financing of the Chapter 11 Entities, the Alarez Entities determined that the most efficient financing process would be to obtain financing from one lender.

78. Following extensive negotiations, the DIP Lender has agreed, pursuant to a proposed senior secured, super-priority, debtor-in-possession credit agreement dated August 10, 2018 (the “**Canada DIP Credit Agreement**”), to extend the Deerfield DIP Facility to the Applicants. The DIP Lender also informed the Applicants that its willingness to provide such financing was predicated, in part, on the Applicants making the CCAA Application.
79. Principal terms of the DIP Credit Agreement, include, without limitation, the following:

Basic Provisions	Description
Availability	\$10 million
Borrowers	API and Aralez Canada
Interest rate	10% per annum, due and payable in-kind in arrears, and capitalized, on the last business day of each fiscal quarter. Default Rate of additional 2%.
Additional consideration	Commitment fee of 1%, extension fee of 1% for extension of commitment beyond the date that is six months from the date of the CCAA filing date (the “ Stated Maturity Date ”).
Maturity date	Earliest of: (a) Stated Maturity Date, (b) the date of a sale of all or substantially all of the assets of the Applicants, (c) the conversion of the CCAA Proceedings to a proceeding under the BIA, (d) an order is entered by the CCAA Court dismissing the CCAA Proceedings, (e) the implementation of a plan of compromise or arrangement within the CCAA Proceedings, and (f) occurrence of an Event of Default.
Security	The DIP Facility will be secured by a super priority charge (the “ DIP Charge ”) granted in favour of the DIP Lender for all advances made to the Applicants subsequent to the date of the Initial Order, which charge shall rank subordinate only to the Administration Charge.
Financial covenant	Failure to be in compliance with the Cash Flow Forecast or permit negative variances with respect to the cumulative receipts and cumulative disbursements in the Cash Flow Forecast for any two week trailing period, to exceed the greater of (i) 15% and (ii) \$100,000.
Events of Default	A number of Events of Default, including: (a) Occurrence of an Event of Default under the US DIP Credit Agreement would result in an Event of Default under the Canada DIP Credit Agreement; and (b) Failure of the Court to permit Deerfield to credit bid its outstanding debt pursuant to the Facility Agreement in connection with the Applicants’ assets.

80. Pursuant to the Canada DIP Credit Agreement, the Proposed Monitor notes that as a condition of credit extension, the Applicants must provide an approved 13-week cash flow forecast to the DIP Lender within 14 days of the CCAA Application, in a form acceptable to the DIP Lender.
81. The Proposed Monitor has not been party to the ongoing negotiations between the Aralez Entities and the DIP Lender. However, the Proposed Monitor understands that the Aralez Entities solicited DIP financing proposals from nine lenders (including Deerfield), and the most competitive proposal submitted was from the DIP Lender. Further, as the Aralez Entities' senior secured lender, Deerfield indicated that it would not consent to a priming charge, and none of the other lenders agreed to provide interim financing on a subordinated basis.
82. The Applicants' advisors have advised the Proposed Monitor of the following regarding the Canada DIP Credit Agreement:
- (i) the Canada DIP Credit Agreement represents the best alternative available to the Applicants;
 - (ii) the Canada DIP Credit Agreement should ensure the continuation of the Applicants' operations and employment of its employees during the CCAA Proceedings;
 - (iii) the existing Stalking Horse Sales Process would be at risk if the Canada DIP Credit Agreement were not approved by the Court; and
 - (iv) substantially all of the assets of the Aralez Entities and, by extension, the Applicants, are already pledged as security to Deerfield pursuant to the Facility Agreement. As noted above, any alternative DIP lender would need to prime Deerfield, which Deerfield indicated it would oppose.
83. The Proposed Monitor understands the DIP Lender and the Chapter 11 Entities have also negotiated a senior secured, super-priority, debtor-in-possession credit agreement dated August 10, 2018 (the "**US DIP Credit Agreement**") in the maximum amount of \$5 million. The US DIP Credit Agreement and the Canada DIP Credit Agreement are coordinated facilities with largely the same principal terms and requirements, including a cross-default provision. The Proposed Monitor understands that the DIP Lender was not amenable to proceed otherwise since, although the CCAA Proceedings and Chapter 11 Proceedings are separate and not joint proceedings, they consist of a common exercise (the sale of the business and assets of the Aralez Entities) for the principal benefit of Deerfield (the senior secured creditor of the Aralez Entities).
84. The Applicants and their advisors have advised the Proposed Monitor that they will use the funds advanced under the Deerfield DIP Facility for working capital, general corporate purposes, transaction costs, pre-filing expenses (subject to Monitor or Court approval), post-filing expenses, and professional fees. As noted, the

Applicants require the Deerfield DIP Facility in order to continue operations and meet customer order requirements during the CCAA Proceedings.

85. The Proposed Monitor is of the view that, given the nature of the Applicants' assets and the terms of the existing Facility Agreement, the financial terms of the Deerfield DIP Facility appear commercially reasonable and comparable to other recent DIP financing packages in Canada.

X. PAYMENT OF CERTAIN PRE-FILING AMOUNTS

86. As noted in the Koven Affidavit, the Applicants do not manufacture any of their products, and the majority of their business is managed through several agreements with third-parties. If the supply chain is materially interrupted there could be adverse impacts on the Cash Flow Forecast and the Stalking Horse Sales Process. The Applicants are of the view that there is significant risk to the Applicants' business and restructuring if their ability to procure and sell products is interrupted in the first weeks of the CCAA Proceedings. Furthermore, it is critical that the Applicants maintain and continue the Customer Programs to preserve customer loyalty, support and goodwill in order to fully maximize the Stalking Horse Sales Process for the benefit of all stakeholders.
87. Pursuant to the Proposed Initial Order, the Applicants have sought the authority, but not the requirement, to pay certain pre-filing amounts related to the following:
- (i) Regulatory Fees – the Applicants' drug product portfolio is subject to regulation from Health Canada. The Proposed Monitor understands that the Applicants' regularly incur fees with third party service providers that assist the Applicants with the regulatory process. The Proposed Monitor understands these fees relate to the Applicants' drug product portfolio, including annual maintenance fees, audit fees, and fees relating to the submission of products for approval by Health Canada. As at August 8, the Applicants owed approximately \$170,000 relating to accrued or outstanding regulatory-related fees.
 - (ii) License/Royalty Fees – as noted, certain of the Applicants' products are licensed to Aralez Canada from third-parties, which are owed approximately \$6.3 million in accrued royalty, license and other fees. The Proposed Monitor understands certain of these licensors are located in jurisdictions outside of Canada.
 - (iii) Suppliers – the Applicants do not manufacture their own products and procure inventory from third-party manufacturers, certain of which are single-source manufacturers, licensor-owned manufacturers, and/or manufacturers located in jurisdictions outside of Canada. The Applicants estimate that as at August 8, 2018, these manufacturers are owed approximately \$1.3 million in accrued expenses.
88. In addition to the above, the Applicants are also seeking the authority, but not the requirement, to continue to honour and fulfill their obligations under the Customer Programs, including those relating to the period prior to

the date of the CCAA Application. Maintaining the relationships with its key customers during the CCAA Proceedings will maximize the value of Applicants' business for the benefit of all stakeholders. The Proposed Monitor understands the Applicants' had accrued obligations of approximately \$1.2 million related to the Customer Programs.

89. While the Proposed Initial Order prevents counterparties from terminating supply arrangements with the Applicants, the continued supply of drug products are critical to Aralez Canada's ongoing operations, and any interruption could negatively impact the going concern value and goodwill of the business.

Pursuant to the Proposed Initial Order, the Applicants shall only be entitled to pay such amounts contemplated under paragraph 7 of the Proposed Initial Order, if these payments are determined, by the Applicants, in consultation with the Monitor and the DIP Lender, to be necessary to the continued operation of the business or essential for the preservation of value for the Stalking Horse Sales Process. Any such amounts paid will be subject to the prior approval of the Monitor or the Court.

90. As noted above, the Cash Flow Forecast includes payment of certain pre-filing amounts. The Proposed Monitor understands that Deerfield is fully supportive of the Applicants making such payments to ensure the going-concern value of the business is maintained during the Stalking Horse Sales Process. The Proposed Monitor also understands that similar provisions are being sought within the Chapter 11 Proceedings.
91. The Proposed Monitor agrees with the Applicants' view that an interruption of goods and services provided by certain essential suppliers and/or pursuant to third-party agreements could have an immediate and adverse impact on the business, operations and cash flow of the Applicants. The Proposed Monitor also recognizes that the Applicants' available funding is limited and, as such, will work with the Applicants and A&M Canada to ensure that payments in respect of pre-filing liabilities are minimized.

XI. PROPOSED CHARGES

92. The Proposed Initial Order provides for a number of priority charges (collectively the "**Charges**") on the current and future assets, undertakings and properties of the Applicants wherever located, including all proceeds thereof, that rank in the following order:
- (i) First, the Administration Charge (to the maximum amount of CAD\$1.0 million);
 - (ii) Second, the DIP Charge (to the maximum amount of \$10.0 million);
 - (iii) Third, the Directors' Charge (to the maximum amount of CAD\$1.0 million); and
 - (iv) Fourth, the Transactional Fee Charge.

Administration Charge

93. The Proposed Initial Order provides for a priority charge up to a maximum of \$1.0 million (the “**Administration Charge**”) in favour of the Applicants’ counsel, Stikeman Elliott LLP, the Applicants’ financial advisors, A&M and Moelis (for 50% of the Monthly Fee, as described below), and the Proposed Monitor and its counsel, as security for the professional fees and disbursements incurred prior to and after the commencement of the CCAA proceedings.
94. As described above, the Aralez Entities retained Moelis pursuant to an engagement letter dated July 18, 2018 (the “**Moelis Engagement Letter**”) to assist with the Pre-Filing Sales Process and Moelis will continue to be involved with the Stalking Horse Sales Process. In return for its services, Moelis charges a monthly fee for its work in the amount of \$150,000 (the “**Monthly Fee**”), 50% of which will be paid by the Applicants. Pursuant to the Proposed Initial Order, the Applicants are seeking the Court’s confirmation of the retention of Moelis and approval of the Moelis Engagement Letter.
95. The Proposed Monitor notes that certain professionals from the U.S. could receive payment from the Applicants for services either provided directly to the Applicants or provided for the benefit of the Aralez Entities as a whole, as described below:
 - (i) A&M was retained by the Aralez Entities as part of the Strategic Review. During the Restructuring Proceedings, the Proposed Monitor understands that CCAA-related work will be continue to be performed by A&M Canada and billed to the Applicants and Chapter 11-related work will be performed by A&M US and billed to the Chapter 11 Entities. Where services are provided for the benefit of the Aralez Entities as a whole, the applicable A&M entity shall bill the CCAA Entities and the Chapter 11 Entities equally; and
 - (ii) In addition to Stikeman Elliott LLP, the Aralez Entities have retained Willkie Farr & Gallagher LLP (“**Willkie**”). The Proposed Monitor understands that while the majority of Willkie’s work will be for the benefit of the Chapter 11 Entities, certain services may be provided for the benefit of the Applicants, which amounts will be billed separately to the Applicants for payment.
96. To the extent necessary, A&M and Moelis will reconcile the fees billed to the Aralez Entities as a whole based on the allocation of proceeds of any sale. The Proposed Monitor notes that pursuant to the Proposed Initial Order, in the event a reconciliation of allocated fees is required, the Applicants will return to the Court to seek such allocation.

97. The amount of the Administration Charge sought by the Applicants was determined in consultation with the Proposed Monitor, and meets the terms of the Canada DIP Credit Agreement.
98. Given the foregoing, the Proposed Monitor is of the view that the proposed Administration Charge is reasonable in the circumstances.

DIP Charge

99. As noted above, the Applicants have insufficient liquidity to maintain operations and the Applicants require DIP financing to continue operations and pursue their restructuring plan.
100. As per the Canada DIP Credit Agreement, the DIP Lender will receive the benefit of the DIP Charge to a maximum amount of the aggregate of any and all advances made by the DIP Lender to the Applicants under the DIP Credit Agreement.
101. The DIP Credit Agreement provides the Applicants with access to the liquidity needed to finance its operations and working capital requirements and undertake its restructuring activities, including the Stalking Horse Sales Process. The Proposed Monitor recommends that the Court approve the DIP Credit Agreement and, as such, the Proposed Monitor also supports granting the DIP Charge.

Directors' Charge

102. The Proposed Initial Order provides for a charge to indemnify the current directors and officers of the Applicants (the "**Directors and Officers**") against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of these CCAA proceedings (the "**Directors' Charge**").
103. The Directors and Officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent such coverage is insufficient to pay an indemnified amount. As per the Koven Affidavit, the Proposed Monitor understands that the Applicants maintain directors' and officers' liability insurance.
104. The amount of the Directors Charge has been calculated by the Applicants taking into consideration sales taxes, employee payroll and related expenses (including source deductions) as well as other employment related liabilities that attract potential liability for Directors and Officers.
105. The Proposed Monitor has been informed (and as noted in the Koven Affidavit) that due to the potential for personal liability, the Directors and Officers are unwilling to continue their services and involvement in the CCAA Proceedings without the protection of the Directors' Charge. As the Applicants will require the

participation and experience of the Directors and Officers to facilitate the successful completion of the CCAA Proceedings, including participating in the Stalking Horse Sales Process, the Proposed Monitor believes that the Directors' Charge (both the amount and the priority ranking) is required and reasonable in the circumstances. The Proposed Monitor understands Deerfield has also consented to the Directors' Charge.

Transactional Fee Charge

106. In addition to the Monthly Fee, Moelis is entitled to a success fee (the "**Transaction Fee**") contingent upon the occurrence of a specified transaction, as detailed in the Moelis Engagement Letter. During the Restructuring Proceedings, Moelis shall allocate any Transaction Fees proportionately among the estates based on the proceeds of any sale.

107. Pursuant to the Proposed Initial Order, Moelis shall be entitled to a charge (the "**Transactional Fee Charge**") in respect of any obligation of the Applicants to pay a Transaction Fee.

XII. COMEBACK MOTION

108. Should the Court grant the Proposed Initial Order, the Proposed Monitor understands that the Applicants intend to return to the Court for the Comeback Motion seeking, among other relief:

- (i) approval of a cross-border protocol in order to coordinate proceedings between the Applicants and the Chapter 11 Entities;
- (ii) approval of a key employee incentive and retention program; and
- (iii) an extension of the stay of proceedings established by the Proposed Initial Order.

109. The Proposed Monitor further understands that the Applicants intend to return to the Court on notice for a motion (the "**Sales Process Motion**") seeking, among other things, approval of the Stalking Horse Sales Process.

110. Subsequent to the granting of the Proposed Initial Order, Richter (in its then capacity as Monitor) will report to the Court in connection with the Comeback Motion and the Sales Process Motion, as well as any other relief sought by the Applicants.

XIII. PROPOSED MONITOR'S CONCLUSION AND RECOMMENDATIONS

111. Without CCAA protection and access to interim financing, a shut-down of the Applicants' operations is inevitable, which would be detrimental to the Applicants' stakeholders, including employees and customers. CCAA protection will allow the Applicants to obtain a stay of proceedings and related relief, and provide an

opportunity to restructure their business and affairs. As noted, the Applicants intend to coordinate restructuring proceedings with the Chapter 11 Entities, should they be granted the relief sought from the U.S. Court.

112. For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable. The Proposed Monitor is also of the view that granting the relief requested will provide the Applicants the best opportunity to undertake a going concern sale or other restructuring under the CCAA, thereby preserving value for the benefit of the Applicants' stakeholders. As such, the Proposed Monitor supports the Applicants application for CCAA protection and respectfully recommends that the Court make an Order granting the relief sought by the Applicants in the Proposed Initial Order.

All of which is respectfully submitted this 10th day of August, 2018.

Richter Advisory Group Inc.
In its capacity as Proposed Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc. and not
in its personal or corporate capacity

Per:



Paul van Eyk,
CPA, CA-IFA, CIRP, LIT, Fellow of INSOL
Senior Vice President



Pritesh Patel,
MBA, CFA, CIRP, LIT
Vice President

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

Court File No. _____

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA
INC.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

REPORT OF PROPOSED MONITOR

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APPENDIX B

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Court File No. CV-18-603054-00CL

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

August 30, 2018

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**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

AUGUST 30, 2018

I. INTRODUCTION

1. On August 10, 2018 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Initial Order**”) granting Aralez Pharmaceuticals Inc. (“**API**”) and Aralez Pharmaceuticals Canada Inc. (“**Aralez Canada**” and together with API, the “**Companies**”) protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing Richter Advisory Group Inc. (“**Richter**”) as Monitor of the Companies in the CCAA proceedings (the “**Monitor**”). The Initial Order provided the Companies with a stay of proceedings until September 7, 2018 (the “**Stay Period**”). The Companies’ CCAA proceedings are referred to herein as the “**CCAA Proceedings**”.
2. Also on the Filing Date, Aralez Pharmaceuticals Management Inc., Aralez Pharmaceuticals R&D Inc., Aralez Pharmaceuticals U.S. Inc., POZEN Inc., Halton Laboratories LLC, Aralez Pharmaceuticals Holdings Limited and Aralez Pharmaceuticals Trading DAC (collectively with each of the foregoing entities, the “**Chapter 11 Entities**”, and with the Companies, collectively the “**Aralez Entities**”) each filed voluntary petitions with the United States Bankruptcy Court for the Southern District of New York (the “**U.S. Court**”) for relief under title 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1532 (the “**Chapter 11 Proceedings**” and together with the CCAA proceedings, the “**Restructuring Proceedings**”).
3. Richter, in its capacity as Proposed Monitor, provided this Court with a report dated August 10, 2018 (the “**Pre-Filing Report**”) that contained information on, *inter alia*, the causes of the Companies’ insolvency, an overview of the Companies’ financial position, an overview of the Companies’ 13-week cash-flow forecast, and the Proposed Monitor’s associated conclusions and recommendations. A copy of the Pre-Filing Report (without exhibits) is attached as **Appendix “A”** to this report.

II. PURPOSE OF REPORT

4. The purpose of this First Report of the Monitor (the “**First Report**”) is to provide information to the Court pertaining to:
 - (i) an overview of the activities of the Companies and the Monitor since the issuance of the Initial Order;
 - (ii) the Companies’ reported receipts and disbursements for the period from August 10, 2018 to August 24, 2018, including a comparison of reported to forecast results;
 - (iii) the Companies’ revised cash flow forecast (the “**Revised Cash Flow Forecast**”) for the period August 25, 2018, to November 16, 2018 (the “**Forecast Period**”);
 - (iv) the Companies request for an extension of the Stay Period to November 14, 2018;

- (v) proposed amendments to the Initial Order, including a charge (the “**Transactional Fee Charge**”) in favour of Moelis & Company LLC (“**Moelis**”) and implementing the Cross-Border Protocol (as defined below); and
- (vi) the Monitor’s support for the Companies’ request that this Court grant an Order:
 - (a) extending the Stay Period to November 14, 2018; and
 - (b) approving the proposed amendments to the Initial Order for the Transactional Fee Charge and the Cross-Border Protocol.

III. TERMS OF REFERENCE

5. In preparing this First Report, the Monitor has relied solely on information and documents provided by the Companies and their advisors, including unaudited financial information, declarations and affidavits of the Companies’ executives and other information from the Companies’ financial advisor, Alvarez & Marsal Canada Inc. (“**A&M Canada**”) (collectively, the “**Information**”). In accordance with industry practice, except as otherwise described in the First Report, Richter has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards (“**GAAS**”) pursuant to the *Chartered Professional Accountants of Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
6. Future orientated financial information contained in the Revised Cash Flow Forecast is based on the Companies’ estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flow Forecast will be achieved.
7. Unless otherwise stated, all monetary amounts noted herein are expressed in United States dollars, which is the Companies’ common reporting currency.
8. Capitalized terms used but not defined in this First Report are defined in the Pre-Filing Report and the Affidavit of Mr. Andrew Koven sworn August 28, 2018 (the “**August 28 Koven Affidavit**”) filed in support of the herein motion. This First Report should be read in conjunction with the August 28 Koven Affidavit, as certain information contained in the August 28 Koven Affidavit has not been included herein in order to avoid unnecessary duplication.

9. Copies of all Court documents and other material documents pertaining to the CCAA Proceedings are available on the Monitor's website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>.

IV. ACTIVITIES OF THE COMPANIES

10. Since the date of the Initial Order, the Companies, with the assistance of its advisors and the Monitor, have been managing their operations in the normal course and working to stabilize the business as a result of the CCAA Proceedings. The Companies' primary focus, in addition to managing relationships with key stakeholders and addressing operational issues arising in connection with the announcement of the commencement of the Restructuring Proceedings, has been to prepare a court-supervised sales process in coordination with the Chapter 11 Entities.
11. As outlined in the August 28 Koven Affidavit, the activities of the Companies, with the support of their financial and legal advisors, have included:
- (i) managing key relationships with customers and suppliers, in particular, managing post-filing supply agreements and maintaining the continued availability of products;
 - (ii) working with A&M Canada, in consultation with the Monitor, in managing their cash flows and making payments to creditors in accordance with the Initial Order;
 - (iii) in connection with a debtor-in-possession ("**DIP**") facility, providing information and cash-flow reporting to Deerfield Private Design Fund III, LP., and Deerfield Partners, L.P., as lenders (collectively, "**Deerfield**") and Deerfield Management Company L.P., as administrative agent ("**Deerfield Management**", and collectively with Deerfield, the "**DIP Lender**") as required pursuant to the terms of the DIP credit agreement dated August 10, 2018 (the "**Canada DIP Credit Agreement**");
 - (iv) developing key employee retention and incentive plans (the "**Retention and Incentive Plans**") for employees and executives that are critical to maintaining the on-going concern of the Aralez Entities and key to supporting the sales process intended to be implemented in these CCAA Proceedings; and
 - (v) working with Moelis and the Chapter 11 Entities to prepare a coordinated sales process to be approved by the Court and the U.S. Court, including negotiating three agreements with two stalking horse purchasers.
12. As noted in the August 28 Koven Affidavit and in the Pre-Filing Report, the Companies intend to return to this Court for approval of a stalking horse sales process (the "**Stalking Horse Sales Process**"), including stalking horse agreements, auction process and bid procedures. The Monitor will report at that time to the Court on the Stalking Horse Sales Process, as well as certain other relief that may be sought by the Companies.

V. ACTIVITIES OF THE MONITOR

13. Since the date of the Initial Order, the Monitor's activities have included:

- (i) arranging for notice of the CCAA Proceedings to be published in the August 16, 2018 and August 23, 2018 editions of the Globe and Mail, as required pursuant to the Initial Order;
- (ii) sending a notice, within five days of the issuance of the Initial Order, of the CCAA Proceedings to all known creditors with claims greater than \$1,000 against the Companies. Notice was also sent to other creditors, including government bodies and any other party that requested a copy;
- (iii) filing prescribed documents with the Office of the Superintendent of Bankruptcy pursuant to the CCAA;
- (iv) establishing and maintaining a website where all Court documents and other material documents pertaining to the CCAA Proceedings are available in electronic form;
- (v) arranging for a toll-free hotline and dedicated email address through which the Companies' creditors or other interested parties can make inquiries related to the CCAA Proceedings;
- (vi) implementing procedures for the monitoring of the Companies' cash flows and for ongoing reporting of variances to the Companies' cash flow forecast;
- (vii) approving the payment of certain pre-filing obligations of the Companies pursuant to the terms of the Initial Order;
- (viii) attending at the Companies' premises and meeting with the Companies' management to discuss the Companies' operations and the CCAA Proceedings;
- (ix) reviewing materials filed with the Court in respect of the CCAA Proceedings and Chapter 11 Proceedings;
- (x) corresponding and communicating extensively with the Companies, their legal counsel and A&M Canada with respect to the proceedings to date and extensively planning for further steps in these proceedings, including the development of the Retention and Incentive Plans;
- (xi) corresponding with the Companies, their legal counsel, A&M Canada, Moelis, the DIP Lender and counsel to one or more prospective stalking horse purchasers with respect to the Stalking Horse Sale Process, including the negotiation of key documents and agreements in connection therewith;
- (xii) corresponding and communicating with the DIP Lender and its legal counsel;
- (xiii) corresponding and communicating with the Monitor's legal counsel, Torys LLP ("**Tor**ys");

- (xiv) responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings; and
- (xv) preparing this First Report.

VI. CASH RECEIPTS AND DISBURSEMENTS FROM AUGUST 10, 2018 TO AUGUST 24, 2018

14. The Companies' consolidated cash flow projection for the period from August 10, 2018, to November 2, 2018 (the "Initial Cash Flow Forecast"), was filed with the Court in support of the Companies' application returnable August 10, 2018 seeking, *inter alia*, the Initial Order.
15. The Companies have provided the Monitor with their co-operation and access to their premises, books and records. The Monitor has implemented procedures for monitoring the Companies' receipts and disbursements on a weekly basis. The Monitor, with the assistance of A&M Canada, has also worked with the Companies to prepare forecast to actual variance analysis with respect to their weekly cash flows as compared to the Initial Cash Flow Forecast.
16. A comparison of the Companies' actual cash receipts and disbursements as compared to the Initial Cash Flow Forecast for the period ending August 24, 2018 is summarized as follows:

Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. Cash Flow Variance Analysis For the Period From August 10, 2018 - August 24, 2018			
<i>(C\$ in Millions)</i>	Forecast	Actual	Variance
OPERATING RECEIPTS			
Net Sales Receipts	\$1.4	\$1.3	(\$0.1)
Net Operating Receipts	\$1.4	\$1.3	(\$0.1)
OPERATING DISBURSEMENTS			
Inventory Purchases	(2.0)	(0.2)	1.8
Royalty Payments	(0.3)	0.0	0.3
Payroll Related Expenses	(0.4)	(0.1)	0.3
Operating Expenses	0.0	(0.2)	(0.2)
Rent	0.0	0.0	0.0
Topco Operating Expenses	(0.3)	(0.0)	0.2
Total Operating Disbursements	(\$3.0)	(\$0.6)	\$2.4
NET OPERATING CASH FLOW	(\$1.6)	\$0.8	\$2.3
NON-OPERATING DISBURSEMENTS			
Professional Fees	(0.3)	0.0	0.3
Total Non-Operating Disbursements	(\$0.3)	\$0.0	\$0.3
Net Operating and Non-Operating Cash Flow	(\$1.9)	\$0.8	\$2.6
DIP Drawdown	0.0	0.0	0.0
Total Net Cash Flow	(\$1.9)	\$0.8	\$2.6
CASH BALANCE			
Beginning Balance	\$6.0	\$6.3	\$0.3
Total Net Cash Flow	(1.9)	0.8	2.6
Ending Balance	\$4.1	\$7.0	\$2.9

17. As reflected in the summary table above, the Companies reported positive net cash flow of approximately CAD\$0.8 million and the Companies had a cash balance of approximately CAD\$7.0 million, as at August 24, 2018. The actual cash balance is approximately CAD\$2.9 million higher than forecast.
18. The principal reasons for the favourable cash flow variance of approximately CAD\$2.9 million include:
 - (i) timing differences primarily due to lower than anticipated inventory purchases and royalty payments as well as permanent differences relating to lower than projected payroll costs; and
 - (ii) timing differences associated with lower than projected disbursements for professional fees. The Monitor understands that this favourable variance will reverse in the coming weeks.
19. In accordance with the Initial Order, any payments made by the Companies for expenses incurred prior to the Filing Date, as these expenses were determined by the Companies to be necessary for the continued operation of the business or essential for the preservation of value for the Stalking Horse Sales Process, were made in consultation with the Monitor and the DIP Lender.
20. The Monitor notes that the Canada DIP Credit Agreement contains, among other things, certain milestone dates the Companies need to achieve with respect to the Stalking Horse Sales Process. The Monitor has advised the DIP Lender that certain of the milestone dates may no longer be achievable and discussed this with counsel to the Companies. The Monitor is confident that these matters will be addressed as the Stalking Horse Sales Process is further advanced and finalized.

VII. REVISED CASH FLOW FORECAST

21. Pursuant to the Canada DIP Credit Agreement, the Companies were required to provide an approved 13-week cash flow forecast to the DIP Lender, in a form acceptable to the DIP Lender, as a condition of credit extension. As the Court was advised at the initial CCAA hearing, the parties had agreed to a further 14 day period in which to settle certain budget items (i.e. relating to budgeting professional fees and disbursements to be paid by the Companies). That matter was resolved. The Companies, with the assistance of A&M Canada and in consultation with the Monitor, prepared the Revised Cash Flow Forecast, representing a revised forecast of its receipts, disbursements and financing requirements during the Forecast Period. The Monitor understands the Revised Cash Flow Forecast was approved by the DIP Lender on or about August 24, 2018.

22. A copy of the Revised Cash Flow Forecast, including the notes and assumptions thereto, is attached hereto as **Appendix “B”** and is summarized below:

Aralez Pharmaceutical Inc. and Aralez Pharmaceuticals Canada Inc. 12-Week Cash Flow Forecast For the Period Ending November 16, 2018	
<i>(C\$ in Millions)</i>	Total
OPERATING RECEIPTS	
Net Sales Receipts	\$7.1
Other Receipts	0.0
Net Operating Receipts	\$7.1
OPERATING DISBURSEMENTS	
Inventory Purchases	(3.7)
Royalty Payments	(5.3)
Payroll Related Expenses	(1.7)
Operating Expenses	(2.6)
Rent	(0.1)
Topco Operating Expenses	(1.7)
Total Operating Disbursements	(\$15.2)
NET OPERATING CASH FLOW	(\$8.1)
NON-OPERATING DISBURSEMENTS	
Professional Fees	(3.6)
Total Non-Operating Disbursements	(\$3.6)
Net Operating and Non-Operating Cash Flow	(\$11.7)
DIP Drawdown	7.9
Total Net Cash Flow	(\$3.8)
WEEKLY LIQUIDITY	
Beginning Balance	\$7.0
Total Net Cash Flow	(3.8)
Ending Balance	\$3.3

23. As at August 25, 2018, the Companies had approximately CAD\$7.0 million of cash on hand. The Revised Cash Flow Forecast projects that the Companies will experience a net cash outflow of approximately CAD\$11.7 million over the Forecast Period, comprised of:

- (i) cash receipts of approximately CAD\$7.1 million, primarily related to the collection of existing receivables and new sales generated from the product portfolio of Aralez Canada; and
- (ii) cash disbursements of approximately CAD\$18.8 million, primarily related to payroll and benefits, operating expenses, procurement of post-filing inventory, as well as the payment of certain pre-filing expenses (as provided for in the Initial Order) and the costs of the CCAA Proceedings.

24. The Revised Cash Flow Forecast projects borrowings under the Canada DIP Credit Agreement in the amount of CAD\$7.9 million over the Forecast Period.

25. The Monitor’s review of the Revised Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to Information supplied to it by the Companies and/or their advisors. Since the probable and hypothetical assumptions need not be supported, the Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Cash Flow Forecast. The

Monitor also reviewed the support provided by management of the Companies for the probable and hypothetical assumptions, and the preparation and presentation of the Revised Cash Flow Forecast.

26. Based on the Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:
- (i) the probable and hypothetical assumptions are not consistent with the purpose of the Revised Cash Flow Forecast;
 - (ii) as at the date of this First Report, the probable and hypothetical assumptions developed by the Companies and its advisors are not suitably supported and consistent with the restructuring plan of the Companies or do not provide a reasonable basis for the Revised Cash Flow Forecast; or
 - (iii) the Revised Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

VIII. STAY EXTENSION

27. The current stay period expires on September 7, 2018. The Companies are seeking an extension of the Stay Period to November 14, 2018.
28. The Monitor supports the Companies' request for an extension of the stay of proceedings from September 7, 2018 to November 14, 2018 for the following reasons:
- (i) the Companies are acting in good faith and with due diligence;
 - (ii) the extension will provide the opportunity to advance the Stalking Horse Sales Process;
 - (iii) the granting of the extension should not materially prejudice any creditor of the Companies as the Revised Cash Flow Forecast reflects that the Companies are projected to have sufficient funding to continue to operate in the normal course through the proposed stay extension period; and
 - (iv) Deerfield, being the Secured Lender and DIP Lender in these CCAA Proceedings, supports the stay extension.

IX. PROPOSED AMENDMENTS TO INITIAL ORDER

29. As outlined in the August 28 Koven Affidavit, the Companies are seeking certain amendments to the Initial Order to include: (i) an additional charge in connection with the Transactional Fee Charge; and (ii) approval of the Cross-Border Protocol.

Transactional Fee Charge

30. As set out in the Pre-Filing Report and the August 28 Koven Affidavit, Moelis was retained in July 2018 by the Aralez Entities and has been actively involved in assisting them with their operational and strategic review. Moelis has played a leading role in the Aralez Entities' restructuring efforts undertaken to date, including securing interim financing pursuant to the Canada DIP Credit Agreement.
31. The Monitor and its counsel have reviewed the engagement letter dated July 18, 2018, issued by Moelis (the "**Moelis Engagement Letter**"), including specifically the compensation arrangements between Moelis and the Aralez Entities. A copy of the Moelis Engagement Letter is included as Exhibit "C" to the August 28 Koven Affidavit. The Monitor notes that included in the Moelis Engagement Letter is a reference to a previous engagement letter dated December 20, 2017 (the "**Original Engagement Letter**") which was amended and restated as at July 18, 2018. The Monitor had a discussion with Moelis who advised the Monitor that it has been working with and supporting the Aralez Entities since early 2018 as part of a strategic review on similar terms as set out under the Moelis Engagement Letter. The Monitor has not requested nor has it reviewed a copy of the Original Engagement Letter.
32. The Moelis Engagement Letter provides for the payment of fees described in the table below (collectively, the "**Transactional Fees**"). Terms capitalized in the table on the next page have the meaning ascribed thereto in the Moelis Engagement Letter.

Fee Type	Quantum	Credit Against Other Fees	Tail
Transaction Fee	2% of Transaction Value subject to a minimum fee of \$2.5 million	No	12 months post-termination
Restructuring Fee	One-time fee of \$3.5 million	No	12 months post-termination
New Financing Fee / Refinancing Fee (collectively "Financing Fee")	1.5% of gross proceeds of any debt capital (including DIP financing) 3.5% of gross proceeds of any equity raised 1.0% of debt refinanced	(i) If DIP financing is raised solely from Deerfield, 100% of the Financing Fee paid pursuant to this DIP financing shall be credited (the "DIP Credit") against the Restructuring Fee (ii) 50% of the Financing Fee shall be credited against the Transaction Fee (outside of an insolvency filing)	12 months post-termination
Work Fee	\$150,000 a month	50% of the 5th and continued Monthly Fees will be credited against the Restructuring Fee	N/A
Discretionary Fee	N/A - Monitor has been advised that a Discretionary Fee will not be paid	N/A	N/A

33. Pursuant to the Moelis Engagement Letter, the aggregate amount of the Transaction Fee, the Restructuring Fee (after applicable credits) and the DIP Credit shall not exceed \$6.5 million. However, certain additional fees (including the Work Fee and/or any additional Financing Fee) which are excluded from the aforementioned formula may drive the total fees payable to Moelis above \$6.5 million. A final allocation of these fees as between the Companies and the Chapter 11 Entities will not be determined until the conclusion of the sales process (i.e. once final recoveries for the Companies and the Chapter 11 Entities are known).
34. The Moelis Engagement Letter also requires the Aralez Entities to seek an order granting Moelis a charge for its potential fees and disbursements. As described in the Pre-Filing Report, the Administration Charge does not

include the Transactional Fees and only includes Moelis for 50% of its Work Fee, which represents the amount payable by the Companies, subject to later allocation between the Companies and the Chapter 11 Entities. Accordingly, the Companies are seeking the Transactional Fee Charge of up to \$2.5 million in favour of Moelis for the Transactional Fees, which is to rank subordinate to the Administration Charge, the DIP Lender's Charge and the D&O Charge (each as defined in the Initial Order). This proposed Transactional Fee Charge represents approximately 38% of Moelis' potential maximum Transactional Fees (excluding potential additional fees and/or credits to be applied as noted above).

35. Moelis is a reputable financial advisor and investment banker and has experience in providing the services contemplated in the context of a Court-supervised restructuring proceeding. The Monitor is of the view that the engagement of Moelis by the Aralez Entities is beneficial to the Aralez Entities and its stakeholders generally.
36. The Monitor and its counsel have reviewed publicly available information in respect of the terms of engagement of financial advisors in past CCAA proceedings. Based on this review, the Monitor is of the view that, when considering Moelis' aggregate Transactional Fees (\$6.5 million) relative to the potential value of the Aralez Entities, the fees contemplated under the Moelis Engagement Letter are within market parameters. The Monitor notes that they are potentially on the higher end of the range if up to \$2.5 million is allocated to a Canadian transaction(s) in these CCAA Proceedings, however, the Monitor also notes that Moelis could earn a total fee in excess of \$2.5 million if the realizations on the Canadian assets are substantive. In summary, until a successful sales process is concluded and appropriate allocations are determined, the Monitor cannot finalize its determination as to the appropriate amount to be allocated to these CCAA Proceedings.
37. The Monitor is satisfied that appropriate safe-guards can be relied upon at a later date to determine the appropriate fee to allocate to these CCAA Proceedings, including: (i) the Transactional Fee Charge is capped at \$2.5 million; and, (ii) the above Transaction Fee shall also be allocated proportionally among the estates based on sales proceeds in a similar fashion as per the Monthly Fee noted in the Pre-Filing Report, both subject to Monitor review and the Court's approval at a later date. This subsequent allocation mechanism will afford the Monitor the opportunity to review the outcome of a successful sales process and provide this Court with details to support an actual Transaction Fee. At the same time, the cap amount of \$2.5 million should provide Moelis with an appropriate incentive to maximize the value of the Canadian assets in these CCAA Proceedings.
38. The Monitor supports the above Transactional Fee Charge up to \$2.5 million for Moelis for the following reasons:

- (i) Moelis has been working with the Aralez Entities extensively since its initial engagement and has undertaken a fulsome process in canvassing the market for potential buyers, refinancing of debt and/or raising of capital;
- (ii) Moelis has played a key role and will continue to lead and support the Aralez Entities negotiations with prospective stalking horse parties as well as continue to support Canadian and U.S. counsel with structuring an appropriate sales process and bidding procedures;
- (iii) Moelis will play a key role in the upcoming Stalking Horse Sales Process and will be critical to the successful completion of the going-concern restructuring of the Companies;
- (iv) the proposed Transactional Fees in aggregate as a % of the potential sales proceeds of the Aralez Entities is expected to be comparable with other investment banking type mandates in Canada (including other cross-border mandates of this nature);
- (v) the Monitor understands the DIP Lender and Deerfield support the Transactional Fee Charge; and
- (vi) Moelis has agreed to a ceiling on the Transactional Fee Charge of \$2.5 million and has agreed at the end of the sales process to allocate their monthly work fee and Transactional Fees based on the proceeds of any sale, subject to Monitor review and Court approval.

39. Given the foregoing, the Monitor is of the view the proposed Transactional Fee Charge is reasonable in the circumstances.

Cross-Border Protocol

40. The Aralez Entities operate a global business with assets and operations in multiple countries. As detailed in the August 28 Koven Affidavit, the Aralez Entities are proposing a cross-border protocol to facilitate the administration of the restructuring proceedings of the Companies and the Chapter 11 Entities (the “**Cross-Border Protocol**”). The Companies are proposing the Cross-Border Protocol to address issues that may arise given the global footprint of the Aralez Entities and the fact that the Stalking Horse Sales Process will closely involve and require coordination among the Court and the U.S. Court.

41. Given that the Aralez Entities have initiated both the CCAA Proceedings and the Chapter 11 Proceedings, the Cross-Border Protocol ensures an effective coordination and administration of both proceedings by the Court and the U.S. Court. The Cross-Border Protocol, as more fully described in the August 28 Koven Affidavit, is summarized as follows:

- (i) principal purpose is to: (a) coordinate the Restructuring Proceedings to avoid, if possible, conflicting or duplicative rulings by the Court and U.S. Court; (b) provide sufficient notice of key issues in the

Restructuring Proceedings to all interested parties; (c) protect and preserve the substantive rights of all interested parties to the Restructuring Proceedings; and (d) preserve the jurisdictional integrity of the Court and the U.S. Court;

- (ii) provides for court-to-court communication and joint hearings, if required and appropriate in the circumstances;
- (iii) provides for the recognition of stays of proceedings granted by the Court and the U.S. Court , and vice versa;
- (iv) provides for the retention and compensation of the professionals involved in both proceedings, and confirms that the Canadian advisors and representatives, including the Monitor and its legal counsel, shall not be required to have their fees and disbursements approved by the U.S. Court; and
- (v) sets out the notice procedures for all motions and applications made in the Restructuring Proceedings to matters addressed by the Cross-Border Protocol.

42. The Monitor's counsel, Torys, has reviewed the proposed Cross-Border Protocol and has advised that it is consistent with the protocols established in other recent cross-border cases. The Monitor understands that it is the intention of the Chapter 11 Entities to also seek approval of the Cross-Border Protocol by the U.S. Court. The Monitor supports the Companies request for the proposed Cross-Border Protocol.

X. MONITOR'S CONCLUSION AND RECOMMENDATIONS

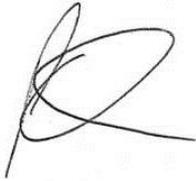
43. For the reasons set out in this First Report, the Monitor is of the view that the relief requested by the Companies is both appropriate and reasonable. As such, the Monitor recommends that this Court make an order:

- (i) extending the Stay Period to November 14, 2018; and
- (ii) approving the proposed amendments to the Initial Order for the Transactional Fee Charge and the Cross-Border Protocol.

All of which is respectfully submitted this 30th day of August, 2018.

**Richter Advisory Group Inc.
In its capacity as Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc. and not
in its personal or corporate capacity**

Per:



**Paul van Eyk,
CPA, CA-IFA, CIRP, LIT, Fellow of INSOL
Senior Vice President**



**Pritesh Patel,
MBA, CFA, CIRP, LIT
Vice President**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

Court File No. CV-18-603054-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA
INC.**

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at Toronto

FIRST REPORT OF THE MONITOR

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Pharmaceuticals Inc. and Aralez
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APPENDIX C

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Court File No. CV-18-603054-00CL

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

October 5, 2018

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**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

OCTOBER 5, 2018

I. INTRODUCTION

1. On August 10, 2018 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Initial Order**”) granting Aralez Pharmaceuticals Inc. (“**API**”) and Aralez Pharmaceuticals Canada Inc. (“**Aralez Canada**” and together with API, the “**Companies**”) protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing Richter Advisory Group Inc. (“**Richter**”) as Monitor of the Companies in the CCAA proceedings (the “**Monitor**”). The Initial Order provided the Companies with a stay of proceedings until September 7, 2018 (the “**Stay Period**”). The Companies’ CCAA proceedings are referred to herein as the “**CCAA Proceedings**”.
2. Also on the Filing Date, Aralez Pharmaceuticals Management Inc., Aralez Pharmaceuticals R&D Inc., Aralez Pharmaceuticals U.S. Inc., POZEN Inc. (“**Pozen**”), Halton Laboratories LLC, Aralez Pharmaceuticals Holdings Limited and Aralez Pharmaceuticals Trading DAC (“**Aralez DAC**” and collectively with each of the foregoing entities, the “**Chapter 11 Entities**”, and with the Companies, collectively the “**Aralez Entities**”) each filed voluntary petitions with the United States Bankruptcy Court for the Southern District of New York (the “**U.S. Court**”) for relief under title 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1532 (the “**Chapter 11 Proceedings**” and together with the CCAA proceedings, the “**Restructuring Proceedings**”).
3. On September 5, 2018, the Court issued the Amended and Restated Initial Order (the “**Amended Initial Order**”), which incorporated certain amendments to the Initial Order granted on August 10, 2018, including the granting of a charge (the “**Transactional Fee Charge**”) in favour of Moelis & Company LLC (“**Moelis**”), the Aralez Entities’ investment banker and transaction advisor. On September 5, 2018, the Court also issued an order (the “**Stay Extension Order**”) extending the stay of proceedings in respect of the Companies to November 14, 2018.
4. Richter, in its capacities as Proposed Monitor and Monitor, has previously provided this Court with two reports (the “**Prior Reports**”). The Prior Reports, the Amended Initial Order and copies of other material documents pertaining to the CCAA Proceedings are available on the Monitor’s website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>.

II. PURPOSE OF REPORT

5. The purpose of this report of the Monitor (the “**Second Report**”) is to provide information to the Court pertaining to:
 - (i) an overview of the activities of the Companies and the Monitor since August 30, 2018, the date of the Monitor’s first report to the Court (the “**First Report**”);

- (ii) the Companies' reported receipts and disbursements for the period from August 25, 2018, to September 28, 2018, including a comparison of reported to forecast results;
- (iii) the Companies' revised cash flow forecast (the "**Revised Cash Flow Forecast**") for the period from September 29, 2018, to December 7, 2018 (the "**Forecast Period**");
- (iv) the proposed stalking horse sales process (the "**Sales Process**") pursuant to which the business and assets of the Aralez Entities, including the Companies, will be marketed for sale, including the bidding procedures (the "**Bidding Procedures**") to be used in connection with the Sales Process, and the Monitor's recommendation thereon;
- (v) the material terms and conditions of the share purchase agreement (the "**Canadian Stalking Horse Agreement**") dated September 18, 2018, between the Companies and Nuvo Pharmaceuticals Inc. ("**Nuvo**" or the "**Canadian Stalking Horse Bidder**") for the sale of all of the shares of Aralez Canada, which the Canadian Stalking Horse Agreement will, subject to approval by the Court, serve as a stalking horse bid as part of the Sales Process;
- (vi) an overview of the Genus Amendment (as defined hereinafter);
- (vii) an overview of the claims procedure (the "**Claims Procedure**") proposed by the Companies to solicit claims against the Companies and any of the Companies' current and former directors and officers (the "**Directors and Officers**");
- (viii) the Companies' request for an extension of the Stay Period to December 7, 2018; and
- (ix) the Monitor's support for the Companies' request that this Court grant Orders:
 - (a) approving the Sales Process, Bidding Procedures and the Bid Protections Charge (as defined hereinafter);
 - (b) approving the Canadian Stalking Horse Agreement and authorizing the Companies, *nunc pro tunc*, to execute the Canadian Stalking Horse Agreement;
 - (c) approving the Genus Amendment and the related relief sought by the Companies;
 - (d) approving the Claims Procedure and authorizing the Monitor and the Companies to carry out same (the "**Claims Procedure Order**"); and
 - (e) extending the Stay Period to December 7, 2018.

III. TERMS OF REFERENCE

6. In preparing this Second Report, the Monitor has relied solely on information and documents provided by the Companies and their advisors, including unaudited financial information, declarations and affidavits of the Companies' executives and other information from the Companies' financial advisor, Alvarez & Marsal Canada Inc. ("**A&M Canada**") (collectively, the "**Information**"). In accordance with industry practice, Richter has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants of Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
7. Future orientated financial information contained in the Revised Cash Flow Forecast is based on the Companies' estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flow Forecast will be achieved.
8. Unless otherwise stated, all monetary amounts noted herein are expressed in United States dollars, which is the Companies' common reporting currency.
9. Capitalized terms used but not defined in this Second Report are defined in the Canadian Stalking Horse Agreement, the Bidding Procedures, or the Affidavit of Mr. Adrian Adams sworn October 1, 2018 (the "**Adams Affidavit**") filed in support of the herein motion. This Second Report should be read in conjunction with the Adams Affidavit, as certain information contained in the Adams Affidavit has not been included herein in order to avoid unnecessary duplication.

IV. ACTIVITIES OF THE COMPANIES

10. Since the Filing Date, the Companies, with the assistance of its advisors and the Monitor, have been managing their operations in the normal course and working to stabilize the business as a result of the CCAA Proceedings. The Companies' primary focus, in addition to the activities listed below, has been to prepare a court-supervised sales process in coordination with the Chapter 11 Entities as well as the Claims Procedure as discussed later in the Second Report.
11. As outlined in the Adams Affidavit, the additional activities of the Companies, with the support of their financial and legal advisors, since the date of the First Report have included:

- (i) managing key relationships with customers and suppliers, in particular, managing post-filing supply agreements and the continued availability of products;
 - (ii) working with A&M Canada, in consultation with the Monitor, in managing their cash flows and making payments to creditors in accordance with the Amended Initial Order;
 - (iii) providing information and cash-flow reporting to Deerfield Private Design Fund III, LP., and Deerfield Partners, L.P., as lenders (collectively, “**Deerfield**”) and Deerfield Management Company L.P., as administrative agent (“**Deerfield Management**”, and collectively with Deerfield, the “**DIP Lender**”) as required pursuant to the terms of the debtor-in-possession credit agreement dated August 10, 2018 (the “**Canada DIP Credit Agreement**”);
 - (iv) working with the Chapter 11 Entities to advance the Restructuring Proceedings in a coordinated manner on matters of common interest, including the Sales Process, a cross-border protocol, and developing key employee retention and incentive plans for employees and executives (the “**KEIP/KERP Plans**”) that are critical to maintaining the going concern value of the Aralez Entities and key to supporting the Sales Process; and
 - (v) negotiating the terms of the Canadian Stalking Horse Agreement.
12. As noted in the Adams Affidavit, on August 31, 2018, the Companies and the DIP Lender executed the first amendment to the Canada DIP Credit Agreement to revise certain milestone dates in connection with the Canadian Stalking Horse Agreement and the Sales Process, as well as to correct a reporting discrepancy between the Canada DIP Credit Agreement and the debtor-in-possession financing agreement provided to the Chapter 11 Entities (the “**US DIP Credit Agreement**”). On September 14, 2018, the Companies and the DIP Lender executed the second amendment to the Canada DIP Credit Agreement to further revise certain milestone dates in connection with the Canadian Stalking Horse Agreement and the Sales Process. As permitted by the terms of the Canada DIP Credit Agreement, certain provisions of the Canada DIP Credit Agreement, including the case milestones, may be amended or modified with the written consent of the DIP Lender. Copies of the DIP amendments are attached as Exhibit “C” to the Adams Affidavit.

V. ACTIVITIES OF THE MONITOR

13. Since the date of the First Report, the Monitor’s activities have included:
- (i) monitoring of the Companies’ cash flows and reviewing analyses on variances to the Companies’ cash flow forecast;

- (ii) approving the payment of certain pre-filing obligations of the Companies pursuant to the terms of the Amended Initial Order;
- (iii) attending at Court in connection with the Amended Initial Order and the Stay Extension Order;
- (iv) attending at the Companies' premises and meeting with the Companies' management to discuss the Companies' operations and the CCAA Proceedings;
- (v) reviewing, and where appropriate, commenting on materials filed with the Court in respect of the CCAA Proceedings and Chapter 11 Proceedings;
- (vi) corresponding and communicating extensively with the Companies, their legal counsel and A&M Canada with respect to the proceedings to date and extensively planning for further steps in these proceedings;
- (vii) corresponding with the Companies, their legal counsel, A&M Canada, Moelis, and the DIP Lender in connection with, among other things, the Sale Process, Bidding Procedures, the KEIP/KERP Plans, the Genus Amendment (as defined hereinafter), the cross-border protocol, and the Canadian Stalking Horse Agreement;
- (viii) corresponding with counsel to the Canadian Stalking Horse Bidder with respect to the Sales Process;
- (ix) keeping apprised and participating in the negotiation of key documents and agreements in connection with the Sales Process;
- (x) corresponding and communicating with the DIP Lender and its legal counsel;
- (xi) corresponding and communicating with the proposed counsel to the Official Committee of Unsecured Creditors (the "**UCC**") appointed in the Chapter 11 Proceedings;
- (xii) corresponding and communicating with the Monitor's legal counsel, Torys LLP ("**Torys**");
- (xiii) responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings; and
- (xiv) preparing this Second Report.

VI. CASH RECEIPTS AND DISBURSEMENTS FROM AUGUST 25, 2018, TO SEPTEMBER 28, 2018

14. The Companies' consolidated cash flow projection for the period from August 25, 2018, to November 16, 2018 (the "**August 25 Cash Flow Forecast**"), was filed with the Court in support of the Companies' application returnable September 5, 2018, seeking, *inter alia*, an extension of the Stay Period.

15. The Companies have continued to provide the Monitor with their co-operation and access to their premises, books and records. The Monitor has implemented procedures for monitoring the Companies' receipts and disbursements on a weekly basis. The Monitor, with the assistance of A&M Canada, has also worked with the Companies to prepare forecast to actual variance analyses with respect to their weekly cash flows as compared to the August 25 Cash Flow Forecast.
16. A comparison of the Companies' actual cash receipts and disbursements as compared to the August 25 Cash Flow Forecast for the period ending September 28, 2018, is summarized as follows:

Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. Cash Flow Variance Analysis For the Period August 25, 2018 - September 28, 2018			
<i>(C\$ in Millions)</i>	Forecast	Actual	Variance
OPERATING RECEIPTS			
Net Sales Receipts	\$3.5	\$3.1	(\$0.3)
Net Operating Receipts	\$3.5	\$3.1	(\$0.3)
OPERATING DISBURSEMENTS			
Inventory Purchases	(\$3.0)	(\$0.6)	\$2.5
Royalty Payments	(3.6)	(0.5)	3.1
Payroll Related Expenses	(0.8)	(0.7)	0.1
Operating Expenses	(1.4)	(0.9)	0.4
Rent	(0.0)	(0.0)	0.0
API Operating Expenses	(0.8)	(0.0)	0.8
Total Operating Disbursements	(\$9.6)	(\$2.7)	\$6.9
NET OPERATING CASH FLOW	(\$6.1)	\$0.4	\$6.5
NON-OPERATING DISBURSEMENTS			
Professional Fees	(\$1.7)	(\$1.2)	0.5
Total Non-Operating Disbursements	(\$1.7)	(\$1.2)	\$0.5
Net Operating and Non-Operating Cash Flow	(\$7.8)	(\$0.8)	\$7.0
DIP Drawdown	\$4.0	\$0.0	(\$4.0)
Total Net Cash Flow	(\$3.8)	(\$0.8)	\$3.0
CASH BALANCE			
Beginning Balance	\$7.0	\$7.0	\$0.0
Total Net Cash Flow	(3.8)	(0.8)	3.0
Ending Balance	\$3.2	\$6.2	\$3.0

17. As reflected in the summary table above, the Companies reported a net cash outflow of approximately CAD\$0.8 million over the period, and the Companies had a cash balance of approximately CAD\$6.2 million, as at September 28, 2018. The actual cash balance was approximately CAD\$3.0 million higher than forecast.
18. The favourable cash flow variance of approximately CAD\$3.0 million principally relates to:
- (i) timing differences due to lower than anticipated inventory purchases, which are expected to reverse in the coming weeks; and
 - (ii) a permanent difference due to certain contingencies or reserves included in the August 25 Cash Flow Forecast for payment of certain pre-filing amounts that have not proven to be necessary during the period, and which have been excluded from the Revised Cash Flow Forecast.

19. In accordance with the Amended Initial Order, any payments made by the Companies for expenses incurred prior to the Filing Date were made in consultation with the Monitor and the DIP Lender. These expenses were determined by the Companies to be necessary for the continued operation of the business or essential for the preservation of value for the Sales Process. As at September 28, 2018, the Companies have made approximately CAD\$1.0 million in payments relating to expenses incurred prior to the Filing Date.

VII. REVISED CASH FLOW FORECAST

20. Pursuant to the Canada DIP Credit Agreement, the Companies were required to provide an updated 13-week cash flow forecast to the DIP Lender prior to October 1, 2018, in a form acceptable to the DIP Lender. The Companies, with the assistance of A&M Canada and in consultation with the Monitor, prepared the Revised Cash Flow Forecast, representing a revised forecast of its receipts, disbursements and financing requirements during the Forecast Period. The Monitor understands from its discussions with the Companies and A&M Canada that the Revised Cash Flow Forecast was approved by the DIP Lender on or about October 2, 2018.
21. A copy of the Revised Cash Flow Forecast, including the notes and assumptions thereto, together with Management's Report on the Revised Cash Flow Forecast is attached hereto as **Appendix "A"** and is summarized below:

Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. 10-Week Cash Flow Forecast For the Period Ending December 7, 2018	
<i>(C\$ in Millions)</i>	
OPERATING RECEIPTS	
Net Sales Receipts	\$5.5
Net Operating Receipts	\$5.5
OPERATING DISBURSEMENTS	
Inventory Purchases	(2.7)
Royalty Payments	(2.1)
Payroll Related Expenses	(1.1)
Operating Expenses	(2.5)
Rent	(0.1)
API Operating Expenses	(1.6)
Total Operating Disbursements	(\$10.1)
NET OPERATING CASH FLOW	(\$4.6)
NON-OPERATING DISBURSEMENTS	
Professional Fees	(3.0)
Total Non-Operating Disbursements	(\$3.0)
Net Operating and Non-Operating Cash Flow	(\$7.6)
DIP Drawdown	4.8
Total Net Cash Flow	(\$2.8)
CASH BALANCE	
Beginning Balance	\$6.2
Total Net Cash Flow	(2.8)
Ending Balance	\$3.4

22. As noted, the Companies had approximately CAD\$6.2 million of cash on hand as at September 28, 2018,. The Revised Cash Flow Forecast projects that the Companies will experience a net cash outflow, prior to any DIP draws, of approximately CAD\$7.6 million over the Forecast Period, comprised of:
- (i) cash receipts of approximately CAD\$5.5 million, primarily related to the collection of existing receivables and new sales generated from the product portfolio of Aralez Canada; and
 - (ii) cash disbursements of approximately CAD\$13.1 million, primarily related to payroll and benefits, operating expenses, procurement of post-filing inventory, as well as the payment of certain pre-filing royalties, inventory and other expenses (as provided for in the Amended Initial Order) and the costs of the CCAA Proceedings.
23. The Revised Cash Flow Forecast projects borrowings under the Canada DIP Credit Agreement in the amount of CAD\$4.8 million over the Forecast Period, which will result in an ending cash balance of approximately CAD\$3.4 million as at December 7, 2018.
24. The Monitor is of the view that the material assumptions supporting the Revised Cash Flow Forecast are reasonable in the circumstances. The Monitor's Report on the Revised Cash Flow Forecast is attached hereto as **Appendix "B"**.

VIII. THE CANADIAN STALKING HORSE AGREEMENT

25. The Companies and Nuvo entered into the Canadian Stalking Horse Agreement on September 18, 2018, pursuant to which Nuvo has agreed to purchase all of the shares of Aralez Canada (the "**Canadian Assets**"), subject to higher or otherwise better offers, and approval of the Court.
26. Concurrently with the execution of the Canadian Stalking Horse Agreement, certain of the Chapter 11 Entities entered into agreements to sell certain of the assets of the Aralez Entities in the U.S., as follows:
- (i) Nuvo Pharmaceuticals (Ireland) Limited (the "**Vimovo Purchaser**"), an affiliate of the Canadian Stalking Horse Bidder, entered into an agreement (the "**Vimovo Stalking Horse Agreement**") with Pozen and Aralez DAC for the purchase of, among other things, Vimovo-related royalties (the "**Vimovo Assets**") for the purchase price of \$47,500,000; and
 - (ii) Toprol Acquisition LLC (the "**Toprol Purchaser**" and together with the Vimovo Purchaser and the Canadian Stalking Horse Bidder, the "**Stalking Horse Bidders**"), an affiliate of Deerfield Management, entered into an agreement (the "**Toprol Stalking Agreement**" and together with the Vimovo Stalking Horse Agreement and the Canadian Stalking Horse Agreement, the "**Stalking Horse Agreements**") with Aralez DAC for the purchase of, among other things, the Toprol-XL Franchise (the "**Toprol Assets**" and

together with the Vimovo Assets and the Canadian Assets, the “**Purchased Assets**”) for consideration of \$130,000,000 through a credit bid of the DIP Lender’s outstanding advances to the Aralez Entities, including the outstanding advances to the Chapter 11 Entities pursuant to the US DIP Credit Agreement and the balance credited against the prepetition amounts owed by the Aralez Entities to Deerfield.

27. The Companies are not parties to either the Vimovo Stalking Horse Agreement or the Toprol Stalking Horse Agreement, and neither of the agreements are subject to approval by the Court. However, the Canadian Stalking Horse Agreement and the Vimovo Stalking Horse Agreement are cross-conditioned on one another, meaning that the Canadian Stalking Horse Bidder has the right to terminate the Canadian Stalking Horse Agreement in the event the Vimovo Purchaser is not the Successful Bidder (as defined hereinafter) with respect to the Vimovo Assets. The Monitor notes that in that case, the Canadian Stalking Horse Bidder and the Vimovo Purchaser would each be entitled to payment of the respective termination fee and expense reimbursement pursuant to the applicable Stalking Horse Agreement. The Toprol Stalking Horse Agreement is not conditioned on either of the other Stalking Horse Agreements. Further details on the Vimovo Stalking Horse Agreement and the Toprol Stalking Horse Agreement are each included in the Adams Affidavit and not repeated herein.
28. The material terms of the Canadian Stalking Horse Agreement, a copy of which is attached as Exhibit “D” to the Adams Affidavit, are as follows:
- (i) Purchaser: Nuvo Pharmaceuticals Inc., subject to the right of Nuvo to designate any Affiliate as purchaser at least three days prior to Closing, provided that, in such a case, Nuvo shall continue to remain liable, on a joint and several basis, with such Affiliate for its obligations under the Canadian Stalking Horse Agreement.
 - (ii) Purchased Shares: Nuvo will purchase from API all of the issued and outstanding shares in the capital of Aralez Canada, free and clear of all Liens except Permitted Liens.
 - (iii) Purchase Price: \$62,500,000 (the “**Canadian Gross Purchase Price**”) payable in cash on closing, subject to adjustments, if any, with respect to Net Working Capital, less Closing Indebtedness and plus Closing Net Cash, as detailed in Canadian Stalking Horse Agreement.
 - (iv) Deposit: \$2,500,000, which represents 4% of the gross purchase price, which was received by the Escrow Agent on September 20, 2018.
 - (v) Termination Fee: \$2,187,500, which represents 3.5% of the Canadian Gross Purchase Price.
 - (vi) Expense Reimbursement: up to \$575,000, which represents 0.9% of the Canadian Gross Purchase Price, for reasonable out-of-pocket expenses incurred by Nuvo relating to the transactions contemplated by the Canadian Stalking Horse Agreement. In the event Nuvo is the Successful Bidder, but the

Canadian Stalking Horse Agreement is terminated due the failure of the Companies to obtain a certain Required Consent as required pursuant to the Canadian Stalking Horse Agreement, the Expense Reimbursement will increase by \$1,000,000 such that Nuvo will be entitled to total Expense Reimbursement of \$1,575,000, which represents 2.5% of the Canadian Gross Purchase Price. However in this scenario, the Canadian Stalking Horse Bidder would not be entitled to the Termination Fee.

- (vii) Outside Date: three months from the date of the Canadian Stalking Horse Agreement, being December 18, 2018.
- (viii) CCAA Termination Order: if the Canadian Stalking Horse Bidder is the Successful Bidder pursuant to the Bidding Procedures, then concurrently with the motion seeking the Approval Order (as defined herein), the Companies shall bring a motion for an order (the “**CCAA Termination Order**”) terminating the CCAA Proceedings as they relate to Aralez Canada.
- (ix) Termination: the Canadian Stalking Horse Agreement may be terminated prior to Closing upon the occurrence of, but not limited to, the following:
 - (a) by mutual agreement of API and the Canadian Stalking Horse Bidder;
 - (b) if the Canadian Stalking Horse Bidder is not the Successful Bidder or the Back-up Bidder (as hereinafter defined and as determined pursuant to the Bidding Procedures);
 - (c) if the Canadian Stalking Horse Bidder is not the Successful Bidder but required to serve as the Back-up Bidder, provided however, that any termination pursuant to this clause shall not be effective until the earlier of the Outside Date and the closing of a transaction with the Successful Bidder;
 - (d) if Closing has not occurred by the Outside Date;
 - (e) by the Canadian Stalking Horse Bidder if the Bidding Procedures Order is not entered by the Court within 30 days from the execution of the Canadian Stalking Horse Agreement, or if the Court does not enter the CCAA Termination Order and an order approving (the “**Approval Order**”) the transactions contemplated under the Canadian Stalking Horse Agreement within 50 days of the Bidding Procedures Order; and
 - (f) by the Canadian Stalking Horse Bidder if the Vimovo Stalking Horse Agreement is terminated.
- (x) Claims Procedure: it is a requirement of the Companies under the Canadian Stalking Horse Agreement to bring a motion for approval of the Claims Procedure pursuant to which claims against the Companies and the Directors and Officers shall be solicited, and such process shall have a claims bar date that is before the Closing Date.

- (xi) Closing Conditions: the Canadian Stalking Horse Agreement is subject to certain conditions including, but not limited to:
- (a) satisfaction or waiver of certain conditions in the Vimovo Stalking Horse Agreement;
 - (b) entry by the Court of the Bidding Procedures Order, the CCAA Termination Order and the Approval Order, each in a form and substance satisfactory to the Canadian Stalking Horse Bidder;
 - (c) each of the Required Consents have been obtained or the Court shall have granted such relief relating to the Required Consents as the Canadian Stalking Horse Bidder considers necessary in its sole and absolute discretion; and
 - (d) the Toronto Stock Exchange shall have conditionally approved the Debt Financing on the terms set forth in the Commitment Letter (as hereinafter defined), subject only to the satisfaction of the customary listing conditions of the Toronto Stock Exchange.
- (xii) Financing: the Canadian Stalking Horse Bidder has obtained a commitment letter (the “**Commitment Letter**”) from Deerfield Management to make loans to Nuvo in order to enable the Canadian Stalking Horse Bidder to fund the Purchase Price.
- (xiii) No Shop: From the date of execution of the Canadian Stalking Horse Agreement until the date of entry of an order approving the Bidding Procedures, the Companies shall not solicit bids or respond to any inquiries from parties regarding a potential Alternative Transaction.

29. As noted above, the Canadian Stalking Horse Agreement provides for payment of the Termination Fee (of \$2,187,500) and the Expense Reimbursement (of up to \$575,000 or \$1,575,000, as the case may be) (together, the “**Canadian Bid Protections**”) to the Canadian Stalking Horse Bidder upon the occurrence of certain events, including, but not limited to:

Event	Termination Fee	Expense Reimbursement	Total (\$)	Total as % of Canadian Gross Purchase Price
Canadian Stalking Horse Bidder is not the Successful Bidder with respect to the Canadian Assets	\$2,187,500	up to \$575,000	\$2,762,500	4.4%
Canadian Stalking Horse Bidder is the Successful Bidder with respect to the Canadian Assets but elects not to close the transaction because a particular Required Consent is not obtained	\$0	up to \$1,575,000	\$1,575,000	2.5%
Termination fee and expense reimbursement are payable to the Vimovo Purchaser pursuant to the Vimovo Stalking Horse Agreement	\$2,187,500	up to \$575,000	\$2,762,500	4.4%

30. As security for payment of the Canadian Bid Protections, the Companies are seeking, as part of the within motion, a priority charge (the “**Bid Protections Charge**”) in favour of the Canadian Stalking Horse Bidder. The proposed Bid Protections Charge would rank in priority to all other Charges in the Amended Initial Order, other than the Administration Charge and the DIP Lenders’ Charge (as defined in the Amended Initial Order).
31. The Canadian Bid Protections range between 2.5% and 4.4% of the Canadian Gross Purchase Price, with the lower end of the range representing the scenario where the Canadian Stalking Horse Bidder is the Successful Bidder with respect to the Canadian Assets but elects not to close the transaction because certain Required Consents are not obtained.
32. The Monitor and its counsel have reviewed recent comparable stalking horse agreements wherein bid protections have been approved in transactions of this nature, and note that the Canadian Bid Protections are on the higher end of market parameters, which typically range between 1.5% to 3.5% of the purchase price for a break-fee and 0.5% to 1.0% for expense reimbursement. Further, the Monitor notes that the increase in the Expense Reimbursement in the event that the Canadian Stalking Horse Bidder elects not to close because a condition precedent is not satisfied (being the failure to obtain a particular Required Consent), is also a non-standard/non-market condition.
33. The Monitor notes that the Canadian Gross Purchase Price is subject to certain closing adjustments related to Net Working Capital, Indebtedness and Net Cash. The Monitor understands that Indebtedness, as defined in the Canadian Stalking Horse Agreement, does not include normal course liabilities, but rather specific extraordinary obligations or liabilities of Aralez Canada, all as detailed in the Disclosure Letter provided by API to the Canadian Stalking Horse Bidder. The Monitor understands the Disclosure Letter will be filed with this Court on a sealed and confidential basis, but will be made available to potential acquirers in the data room as part of the Sales Process.
34. Based on the Information provided to the Monitor by the Companies and A&M Canada, the Monitor understands Closing Indebtedness could be approximately \$3.5 million or higher, pending the outcome of the Claims Procedure. As noted, Closing Indebtedness would be deducted from the Canadian Gross Purchase Price if not paid or otherwise satisfied by the Companies prior to Closing. However, the Monitor notes that any payment of Indebtedness by the Companies prior to Closing would result in a corresponding increase in borrowings under the Canada DIP Credit Agreement, and therefore, no net impact on the estate.
35. Notwithstanding the foregoing, the Monitor is of the view that the Canadian Bid Protections, including the requested priority charge, are fair and reasonable in the circumstances, for the following reasons:

- (i) the Canadian Bid Protections were heavily negotiated between the Companies and the Canadian Stalking Horse Bidder, are integral to the Canadian Stalking Horse Agreement, and the Canadian Stalking Horse Bidder was not willing to execute the Canadian Stalking Horse Agreement without the inclusion of the Canadian Bid Protections;
 - (ii) approval of the Canadian Stalking Horse Agreement, which would not be possible without approval of the Canadian Bid Protections, will provide stability to the Companies during the CCAA Proceedings by informing stakeholders, such as employees, customers and vendors, that there is a going-concern buyer for the business;
 - (iii) the Bid Protections, while on the higher end of market parameters, are reasonable in the circumstances to compensate the Canadian Stalking Horse Bidder for costs and expenses in relation to entering into the Canadian Stalking Horse Agreement, and will not unduly “chill” bidding on the Canadian Assets as part of the proposed Sales Process (as described in further detail below); and
 - (iv) Deerfield is supportive of the Canadian Bid Protections, including the priority ranking of the Bid Protections Charge.
36. The Stalking Horse Agreements set a “floor price” for the Purchased Assets. The Bidding Procedures, as discussed later in the Second Report, will provide for a fair and transparent marketing process that should allow the Aralez Entities to maximize realizations by seeking higher or otherwise better offers for the Purchased Assets.

IX. GENUS AMENDMENT

37. Prior to the Filing Date, on July 10, 2018, API entered into a purchase agreement (the “**Genus APA**”) with Genus Lifesciences, Inc. (“**Genus**”), pursuant to which API and certain of the Chapter 11 Entities transferred or licensed certain assets relating to the drug Yosprala, which was marketed by the Aralez Entities in the U.S. In order to correct certain provisions of the Genus APA relating to certain patents, API, Pozen and Genus entered into an amendment (the “**Genus Amendment**”) to the Genus APA dated September 17, 2018. Details of the Genus Amendment, a copy of which is attached as Exhibit “F” to the Adams Affidavit, are extensively detailed in Adams Affidavit and not repeated herein.
38. The Genus Amendment will permit Pozen to continue to have clear and valid title to the Specified Patents and properly include those patents in the Vimovo Assets under the Vimovo Stalking Horse Agreement. As such, it is a condition of the Vimovo Purchaser, to proceed as stalking horse, that the U.S. Court authorizes Pozen’s entry into and performance under the Genus Amendment. Further, the Bidding Procedures contemplate that

the Vimovo Purchaser or any other Successful Bidder for the Vimovo Assets affirmatively assumes the obligations under the Genus Amendment.

39. The Genus Amendment requires that API seek approval from this Court of the Genus Amendment, the assumption of the Genus APA, as amended, the assumption of the licenses granted under the Genus APA, and approval of such obligations required to give effect to the Genus APA. The Monitor understands the Chapter 11 Entities are also simultaneously seeking approval of same from the U.S. Court. Other than the aforementioned approvals, the Monitor understands, from its discussions with counsel to the Companies, that the Genus Amendment does not impose any material obligations on the Companies.

X. SALES PROCESS

Pre-Filing Marketing Efforts

40. Prior to the Filing Date, in the face of mounting financial difficulties, management of the Aralez Entities deemed it prudent to consider various strategic alternatives, including potential refinancing transactions, product divestures and a sale of the Aralez Entities. The Monitor understands from its discussions with the Companies that, in order to pursue its strategic alternatives, the Aralez Entities engaged Moelis to commence a marketing process, which included preparing marketing materials and canvassing the market for potential strategic and financial investors and/or buyers for the Aralez Entities and its assets (the “**Pre-Filing Marketing Process**”). As per the Adams Affidavit, as part of the Pre-Filing Marketing Process, Moelis reached out to 68 potential acquiring parties in respect of a transaction for the Toprol Assets, and 38 potential acquiring parties in respect of a transaction for either the entire company or a combination of the Vimovo Assets and certain of the Canadian Assets.
41. The Aralez Entities ultimately distributed a confidential presentation to: (i) 27 potential acquirers who signed a nondisclosure agreement (“**NDA**”) with respect to the Toprol Assets and (ii) 26 potential acquirers who signed an NDA with respect to a combination of the Vimovo Assets and certain of the Canadian Assets. All parties that signed NDAs received a confidential presentation and 14 parties received confidential presentations with respect to both groups of assets.
42. The Monitor conducted a review of the Pre-Filing Marketing Process, which included a review of certain key transaction documents. As part of the Pre-Filing Marketing Process, the Monitor understands that Moelis conducted preliminary diligence on the financial records of the Aralez Entities to: (i) assess the business and other risks to potential transactions and, (ii) prepare standard documentation for marketing the Aralez Entities to potential acquirers, including an opportunity summary and confidential management presentations. Moelis also

assisted with the preparation/assembly of an electronic data room which housed financial, operational and other data of the Aralez Entities.

43. Based on a review of documents prepared/assembled in connection with the Pre-Filing Marketing Process, including those contained in the data room, the Monitor is of the view that sufficient information pertaining to the Aralez Entities and its assets was made available to enable potential acquirers to evaluate the transaction opportunity.
44. Ultimately, after consideration of the alternatives, the board of directors of the Aralez Entities (the “**Board**”), with input and advice from its legal and financial advisors, determined that the appropriate approach was for the Aralez Entities to proceed with a court-supervised sale process for certain of its assets pursuant to the CCAA, with respect to the Companies, and the United States Bankruptcy Code, with respect to the Chapter 11 Entities. Furthermore, the Board directed Moelis to: (i) invite potential acquirers to participate in more extensive due diligence and (ii) conduct a final round of bidding to secure a stalking horse purchaser(s).
45. On the Filing Date, the Aralez Entities announced their intentions to enter into the Stalking Horse Agreements to sell the Purchased Assets.

Bid Procedures

46. The Companies and the Chapter 11 Entities intend to conduct the Sales Process in a coordinated fashion, with the same procedures and timelines, in an effort to maximize value of the Aralez Entities, maintain flexibility and reduce overall costs to the Aralez Entities.
47. The Bidding Procedures were negotiated with the Stalking Horse Bidders, in consultation with the Monitor, and designed to promote a competitive, fair, and expedient Sales Process that seeks to maximize the value of the Purchased Assets. If approved, the Bidding Procedures will allow the Aralez Entities to solicit and identify bids from potential buyers that constitute the highest or otherwise best offer for the Purchased Assets on a schedule that is consistent with the milestones set forth in the Stalking Horse Agreements, the DIP financing agreements, and with the overall objectives of the Aralez Entities’ Restructuring Proceedings.
48. The following table summarizes the key dates and timelines pursuant to the Bidding Procedures:

Date	Activity
November 19, 2018 at 5:00 p.m. (EST)	Bid Deadline

November 21, 2018 at 5:00 p.m. (EST)	Deadline to notify "Potential Bidders" of their status as "Qualified Bidders"
November 27, 2018 at 11:00 a.m. (EST)	Auction Date (if required) to be held at the offices of Willkie Farr & Gallagher LLP, New York, NY
November 28, 2018 at 5:00 p.m. (EST)	Notice of Successful Bidders
November 29, 2018 at 11:00 a.m. (EST) in the U.S. Court The earliest date available after November 29, 2018 in the Court	Sale Hearings to approve and authorize the sale transaction(s) to the Successful Bidder(s)

49. The key features of the Bidding Procedures, a copy of which is attached as Exhibit "H" to the Adams Affidavit, are outlined below:

- (i) Consultation Parties: the Aralez Entities are required to consult with the Consultation Parties, but the Aralez Entities shall retain decision-making authority with respect to Bids and the Auction, subject to any orders entered by the Court or the U.S. Court. The Consultation Parties consist of the Monitor and its counsel with respect to the Canadian Assets and the Vimovo Assets, or any other assets proposed to be purchased that are conditioned upon the purchase of the Canadian Assets, and proposed counsel to the UCC with respect to the Toprol Assets and the Vimovo Assets. The DIP Lender is also a Consultation Party but as it is an affiliate of the Toprol Bidder and the financing source for the Canadian Stalking Horse Bidder and the Vimovo Purchaser, the DIP Lender is not required to be consulted.
- (ii) Notice Parties: A Qualified Bidder must provide a copy of its bid to the Notice Parties, consisting of: (a) counsel to the Companies, counsel to the DIP Lender, the Monitor and its counsel, with respect to the Canadian Assets; and (b) counsel to the Chapter 11 Entities, counsel to the DIP Lender, and proposed counsel to the UCC, with respect to the Toprol Assets and/or the Vimovo Assets.
- (iii) Qualified Bidder: Each of the Stalking Horse Bidders is considered a "Qualified Bidder" and each of the Stalking Horse Agreements is considered a "Qualified Bid" pursuant to the Bidding Procedures. In order to be considered a "Qualified Bid", the party submitting the bid must, among other things:
 - (a) disclose whether the bid is for some or all of the Purchased Assets;
 - (b) state that the Qualified Bidder offers to purchase, in cash, some or all of the Canadian Assets, Vimovo Assets and/or Toprol Assets upon terms and conditions that are at least as favourable as the applicable Stalking Horse Agreements;
 - (c) include a commitment to close the transaction(s) within the timeframes contemplated in the applicable Stalking Horse Agreements;

- (d) subject to subsection (e) below, include a written statement that such offer be binding and irrevocable unless and until the Aralez Entities accept a higher or otherwise better bid and such Qualified Bidder is not selected as a Back-Up Bidder;
 - (e) include an acknowledgement that if such Qualified Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the earlier of one month after the designation of the Successful Bid at the Auction or the closing of a transaction(s) with the Successful Bidder(s);
 - (f) be accompanied by a deposit equal to 4% of the purchase price;
 - (g) provide a duly authorized and executed copy of an asset and/or share purchase agreement, including the purchase price for the applicable Purchased Assets, with copies marked to show any amendments and modifications to the applicable Stalking Horse Agreement(s);
 - (h) not include any conditions that are less favorable to the Aralez Entities than the conditions in the applicable Stalking Horse Agreement(s);
 - (i) with respect to the Canadian Assets (in combination with any other bids for some or all of such assets), provide for a cash purchase price that exceeds the Canadian Gross Purchase Price by at least \$3,262,500, which represents the sum of: (i) the Bid Protections and (ii) \$500,000, and otherwise have a value that is greater or otherwise better than the value offered under the Canadian Stalking Horse Agreement; and
 - (j) be received by the applicable Notice Parties on or prior to 5:00 p.m. (prevailing Eastern Time) on November 19, 2018 (the "**Bid Deadline**").
- (iv) Auction: significant aspects of the Auction include the following:
- (a) if the Aralez Entities do not receive a Qualified Bid with respect to any of the Toprol Assets, Vimovo Assets or the Canadian Assets, other than the applicable Stalking Horse Bid, the Aralez Entities, after consultation with the Consultation Parties, will not hold an Auction (as defined herein) with respect to such Purchased Assets, and the applicable Stalking Horse Purchaser will be deemed the Successful Bidder on the Bid Deadline with respect to such Purchased Assets;
 - (b) if one or more Qualified Bids (in addition to the applicable Stalking Horse Agreement) are received by the Bid Deadline for some or all of the Purchased Assets, the Aralez Entities will conduct an auction(s) at 11:00 a.m. on November 27, 2018 at the offices of Willkie Farr & Gallagher LLP in New York, NY (the "**Auction**") and Qualified Bidders for such Purchased Assets will be invited to attend in order to determine the Successful Bidder(s);

- (c) only the Aralez Entities, the applicable Notice Parties and Consultation Parties, the Stalking Horse Bidders and any other Qualified Bidders, along with their respective representatives and advisors, will be entitled to attend the Auction;
- (d) at least one day prior to the Auction, the Aralez Entities will send a notice to all Qualified Bidders indicating which of the Qualified Bid(s) will be the Starting Bid(s) at the Auction;
- (e) to the extent that a Qualified Bidder(s) provides a Qualified Bid on two or more of the Canadian Assets, Vimovo Assets and/or Toprol Assets, the Aralez Entities reserve the right to require such Qualified Bidder(s), at or before the Auction, to allocate the purchase price between and/or among the Canadian Assets, Vimovo Assets and/or Toprol Assets;
- (f) bidding at the Auction will begin with the Starting Bid(s) and continue in bidding increments (each a “**Subsequent Bid**”) providing a net value to the applicable estate of at least an additional: (i) \$1,000,000 above the prior bid for the Toprol Assets, (ii) \$500,000 above the prior bid for the Vimovo Assets and (iii) \$500,000 above the prior bid for the Canadian Assets;
- (g) after each round of bidding, the Aralez Entities will announce the Subsequent Bid that the Aralez Entities have determined to be the highest or otherwise best offer for the Toprol Assets, the Vimovo Assets and the Canadian Assets (each or collectively, as applicable, the “**Highest Bid**”). A round of bidding will conclude after each participating Qualified Bidder has had an opportunity to submit a Subsequent Bid with full knowledge of the Highest Bid;
- (h) prior to the conclusion of the Auction, the Aralez Entities, in consultation with the applicable Consultation Parties, will determine which offer or group of offers is the highest or otherwise best offer or offers for the applicable Purchased Assets (such bid or bids, as applicable, the “**Successful Bid(s)**”) and the bidder(s) making such bid, the “**Successful Bidder(s)**”), and communicate to the applicable Stalking Horse Bidder(s) and the other applicable Qualified Bidders the identity of the Successful Bidder(s) and the material terms of the Successful Bid(s). The Aralez Entities shall also determine the Qualified Bidder with the next highest or otherwise best bid for the Purchased Assets and deem that party to be the “**Back-Up Bidder**”. If there is more than one Successful Bid, the Aralez Entities shall have the ability to designate a Back-Up Bidder for each Successful Bid;
- (i) the determination of the Successful Bid(s) by the Aralez Entities at the conclusion of the Auction shall be final, subject only to approval by the U.S. Court as to the Toprol Assets and Vimovo Assets, and this Court as to the Canadian Assets; and
- (j) within one (1) business day after conclusion of the Auction, the Aralez Entities shall file a notice identifying the Successful Bidder(s) with the applicable Courts.

50. The Aralez Entities may, after consultation with the Consultation Parties, modify or amend the rules, procedures and deadlines set forth in the Bidding Procedures, provided that no modifications or amendments shall be permitted to the Bid Protections afforded to a Stalking Horse Bidder in accordance with the applicable Stalking Horse Agreement, unless agreed to in writing by the applicable Stalking Horse Bidder and the Aralez Entities or otherwise ordered by the Courts.
51. The Bidding Procedures provide for an orderly and appropriately competitive process through which potential acquirers may submit bids for some or all of the Purchased Assets. Given the time constraints, and in light of the Pre-Filing Marketing Process, the Aralez Entities, with the assistance of their advisors, have structured the Bidding Procedures to market the Purchased Assets for a period of approximately 40 days in order to promote active bidding by potential acquirers and to confirm the highest or otherwise best offer reasonably available for the Purchased Assets. The Monitor notes that the market has been aware for some time that the assets of the Aralez Entities are for sale as this was disclosed in the Prior Reports, as well as the Companies' application materials filed previously in these CCAA Proceedings. Additionally, the Bidding Procedures will allow the Aralez Entities to conduct the Auction, if required, in a fair and transparent manner that will encourage participation by financially capable bidders with demonstrated ability to consummate a timely transaction(s).
52. In the Monitor's view, the Bidding Procedures are consistent with market practice, provide a reasonable opportunity for potential acquirers to submit higher or otherwise better offers to the Stalking Horse Agreements, and are reasonable and appropriate in the circumstances.
53. The Monitor notes that although the Canadian Stalking Horse Agreement is currently structured as a share purchase agreement, the Bidding Procedures allow potential acquirers to purchase the assets of Aralez Canada rather than the shares of Aralez Canada as contemplated under the Canadian Stalking Horse Agreement, which may exclude certain liabilities currently assumed under the Canadian Stalking Horse Agreement. If a Qualified Bid is received for the Canadian Assets as part of the Sales Process, it is the intention of the Monitor, in consultation with the Companies and its advisors, to evaluate this offer in its entirety to fully understand the impact on all stakeholders.

XI. CLAIMS PROCEDURE

54. The following section provides an overview of the proposed Claims Procedure. All interested parties are strongly encouraged to read the Claims Procedure Order, as full details of the Claims Procedure are provided therein. The information contained in this section is provided in summary format only.
55. Unless otherwise defined, capitalized terms used in this section shall be as defined in the Amended Initial Order, or the Claims Procedure Order, as applicable.
56. As a requirement under the Canadian Stalking Horse Agreement, the Companies are seeking approval of the Claims Procedure for the solicitation of claims against the Companies and its Directors and Officers. The Monitor, with the assistance of the Companies, will be responsible for the administration of the Claims Procedure. The Claims Procedure will address: (i) Pre-filing Claims; (ii) Restructuring Claims; and (iii) D&O Claims (collectively "**Claims**").
57. The Claims Procedure will not solicit claims secured by any of the Court-ordered charges in the CCAA Proceedings or pre-filing secured debt in favour of Deerfield.
58. Pursuant to the Amended Initial Order, the Companies indemnified the Directors and Officers against certain claims and liabilities incurred after the Filing Date. The Directors were also granted a Directors' Charge as security for this indemnity in an amount not to exceed CAD\$1.0 million. It is necessary to understand the scope and nature of any potential claims that may be secured by the Directors' Charge and to discharge the Directors' Charge in connection with any potential Plan or sale as part of the CCAA Proceedings. Accordingly, the Companies have sought to solicit any such D&O Claims now.
59. The key terms of the Claims Procedure Order are summarized below:

Notice

- (i) The Monitor shall no later than three (3) Business Days following the making of the Claims Procedure Order send a copy of the Claims Package, by ordinary mail or electronic transmission, on behalf of the Companies to each of the Known Creditors (to the last known address per the Companies' books and records as provided by the Companies to the Monitor) and to any Claimant or D&O Claimant who requests a Claims Package;
- (ii) the Monitor shall cause to be published, for at least one (1) Business Day, on or before October 17, 2018, the Notice Letter in The Globe and Mail (National Edition);

- (iii) with respect to Restructuring Claims arising from the restructuring, disclaimer, resiliation, termination or breach of any lease, contract, or other agreement or obligation, on or after the date of this Claims Procedure Order, the Monitor shall send to the counterparty(ies) to such lease, contract or other agreement or obligation a Claims Package no later than five (5) Business Days following the date of the restructuring, disclaimer, resiliation, termination or breach of any lease, contract, or other agreement or obligation;
- (iv) the Monitor shall post a copy of the Claims Procedure Order, the Companies' Motion Record in respect of the Claims Procedure Order, and the Claims Package on the Monitor's Website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals> as soon as practicable and no later than 5:00 p.m. on the first Business Day following the date of this Order; and
- (v) upon request by a Claimant for a Claims Package or documents or information relating to the Claims Procedure prior to the Claims Bar Date, as applicable, the Monitor shall forthwith send a Claims Package, direct such Person to the documents posted on the Monitor's Website, or otherwise respond to the request for information or documents as the Monitor considers appropriate in the circumstances.

Claims Bar Date

- (i) All creditors making Pre-Filing Claims or D&O Claims will be required to file claims with the Monitor by November 29, 2018, by 5:00 p.m. (EST) (the “**Claims Bar Date**”);
 - (ii) all creditors making Restructuring Claims will be required to file claims with the Monitor by the later of: (i) the Claims Bar Date and (ii) 10 days after the date on which the Monitor sends a Claims Package with respect to a Restructuring Claim (the “**Restructuring Claims Bar Date**”); and
 - (iii) any Claimant that does not file a Proof of Claim by the Claims Bar Date or Restructuring Claims Bar Date, as applicable, will, *inter alia*: (i) not be entitled to receive any distribution under a Plan or otherwise; and (ii) be forever barred from making or enforcing any such Claim against the Companies and/or the Directors and Officers, and such Claim shall be extinguished without any further act or notification.
60. The Monitor believes the Claims Bar Date and the Restructuring Claims Bar Date are reasonable in that they provide Claimants with approximately 50 days from the date of the Claims Procedure Order to evaluate and submit any Claim that they may have against the Companies and the Directors and Officers.
61. As the Canadian Stalking Horse Agreement only calls for solicitation and not the resolution of Claims against the Companies and the Directors and Officers, a process to adjudicate disputed claims is not part of the Claims Procedure Order. The Monitor understands from discussions with counsel to the Companies that the Companies intend, if necessary, to return to the Court at a later date to seek an order with respect to the

adjudication of Claims. Furthermore, the process for evaluating and determining intercompany claims is not contemplated in the Claims Procedure Order and will also be addressed at a later date. The Monitor will report to Court at a later date regarding the process to adjudicate claims and determine/resolve intercompany claims.

62. The Companies believe that the proposed Claims Procedure will allow the Companies to establish Claims against them and the Directors and Officers, as is required pursuant to the Canadian Stalking Horse Agreement. Additionally, in the event that the Companies intend to proceed with a distribution and/or one or more creditor meetings for the purpose of voting in respect of a restructuring plan, running the Claims Procedure will facilitate their ability to complete the CCAA proceedings on a timely basis and complete a distribution amongst Claimants with proven Claims.
63. The Monitor believes that the Companies have proposed an achievable timetable to complete the Claims Procedure. The Monitor believes that the Claims Procedure is fair and reasonable and respectfully recommends that the Company's request for the approval of the Claims Procedure be granted.

XII. STAY EXTENSION

64. The current stay period expires on November 14, 2018, which is prior to the completion of the Sales Process and the Claims Procedure. The Companies are seeking an extension of the Stay Period to December 7, 2018, in order to avoid the cost of a further stay extension motion while the Sales Process and Claims Process are ongoing.
65. The Monitor supports the Companies' request for an extension of the stay of proceedings from November 15, 2018, to December 7, 2018, for the following reasons:
 - (i) the Companies are acting in good faith and with due diligence;
 - (ii) the extension will provide the opportunity to complete the Sales Process;
 - (iii) it will allow the Monitor and the Companies the opportunity to complete the Claims Procedure;
 - (iv) the granting of the extension does not materially prejudice any creditor of the Companies as the Revised Cash Flow Forecast reflects that the Companies are projected to have sufficient funding to continue to operate in the normal course through the proposed stay extension period; and
 - (v) Deerfield, being the Secured Lender and DIP Lender in these CCAA Proceedings, supports the stay extension.

XIII. UPDATE ON CERTAIN MATTERS IN THE CHAPTER 11 PROCEEDINGS

66. The Chapter 11 Entities intend to seek approval of, among other things, the Bidding Procedures, the Vimovo Stalking Horse Agreement and the Toprol Stalking Horse Agreement in the U.S. Court at their omnibus hearing scheduled for 10:30am (EST) on October 10, 2018.
67. While the Monitor is not monitoring the Chapter 11 Proceedings, the Monitor understands that, as of the date of the Second Report, the Chapter 11 Entities received the following objections in respect of its motion for an order approving the Bidding Procedures:
- (i) objection from the UCC on the Bidding Procedures and the Stalking Horse Agreements, including the bid protections provided therein. A copy of the UCC objection is attached hereto as **Appendix “C”**; and
 - (ii) limited objection and reservation of rights of Mylan Pharmaceuticals Inc., Mylan Laboratories Ltd., and Mylan Inc., who takes no position with the respect to the approval of the Bidding Procedures but is a generic drug manufacturer and was engaged in litigation with Pozen over Vimovo patent infringements, prior to the Filing Date. A copy of the objection is attached hereto as **Appendix “D”**.
68. The Monitor understands that the Office of the United States Trustee for Region 2 (the **“U.S. Trustee”**) may also have potential objections, but as of the date of the Second Report has not filed any formal objections. Further, the Chapter 11 Entities are engaged in discussions with the U.S. Trustee with a view to resolving any such concerns prior to the hearing.
69. The Monitor understands that the Chapter 11 Entities are discussing the concerns raised with the relevant parties, and that the Companies will update the Court at the hearing on October 10, 2018 as to the resolution in full or in part of these issues. Further, it is the Monitor’s expectation that any changes agreed to by the relevant parties (including Nuvo) with respect to the Bidding Procedures and the Stalking Horse Agreements (including any reduction in termination fees or more favourable terms for the Aralez Entities) would also be made, as applicable, in these CCAA Proceedings and the Canadian Stalking Horse Agreement.

Upcoming Matters in the Chapter 11 Proceedings

70. The Chapter 11 Entities have scheduled the following omnibus hearing dates with the U.S. Court::
- (i) 10:00 a.m. on October 30, 2018 in respect of, among other things, the Chapter 11 Entities’ motion for an order approving the KEIP/KERP Plan; and
 - (ii) 11:00 a.m. on November 29, 2018, in respect of a Sale Hearing to approve and authorize the sale transaction(s) to the Successful Bidder(s), subject to approval of the Bidding Procedures.

XIV. MONITOR'S CONCLUSION AND RECOMMENDATIONS

71. For the reasons set out in the Second Report, the Monitor is of the view that the relief requested by the Companies is both appropriate and reasonable. As such, the Monitor recommends that this Court make orders:

- (i) approving the Sales Process, Bidding Procedures and the Bid Protections Charge;
- (ii) approving the Canadian Stalking Horse Agreement and authorizing the Companies, *nunc pro tunc*, to execute the Canadian Stalking Horse Agreement;
- (iii) approving the Genus Amendment and the related relief sought by the Companies;
- (iv) approving the Claims Procedure and authorizing the Monitor and the Companies to carry out same; and
- (v) extending the Stay Period to December 7, 2018.

All of which is respectfully submitted this 5th day of October, 2018.

Richter Advisory Group Inc.
In its capacity as Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc. and not
in its personal or corporate capacity

Per:



Paul van Eyk,
CPA, CA-IFA, CIRP, LIT, Fellow of INSOL
Senior Vice President



Pritesh Patel,
MBA, CFA, CIRP, LIT
Vice President

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

Court File No. CV-18-603054-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA
INC.**

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at Toronto

SECOND REPORT OF THE MONITOR

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APPENDIX D

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Court File No. CV-18-603054-00CL

**THIRD REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

October 23, 2018

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**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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**THIRD REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

OCTOBER 23, 2018

I. INTRODUCTION

1. On August 10, 2018 (the "**Filing Date**"), the Ontario Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting Aralez Pharmaceuticals Inc. ("**API**") and Aralez Pharmaceuticals Canada Inc. ("**Aralez Canada**" and together with API, the "**Companies**") protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), and appointing Richter Advisory Group Inc. ("**Richter**") as Monitor of the Companies in the CCAA proceedings (the "**Monitor**"). The Initial Order provided the Companies with a stay of proceedings until September 7, 2018 (the "**Stay Period**"). The Companies' CCAA proceedings are referred to herein as the "**CCAA Proceedings**".
2. Also on the Filing Date, Aralez Pharmaceuticals Management Inc., Aralez Pharmaceuticals R&D Inc., Aralez Pharmaceuticals U.S. Inc., POZEN Inc., Halton Laboratories LLC, Aralez Pharmaceuticals Holdings Limited and Aralez Pharmaceuticals Trading DAC (collectively, the "**Chapter 11 Entities**", and with the Companies, collectively the "**Aralez Entities**") each filed voluntary petitions with the United States Bankruptcy Court for the Southern District of New York (the "**U.S. Court**") for relief under title 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1532 (the "**Chapter 11 Proceedings**" and together with the CCAA proceedings, the "**Restructuring Proceedings**").
3. On September 5, 2018, the Court issued the Amended and Restated Initial Order (the "**Amended Initial Order**"), which incorporated certain amendments to the Initial Order granted on August 10, 2018. On September 5, 2018, the Court also issued an order extending the stay of proceedings in respect of the Companies to November 14, 2018.
4. On October 10, 2018, the Court granted orders (the "**October 10 Orders**") approving, among other things:
 - (i) the proposed sales process (the "**Sales Process**"), including the bidding procedures (the "**Bidding Procedures**") and bid protections to be used in connection with the Sales Process;
 - (ii) the share purchase agreement dated September 18, 2018, between the Companies and Nuvo Pharmaceuticals Inc. for the sale of all of the shares of Aralez Canada (the "**Canadian Assets**"), which would serve as a stalking horse bid as part of the Sales Process;
 - (iii) the procedure (the "**Claims Process**") to solicit claims against the Companies and any of the Companies' current and former directors and officers; and
 - (iv) an extension of the stay of proceedings in respect of the Companies to December 7, 2018.
5. Richter, in its capacities as Proposed Monitor and Monitor, has previously provided this Court with three reports (the "**Prior Reports**"). The Prior Reports, the Amended Initial Order and copies of other material documents

pertaining to the CCAA Proceedings are available on the Monitor's website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>.

II. PURPOSE OF REPORT

6. The purpose of this report of the Monitor (the "**Third Report**") is to provide information to the Court pertaining to:
 - (i) an overview of the activities of the Companies and the Monitor since October 5, 2018, the date of the Monitor's second report to the Court (the "**Second Report**");
 - (ii) the Companies' reported receipts and disbursements for the period from September 29, 2018, to October 19, 2018, including a comparison of reported to forecast results;
 - (iii) the proposed cross-border insolvency protocol (the "**Cross-Border Protocol**") to provide coordination and cooperation between the Court and the U.S. Court overseeing the Chapter 11 Proceedings, and the Monitor's recommendation thereon.

III. TERMS OF REFERENCE

7. In preparing this Third Report, the Monitor has relied solely on information and documents provided by the Aralez Entities and their advisors, including unaudited financial information, declarations and affidavits of the Companies' executives and other information from the Companies' financial advisor, Alvarez & Marsal Canada Inc. ("**A&M Canada**") (collectively, the "**Information**"). In accordance with industry practice, Richter has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants of Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
8. Unless otherwise stated, all monetary amounts noted herein are expressed in United States dollars, which is the Companies' common reporting currency.
9. Capitalized terms used but not defined in this Third Report are defined in the Cross-Border Protocol, or the Affidavit of Mr. Adrian Adams sworn October 19, 2018 (the "**October 19 Adams Affidavit**") filed in support of the herein motion. This Third Report should be read in conjunction with the October 19 Adams Affidavit, as certain information contained in the October 19 Adams Affidavit has not been included herein in order to avoid unnecessary duplication.

IV. ACTIVITIES OF THE COMPANIES

10. Since the Filing Date, the Companies, with the assistance of its advisors and the Monitor, have been managing their operations in the normal course and working to stabilize the business as a result of the CCAA Proceedings. The Companies' primary focus, in addition to the activities listed below, has been to prepare and implement the Sales Process, in coordination with the Chapter 11 Entities, and the Claims Process.
11. As outlined in the October 19 Adams Affidavit, the additional activities of the Companies, with the support of their financial and legal advisors, since the date of the Second Report have included:
 - (i) managing key relationships with customers and suppliers, in particular, managing post-filing supply agreements and the continued availability of products;
 - (ii) working with A&M Canada, in consultation with the Monitor, in managing their cash flows and making payments to creditors in accordance with the Amended Initial Order;
 - (iii) providing information and cash-flow reporting to Deerfield Private Design Fund III, LP., and Deerfield Partners, L.P., as lenders (collectively, "**Deerfield**") and Deerfield Management Company L.P., as administrative agent (together with Deerfield, the "**DIP Lender**") as required pursuant to the terms of the debtor-in-possession credit agreement dated August 10, 2018;
 - (iv) working with the Chapter 11 Entities to advance the Sales Process;
 - (v) working with the Monitor to implement and advance the Claims Process;
 - (vi) working with the Chapter 11 Entities to develop key employee retention and incentive plans for employees and executives (the "**KEIP/KERP Plans**") that are critical to maintaining the going concern value of the Aralez Entities, including preparing to return to the Court for approval thereof; and
 - (vii) negotiating the terms of the Cross-Border Protocol, principally with the Official Committee of Unsecured Creditors (the "**UCC**") appointed in the Chapter 11 Proceedings.

V. ACTIVITIES OF THE MONITOR

12. Since the date of the Second Report, the Monitor's activities have included:
 - (i) monitoring of the Companies' cash flows and reviewing analyses on variances to the Companies' cash flow forecast;
 - (ii) approving the payment of certain pre-filing obligations of the Companies pursuant to the terms of the Amended Initial Order;
 - (iii) attending at Court in connection with the October 10 Orders;

- (iv) attending at the Companies' premises and meeting with the Companies' management to discuss the Companies' operations and the CCAA Proceedings;
- (v) arranging for notice of the Claims Process to be published in the October 16, 2018, edition of the Globe and Mail, as required pursuant to the Amended Initial Order;
- (vi) sending a notice, within three days of the issuance of the October 10 Orders, of the Claims Process to all known creditors with claims against the Companies. Notice of the Claims Process, including a blank copy of the proof of claim, instruction order and order approving the Claims Process, were posted to the Monitor's website;
- (vii) corresponding and communicating extensively with the Companies and their advisors with respect to the Canadian Assets and the Sales Process, and with respect to other potential sale transactions;
- (viii) corresponding with the Companies, their legal counsel, A&M Canada, and the DIP Lender in connection with, among other things, the KEIP/KERP Plans and the Cross-Border Protocol;
- (ix) corresponding and communicating with the DIP Lender and its legal counsel;
- (x) corresponding and communicating with the proposed counsel to the UCC;
- (xi) corresponding and communicating with the Monitor's legal counsel, Torys LLP ("**Torys**");
- (xii) responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;
- (xiii) preparing this Third Report; and
- (xiv) otherwise monitoring and assisting the Companies in the performance of its activities summarized in Part IV above.

VI. CASH RECEIPTS AND DISBURSEMENTS FROM SEPTEMBER 28, 2018 TO OCTOBER 19, 2018

13. The Companies' consolidated cash flow projection for the period from September 29, 2018, to December 7, 2018 (the "**September 29 Cash Flow Forecast**"), was filed with the Court in support of the Companies' application returnable October 10, 2018, seeking, *inter alia*, an extension of the Stay Period.
14. The Companies have continued to provide the Monitor with their co-operation and access to their premises, books and records. The Monitor has implemented procedures for monitoring the Companies' receipts and disbursements on a weekly basis. The Monitor, with the assistance of A&M Canada, has also worked with the

Companies to prepare forecast to actual variance analyses with respect to their weekly cash flows as compared to the September 29 Cash Flow Forecast.

15. A comparison of the Companies' actual cash receipts and disbursements as compared to the September 29 Cash Flow Forecast for the three week period ending October 19, 2018, is summarized as follows:

Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. Cash Flow Variance Analysis For the Period September 29, 2018 - October 19, 2018			
<i>(C\$ in Millions)</i>	Forecast	Actual	Variance
OPERATING RECEIPTS			
Net Sales Receipts	\$1.6	\$1.9	\$0.3
Net Operating Receipts	\$1.6	\$1.9	\$0.3
OPERATING DISBURSEMENTS			
Inventory Purchases	(\$0.5)	(\$0.5)	-
Royalty Payments	(0.1)	0.0	0.1
Payroll Related Expenses	(0.2)	(0.2)	-
Operating Expenses	(1.1)	(0.7)	0.4
Rent	(0.0)	(0.0)	-
API Operating Expenses	(0.7)	(0.1)	0.7
Total Operating Disbursements	(\$2.7)	(\$1.6)	\$1.1
NET OPERATING CASH FLOW	(\$1.1)	\$0.3	\$1.4
NON-OPERATING DISBURSEMENTS			
Professional Fees	(\$1.5)	(\$1.0)	0.5
Total Non-Operating Disbursements	(\$1.5)	(\$1.0)	\$0.5
Net Operating and Non-Operating Cash Flow	(\$2.6)	(\$0.7)	\$1.9
DIP Drawdown	\$0.0	\$0.0	\$0.0
Total Net Cash Flow	(\$2.6)	(\$0.7)	\$1.9
CASH BALANCE			
Beginning Balance	\$6.2	\$6.2	\$0.0
Total Net Cash Flow	(2.6)	(0.7)	1.9
Ending Balance	\$3.6	\$5.5	\$1.9

16. As reflected in the summary table above, the Companies reported a net cash outflow of approximately CAD\$0.7 million over the three week period, and the Companies had a cash balance of approximately CAD\$5.5 million, as at October 19, 2018. The actual cash balance was approximately CAD\$1.9 million higher than forecast.
17. The favourable cash flow variance of approximately CAD\$1.9 million principally relates to:
- (i) timing differences primarily due to lower than forecasted operating expenses for the Companies; and
 - (ii) timing differences associated with lower than projected disbursements for professional fees. The Monitor understands that these favourable variances will reverse in the coming weeks.

18. In accordance with the Amended Initial Order, any payments made by the Companies for expenses incurred prior to the Filing Date were made in consultation with the Monitor and the DIP Lender. These expenses were determined by the Companies to be necessary for the continued operation of the business or essential for the preservation of value for the Sales Process. As at October 19, 2018, the Companies have made approximately CAD\$1.1 million in payments relating to expenses incurred prior to the Filing Date.

VII. THE CROSS-BORDER PROTOCOL

19. The Aralez Entities operate a global business with assets and operations in multiple countries. As detailed in the October 19 Adams Affidavit, the Aralez Entities proposed the Cross-Border Protocol to facilitate the coordination and efficient administration of the restructuring proceedings of the Companies and the Chapter 11 Entities without divesting or diminishing the Court's or the U.S. Court's respective jurisdiction over the subject matter of the CCAA Proceedings or the Chapter 11 Proceedings. The Companies proposed the Cross-Border Protocol to address issues that may arise given the global footprint of the Aralez Entities and the fact that the Sales Process will closely involve and require coordination among the Court and the U.S. Court. A copy of the Cross-Border Protocol is attached as Exhibit "C" to the October 19 Adams Affidavit.
20. The Cross-Border Protocol, as more fully described in the October 19 Adams Affidavit, is summarized as follows:
 - (i) principal purpose is to: (a) coordinate the Restructuring Proceedings to avoid, if possible, conflicting or duplicative rulings by the Court and U.S. Court; (b) provide sufficient notice of key issues in the Restructuring Proceedings to all interested parties; (c) protect and preserve the substantive rights of all interested parties to the Restructuring Proceedings; and (d) preserve the jurisdictional integrity of the Court and the U.S. Court;
 - (ii) provides for court-to-court communication and joint hearings, if required and appropriate in the circumstances;
 - (iii) provides for the recognition of stays of proceedings granted by the Court and the U.S. Court, and vice versa;
 - (iv) provides for the retention and compensation of the professionals involved in both proceedings, and confirms that the Canadian advisors and representatives, including the Monitor and its legal counsel, shall not be required to have their fees and disbursements approved by the U.S. Court; and
 - (v) sets out the notice procedures for all motions and applications made in the Restructuring Proceedings to matters addressed by the Cross-Border Protocol.

21. Approval of a previous version of the Cross-Border Protocol was sought by the Companies at the comeback hearing held by the Court on September 5, 2018. However, the Companies did not proceed with the motion to approve the Cross-Border Protocol at that time in order to negotiate certain comments that were raised by the UCC, including comments related to consultative rights and standing in the CCAA Proceedings. The substantial changes incorporated into the final version of the proposed Cross-Border Protocol include:
- (i) any cross-border claims protocol to be approved by the Court and the U.S. Court shall be developed in consultation with the UCC;
 - (ii) as the UCC is a consultation party pursuant to the Bidding Procedures, the UCC will be required to execute confidentiality agreements prior to receiving confidential information in connection with the Canadian Assets as part of the Sales Process; and
 - (iii) the U.S. Representatives, which include the UCC, have the right to appear and be heard by the Court if they are determined to be an interested party for a particular issue in the CCAA Proceedings (though no determination has been made presently as to whether or in what circumstances the UCC may be an interested party in the CCAA Proceedings – should an issue arise, that determination may be made in the future).
22. The Monitor understands that the Cross-Border Protocol is supported by, *inter alia*, Deerfield, the DIP Lender and the UCC. The Monitor's counsel, Torys, has reviewed the proposed Cross-Border Protocol and has advised that it is consistent with the protocols established in other recent cross-border cases. The Monitor understands that an application for approval of the Cross-Border Protocol has been filed by the Chapter 11 Entities and is scheduled to be heard by the U.S. Court on October 30, 2018.

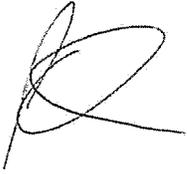
VIII. MONITOR'S CONCLUSION AND RECOMMENDATIONS

23. For the reasons set out in this Third Report, the Monitor is of the view that the relief requested by the Companies is both appropriate and reasonable and as such, the Monitor recommends that this Court make an order approving the Cross-Border Protocol.

All of which is respectfully submitted this 23rd day of October, 2018.

Richter Advisory Group Inc.
In its capacity as Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc. and not
in its personal or corporate capacity

Per:



Paul van Eyk,
CPA, CA-IFA, CIRP, LIT, Fellow of INSOL
Senior Vice President



Pritesh Patel,
MBA, CFA, CIRP, LIT
Vice President

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.

Applicants

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
Proceeding commenced at Toronto

THIRD REPORT OF THE MONITOR

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APPENDIX E

RICHTER

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Court File No. CV-18-603054-00CL

**FOURTH REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

November 14, 2018

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APPENDICES

APPENDIX "A" – Revised Key Employee Compensation Plans Term Sheet (redacted)

CONFIDENTIAL APPENDICES

APPENDIX "1" – Listing of KERP Participants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

**FOURTH REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA INC.**

NOVEMBER 14, 2018

I. INTRODUCTION

1. On August 10, 2018 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Initial Order**”) granting Aralez Pharmaceuticals Inc. (“**API**”) and Aralez Pharmaceuticals Canada Inc. (“**Aralez Canada**” and together with API, the “**Companies**”) protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing Richter Advisory Group Inc. (“**Richter**”) as Monitor of the Companies in the CCAA proceedings (the “**Monitor**”). The Initial Order provided the Companies with a stay of proceedings until September 7, 2018 (the “**Stay Period**”). The Companies’ CCAA proceedings are referred to herein as the “**CCAA Proceedings**”.
2. Also on the Filing Date, Aralez Pharmaceuticals Management Inc., Aralez Pharmaceuticals R&D Inc., Aralez Pharmaceuticals U.S. Inc., POZEN Inc., Halton Laboratories LLC, Aralez Pharmaceuticals Holdings Limited and Aralez Pharmaceuticals Trading DAC (collectively, the “**Chapter 11 Entities**”, and with the Companies, collectively the “**Aralez Entities**”) each filed voluntary petitions with the United States Bankruptcy Court for the Southern District of New York (the “**U.S. Court**” and together with the Court, the “**Courts**”) for relief under title 11 of the United States Bankruptcy Code, 11 U.S.C § 101-1532 (the “**Chapter 11 Proceedings**” and together with the CCAA proceedings, the “**Restructuring Proceedings**”).
3. On September 5, 2018, the Court issued the Amended and Restated Initial Order (the “**Amended Initial Order**”), which incorporated certain amendments to the Initial Order granted on August 10, 2018. On September 5, 2018, the Court also issued an order extending the stay of proceedings in respect of the Companies to November 14, 2018.
4. On October 10, 2018, the Court granted orders approving, among other things:
 - (i) the proposed sales process (the “**Sales Process**”), including the bidding procedures (the “**Bidding Procedures**”) and bid protections to be used in connection with the Sales Process;
 - (ii) the share purchase agreement (the “**Canadian Stalking Horse Agreement**”) dated September 18, 2018, between the Companies and Nuvo Pharmaceuticals Inc. (“**Nuvo**”) for the sale of all of the shares of Aralez Canada (the “**Canadian Assets**”), which would serve as a stalking horse bid as part of the Sales Process;
 - (iii) the procedure (the “**Claims Process**”) to solicit claims against the Companies and any of the Companies’ current and former directors and officers; and
 - (iv) an extension of the stay of proceedings in respect of the Companies to December 7, 2018.

5. On October 25, 2018, the Court granted an order approving a cross-border insolvency protocol (the “**Cross-Border Protocol**”) to provide coordination and cooperation between the Court and the U.S. Court overseeing the Chapter 11 Proceedings.
6. Richter, in its capacities as Proposed Monitor and Monitor, has previously provided this Court with four reports (the “**Prior Reports**”). The Prior Reports, the Amended Initial Order and copies of other material documents pertaining to the CCAA Proceedings are available on the Monitor’s website at <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>.

II. PURPOSE OF REPORT

7. The purpose of this report of the Monitor (the “**Fourth Report**”) is to provide information to the Court pertaining to:
 - (i) an overview of the activities of the Monitor since October 23, 2018, the date of the Monitor’s third report to the Court (the “**Third Report**”);
 - (ii) the key terms and conditions of the Companies’ proposed key employee retention plan (the “**KERP**”);
 - (iii) the key terms and conditions of the Companies’ proposed key executive incentive plan (the “**KEIP**”);
 - (iv) the Companies’ request for a charge (the “**Key Employees Charge**”) in favour of the KERP Participants and the KEIP Participants (collectively, the “**Key Employees**”); and
 - (v) the Monitor’s support for the Companies’ request that this Court grant an Order:
 - (a) approving the KERP and the KEIP; and
 - (b) granting the Key Employees Charge.

III. TERMS OF REFERENCE

8. In preparing this Fourth Report, the Monitor has relied solely on information and documents provided by the Aralez Entities and their financial advisor, Alvarez & Marsal Canada Inc. and Alvarez & Marsal Healthcare Industry Group LLC (collectively, “**A&M**”), including unaudited financial information, declarations and affidavits of the Companies’ executives and other information from the Companies’ financial advisor (collectively, the “**Information**”). In accordance with industry practice, Richter has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards (“**GAAS**”) pursuant to the *Chartered Professional*

Accountants of Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

9. Unless otherwise stated, all monetary amounts noted herein are expressed in United States dollars, which is the Companies' common reporting currency.
10. Capitalized terms used but not defined in this Fourth Report are defined in the the Amended Initial Order or the Affidavit of Mr. Adrian Adams sworn November 9, 2018 (the "**November 9 Adams Affidavit**") filed in support of the within motion. This Fourth Report should be read in conjunction with the November 9 Adams Affidavit, as certain information contained in the November 9 Adams Affidavit has not been included herein in order to avoid unnecessary duplication.

IV. ACTIVITIES OF THE MONITOR

11. Since the date of the Third Report, the Monitor's activities have included:
 - (i) monitoring of the Companies' cash flows and reviewing analyses on variances to the Companies' cash flow forecast;
 - (ii) approving the payment of certain pre-filing obligations of the Companies pursuant to the terms of the Amended Initial Order;
 - (iii) attending at Court in connection with the order approving the Cross-Border Protocol;
 - (iv) attending at the Companies' premises and meeting with the Companies' management to discuss the Companies' operations and the CCAA Proceedings;
 - (v) corresponding and communicating extensively with the Companies and their advisors with respect to the Canadian Assets and the Sales Process, and with respect to other potential sale transactions;
 - (vi) corresponding with the Companies, their legal counsel, A&M, U.S. counsel to the Chapter 11 Entities, and the DIP Lender in connection with, among other things, the KEIP and the KERP;
 - (vii) corresponding and communicating with the DIP Lender and its legal counsel;
 - (viii) corresponding and communicating with the Monitor's legal counsel, Torys LLP ("**Torys**");
 - (ix) corresponding and communicating with the Canadian counsel to the Official Committee of Unsecured Creditors (the "**UCC**") appointed in the Chapter 11 Proceedings with respect to the KEIP;
 - (x) responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings and the Claims Process;

- (xi) preparing this Fourth Report; and
- (xii) otherwise monitoring and assisting the Companies in the performance of its operations.

V. THE KEY EMPLOYEE RETENTION PLAN

12. As detailed in the November 9 Adams Affidavit, the Companies propose to implement the KERP to incentivize certain key employees to remain with Aralez Canada during the pendency of the Sales Process. The KERP covers three employees (the “KERP Participants”), all of whom the Companies have advised the Monitor are essential to the successful value-maximizing outcome of the Sales Process by ensuring the business continues to operate productively and in the ordinary course during the Sales Process. Further, as noted in the November 9 Adams Affidavit, the Canadian Stalking Horse Agreement contemplates that, should the Companies seek approval of a key employee retention plan, certain of the KERP Participants are required to be included. Thus, the Companies are concerned that without the approval of the KERP, the KERP Participants may seek alternative employment, which could jeopardize the Canadian Stalking Horse Agreement, as well as the success of the Sales Process and the CCAA Proceedings.
13. The Monitor notes that the Aralez Entities, in conjunction with A&M, began developing the KERP (and KEIP) prior to the Filing Date, as referenced in the Prior Reports. The KERP Participants have been acting in good faith and fulfilling their duties since the onset of the CCAA Proceedings, but under the expectation that the Companies would seek approval the KERP in due course.
14. The salient terms of the proposed KERP are as follows:
 - (i) the KERP Participants would receive retention bonuses between 25% and 50% of their annual salary;
 - (ii) proposed compensation under the KERP is based on each respective KERP Participant’s position, responsibilities, compensation package, and other factors;
 - (iii) the aggregate retention pool under the proposed KERP is \$256,710, with payments ranging from \$37,500 to \$157,410, with an average of \$85,570 per KERP Participant; and
 - (iv) payments would be made upon the earlier of: (a) termination without cause by the Companies or upon death or permanent disability, and (b) the closing of a sale transaction for the Canadian Assets;
15. The KERP does not provide for amounts payable to executives of API, as a separate incentive plan has been designed for these individuals, as described in the next section.
16. Attached hereto as **Appendix “A”** is a redacted copy of the term sheet setting forth a summary of the KERP and the KEIP. Filed with this Court on a sealed and confidential basis as **Confidential Appendix “1”** is a detailed

listing of the KERP Participants with their names, current positions, salaries and proposed payments under the KERP. Confidential Appendix 1 is the subject of a request for a sealing order from the Court pending further order of this Court. The Monitor is of the view that it should not be necessary to publicize the individual names and details of the KERP Participants for privacy reasons and supports the Companies' request for a sealing order, as detailed in the November 9 Adams Affidavit. Confidential Appendix 1 will be provided to the Court electronically and in a sealed envelope prior to the return of the within motion.

17. As noted in the November 9 Adams Affidavit, the API board of directors, as well as the board of Aralez Canada, reviewed and approved the proposed KERP. Further, Deerfield Private Design Fund III, L.P. and Deerfield Partners, L.P. (collectively, "**Deerfield**"), the Companies' senior secured creditor and debtor-in-possession ("**DIP**") lender, have reviewed and do not oppose the approval of the KERP.
18. The Chapter 11 Entities filed a motion heard by the U.S. Court on November 13, 2018, seeking approval of a similar key employee retention plan for certain of their employees in the Chapter 11 Proceedings. The Monitor notes that none of the KERP Participants are included in the retention plan sought by the Chapter 11 Entities.
19. The Monitor has reviewed the calculation of the proposed payments under the KERP and is of the view that these amounts are comparable to key employee retention plans approved in other CCAA cases and, as such, reasonable in the circumstances

VI. THE KEY EMPLOYEE INCENTIVE PLAN

Overview

20. In addition to the KERP, the Companies propose to implement the KEIP for nine (9) key executives of the Aralez Entities, including the Chief Executive Officer, the Chief Financial Officer (the "**CFO**"), the President and Chief Business Officer, the Executive Vice President - Human Resources, the General Counsel and Chief Compliance Officer, the Vice President - Business Development, the Treasurer, and Executive Director – Managed Markets and the Vice-President & General Manager – Ireland (collectively the "**KEIP Participants**"). Due to the global nature of the Aralez Entities' business and operations, all but one of the KEIP Participants provide value to both the Companies and the Chapter 11 Entities. Accordingly, the proposed KEIP was developed in conjunction with the Chapter 11 Entities, with incentive payments to be allocated between the Companies and the Chapter 11 Entities, as discussed below. A copy of the proposed KEIP (excluding individual names) is included in Appendix "A".
21. The Monitor understands based on discussions with A&M and U.S. and Canadian counsel to the Aralez Entities that each of the KEIP Participants are critical to the success of the Restructuring Proceedings and the Sales

Process. The KEIP Participants have and will continue to be involved in all aspects of the Aralez Entities' restructuring, including but not limited to:

- (i) managing key relationships with customers and suppliers;
- (ii) managing post-filing supply agreements and the continued availability of products;
- (iii) focussing on revenue generation from existing product portfolio and controlling operating expenses;
- (iv) communicating with employees and other key stakeholders;
- (v) managing the relationship with Deerfield and providing information as required pursuant to the DIP financing facilities; and
- (vi) advancing the Sales Process, including negotiating the terms of the stalking horse agreements, assisting with due diligence and participating in management presentations, and working with qualified bidders in any auction process.

22. The KEIP was developed by A&M to align with the Aralez Entities' previous compensation plans for its executives with a focus on metrics that relate to the Restructuring Proceedings and the Sales Process. Under the proposed KEIP, incentive payments are tied to the KEIP Participants' ability to achieve or exceed one or both of the following performance metrics: (i) a financial performance target based on net operating cash flow (the "**Cash Flow Metric**"); and (ii) an asset sale target based on proceeds received from closing one or more transactions (the "**Asset Sale Metric**") as part of the Sales Process, each of which is discussed in further detail below.

23. Incentive payments to the KEIP Participants are equally weighted (i.e. 50% each) between the Cash Flow Metric and the Asset Sale Metric. The sum of both of these at the Target level for incentive payments is set at 50% of salary for the KEIP Participants, but payments can increase when performance exceeds an agreed upon milestone. Below is a summary of the incentive levels and associated payouts:

Incentive Level	Cash Flow Metric Payout as % of Salary	Asset Sale Metric Payout as % of Salary	Combined Payout as % of Salary	Combined Payout (\$)
Below Target/Threshold	0%	0%	0%	\$0
Threshold	0% ⁽¹⁾	18.75%	18.75%	\$608,754
Target	25%	25%	50%	\$1,623,344
Stretch	37.5%	37.5%	75%	\$2,435,016
Super-Stretch	62.5%	62.5%	125%	\$4,058,360

⁽¹⁾ The Threshold incentive level was removed in response to the objection of the U.S. Trustee in the Chapter 11 Proceedings and therefore not applicable under the Cash Flow Metric.

24. As noted in the table above, the KEIP could result in total payments of between \$0 and approximately \$4.1 million to the KEIP Participants, which would represent a range of 0 to 125% of the KEIP Participants' annual salaries. The Monitor notes that a portion of these payments will be allocated to, and payable by, the Companies, based on the allocation principles discussed in the report. The ultimate amount of any payments made pursuant to the KEIP will depend upon the actual performance of the Aralez Entities as compared to the criteria set forth under the Cash Flow Metric and the Asset Sale Metric. However based on the aggregate value of the Stalking Horse Bids and the cash flow results as at November 9, 2018, the KEIP Participants would receive payments totalling approximately \$2.6 million based on the current performance to date. Of this amount, only a portion (i.e. between \$0.2 million and \$2.0 million, depending on the relative performance of the Companies on the Cash Flow Metric) would be allocated and payable by the Companies.
25. As noted in the November 9 Adams Affidavit, the API board of directors (excluding KEIP Participants), as well as the boards of directors of each of the Aralez Entities that employ the KEIP Participants, reviewed and approved the proposed KEIP. Further, Deerfield reviewed and does not oppose the approval of the KEIP. The Monitor notes that none of the KEIP Participants are included in the KERP or a similar retention plan sought by the Chapter 11 Entities.

Cash Flow Metric

26. The Cash Flow Metric measures the ability of the Aralez Entities to meet or outperform the projected net operating cash flow (the "**Net Operating Cash Flow Variance**") for the 18-week period from August 10, 2018, to December 7, 2018 (the "**Consolidated DIP Budget**"). The Monitor understands from its discussions with A&M that the KEIP Participants are those individuals that have the most direct control and oversight of the Aralez Entities' cash flows.
27. The Consolidated DIP Budget consolidates the rolling cash flow forecasts prepared by the Companies and the Chapter 11 Entities, and approved by Deerfield pursuant to their respective DIP financing facilities, from the Filing Date to the anticipated date of approval of one or more transactions in the Sales Process. The Consolidated DIP Budget does not take into account the payment of any professional fees or DIP financing costs incurred by the Aralez Entities as part of these Restructuring Proceedings, as these are costs not within the control of the KEIP Participants. The Monitor notes that the cash flow forecasts submitted by the Aralez Entities pursuant to their respective DIP financing facilities were extensively reviewed and negotiated with Deerfield prior to and after the Filing Date. The Consolidated DIP Budget, a copy of which is attached as Exhibit "B" to the November 9 Adams Affidavit, forecasts a total net operating cash outflow of \$9.9 million (the "**Cash Flow Target**") over the 18-week period, of which \$1.4 million is related to the Chapter 11 Entities and \$8.5 million related to the Companies.

28. The incentive payment levels and associated illustrative payouts based on the Cash Flow Metric are summarized in the table below:

Incentive Level	Net Operating Cash Flow Variance	Illustrative Incentive Payments
Below Target	< 100% of Cash Flow Target	\$0
Target	100% Cash Flow Target + up to \$2.399 million of incremental positive cash flow	\$811,672
Stretch	Cash Flow Target + \$2.4 - 4.099 million of incremental positive cash flow	\$1,217,508
Super-Stretch	Cash Flow Target + \$4.1 million or higher of incremental positive cash flow	\$2,029,180

29. Incentive payments under the Cash Flow Metric have been structured into 4 categories: Below Target, Target, Stretch and Super-Stretch. As noted above, the Aralez Entities need to meet or outperform the Cash Flow Target in order for the KEIP Participants to receive an incentive payment based on the Cash Flow Metric. The Monitor notes that payment for the Target incentive level is fixed, and any payment thereunder would be equally allocated (i.e. 50/50) between the Companies and the Chapter 11 Entities.
30. If the Aralez Entities outperform the Cash Flow Target by \$2.4 million or higher (i.e. consolidated net operating cash outflow of \$7.5 million or lower), incentive payments will fall into the Stretch and Super-Stretch categories. Incentive payments between these levels will be based on actual performance achieved, and payment amounts and allocations are not fixed as in the case of the Target incentive level. At the Stretch level, the minimum payment is \$1,217,508 (which represents 37.5% of the KEIP Participants' annual salaries) but this can increase by \$1 for every \$2 of positive Net Operating Cash Flow Variance between \$2.4 million and \$4.099 million as compared to the Cash Flow Target. At the Super-Stretch level, the payment is fixed at \$2,029,180 (which represents 62.5% of the KEIP Participants salaries) for a positive Net Operating Cash Flow Variance of \$4.1 million or higher as compared to the Cash Flow Target. Incentive payments at the Stretch and Super-Stretch levels would be allocated proportionally between the Companies and the Chapter 11 Entities based on the relative contribution to the positive Net Operating Cash Flow Variance above the Cash Flow Target.
31. Based on the declaration of the CFO filed in support of the Chapter 11 Entities' motion for an order approving, among other things, the KEIP, the Monitor understands that, as of November 9, 2018, the Aralez Entities had generated approximately \$15.8 million in incremental positive cash flow above the Consolidated DIP Budget. Further, the CFO notes that after accounting for reasonably anticipated adjustments, the Aralez Entities will have positive incremental cash flow of approximately \$7 million to \$10 million above the Cash Flow Target, which would put the KEIP Participants well into the Super-Stretch category and result in the maximum payment of

\$2,029,180. As at the date of this Fourth Report, the Monitor has not reviewed the reconciliation of cash flow results for the Aralez Entities as compared to the Consolidated DIP Budget, nor does the Monitor know the relative contribution by the Companies and the Chapter 11 Entities.

32. The Net Operating Cash Flow Variance will be measured as of the date of approval of one or more transactions in the Sales Process, but incentive payments based on the Cash Flow Metric, if any, will not be payable until the first such transaction is closed. The Monitor notes that the determination of the Net Operating Cash Flow Variance will be reviewed and adjusted, as necessary, to take into account any variances related to timing differences associated with pre-filing or post-filing liabilities that were not paid. The Aralez Entities will consult with the Monitor prior to making a final determination of payout and allocation amounts based on the Cash Flow Metric.

Asset Sale Metric

33. The Asset Sale Metric measures the ability of the Aralez Entities to maximize the value of its assets (the “**Asset Sales Consideration**”) by completing one or more transactions as part of the Sales Process, generating incremental value above the consideration set forth under the Stalking Horse Bids, and/or selling the assets of the Aralez Entities not included as part of the Stalking Horse Bids. Based on discussions with A&M and counsel to the Companies, the Monitor understands that the KEIP Participants are those Aralez individuals that have the most direct involvement in the Sales Process, which included the negotiation of the Stalking Horse Bids. Payment of any incentives under the Asset Sale Metric is conditioned upon achieving at least \$230 million (the “**Asset Sales Threshold**”) in total consideration from sale(s) of the assets of the Aralez Entities, which amount is \$10 million lower than the current aggregate value of the Stalking Horse Bids.
34. The incentive payment levels and associated illustrative payouts based on the Asset Sale Metric are summarized in the table below:

Incentive Level	Asset Sales Consideration	Total Incentive Payments
Below Threshold	\$0 to \$229.99 million	\$0
Threshold	\$230 million to \$249.99 million	\$608,754
Target	\$250 million to \$259.99 million	\$811,672
Stretch	\$260 million to \$279.99 million	\$1,217,508
Super-Stretch	\$280 million and higher	\$2,029,180

35. As noted above, incentive payments are payable at the Threshold level, which payments represent approximately 18.75% of the KEIP Participants' salaries. The Target incentive level, which represents 25% of the KEIP Participants' salaries, is set at \$250 million to \$259.99 million, meaning any additional incentive payment is dependent upon the Aralez Entities generating at least an additional \$10 million incremental value over the Stalking Horse Bids.
36. Unlike the Cash Flow Metric, incentive payments for all categories under the Asset Sale Metric are fixed (i.e. no incremental payment amounts between levels) and the allocation of payments is based on the relative proportion of consideration generated by the Companies and the Chapter 11 Entities.
37. The Asset Sales Consideration will be measured from the period commencing on the Filing Date and ending as of the approval of one or more transactions that result in total sale consideration of at least \$230 million. The Monitor notes that any liabilities assumed by any purchaser in excess of those currently provided for in the Stalking Horse Bids, and any proceeds from sales of the Aralez Entities' assets in addition to those covered by the Stalking Horse Bids, in each case, will count toward the determination of Asset Sales Consideration for purposes of calculating incentive payments under the Asset Sale Metric.

Allocation of Incentive Payments

38. As previously noted, all but one of the KEIP Participants provide value to both the Companies and the Chapter 11 Entities. As such, any incentive payment related to this one individual will be entirely allocated (the "**Allocation Adjustment**") to the Chapter 11 Entities, whereas payments to the remaining KEIP Participants will be shared between the Companies and the Chapter 11 Entities.
39. Subject to the Allocation Adjustment, incentive payments at the Target level for the Cash Flow Metric will be allocated 50/50 between the Companies and the Chapter 11 Entities. Further, the allocation of any incentive payments at the Stretch or Super-Stretch levels will be allocated based on the relative contribution to the positive incremental cash flow by Companies and the Chapter 11 Entities. For example, if the Aralez Entities generate positive incremental cash flow of \$3 million (\$2 million generated by the Chapter 11 Entities and \$1 million by the Companies) as compared to the Cash Flow Target, the KEIP Participants would receive incentive payments totalling approximately \$1.5 million, of which approximately \$1 million would be allocated to, and payable by, the Chapter 11 Entities and \$0.5 million allocated to, and payable by, the Companies, prior to the Allocation Adjustment. Similarly, if the entire \$3 million of incremental cash flow was generated by the Companies, 100% of the incentive payment (i.e. \$1.5 million) would be allocated to the Companies.

40. As noted, incentive payments under the Asset Sale Metric are to be allocated based on the relative proportion of proceeds generated by Companies and the Chapter 11 Entities. Based on the current Stalking Horse Bids, incentive payments to the KEIP Participants under the Asset Sale Metric would amount to \$608,754, of which 74% (or approximately \$450,000) would be allocated to the Chapter 11 Entities and 26% (or approximately \$160,000) would be allocated to the Companies, prior to the Allocation Adjustment.
41. The Aralez Entities will consult with the Monitor prior to making a final determination of incentive payments and allocation of amounts amongst the Companies and the Chapter 11 Entities.

Compensation Considerations

42. In developing the KEIP, A&M reviewed the KEIP in comparison to: (a) the KEIP Participants' existing compensation structure; and (b) incentive plans implemented in similar Chapter 11 cases to ensure market reasonability. A&M concluded that the proposed KEIP was within the range of market practice as compared to similar restructuring cases it reviewed, and also in line with the pre-filing performance compensation structure of the KEIP Participants (although the UCC has contested this position).
43. The Monitor reviewed the proposed incentive payments under the KEIP and notes that if the Target level is achieved on both the Cash Flow Metric and the Asset Sale Metric, the KEIP Participants will collectively receive incentive payments totalling \$1.6 million (equivalent to 50% of their annual salaries), of which approximately \$0.6 million would be paid by the Companies based on the allocation principles noted above. The Monitor is of the view that this amount is reasonable in the circumstances and comparable to key employee incentive programs approved in similar CCAA cases of this nature. However, if the Stretch or Super-Stretch level is achieved on both metrics, the KEIP Participants will collectively receive incentive payments totalling a minimum of \$2.4 million (75% of annual salaries) up to \$4.1 million (125% of annual salaries). The Monitor is of the view that these amounts are high, on average, relative to incentive payments approved in similar CCAA cases. However, the Monitor notes that Deerfield, who is projected to experience a shortfall on its secured advances to the Aralez Entities, has reviewed and approved of the KEIP, including the quantum of the incentive payments thereunder.

Monitor's Observations

44. As previously noted, A&M, as financial advisor to the Aralez Entities, began developing the KEIP in August 2018, prior to the Filing Date. However, based on the materials filed by the Chapter 11 Entities in support of the KEIP, the Monitor understands the Aralez Entities did not seek approval of the KEIP from the Courts at the onset of the Restructuring Proceedings as Deerfield wanted the Aralez Entities' efforts focussed on finalizing the Stalking Horse Bids, the Bidding Procedures and the Sales Process, and addressing other challenges that were facing

the Aralez Entities. As such, the KEIP Participants devoted their efforts toward maximizing the value of the assets of the Aralez Entities, in reliance upon and with the expectation that the KEIP would be submitted to the Courts at a later date.

45. Since the Filing Date, the Monitor has had extensive discussions with A&M and the Aralez Entities related to previous versions of the KEIP. The Monitor's primary concerns included ensuring that the KEIP: (a) provided for a fair allocation of incentive payments between the Companies and the Chapter 11 Entities; and (b) did not unfairly incentivize the KEIP Participants to promote an asset transaction over a share transaction for the Canadian Assets. In response to the concerns raised by the Monitor, the Aralez Entities amended the terms of the KEIP to provide for, among other things:
 - (i) the Net Operating Cash Flow Variance would be adjusted for any timing differences related to the non-payment of any pre-filing or post-filing liabilities;
 - (ii) other than the Target level for the Cash Flow Metric, the allocation of incentive payments between the Companies and the Chapter 11 Entities would be based on relative performance rather than a predetermined allocation;
 - (iii) based on (ii) above, the incremental benefit to the KEIP Participants of an asset deal over a share deal for the Canadian Assets would be minimal, ensuring the alignment of interests between the Canadian stakeholders and the KEIP Participants; and
 - (iv) the Monitor's right to consultation and review prior to the Aralez Entities making a final determination of incentive payments and allocation of amounts amongst the Companies and the Chapter 11 Entities.
46. In addition to the above, the Aralez Entities have amended the original form of the KEIP as filed with the U.S. Court to address certain concerns raised by the Office of the United States Trustee for Region 2 (the "**U.S. Trustee**") by, among other things, raising the threshold levels at which the KEIP Participants could earn incentive payments under both the Cash Flow Metric and the Asset Sale Metric.
47. Based on the current Canadian Stalking Horse Agreement, the creditor that would be impacted by the approval of the KEIP in Canada would be Deerfield, as the Companies' obligations to unsecured creditors (excluding intercompany creditors) and employees would be assumed by Nuvo under the Canadian Stalking Horse Agreement. As noted, Deerfield is supportive of the KEIP and does not oppose the granting of the relief sought by the Companies on the within motion.
48. The Monitor is satisfied that the proposed KEIP is designed to align the interests of the KEIP Participants to the overall objectives of the Restructuring Proceedings. The Monitor is of the view that the structure is beneficial to

the interests of creditors generally as there is increased incentive to maximize the overall enterprise value. Accordingly, the Monitor is satisfied that the proposed KEIP addresses the Monitor's initial concerns and protects the interests of Canadian stakeholders such that they are not materially prejudiced by the approval of the KEIP.

UCC Objections

49. The Chapter 11 Entities filed a motion heard by the U.S. Court on November 13, 2018, seeking approval of the KEIP in the Chapter 11 Proceedings. As noted in the November 9 Adams Affidavit, the UCC filed an objection with the U.S. Court opposing the approval of the KEIP in the Chapter 11 Proceedings, a copy of which is attached as Exhibit "A" to the November 9 Adams Affidavit. Further, the U.S. Court permitted the UCC to conduct examinations of A&M and the CFO, each of whom filed declarations in support of the Chapter 11 Entities' motion seeking approval of the KEIP, on November 11 and November 12, respectively.
50. On November 13, 2108, the U.S. Court reserved on this matter and advised it would issue a decision in the coming days. The Companies will update the Court at the hearing on November 16, 2018 as to the resolution, if any, of these issues in the Chapter 11 Proceedings. It is the Monitor's expectation that any changes agreed to by the relevant parties with respect to the KEIP (including any increase to the threshold amounts for the various incentive levels) would also be made, as applicable, in these CCAA Proceedings so as to not unfairly prejudice the interests of the Canadian stakeholders.
51. Counsel to the UCC has advised the Companies and the Monitor that the UCC intends to object to the approval of the KEIP in Canada at the hearing on November 16, 2018. The Monitor questions what interest the UCC has in the CCAA Proceedings as, on a net basis, the Chapter 11 Entities are not creditors of the Companies, but rather the Companies have a significant net claim as against the Chapter 11 Entities, as discussed below. Further, the Canadian Stalking Horse Agreement contemplates a share deal and thus, the only creditor impacted by the payment of the KEIP by the Companies would be Deerfield.
52. The Monitor has reviewed and considered the issues raised by the UCC In its objection filed in the Chapter 11 Proceedings, but still supports the approval of the KEIP in the CCAA Proceedings for the reasons outlined in this report. However, the Monitor will consider further the position of the UCC in the Canadian proceedings once the UCC files its objecting materials, particularly with respect to its articulation of the UCC's interest in the Companies' prospective entry into the KEIP.

VII. THE KEY EMPLOYEES CHARGE

53. As security for payment of amounts earned pursuant to the KERP and the KEIP, the Companies are seeking, as part of the within motion, a priority charge of up to a maximum amount of \$2.8 million, in favour of the Key Employees, excluding the one individual whose KEIP payments, if any, will be entirely allocated to the Chapter 11 Entities.
54. The amount of the Key Employees Charge has been calculated by the Companies by taking into the account the potential maximum exposure of the Companies with respect to the KERP and the KEIP, namely: (i) the aggregate of the retention amounts payable to the KERP Participants, (ii) the Super-Stretch incentive level is reached on the Cash Flow Metric based entirely on the performance of the Companies (and therefore the incentive payment would be 100% allocated to the Companies), and (iii) the Super-Stretch incentive level is reached on the Asset Sale Metric due to an increase of \$40 million in the value of the Canadian Assets as compared to the Canadian Stalking Horse Agreement (while the other Stalking Horse Bids remain unchanged).
55. Each of the Key Employees will only obtain the benefit of the Key Employees Charge up to their respective individual entitlements under the KERP or the KEIP.
56. As noted in the November 9 Adams Affidavit, Deerfield does not object to the granting of the Key Employees Charge. The Key Employees Charge will rank subordinate to the Administration Charge, the DIP Lender's Charge and the Bid Protections Charge but in priority to the D&O Charge and the Transactional Charge.
57. Given the foregoing, the Monitor is of the view that the proposed Key Employees Charge is reasonable in the circumstances.

VIII. OTHER MATTERS

Intercompany Amounts

58. As noted in the Prior Reports, there was a high degree of operational interdependency between the Companies and the Chapter 11 Entities prior to the Filing Date, including sharing certain executive management personnel, cash management/financing functions, etc. As such, there had historically been intercompany transactions and movement of cash between the Companies and the Chapter 11 Entities to fund various costs and ensure that entities have the required funds to operate. Below is a summary prepared by management of the intercompany balances between the Aralez Entities as at the Filing Date:

**Intercompany Summary
As at August 9, 2018
(USD; unaudited)**

Chapter 11 Entities	Jurisdiction	API	Aralez Canada	Total
Aralez Pharmaceuticals Management Inc.	Delaware	7,501,028	(94,810)	7,406,219
Aralez Pharmaceuticals Holdings Limited	Ireland	-	-	-
Aralez Pharmaceuticals Trading DAC	Ireland	1,666,943	(5,472,356)	(3,805,414)
POZEN Inc.	Delaware	116,244	-	116,244
Aralez Pharmaceuticals US Inc.	Delaware	9,791,208	(347,521)	9,443,686
Halton Laboratories LLC	Delaware	-	267,155	267,155
Aralez Pharmaceuticals R&D Inc.	Delaware	477,565	6,914	484,479
Due (to)/from Chapter 11 Entities⁽¹⁾		19,552,987	(5,640,618)	13,912,369

Notes: (1) A positive number represents a payable for the Chapter 11 Entities and a negative number represents a receivable for the Chapter 11 Entities.

59. As detailed in the table above, on a net basis the Chapter 11 Entities owed the Companies a combined \$13.9 million as at the Filing Date. However, on an individual basis, API was in a net receivable position with the Chapter 11 Entities and was owed a combined \$19.5 million. Aralez Canada on the other hand was in a net payable position and owed a combined \$5.6 million to Chapter 11 Entities, of which approximately \$5.5 million was owed to Aralez Pharmaceuticals Trading DAC, an entity that was incorporated under the laws of Ireland.
60. The Monitor notes the above information is based on the Aralez Entities' internal and unaudited books and records, and the Monitor has not had an opportunity to review, examine or verify the accuracy or completeness of the information provided.

Security Review

61. Deerfield has a first priority security interest in substantially all present and after-acquired property of the Aralez Entities, including intangible property (collectively, the "**Deerfield Security**"). As noted in the Prior Reports, the Monitor had previously advised the Court that it had received a verbal opinion from Torys on the validity and enforceability of the Deerfield Security in the Province of Ontario.
62. The Monitor has received written opinions from Torys in Ontario and New York, and from Berger Harris LLP, local counsel to the Monitor in Delaware, confirming that subject to the typical assumptions and qualifications for opinions of this nature, the loan and security documents granted by the Companies to Deerfield, including the Deerfield Security, are, as applicable, valid and enforceable and, in the case of the Ontario opinion, the applicable security interests have been created and perfected.

IX. MONITOR'S CONCLUSION AND RECOMMENDATIONS

63. The Monitor is of the view that the relief requested by the Companies on the within motion is both appropriate and reasonable, based on the following:
- (i) the proposed payments under the KERP and the KEIP (Threshold and Target levels) are comparable to similar plans approved in other CCAA cases;
 - (ii) the KERP Participants are essential to the successful value-maximizing outcome of the Sales Process by ensuring Aralez Canada continues to operate productively and in the ordinary course during the Sales Process;
 - (iii) the Monitor is advised by A&M and counsel to the Companies that the KEIP Participants have and will continue to be involved in all aspects of the Aralez Entities' restructuring, and are critical to the success of the Restructuring Proceedings and the Sales Process;
 - (iv) the KEIP provides for a fair allocation of incentive payments between the Companies and the Chapter 11 Entities, and the Monitor will be consulted by the Aralez Entities prior to making a final determination of incentive payments and allocations;
 - (v) the Canadian Stalking Horse Agreement is a share purchase agreement that provides for trade creditors other than Deerfield such that they are not bearing the cost of the KEIP or the KERP;
 - (vi) the Key Employees have been acting in good faith and fulfilling their duties since the onset of the Restructuring Proceedings, in reliance upon and with the expectation that the KERP and the KEIP would be submitted to the Courts for approval in due course; and
 - (vii) Deerfield does not oppose the approval of the KERP, the KEIP and the Key Employees Charge.
64. Based on the foregoing, the Monitor recommends that this Court make an order approving the KERP, the KEIP and the Key Employees Charge.

All of which is respectfully submitted this 14th day of November, 2018.

**Richter Advisory Group Inc.
In its capacity as Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc. and not
in its personal or corporate capacity**

Per:



**Paul van Eyk,
CPA, CA-IFA, CIRP, LIT, Fellow of INSOL
Senior Vice President**



**Pritesh Patel,
MBA, CFA, CIRP, LIT
Vice President**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

Court File No. CV-18-603054-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA
INC.**

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at Toronto

FOURTH REPORT OF THE MONITOR

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Lawyers for Richter Advisory Group Inc.,
in its capacity as Monitor of Aralez
Pharmaceuticals Inc. and Aralez
Pharmaceuticals Canada Inc.

APPENDIX F

**Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc.
10-Week Cash Flow Forecast
Notes and Summary of Assumptions**

In the Matter of the CCAA Proceedings of Aralez Pharmaceuticals Inc. (“API”) and Aralez Pharmaceuticals Canada Inc. (“Aralez Canada”, and collectively with API, the “Companies”).

Disclaimer

In preparing this cash flow forecast (the “**Canadian Forecast**”), the Companies have relied upon unaudited financial information and have not attempted to further verify the accuracy or completeness of such information. Since the Canadian Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Canadian Forecast period may vary from the Canadian Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

The Canadian Forecast is presented in millions of Canadian dollars. Receipts and disbursements denominated in U.S. currency or the Euro have been converted to Canadian dollars at an exchange rate of US/CAD = \$1.31 and Euro/CAD = \$1.53, respectively.

Note 1 Purpose of Canadian Forecast

The purpose of the Canadian Forecast is to present the estimated cash receipts and disbursements of the Companies for the period from November 24, 2018 to February 1, 2019 in respect of its proceedings under the *Companies’ Creditors Arrangement Act*. The Canadian Forecast has been prepared by management of the Companies (“**Management**”) based on available financial information at the date of the Companies’ motion for, *inter alia*, an extension of the stay period to February 1, 2019. Readers are cautioned that this information may not be appropriate for other purposes.

Note 2 Net Sales Receipts

Net Sales Receipts are forecasted based on current sales forecast prepared by Management. Adjustments have been made to reflect returns, rebates, and discounts, based on Management’s best estimate using historical rates. Net Sales Receipts are net of over-the-counter fees and wholesaler fees-for-service related to distribution and selling costs charged by customers. The majority of these fees are deducted from sales when sales collections are remitted to the Companies.

Note 3 Inventory Purchases

The Companies purchase inventory from various third-party suppliers. The timing of disbursements for inventory purchases is based on expected monthly shipping windows and delivery dates of on-order goods and future expected purchases and, as such, is subject to large fluctuations in timing.

Note 4 Royalty Payments

The Companies pay royalties and/or license and milestone payments to third-party partners for the right to distribute and sell certain products. The timing and amount of disbursements for royalty payments is based on forecasted sales of the products and timing of receipt of invoices and, as such, is subject to large fluctuations in timing and magnitude.

Note 5 Payroll Related Expenses

Payroll and related payments include salaries, payroll taxes, remittances, quarterly commissions and RRSP contribution matching for salaried employees. Payroll related expenses are forecasted based on historical run-rates. Employees are paid bi-weekly, no weeks in arrears. In addition to the above, payroll and related payments includes a one-time bonus to certain key employees of Aralez Canada in accordance with an Order of the Ontario Superior Court of Justice (Commercial List) dated November 21, 2018.

Note 6 Operating Expenses

Operating expenses include general business expenses including: marketing costs, sales team expenses, regulatory filing and related fees, research and development related costs, general and administration expenses and freight and distribution costs (excluding the OTC and fee-for-service fees which are included in Net Sales Receipts, as noted in note 2 above). Operating expenses are forecasted to be paid bi-weekly by cheque, and in certain cases, wire payment.

Note 7 Rent

The Canadian Forecast assumes that rent and occupancy costs for the Mississauga head office are paid on the first day of each month. Occupancy costs include utilities (hydro, gas, internet and telephone), CAM, and realty taxes.

Note 8 API Operating Expenses

The Canadian Forecast includes: (i) operating expenses related to API, which primarily relate to legal fees incurred for compliance, patent and trademark work, employment matters, audit fees, accounting and SOX related fees and tax fees, and (ii) monthly fees paid to API's directors.

Note 9 Professional Fees

These disbursements include payments to: (i) the Companies' secured creditor's counsel, financial advisor and legal counsel, (ii) the Monitor and its legal counsel, and (iii) Moelis & Company LLC, investment banker to the Companies and their affiliates.

Note 10 Opening Cash Balance

This balance includes cash from the Companies' three bank accounts denominated in Canadian dollars, US Dollar and the Euro as at November 24, 2018, net of outstanding cheques. The US Dollar and Euro denominated accounts have been translated to Canadian dollars based on the exchange rates noted above.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC., AND ARALEZ PHARMACEUTICALS CANADA INC.**

MANAGEMENT'S REPORT ON CASH FLOW STATEMENT

The management of Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. (the "**Companies**") have developed the assumptions and prepared the attached statement of projected cash flow as of the 30th day of November, 2018 for the period from November 24, 2018 to February 1, 2019 (the "**Cash Flow Forecast**").

The hypothetical assumptions are reasonable and consistent with the purpose of the Cash Flow Forecast described in the notes therein, and the probable assumptions are suitably supported and consistent with the plans of the Companies and provide a reasonable basis for the Cash Flow Forecast. All such assumptions are disclosed in the notes therein.

Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes therein, using the probable and hypothetical assumptions set out therein. Consequently, readers are cautioned that the Cash Flow Forecast may not be appropriate for other purposes.

Dated at Mississauga, in the Province of Ontario, this 30th day of November 2018.

**Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc.**



James Hall
General Manager

APPENDIX G

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC., AND ARALEZ PHARMACEUTICALS CANADA INC.**

**MONITOR'S REPORT ON CASH FLOW STATEMENT
(paragraph 23(1)(b) of the CCAA)**

The attached statement of projected cash flow of Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. (collectively, the "Companies"), prepared as of the 30th day of November, 2018, consisting of the period from November 24, 2018 to February 1, 2019 (the "Cash Flow Forecast"), has been prepared by management of the Companies for the purpose described in Note 1, using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied by management and employees of the Companies. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow Forecast.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- (a) the hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;
- (b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Companies or do not provide a reasonable basis for the Cash Flow Forecast, given the hypothetical assumptions; or
- (c) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Forecast will be achieved.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, in the Province of Ontario, this 3rd day of December 2018.

**Richter Advisory Group Inc.
In its capacity as CCAA Monitor of
Aralez Pharmaceuticals Inc. and
Aralez Pharmaceuticals Canada Inc.
And not in its personal or corporate capacity**

Per:



**Pritesh Patel, MBA, CFA, CIRP, LIT
Vice President**

APPENDIX H

LEGLALS

RE: NOTICE OF PRIORITY CLAIMS PROCESS FOR ESSAR STEEL ALGOMA INC., ESSAR TECH ALGOMA INC., ALGOMA HOLDINGS B.V., ESSAR STEEL ALGOMA (ALBERTA) ULC, CANNELTON IRON ORE COMPANY AND ESSAR STEEL ALGOMA INC. USA (COLLECTIVELY, THE "APPLICANTS") PURSUANT TO THE COMPANIES' CREDITORS ARRANGEMENT ACT (THE "CCAA")

By Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated November 9, 2015 (as amended and restated, the "Initial Order"), the Applicants filed for and obtained relief from their creditors under the CCAA. Pursuant to the Initial Order, Ernst & Young Inc. was appointed by the Court as monitor in the Applicants' CCAA proceedings (the "Monitor").

NOTICE TO CLAIMANTS FOR THE CLAIMS PROCEDURE OF: Aralex Pharmaceuticals Inc. and Aralex Pharmaceuticals Canada Inc. (the "Applicants") and/or its former and current Directors or Officers (the "Directors")

RE: NOTICE OF CLAIMS PROCEDURE, CLAIMS BAR DATE AND RESTRUCTURING CLAIMS BAR DATE

NOTICE IS HEREBY GIVEN that this notice is being published pursuant to an order of the Ontario Superior Court of Justice (Commercial List) made October 10, 2018 (the "Claims Procedure Order").

SEARS CANADA INC. NOTICE TO SPOUSES OF PENSION PLAN MEMBERS OF THE SEARS CANADA INC. REGISTERED RETIREMENT PLAN WHERE THE MEMBER WAS EMPLOYED IN BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, NEW BRUNSWICK AND NOVA SCOTIA

TAKE NOTICE that Mornau Shepell Ltd., the administrator of the Sears Canada Inc. Registered Retirement Plan Registration No. 036005 (the "Plan"), has filed a Notice of Motion with the Ontario Superior Court of Justice [Commercial List] (the "Court"), returnable November 1, 2018, for advice and directions as to whether it can accept as valid the joint and survivor waiver forms completed by spouses of some Plan members who were employed in British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick and Nova Scotia at the time they terminated employment with Sears Canada Inc. or certain of its affiliates.

Opinion

Mr. Thexton, a veteran telecom executive and entrepreneur. He will remain on the board of ScaleUP and join its "leadership council" alongside numerous corporate heavyweights, including the CEOs of three big banks, BCE and Rogers and Magna International, which have helped many of the 22 companies ScaleUP has backed to build their fledgling businesses.

Mortgage brokerage firm tied to real estate developer Fortress shuts down

JANET MCFARLAND

A second mortgage brokerage firm that raised money to finance projects for Fortress Real Developments has closed its doors, marking another setback for the troubled real estate developer.

ScaleUP Ventures general partner to lead Sierra Wireless

SEAN SILCOFF

Sierra Wireless Inc. chairman Kent Thexton will become the Vancouver firm's full-time CEO, taking the helm of a global supplier of technology for the burgeoning internet-of-things market at a pivotal time for the 25-year-old company.

SPORTS

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**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

Court File No. CV-18-603054-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
ARALEZ PHARMACEUTICALS INC. AND ARALEZ PHARMACEUTICALS CANADA
INC.**

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at Toronto

FIFTH REPORT OF THE MONITOR

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Lawyers for Richter Advisory Group Inc.,
in its capacity as Monitor of Aralez
Pharmaceuticals Inc. and Aralez
Pharmaceuticals Canada Inc.