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

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

**January 25, 2019**

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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.**

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

**JANUARY 25, 2019**

## 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 their CCAA proceedings (the “**Monitor**”). The Initial Order provided the Companies with a stay of proceedings until September 7, 2018. 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 (collectively with each of the foregoing entities and the Companies, 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. Also on September 5, 2018, the Court 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 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 to solicit claims against the Companies and any of the Companies’ current and former directors and officers (the “**Claims Process**”); 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 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. On December 7, 2018, the Court granted an order approving, among other things:
  - (i) the transaction contemplated by the Canadian Stalking Horse Agreement between the Companies and Nuvo (the "**Nuvo Transaction**");
  - (ii) vesting in Nuvo, upon the closing of the Nuvo Transaction, API's right, title and interest in and to the Canadian Assets; and
  - (iii) terminating the CCAA Proceedings and discharging Richter as Monitor in respect of Aralez Canada upon the filing of a certificate by the Monitor (save and except for certain further responsibilities pertaining to claims filed against Aralez Canada pursuant to the Claims Process).
8. On December 17, 2018, the Court granted orders approving, among other things:
  - (i) the transaction contemplated by the asset purchase agreement (the "**Intercept APA**") dated December 6, 2018, between Aralez Canada and Intercept Pharmaceuticals, Inc. ("**Intercept**"), for the sale of the Bezafibrate US Assets (as defined in the Intercept APA) (the "**Intercept Transaction**");
  - (ii) vesting in Intercept, upon the closing of the Intercept Transaction, Aralez Canada's right, title and interest in and to the Bezafibrate US Assets; and
  - (iii) the distribution protocol (the "**Distribution Order**") for any interim or future distributions made in cash or otherwise to Deerfield Private Design Fund III, L.P. and Deerfield Partners, L.P., (collectively, "**Deerfield**" or the "**DIP Lender**"), subject to API maintaining a sufficient reserve of funds (the "**Reserve**") to satisfy priority charges, any post-closing matters related to the Nuvo Transaction, and the ongoing obligations of API..
9. Richter, in its capacities as Proposed Monitor and Monitor, has previously provided this Court with seven 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

10. The purpose of this report of the Monitor (the "**Seventh Report**") is to provide information to the Court pertaining to:
  - (i) an overview of the activities of the Monitor since the fifth report (the "**Fifth Report**") dated December 4, 2018;
  - (ii) an update on certain matters in connection with the CCAA Proceedings, including the Intercept Transaction, the Nuvo Transaction, distributions made to Deerfield and the Claims Process;
  - (iii) the Companies' reported receipts and disbursements for the period from November 24, 2018, to December 28, 2018 and API's reported receipts and disbursements for the period from December 29, 2018 to January 18, 2019, including a comparison of reported to forecast results;
  - (iv) API's revised cash flow forecast (the "**Revised Cash Flow Forecast**") for the period from January 19, 2019, to April 19, 2019 (the "**Forecast Period**"); and
  - (v) API's request for an order to change its name and the style of cause in the within proceedings, and extending the Stay Period to April 19, 2019, including the Monitor's recommendations thereon.

## III. TERMS OF REFERENCE

11. In preparing this Seventh 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 Aralez Entities executives (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.
12. Unless otherwise stated, all monetary amounts noted herein are expressed in United States ("**U.S.**") dollars, which is the Companies' common reporting currency.
13. Capitalized terms used but not defined in this Seventh Report are defined in the Affidavit of Mr. Adrian Adams sworn January 23, 2019 (the "**January 23 Adams Affidavit**"), filed in support of the within motion. This Seventh Report should be read in conjunction with the January 23 Adams Affidavit, as certain information contained in the January 23 Adams Affidavit has not been included herein in order to avoid unnecessary duplication.

#### IV. ACTIVITIES OF THE MONITOR

14. Since the date of the Fifth 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) preparing the sixth report of the Monitor, and the confidential supplementary report thereto, both dated December 12, 2018;
- (iv) attending at Court in connection with approval of the Nuvo Transaction and the Intercept Transaction;
- (v) attending at the Companies' premises and meeting with the Companies' management to discuss the Companies' operations and the CCAA Proceedings;
- (vi) reviewing the claims received pursuant to the Claims Process, and communicating with the Companies, Nuvo and Deerfield, and their respective advisors, with respect to same;
- (vii) corresponding and communicating extensively with the Companies and their advisors with respect to the closing of the Intercept Transaction and the Nuvo Transaction;
- (viii) working with A&M and the Companies to establish the Reserve and prepare the Closing Estimates (as hereinafter defined);
- (ix) corresponding and communicating with Deerfield and its legal counsel;
- (x) corresponding and communicating with the Monitor's legal counsel, Torys LLP;
- (xi) monitoring the Chapter 11 Proceedings and matters of interest to the Companies in the Chapter 11 Proceedings;
- (xii) responding to calls and enquiries from creditors and other stakeholders regarding the CCAA Proceedings;  
and
- (xiii) preparing this Seventh Report.

## V. UPDATE ON CERTAIN MATTERS RELATED TO THE CCAA PROCEEDINGS

### Intercept Transaction

15. As noted above, on December 17, 2018, the Court issued an order approving the Intercept Transaction pursuant to the Intercept APA. The Intercept Transaction closed on December 18, 2018 and the Monitor's certificate attesting to the waiver or satisfaction of the conditions precedent was issued to the parties and filed with the Court. A copy of the Monitor's certificate in respect of the Intercept Transaction is attached hereto as **Appendix "A"**.
16. The total cash proceeds received by Aralez Canada from the Intercept Transaction were \$9,000,000 (the "**Intercept Proceeds**"), including the \$450,000 deposit previously paid by Intercept and held in escrow. As part of the closing of the Nuvo Transaction, the Intercept Proceeds were paid by Aralez Canada to API as part of the pre-closing reorganization.

### Nuvo Transaction

17. On December 7, 2018, the Court approved the Nuvo Transaction pursuant to the Canadian Stalking Horse Agreement. The Nuvo Transaction closed on December 31, 2018 (the "**Nuvo Transaction Closing Date**") and the Monitor's certificate attesting to the waiver or satisfaction of the conditions precedent was issued to the parties and filed with the Court. A copy of the Monitor's certificate in respect of the Nuvo Transaction is attached hereto as **Appendix "B"**.
18. Pursuant to the terms of Canadian Stalking Horse Agreement, API was required to provide, prior to closing, a good faith estimate of the Estimated Closing Indebtedness, the Estimated Closing Net Working Capital and the Estimated Closing Net Cash (each term as defined in the Canadian Stalking Horse Agreement) (the "**Closing Estimates**") in order to determine if any adjustments were required to the \$62.5 million purchase price payable at closing. On December 27, 2018, API delivered the Closing Estimates to Nuvo, which resulted in a \$4.9 million net reduction to the purchase price, primarily related to two claims filed in the Claims Process for Specified Amounts (as defined in the disclosure letter to Nuvo accompanying the Canadian Stalking Horse Agreement).
19. As a result, the proceeds received from the Nuvo Transaction on closing totalled \$57.6 million (the "Nuvo Proceeds"), which included the \$2.5 million deposit (the "Deposit") previously paid by Nuvo to the escrow agent. On the Nuvo Transaction Closing Date, the escrow agent released \$1.5 million of the Deposit to the Monitor with the balance to be held by the escrow agent to deal with any post-closing adjustments in accordance with the Canadian Stalking Horse Agreement. The balance of the Nuvo Proceeds was notionally paid to the Monitor,

which payment was not completed by a physical transfer of funds but rather effected by way of direction, as discussed below.

20. As noted in the January 23 Adams Affidavit, Nuvo has up to 75 days from the Nuvo Transaction Closing Date (i.e. by March 16, 2019) to reconcile and provide API with a statement (the “**Closing Date Statement**”) detailing Nuvo’s calculation of the actual Closing Indebtedness, the Closing Net Working Capital and the Closing Net Cash (each term as defined in the Canadian Stalking Horse Agreement). To the extent that the amounts contemplated in the Closing Date Statement differ from those in the Closing Estimates, the Nuvo Proceeds would increase or decrease accordingly, which would result in an additional post-closing payment from Nuvo, or a refund to Nuvo from the funds held by the escrow agent and/or the funds held in the Reserve.

### **Distributions**

21. The Distribution Order authorized API or the Monitor to make distributions to Deerfield, without further order of the Court, up to the maximum amount owing to Deerfield in connection with the Companies’ debtor-in-possession financing facility, if any, and the obligations of the Aralez Entities under the June 8, 2015 loan agreement (as amended) between Deerfield, as lender, and API, Aralez Canada and Pozen (the “**Facility Agreement**”), subject to maintaining the Reserve. Upon closing of the Nuvo Transaction, API and the Monitor, in consultation with Deerfield, established the Reserve in the amount of \$10.5 million, of which \$1.5 million is held by the Monitor and the remaining \$9.0 million is held by API. As detailed in the Distribution Order, the Reserve will be used to:
  - (i) pay, in full, any and all amounts that rank, or may rank, in priority to Deerfield, including professional fees subject to the Administration Charge;
  - (ii) account for any amounts that may potentially be owed to Nuvo as a result of the Closing Date Statement, as discussed above;
  - (iii) secure the obligations incurred by API since the Filing Date; and
  - (iv) pay any other contingent amounts appropriate under the circumstances.
22. On the Nuvo Transaction Closing Date, approximately \$55.1 million from the Nuvo Proceeds that was notionally received by the Monitor was distributed to Deerfield by way of a set-off of debt amounts owed to Deerfield pursuant to the Facility Agreement.
23. The Distribution Order provides that any portion of the Reserve subsequently determined by the Monitor, in consultation with API and Deerfield, to no longer be necessary or appropriate to retain, shall be distributed to Deerfield as soon as practicable following such determination, up to the maximum amount of the obligations owing under the Facility Agreement.

## Claims Process

24. Below is a summary of the claims received by the Monitor as against the Companies, and/or the directors and officers (“D&O”) of the Companies, pursuant to the Claims Process:

Proofs of Claim		
Company	Total (#)	Total (\$)
Aralez Canada	39	66.7 million
API	34	136.9 million

25. The Monitor notes that certain of the claims filed were duplicates and/or filed against both API and Aralez Canada for the same claim amount. Of the 39 claims filed against Aralez Canada, 22 were placeholder claims filed by D&O, employees, or affiliates of Aralez Canada. As noted in the January 23 Adams Affidavit, 19 of the Aralez Canada claims have been resolved, 16 are currently being reviewed (employee and D&O placeholder claims) and 4 claims remain in dispute. Based on the foregoing, the Companies may not require a formal claims resolution procedure as the Companies have sought to resolve the Aralez Canada claims directly with the claimants, in consultation with the Monitor, Nuvo and Deerfield.

## VI. CASH RECEIPTS AND DISBURSEMENTS FROM NOVEMBER 24, 2018, TO JANUARY 18, 2019

26. The Companies’ consolidated cash flow projection for the period from November 24, 2018, to February 1, 2019 (the “**November 24 Cash Flow Forecast**”), was filed with the Court in support of the Companies’ application returnable December 7, 2018, seeking, *inter alia*, an extension of the Stay Period.
27. The Companies have continued to provide the Monitor with their cooperation 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 November 24 Cash Flow Forecast.
28. The operations of Aralez Canada in the context of these CCAA Proceedings ceased on the Nuvo Transaction Closing Date. As such, for comparative purposes, the Monitor has separated its analysis of the cash receipts and disbursements from November 24, 2018 to January 18, 2019 into two periods: (i) the five week period ending December 28, 2018, reflecting the pre-close period, which includes the results of Aralez Canada; and (ii) the three week period between December 29, 2018, and January 18, 2019, reflecting the post-closing period, which excludes the results of Aralez Canada.

29. A comparison of the Companies' actual to forecast results for the 5-week period ending December 28, 2018, is summarized as follows:

<b>Aralez Pharmaceuticals Inc. and Aralez Pharmaceuticals Canada Inc. Cash Flow Variance Analysis For the Period November 24 to December 28, 2018</b>			
<i>(C\$ in Millions)</i>	Forecast	Actual	Variance
<b>OPERATING RECEIPTS</b>			
Net Sales Receipts	\$2.8	\$4.0	\$1.2
Other Receipts	\$0.0	\$11.8	11.8
<b>Net Operating Receipts</b>	<b>\$2.8</b>	<b>\$15.8</b>	<b>\$13.0</b>
<b>OPERATING DISBURSEMENTS</b>			
Inventory Purchases	(\$1.7)	(\$1.1)	\$0.6
Royalty Payments	(0.2)	(0.2)	0.0
Payroll Related Expenses	(0.7)	(0.7)	0.0
Operating Expenses	(1.6)	(1.1)	0.5
Rent	(0.0)	(0.0)	0.0
API Operating Expenses	(0.4)	(0.1)	0.3
<b>Total Operating Disbursements</b>	<b>(\$4.6)</b>	<b>(\$3.1)</b>	<b>\$1.5</b>
<b>NET OPERATING CASH FLOW</b>	<b>(\$1.7)</b>	<b>\$12.7</b>	<b>\$14.4</b>
<b>NON-OPERATING DISBURSEMENTS</b>			
Professional Fees	(\$1.5)	(\$0.9)	0.6
<b>Total Non-Operating Disbursements</b>	<b>(\$1.5)</b>	<b>(\$0.9)</b>	<b>\$0.6</b>
<b>Net Operating and Non-Operating Cash Flow</b>	<b>(\$3.2)</b>	<b>\$11.8</b>	<b>\$15.0</b>
DIP Drawdown	\$0.4	\$0.0	(\$0.4)
<b>Total Net Cash Flow</b>	<b>(\$2.9)</b>	<b>\$11.8</b>	<b>\$14.6</b>
<b>CASH BALANCE</b>			
<b>Beginning Balance</b>	\$5.5	\$5.5	\$0.0
Total Net Cash Flow	(2.9)	11.8	14.6
<b>Ending Balance</b>	<b>\$2.6</b>	<b>\$17.3</b>	<b>\$14.6</b>

30. As reflected in the summary table above, the Companies reported a net cash inflow of CAD\$11.8 million over the period, and a cash balance of approximately CAD\$17.3 million, as at December 28, 2018. The actual cash balance was approximately CAD\$14.6 million higher than forecast.
31. The favourable cash flow variance of approximately CAD\$14.6 million principally relates to:
- (i) Proceeds from the Intercept Transaction (shown as Other Receipts in the table above);
  - (ii) Permanent differences due to higher than forecasted sales and lower than anticipated inventory purchases and operating expenses associated with Aralez Canada; and
  - (iii) Timing differences attributable to lower than anticipated professional fees and operating expenses associated with API. The Monitor understands that these favourable variances may reverse in the coming weeks.
32. On the Nuvo Transaction Closing Date, the cash balances of Aralez Canada (approximately CAD\$5.2 million) were acquired by Nuvo pursuant to the Nuvo Transaction.
33. A comparison of API's actual to forecast results for the 3-week period ending January 18, 2019, is summarized as follows:

<b>Aralez Pharmaceuticals Inc.</b>			
<b>Cash Flow Variance Analysis</b>			
<b>For the Period December 29, 2018 to January 18, 2019</b>			
<i>(C\$ in Millions)</i>	<b>Forecast</b>	<b>Actual</b>	<b>Variance</b>
<b>Net Receipts</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>OPERATING DISBURSEMENTS</b>			
Operating Expenses	(\$0.4)	(\$0.0)	\$0.4
<b>Total Operating Disbursements</b>	<b>(\$0.4)</b>	<b>(\$0.0)</b>	<b>\$0.4</b>
<b>NET OPERATING CASH FLOW</b>	<b>(\$0.4)</b>	<b>(\$0.0)</b>	<b>\$0.4</b>
<b>NON-OPERATING DISBURSEMENTS</b>			
Professional Fees	(\$0.7)	(\$1.1)	(0.4)
Key Employee Retention Plan	(0.0)	(0.3)	(0.3)
<b>Total Non-Operating Disbursements</b>	<b>(\$0.7)</b>	<b>(\$1.3)</b>	<b>(\$0.6)</b>
<b>Total Net Cash Flow</b>	<b>(\$1.1)</b>	<b>(\$1.4)</b>	<b>(\$0.3)</b>
<b>CASH BALANCE</b>			
<b>Beginning Balance <sup>(1)</sup></b>	<b>\$12.1</b>	<b>\$12.1</b>	<b>\$0.0</b>
Total Net Cash Flow	(1.1)	(1.4)	(0.3)
<b>Ending Balance</b>	<b>\$11.0</b>	<b>\$10.7</b>	<b>(\$0.3)</b>

*(1) The opening cash balance reflects that Aralez Canada's cash has been acquired by Nuvo pursuant to the Nuvo Transaction.*

34. As reflected in the summary table above, API reported a net cash outflow of CAD\$1.4 million over the period, and a cash balance of approximately CAD\$10.7 million, as at January 18, 2019. The actual cash balance was approximately CAD\$0.3 million lower than forecast.
35. The unfavourable cash flow variance of approximately CAD\$0.3 million relates to timing differences associated with: (a) reimbursement to Aralez Canada for the post-closing payment of the KERP to the eligible participants, which was forecasted to be paid after January 18, 2019 in the November 24 Cash Flow Forecast; and (b) a reversal of prior positive variances in professional fees. The above variances were partially offset by favourable timing differences attributable to lower than anticipated operating expenses.
36. 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 January 18, 2019, the Companies have made approximately CAD\$1.2 million in payments relating to expenses incurred prior to the Filing Date, all of which were paid prior to the Nuvo Transaction Closing Date.

## VII. REVISED CASH FLOW FORECAST

37. API, 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 and disbursements during the Forecast Period.
38. The Monitor understands from its discussions with API and A&M that the Revised Cash Flow Forecast was approved by the DIP Lender on January 23, 2019.
39. 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 "C"** and is summarized below:

<b>Aralez Pharmaceuticals Inc.</b>	
<b>13-Week Cash Flow Forecast</b>	
<b>For the Period Ending April 19, 2019</b>	
<i>(C\$ in Millions)</i>	
Net Receipts	<b>\$0.0</b>
<b>OPERATING DISBURSEMENTS</b>	
Operating Expenses	(1.1)
<b>Total Operating Disbursements</b>	<b>(\$1.1)</b>
<b>NET OPERATING CASH FLOW</b>	<b>(\$1.1)</b>
<b>NON-OPERATING DISBURSEMENTS</b>	
Key Executive Incentive Plan	(0.7)
Professional Fees	(3.9)
<b>Total Non-Operating Disbursements</b>	<b>(\$4.6)</b>
<b>Total Net Cash Flow</b>	<b>(\$5.7)</b>
<b>CASH BALANCE</b>	
<b>Beginning Balance</b>	\$10.7
Total Net Cash Flow	(5.7)
<b>Ending Balance</b>	<b>\$5.0</b>

40. As noted, API had approximately CAD\$10.7 million of cash on hand as at January 18, 2019. The Monitor notes this amount does not include the \$1.5 million held by the Monitor as part of the Reserve.
41. The Revised Cash Flow Forecast projects that API will experience a net cash outflow of approximately CAD\$5.7 million over the Forecast Period, primarily related to operating expenses (for compliance, audit, tax, and board fees), payments to the participants in accordance with the KEIP, and professional fees incurred as part of the CCAA Proceedings.
42. The Revised Cash Flow Forecast projects an ending cash balance of approximately CAD\$5.0 million as at April 19, 2019.

43. 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 "D"**.

## **VIII. NAME CHANGE**

44. Pursuant to the Canadian Stalking Horse Agreement, API is required to change its name to remove any reference to "Aralez" and to change the style of cause in the CCAA Proceedings, in each case as soon as practicable and in any event not later than 90 days of the Nuvo Transaction Closing Date.
45. Accordingly, API is seeking Court approval on the within motion to change its name to "Old API Wind-Down Ltd.", as well as approval of a concurrent change to the style of cause in the CCAA Proceedings.

## **IX. STAY EXTENSION**

46. The current stay period expires on February 1, 2019, which is prior to the outside dates for (i) resolving any disputed claims filed against Aralez Canada in the Claims Process and (ii) addressing any post-closing matters related to the Nuvo Transaction, including delivering the Closing Date Statement. As such, API is seeking an extension of the Stay Period to April 19, 2019.
47. The Monitor supports API's request for an extension of the stay of proceedings from February 1, 2019, to April 19, 2019, for the following reasons:
- (i) API is acting in good faith and with due diligence;
  - (ii) the extension will provide the opportunity for Nuvo and API to finalize any post-closing matters related to the Nuvo Transaction, including any adjustments to the Nuvo Proceeds resulting from the Closing Date Statement;
  - (iii) it will allow the Monitor and API the opportunity to resolve any disputed claims received pursuant to the Claims Process;
  - (iv) the granting of the extension does not materially prejudice any creditor of API as the Revised Cash Flow Forecast reflects that API is 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, does not oppose the stay extension.

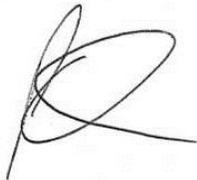
## **X. MONITOR'S CONCLUSION AND RECOMMENDATIONS**

48. For the reasons set out in this Seventh Report, the Monitor is of the view that the relief requested by API is both appropriate and reasonable and as such, the Monitor recommends that this Court make an order:
- (i) approving the name change of API to "Old API Wind-down Ltd." and the concurrent change to the style of cause in the CCAA Proceedings; and
  - (ii) extending the Stay Period from February 1, 2019 to April 19, 2019.

All of which is respectfully submitted this 25<sup>th</sup> day of January, 2019.

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

Per:



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



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

# **APPENDIX “A”**

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.

**The Applicants**

**MONITOR'S CERTIFICATE**

**RECITALS**

- A. The Applicants obtained protection under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an Initial Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated August 10, 2018, as amended and restated (the "Initial Order").
- B. Richter Advisory Group Inc. (in such capacity, the "Monitor") was appointed as the Monitor of the Applicants in the CCAA proceedings pursuant to the Initial Order.
- C. Pursuant to the Approval and Vesting Order of the Court dated December 17, 2018 (the "Approval and Vesting Order"), the Court approved the asset purchase agreement dated December 6, 2018 (the "Bezafibrate APA") between Aralez Pharmaceuticals Canada Inc. (the "Seller") and Intercept Pharmaceuticals, Inc. (the "Buyer"), vesting in the Buyer, the Seller's right, title and interest in and to the Purchased Assets and the Product IP License (the "Transaction"), which is to be effective upon the delivery by the Monitor to the Buyer of this Monitor's Certificate.
- D. Unless otherwise indicated herein, capitalized terms have the meanings set out in the Approval and Vesting Order.
- E. Pursuant to the Approval and Vesting Order, the Monitor may rely on written notice from the Seller and the Buyer regarding fulfillment of conditions to closing under the Bezafibrate APA.

**THE MONITOR CONFIRMS** the following:

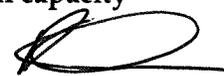
1. The Monitor has received written confirmation, in form and substance satisfactory to the Monitor, from the Seller and Buyer that:

- (a) All applicable conditions under the Bezafibrate APA have been satisfied and/or waived, as applicable;
- (b) The Buyer has paid and the Seller has received the Closing Payment; and
- (c) The Transaction has been completed to the satisfaction of the Monitor.

2. This Certificate was delivered by the Monitor at 3:30 PM on December 18, 2018 .

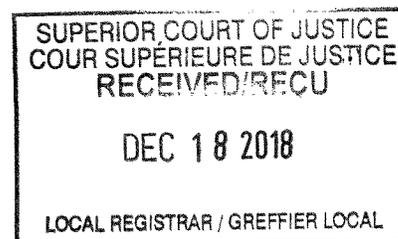
**RICHTER ADVISORY GROUP INC., in its  
capacity as Monitor of the Applicants, and not  
in its personal capacity**

Per: \_\_\_\_\_



Name: Paul van Eyk

Title: Senior Vice President



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

**MONITOR'S CERTIFICATE**

**Torlys LLP**  
79 Wellington Street West, Suite 3000  
Box 270, TD Centre  
Toronto, Ontario M5K 1N2  
Fax: 416.865.7380

**David Bish** (LSUC#: 41629A)  
Tel: 416.865.7353  
Email: [dbish@torlys.com](mailto:dbish@torlys.com)

Lawyer for the Monitor

# **APPENDIX “B”**

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.

Applicants

MONITOR'S CERTIFICATE

RECITALS

- A. The Applicants obtained protection under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an Initial Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated August 10, 2018 (as amended and restated, the "Initial Order").
- B. Richter Advisory Group Inc. (in such capacity, the "Monitor") was appointed as the Monitor of the Applicants in the CCAA proceedings pursuant to the Initial Order.
- C. Pursuant to the Approval and Vesting Order of the Court granted December 10, 2018 (the "Approval and Vesting Order"), the Court approved the share purchase agreement dated September 18, 2018 (as amended by the First Amending Agreement to the Share Purchase Agreement and Disclosure Letter dated December 6, 2018) (the "Share Purchase Agreement") among Aralez Pharmaceuticals Inc. ("API"), as vendor, Aralez Pharmaceuticals Canada Inc. ("Aralez Canada"), as the corporation, and Nuvo Pharmaceuticals Inc., as the purchaser (the "Purchaser") providing for, among other things, the sale of all the shares in the capital of Aralez Canada to the Purchaser (the "Purchased Shares"), which vesting is to be effective upon the delivery by the Monitor to the Purchaser of this Monitor's Certificate.

D. Unless otherwise indicated or defined herein, capitalized terms used in this Monitor's Certificate shall have the meanings given to them in the Approval and Vesting Order.

**THE MONITOR CONFIRMS** the following:

1. The Monitor has received written confirmation, in form and substance satisfactory to the Monitor, from the Purchaser and API that:

- (a) all conditions to Closing set forth in the Share Purchase Agreement have been satisfied or waived;
- (b) the Purchaser has paid the Purchase Price;
- (c) the Purchase Price has been delivered in accordance with the Share Purchase Agreement; and
- (d) the Transaction has been completed to the satisfaction of the Purchaser and API, respectively.

DATED at Toronto, Ontario this 31 day of December, 2018.

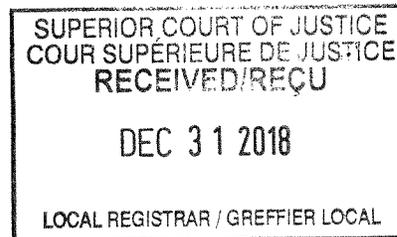
**RICHTER ADVISORY GROUP INC., solely in its capacity as Monitor of the Applicants and not in its personal capacity**

Per:



Name: Paul van Eyk

Title: SVP Richter Advisory Group Inc.



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 ARAJEZ  
PHARMACEUTICALS INC. AND ARAJEZ PHARMACEUTICALS CANADA INC.

Applicants

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

ONTARIO  
SUPERIOR COURT OF JUSTICE (COMMERCIAL  
LIST)

Proceeding commenced at Toronto

MONITOR'S CERTIFICATE

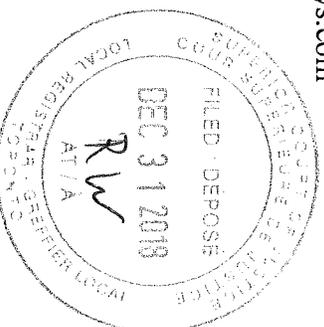
**Torys LLP**

79 Wellington Street West, Suite 3000  
Box 270, TD Centre  
Toronto, Ontario M5K 1N2  
Fax: 416.865.7380

**David Bish (LSUC#: 41629A)**

Tel: 416.865.7353

Email: [dbish@torys.com](mailto:dbish@torys.com)



Lawyer for the Monitor

# **APPENDIX “C”**

**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.**

**MANAGEMENT'S REPORT ON CASH FLOW STATEMENT**

The management of Aralez Pharmaceuticals Inc. (the "**Company**") have developed the assumptions and prepared the attached statement of projected cash flow as of the 23<sup>rd</sup> day of January, 2019 for the period from January 19, 2019 to April 19, 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 Company 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 Princeton, in the State of New Jersey (USA), this 23<sup>rd</sup> day of January 2019.

**Aralez Pharmaceuticals Inc.**



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Sanjay Subramanian  
Chief Financial Officer

**Aralez Pharmaceuticals Inc.**  
**13-Week Cash Flow Forecast**  
**For the Period Ending April 19, 2019**

<i>(C\$ in Millions)</i>	Notes	1/25/19	2/1/19	2/8/19	2/15/19	2/22/19	3/1/19	3/8/19	3/15/19	3/22/19	3/29/19	4/5/19	4/12/19	4/19/19	Total
	1, 2														
<b>Net Receipts</b>		<b>\$0.0</b>													
<b>OPERATING DISBURSEMENTS</b>															
Operating Expenses	3	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(1.1)
<b>Total Operating Disbursements</b>		<b>(\$0.1)</b>	<b>(\$1.1)</b>												
<b>NET OPERATING CASH FLOW</b>		<b>(\$0.1)</b>	<b>(\$1.1)</b>												
<b>NON-OPERATING DISBURSEMENTS</b>															
Key Executive Incentive Plan	4	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	0.0	0.0	0.0	0.0	0.0	(0.7)
Professional Fees	5	(2.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(3.9)
<b>Total Non-Operating Disbursements</b>		<b>(\$3.0)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.4)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$0.1)</b>	<b>(\$4.6)</b>
<b>Total Net Cash Flow</b>		<b>(\$3.1)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.5)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$5.7)</b>
<b>CASH BALANCE</b>															
<b>Beginning Balance</b>	6	<b>\$10.7</b>	<b>\$7.7</b>	<b>\$7.5</b>	<b>\$7.3</b>	<b>\$7.1</b>	<b>\$6.9</b>	<b>\$6.7</b>	<b>\$6.5</b>	<b>\$6.0</b>	<b>\$5.8</b>	<b>\$5.6</b>	<b>\$5.4</b>	<b>\$5.2</b>	<b>\$10.7</b>
Total Net Cash Flow		(3.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(5.7)
<b>Ending Balance</b>		<b>\$7.7</b>	<b>\$7.5</b>	<b>\$7.3</b>	<b>\$7.1</b>	<b>\$6.9</b>	<b>\$6.7</b>	<b>\$6.5</b>	<b>\$6.0</b>	<b>\$5.8</b>	<b>\$5.6</b>	<b>\$5.4</b>	<b>\$5.2</b>	<b>\$5.0</b>	<b>\$5.0</b>

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

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**In the Matter of the CCAA Proceedings of Aralez Pharmaceuticals Inc. (“API” or the “Company”).**

**Disclaimer**

In preparing this cash flow forecast (the “**Canadian Forecast**”), the Company has relied upon unaudited financial information and has 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.

**Note 1 Purpose of Canadian Forecast**

The purpose of the Canadian Forecast is to present the estimated cash receipts and disbursements of API for the period from January 19, 2019 to April 19, 2019 in respect of its proceedings under the *Companies’ Creditors Arrangement Act* (“**CCAA**”). The Canadian Forecast has been prepared by management of the Company (“**Management**”) based on available financial information at the date of the Company’s motion for, *inter alia*, an extension of the stay period to April 19, 2019. Readers are cautioned that this information may not be appropriate for other purposes.

**Note 2 Sale of Aralez Pharmaceuticals Canada Inc.**

On December 31, 2018, API closed a transaction for the sale of all outstanding shares of Aralez Pharmaceuticals Canada Inc., the Canadian operating entity (“**Aralez Canada**”), to Nuvo Pharmaceuticals Inc., thereby terminating CCAA proceedings and discharging Richter Advisory Group Inc. (the “**Monitor**”) as Monitor in respect of Aralez Canada. As such, the Canadian Forecast reflects receipts and disbursements of API only.

**Note 3 Operating Expenses**

The Canadian Forecast includes: (i) operating expenses of API, which primarily relate to legal fees incurred for compliance and employment matters, (ii) accounting related fees, and (iii) monthly fees paid to API’s directors.

**Note 4 Key Executive Incentive Plan**

Represents payments to employees and directors of API in accordance with the Court-approved key executive incentive plan.

**Note 5 Professional Fees**

Includes payments to: (i) the Company's financial advisor and legal counsel, (ii) the Monitor and its legal counsel, (iii) Moelis & Company LLC, investment banker to the Company and its affiliates and (iv) the Company's tax advisor.

**Note 6 Opening Cash Balance**

Represents cash from API's two bank accounts denominated in Canadian dollars and US Dollars at January 19, 2019. The US Dollar denominated account has been translated to Canadian dollars based on the exchange rates noted above.

# **APPENDIX “D”**

**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.**

**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. (the "Company"), prepared as of the 23<sup>rd</sup> day of January, 2019, consisting of the period from January 19, 2019 to April 19, 2019 (the "Cash Flow Forecast"), has been prepared by management of the Company 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 Company. 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 Company 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 23<sup>rd</sup> day of January 2019.

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

Per:



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**Pritesh Patel, MBA, CFA, CIRP, LIT  
Senior 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.**

Applicant

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

**SEVENTH REPORT OF THE MONITOR**

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