



**First Report of
KSV Restructuring Inc. as
Information Officer of
Paladin Labs Canadian Holding Inc. and
Paladin Labs Inc.**

October 10, 2022

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COURT FILE NO.: CV-22-00685631-00CL

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 PALADIN LABS CANADIAN HOLDING INC. AND
PALADIN LABS INC.

APPLICATION OF PALADIN LABS INC. UNDER SECTION 46 OF THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

FIRST REPORT OF KSV RESTRUCTURING INC.
AS INFORMATION OFFICER

OCTOBER 10, 2022

1.0 Introduction

1. On August 16, 2022 (the "Petition Date"), Endo International plc. ("Endo Parent") and certain of its affiliates (collectively, the "Debtors", and together with their non-debtor affiliates, "Endo" or the "Company"), including Paladin Labs Inc. ("Paladin") and Paladin Labs Canadian Holding Inc. ("Paladin Holding" and jointly with Paladin, the "Canadian Debtors"), commenced proceedings (the "Chapter 11 Proceedings") by filing voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "US Court").
2. On August 17, 2022, the Debtors filed several first day motions in the Chapter 11 Proceedings (collectively, the "First Day Motions"). On August 18, 2022, the US Court granted multiple orders in respect of the First Day Motions (collectively, the "First Day Orders"), including, among others, the:¹
 - a) Foreign Representative Order, which authorized Paladin to act as the foreign representative of the Debtors (the "Foreign Representative");
 - b) Joint Administration Order;
 - c) Notice of Stay Order;

¹ Each as defined in the First Supplemental Order (as defined below).

- d) Interim Wages Order;
 - e) Interim Customer Programs Order;
 - f) Interim Vendor Order;
 - g) Interim Taxes Order;
 - h) Interim Insurance Order;
 - i) Interim Cash Management Order; and
 - j) Interim Cash Collateral Order.
3. In its capacity as Foreign Representative, Paladin brought an application (the “Recognition Application”) before the Ontario Superior Court of Justice (Commercial List) (this “Court”) for recognition of the Chapter 11 Proceedings under Part IV of *the Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”). In connection with the Recognition Application, this Court granted the following orders:
- a) an Interim Order (Foreign Proceeding) dated August 17, 2022 (the “Interim Order”), among other things, granting a stay of proceedings in respect of the Canadian Debtors, the property and business of the Canadian Debtors, any subsidiary, affiliate or related party of Endo Parent or any Canadian Debtor that is a defendant in Canadian litigation proceedings or subject to any other proceedings in Canada (the “Canadian Litigation Defendants”), and the directors and officers of the Canadian Debtors and the Canadian Litigation Defendants;
 - b) an Initial Recognition Order (Foreign Main Proceeding) dated August 19, 2022 (the “Initial Recognition Order”), among other things:
 - i. recognizing the Chapter 11 Proceedings as a “foreign main proceeding” and recognizing Paladin as the “foreign representative” in respect of the Chapter 11 Proceedings, as such terms are defined in section 45 of the CCAA; and
 - ii. declaring that the Interim Order shall be of no further force or effect upon the effectiveness of the Initial Recognition Order and the First Supplemental Order; and
 - c) a Supplemental Order (Foreign Main Proceeding) dated August 19, 2022 (the “First Supplemental Order”), *inter alia*:
 - i. recognizing certain of the First Day Orders of the US Court;
 - ii. granting a stay of proceedings in respect of the Canadian Debtors, the property and business of the Canadian Debtors, the Canadian Litigation Defendants, and the directors and officers of the Canadian Debtors and the Canadian Litigation Defendants; and

- iii. appointing KSV Restructuring Inc. (“KSV”) as information officer in respect of these Canadian recognition proceedings (the “Information Officer”).
4. Copies of the Initial Recognition Order and the First Supplemental Order (without schedules other than Schedule “A”) are attached to the Affidavit of Daniel Vas sworn October 7, 2022 in these Canadian recognition proceedings (the “Second Affidavit”).
5. On September 28, 2022, the US Court heard certain second day motions (the “Second Day Hearing”) filed by the Debtors in the Chapter 11 Proceedings and entered orders in respect of certain of such motions (collectively, the “Second Day Orders”). The Foreign Representative is now seeking to have this Court recognize certain Second Day Orders in Canada pursuant to an order under section 49 of the CCAA (the “Second Supplemental Order”).
6. This Report has been filed with this Court by KSV in its capacity as the Information Officer.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide an update on the Chapter 11 Proceedings and a summary of the Second Day Orders for which recognition is being sought from this Court;
 - b) recommend that this Court grant the relief being sought by the Foreign Representative pursuant to the proposed Second Supplemental Order; and
 - c) provide a summary of the activities of the Information Officer since the date of its appointment.

1.2 Currency

1. All currency references in this Report are to US dollars, unless otherwise stated.

1.3 Defined Terms

1. Capitalized terms not otherwise defined in this Report have the meanings given to them in the (i) Affidavit of Daniel Vas sworn August 17, 2022 (the “Initial Affidavit”), and (ii) the Second Affidavit, as applicable.

1.4 Restrictions

1. In preparing this Report, the Information Officer has relied upon unaudited financial information prepared by the Debtors’ representatives, the Debtors’ books and records and discussions with the Canadian Debtors’ counsel.

2. The Information Officer has not performed an audit or other verification of such information. An examination of the Debtors' financial forecasts as outlined in the *Chartered Professional Accountants of Canada Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on the Debtors' assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.
3. The Information Officer expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report or relied upon by the Information Officer in its preparation of this Report.

2.0 Background

1. The Canadian Debtors are part of a global specialty pharmaceutical group that produces and sells both generic and branded products. Endo Parent is an Irish publicly-traded company headquartered in Dublin, Ireland.
2. While Endo's global headquarters is in Ireland, the majority of its business is conducted in the United States. Indeed, in 2021, Endo earned approximately 97% of its total consolidated revenue from customers in the United States. The Company's United States headquarters is located in Malvern, Pennsylvania and its primary U.S. manufacturing facility is located in Rochester, Michigan.
3. Paladin is Endo's Canadian operating company. Paladin sells specialty pharmaceutical products that it owns, licences or distributes to a variety of customers, including wholesalers, hospitals, governmental entities and pharmacies. Paladin Holding is a holding company that owns all of the shares of Paladin.
4. Of the approximately 1,560 employees employed by the Debtors as of the Petition Date, 98 were employees of Paladin. None of Paladin's employees are unionized.
5. Endo's financial performance preceding the Petition Date had been negatively impacted by several factors, including a significant decline in revenues and increased generic competition relating to Vasoprost, Endo's single largest product by revenue in 2021, and the Company's litigation overhang, including the Canadian Opioid Lawsuits. In light of its financial performance and the circumstances facing the Company, Endo's highly-leveraged capital structure – including \$8 billion in secured and unsecured indebtedness, which is guaranteed by the Canadian Debtors – and related debt servicing costs became unsustainable.
6. Prior to the Petition Date and following, among other things, discussions with certain of the Company's stakeholders regarding potential restructuring frameworks, the Debtors entered into a restructuring support agreement with the Ad Hoc First Lien Group (the "RSA"), which is comprised primarily of the Prepetition First Lien Lenders and the Prepetition First Lien Noteholders. The RSA contemplates a credit bid acquisition of substantially all of the Debtors' assets by an entity formed by the Ad Hoc First Lien Group, which will serve as a stalking horse bid (the "Stalking Horse Bid") in a post-petition bidding and auction process to be conducted during the Chapter 11 Proceedings.

7. Further information concerning the Debtors' background, corporate structure, prepetition capital structure and indebtedness, and the events preceding the Chapter 11 Proceedings is provided in the Initial Affidavit.
8. All materials filed with this Court in these Canadian recognition proceedings are available on the Information Officer's website at <https://www.ksvadvisory.com/experience/case/endo>.

3.0 Update on the Chapter 11 Proceedings

1. As described in the Second Affidavit, the Debtors, including the Canadian Debtors have continued to advance their restructuring objectives in the Chapter 11 Proceedings while operating in the ordinary course. Key updates regarding the Chapter 11 Proceedings include the following:
 - a) on September 2, 2022, the US Trustee appointed (i) an official committee of unsecured creditors (the "UCC"), and (ii) an official committee of opioid claimants (the "OCC" and together with the UCC, the "Statutory Committees");
 - b) a committee comprised of seven US states, each acting on behalf of their respective state Attorneys General, which have outstanding claims against the Debtors, has been formed (the "Multi-State EC");
 - c) the Debtors and their advisors have been providing stakeholders, including the Ad Hoc First Lien Group, Statutory Committees, Multi-State EC and the US Trustee, with information regarding the Debtors and their restructuring initiatives;
 - d) a meeting of the Debtors' creditors was held on September 19, 2022 pursuant to section 341 of the Bankruptcy Code;
 - e) in advance of the Second Day Hearing, the Debtors resolved several objections to the proposed Second Day Orders through discussions with their stakeholders;
 - f) the Second Day Hearing was heard on September 28, 2022 at which time the US Court granted the proposed Second Day Orders (with the exception of the Creditor Listing Order, which it has taken under advisement) and addressed certain outstanding objections relating to the Future Claimants Representative Order and the Second Interim Wages Order; and
 - g) the Debtors and their advisors have continued to negotiate the purchase and sale agreement for the Stalking Horse Bid with the Ad Hoc First Lien Group.
2. As of the date of this Report, the Information Officer is not aware of any issues raised by Canadian stakeholders in respect of the Chapter 11 Proceedings or any significant operational issues experienced by either of the Canadian Debtors resulting from the commencement of the Chapter 11 Proceedings.

4.0 Second Day Orders Proposed to be Recognized by this Court

1. The Foreign Representative is seeking this Court's recognition of the following Second Day Orders pursuant to the proposed Second Supplemental Order:
 - a) the Future Claimants Representative Order, which, among other things, authorizes the appointment of Roger Frankel as the future claimants' representative (the "FCR") to protect the rights of any individuals who may be unable to assert their claims and protect their interest in the Chapter 11 Proceedings;
 - b) the Second Interim Wages Order, which authorizes, *inter alia*, the Debtors to pay and honour certain wages and other compensation arising under their existing compensation and benefits programs, including certain prepetition employee obligations. Notably, the Second Interim Wages Order prohibits the Debtors from (i) remitting, paying, satisfying or honouring prepetition or postpetition obligations that have accrued on account of Outside Director Compensation, Outside Director Expenses or under the Severance Plan pending entry of the Final Wages Order, and (ii) paying Spot Awards or any payments under any Employee Bonus Plans or Retention Programs to insiders absent further order of the US Court;²
 - c) the Final Customer Programs Order, which authorizes, among other things, the Debtors to continue to maintain and administer certain customer programs in the ordinary course of business and honour prepetition obligations on account thereof;
 - d) the Final Vendor Order, which authorizes, *inter alia*, the payment of certain prepetition vendor obligations to critical or foreign vendors and lien claimants, including certain creditors of the Canadian Debtors, subject to certain limitations on the total aggregate payments made and the conditions governing such payments;
 - e) the Final Taxes Order, which, among other things, authorizes the Debtors to remit taxes and related fees, including prepetition taxes and fees, subject to certain limitations;
 - f) the Final Insurance Order, which, *inter alia*, authorizes the Debtors to continue their Insurance Programs in accordance with the same practices and procedures in effect on the Petition Date, satisfy prepetition and post-petition obligations related to such Insurance Programs and renew or obtain new insurance policies in consultation with certain of the Debtors' stakeholders;

² As described in the Second Affidavit, several parties filed objections to the Debtors' proposed Final Wages Order. To provide the Statutory Committees with additional time to perform due diligence with respect to the subject matter of the Wages Motion, the Debtors agreed to adjourn the final hearing on the Wages Motion and to instead seek entry of the Second Interim Wages Order at the Second Day Hearing. The final hearing on the Wages Motion was adjourned to November 10, 2022.

- g) the Final Cash Management Order, which, among other things, (i) authorizes the Debtors to continue operating their cash management system, to continue Intercompany Transactions in the ordinary course of business and make payments in respect of Intercompany Claims, subject to certain limitations, and (ii) grants all Intercompany Claims arising after the Petition Date a super priority administrative expense claim;
 - h) the De Minimis Assets Order, which, *inter alia*, authorizes the Debtors to, without further approval from the US Court, use, sell, transfer, invest or acquire assets not included in the Stalking Horse Bid, with an aggregate price of not more than \$2 million free and clear of all liens (with such liens attaching to the proceeds) and abandon assets if the costs of selling such assets exceed the realizations therefrom; and
 - i) the Utilities Order, which, among other things, (i) prohibits utility providers from altering, refusing or discontinuing services to the Debtors on account of any unpaid prepetition charges or the commencement of the Chapter 11 Proceedings, and (ii) authorizes the Debtors to pay all undisputed invoices for utility services rendered by the Debtors' utility providers in accordance with the Debtors' prepetition practices.
2. The Second Affidavit provides additional information on each of the Second Day Orders summarized above. Other than the De Minimis Assets Order and the Utilities Order, all orders referenced above are attached to the Second Affidavit. Although the De Minimis Assets Order and the Utilities Order were granted at the Second Day Hearing, they have not been entered by the US Court as of the date of this Report. The Information Officer understands that the Foreign Representative intends to file a separate affidavit prior to the return of its motion for the proposed Second Supplemental Order with copies of these orders.
 3. At the Second Day Hearing, the US Court also heard the Debtors' motion for the Creditor Listing Order. The U.S. Trustee filed an objection on the issue of whether it was appropriate for the Debtors to redact personally identifiable information of individual creditors and other stakeholders in various documents to be made publicly available in the Chapter 11 Proceedings. The Debtors' motion was taken under advisement by the US Court. The Information Officer understands that the Foreign Representative intends to seek recognition of the Creditor Listing Order, if entered, on a subsequent motion in these Canadian recognition proceedings.
 4. The Debtors' motion for approval of the Final Cash Collateral Order is scheduled to be heard by the US Court at a hearing on October 19, 2022. The Information Officer understands that the Foreign Representative expects to seek recognition of the Final Cash Collateral Order, if granted by the US Court, on a subsequent motion in these Canadian recognition proceedings.

5. The Information Officer is of the view that the Foreign Representative's motion for recognition of the Second Day Orders is reasonable and appropriate for the following reasons:
 - a) the Second Day Orders are consistent with the integrated nature of the Debtors' operations in the US and Canada;
 - b) Canadian stakeholders are treated in the same manner as US stakeholders in each of the Second Day Orders;
 - c) the Second Day Orders are primarily procedural/administrative in nature and are largely standard form orders approved and recognized in most cross-border restructuring proceedings, ultimately having the objective of enhancing the prospect that the Debtors can continue to operate in the normal course during the Chapter 11 Proceedings;
 - d) various limitations reflected in the Second Day Orders provide additional disclosure or notice to, or require the consent of, the UCC, OCC, the FCR, the US Trustee and/or Ad Hoc First Lien Group, which provides additional oversight and affords such parties additional procedural safeguards;
 - e) the proposed recognition of the De Minimis Assets Order and the corresponding authorization to permit the Canadian Debtors to deal with their property in accordance therewith, notwithstanding the terms of the Initial Recognition Order, will allow the Canadian Debtors to efficiently deal with assets having *de minimis* value. Importantly, the Canadian Debtors' proposed authorization to deal with their property in accordance with the De Minimis Assets Order contemplates a seven-day advance notice obligation, which will provide the Information Officer with sufficient opportunity to review and consider any such transaction and, if necessary, raise any objections with the Canadian Debtors or this Court prior to the completion of such transaction; and
 - f) the Information Officer is not aware of any objection having been filed in the Chapter 11 Proceedings by a Canadian stakeholder in respect of the Second Day Orders.

5.0 Activities of Information Officer

1. To date, the activities of the Information Officer have included:
 - a) establishing the Information Officer's case website to make available copies of the orders granted in these Canadian recognition proceedings and other relevant motion materials;
 - b) coordinating the publication of notice of the Chapter 11 Proceedings and these Canadian recognition proceedings in The Globe and Mail (national edition) on August 25, 2022 and September 1, 2022, and Le Devoir on August 29, 2022 and September 6, 2022, in accordance with the Initial Recognition Order;
 - c) corresponding with the Canadian Debtors' counsel;

- d) monitoring the notice and claims agent's website established in connection with the Chapter 11 Proceedings;
- e) reviewing materials filed by the Debtors, the Statutory Committees, the U.S. Trustee, the Multi-State EC and other parties in interest in the Chapter 11 Proceedings;
- f) attending hearings of the US Court in the Chapter 11 Proceedings to remain apprised of material updates therein;
- g) preparing this Report; and
- h) engaging in regular discussions with management to the Canadian Debtors and assisting the Canadian Debtors with certain creditor matters.

6.0 Conclusion and Recommendation

1. Based on the foregoing, the Information Officer recommends that this Court grant the relief being sought by the Foreign Representative pursuant to the proposed Second Supplemental Order.

* * *

All of which is respectfully submitted,



**KSV RESTRUCTURING INC. AS
INFORMATION OFFICER OF PALADIN LABS CANADIAN HOLDING INC.
AND PALADIN LABS INC.,
AND NOT IN ITS PERSONAL CAPACITY**

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

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Applicant

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

Proceeding commenced at Toronto

**FIRST REPORT OF THE INFORMATION
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Lawyers for KSV Restructuring Inc., solely in its capacity as the Court-appointed Information Officer and not in its personal or corporate capacity