

These materials are important and require your immediate attention. They require shareholders of Paladin Labs Inc. (“Paladin”) to make important decisions. If you are in doubt as to how to make such decisions, please contact your financial, legal, tax or other professional advisors. If you have any questions regarding the information contained in this circular or voting your shares, you may contact Paladin’s information and proxy solicitation agent, CST Phoenix Advisors, toll-free in North America at 1-800-239-6813 or at 201-806-2222 outside of North America; or e-mail to inquiries@phoenixadvisorscst.com.



PALADIN LABS INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

to be held on February 24, 2014

and

MANAGEMENT INFORMATION CIRCULAR

with respect to a

PLAN OF ARRANGEMENT

**involving
(among others)**

PALADIN LABS INC.

and

ENDO HEALTH SOLUTIONS INC.

THE BOARD OF DIRECTORS OF PALADIN UNANIMOUSLY RECOMMENDS THAT PALADIN SHAREHOLDERS VOTE FOR THE ARRANGEMENT TO BE CONSIDERED AT THE SPECIAL MEETING OF PALADIN SHAREHOLDERS.

January 21, 2014

TABLE OF CONTENTS

Notice of Special Meeting of Shareholders	1
Glossary of Terms	3
Cautionary Note Regarding Forward-Looking Statements	13
Documents Incorporated by Reference	14
Reporting Currencies and Accounting Principles	15
Frequently Asked Questions about the Arrangement and the Meeting	16
Summary	26
Risk Factors	40
Management Solicitation	53
The Arrangement and the Merger	57
Eligibility for Investment in Canada	93
Certain Canadian Federal Income Tax Consequences of the Arrangement	93
Certain U.S. Tax Consequences of the Merger and the Arrangement	98
Certain Irish Tax Consequences of the Arrangement and the Merger	106
Listing of New Endo Shares on NASDAQ and TSX	111
The Companies	111
The Arrangement Agreement	114
The Voting Agreements	135
Creation of Distributable Reserves of New Endo	137
Information Concerning Endo Health Solutions Inc.	138
Selected Historical Financial Data of Endo	149
Selected Historical Financial Data of Paladin	151
Unaudited Pro Forma Condensed Combined Financial Information	153
Comparative per Share Data	172
Comparative per Share Market Price Data and Dividend Information	174
Management and Other Information of New Endo	174
Description of New Endo Shares	179
Comparison of the Rights of Holders of Paladin Shares and New Endo Shares	193
Indebtedness of Directors and Officers	212
Normal Course Issuer Bid	213
Material Contracts	213
Interest of Informed Persons in Material Transactions	213
Legal Matters	215
Interests of Experts	215
Legal Proceedings	215
Regulatory Actions	216
Auditors, Transfer Agents and Registrars	216
Additional Information	216
Approval by Directors	217
Consent of Financial Advisor	218

APPENDICES

Appendix “A” Plan of Arrangement	A-1
Appendix “B” Arrangement Resolution	B-1
Appendix “C” Arrangement Agreement	C-1
Appendix “D” Interim Order	D-1
Appendix “E” Credit Suisse Fairness Opinion	E-1
Appendix “F” Information Concerning Knight Therapeutics and the Knight Shares	F-1
Appendix “G” Audited Financial Statements of Endo	G-1
Appendix “H” Management’s Discussion and Analysis of Endo in Respect of the Audited Financial Statements of Endo	H-1
Appendix “I” Unaudited Condensed Consolidated Financial Statements of Endo	I-1
Appendix “J” Management’s Discussion and Analysis in Respect of the Unaudited Condensed Consolidated Financial Statements of Endo	J-1
Appendix “K” New Endo Memorandum and Articles of Association	K-1
Appendix “L” Information Concerning Endo’s Compensation Policy	L-1
Appendix “M” New Endo Financial Statement	M-1
Appendix “N” Notice of Presentation (Final Order)	N-1



PALADIN LABS INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Dear Shareholders of Paladin Labs Inc.:

We are pleased to invite you to attend a special meeting of shareholders of Paladin Labs Inc. ("**Paladin**") which will be held at 6111 Royalmount Ave., Montréal, Québec, H4P 2T4, on February 24, 2014, at 3 p.m., (Montréal time) (the "**Meeting**"), for the following purposes:

1. to consider, pursuant to an order of the Superior Court of Québec dated January 17, 2014, as the same may be revised, and, if thought fit, approve with or without variation, a special resolution of the shareholders of Paladin (the "**Arrangement Resolution**") to approve an arrangement under section 192 of the *Canada Business Corporations Act* (the "**Arrangement**") on the terms and subject to the conditions set forth in the plan of arrangement (the "**Plan of Arrangement**") substantially in the form and content of the plan of arrangement included as Appendix "A" to the Circular (as defined below), and pursuant to the Arrangement Agreement by and among Endo Health Solutions Inc., Sportwell Limited (subsequently renamed Endo International Limited) ("**New Endo**"), Sportwell II Limited (subsequently renamed Endo Limited), ULU Acquisition Corp. (subsequently renamed Endo U.S. Inc.), RDS Merger Sub, LLC, 8312214 Canada Inc. and Paladin dated November 5, 2013 (the "**Arrangement Agreement**"), a copy of which is included as Appendix "C" to this notice of meeting and the accompanying management information circular relating to matters to be submitted to the shareholders of Paladin at the Meeting (the "**Circular**");
2. to consider and, if thought fit, approve with or without variation, an ordinary resolution of the shareholders of Paladin (the "**Distributable Reserves Resolution**") to approve the creation of "distributable reserves" of New Endo, which are required under Irish law in order for New Endo to make distributions and pay dividends and to purchase or redeem shares in the future, by reducing some or all of the share premium of New Endo; and
3. to transact such further or other business as may properly come before the Meeting and any adjournments or postponements thereof.

A "special resolution" is a resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders of Paladin who voted in respect of that resolution at the Meeting in person or by proxy. An "ordinary resolution" is a resolution passed by at least a majority of the votes cast by the shareholders of Paladin who voted in respect of that resolution at the Meeting in person or by proxy.

The items of business listed above, the Arrangement, the Arrangement Agreement and the Plan of Arrangement are described in detail in the accompanying Circular of which this notice forms a part. Paladin will transact no other business at the Meeting except such business as may properly be brought before the Meeting or any adjournment or postponement thereof. **Paladin's board of directors has unanimously approved the Arrangement Agreement and the Transactions contemplated thereby, and has determined that the Arrangement is fair, from a financial point of view, to the public shareholders of Paladin and in the best interests of Paladin. For the reasons set forth in the enclosed Circular, Paladin's board of directors unanimously recommends that the shareholders of Paladin vote "FOR" the Arrangement Resolution and "FOR" the Distributable Reserves Resolution.**

Registered holders of common shares of Paladin at the close of business on January 21, 2014, are entitled to vote in person or by proxy at the Meeting and any adjournment or postponement thereof.

Completion of the Arrangement is conditioned on, amongst other things, approval of the Arrangement Resolution at the Meeting. Registered shareholders of Paladin who are unable to attend the Meeting in person are requested to complete, date and sign the enclosed form of proxy (the “**proxy form**”) and send it in the enclosed envelope or otherwise to Computershare Investor Services Inc., 8th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, or via the Internet, by going to www.investorvote.com and following the instructions on the website, or by calling toll free 1-866-732-8683 on a touch tone phone and following the instructions provided by “Vote Voice”. You will need to refer to the proxy form and to your 15 digit control number provided on the proxy form. Non-registered shareholders of Paladin who receive these materials through their broker or other intermediary should follow the instructions provided by their broker or intermediary.

To be effective, your proxy form, whether submitted by mail, facsimile or via the Internet, must be received by Computershare Investor Services Inc. not later than 5 p.m., Montréal time, on February 20, 2014, or, in the case of any adjournment or postponement of the Meeting, not less than 48 hours, excluding Saturdays, Sundays and holidays, prior to the time of such adjournment or postponement. The time limit for deposit of proxies may be waived by Paladin’s board of directors at its discretion. Completing and sending the proxy form will cancel any other proxy you may have previously submitted in connection with the Meeting, as it is the later dated proxy that will be counted.

To receive your consideration for the Arrangement, you must deposit a duly completed and executed copy of the enclosed letter of transmittal with Computershare Trust Company of Canada in accordance with the procedures set out in the letter of transmittal.

Your vote is important. Whether or not you expect to attend in person, we urge you to authorize a proxy to vote your common shares as promptly as possible so that your common shares may be represented and voted at the Meeting.

If you have any questions about the information contained in this document or require assistance in completing your proxy form, please contact Paladin’s proxy solicitor, CST Phoenix Advisors, a division of Canadian Stock Transfer Company Inc., toll free at 1-800-239-6813.

Dated at Montréal, Québec this 21st day of January, 2014

By order of the Board of Directors

(signed) Jonathan Ross Goodman
JONATHAN ROSS GOODMAN, B.A., LL.B., M.B.A.
Chairman of the Board of Directors

(signed) Mark A. Beaudet
MARK A. BEAUDET
Interim President and Chief Executive Officer

GLOSSARY OF TERMS

All capitalized terms used in this Circular and otherwise undefined shall have the meaning ascribed to such terms in the “*Glossary of Terms*”, words importing the singular number only shall include the plural and vice versa, and words importing the use of any gender shall include all genders. Except as noted under “*Reporting Currencies and Accounting Principles*” beginning on page 15 and as otherwise indicated, all references to “Canadian dollars” or “\$” in this Circular are references to Canadian dollars, and all references to “U.S. dollars” or “US\$” are to U.S. dollars.

“**A&L Goodbody**” means A&L Goodbody, Endo’s special Irish counsel.

“**Actavis**” means Watson Pharmaceuticals, Inc., now doing business as Actavis, Inc.

“**Adjusted EBITDA**” means, in respect of Paladin, earnings before interest expense, other expense (income), taxes, depreciation and amortization, foreign exchange gains (losses), share of net income (loss) in associates and joint venture and unusual items, such as write-downs and gains (losses) on intellectual property and investments.

“**Advance Ruling Certificate**” means an advance ruling certificate issued by the Competition Commissioner pursuant to section 102 of the Competition Act (Canada).

“**Amalco**” means a corporation resulting from the amalgamation contemplated in section 3 of the Plan of Arrangement, as it may be amended in accordance with its terms.

“**AMS**” means American Medical Systems Holdings, Inc., a corporation incorporated under the laws of Delaware.

“**Antitrust Division**” means the Antitrust Division of the U.S. Department of Justice.

“**Arrangement**” means the arrangement of Paladin under section 192 of the CBCA on the terms and subject to the conditions set forth in the Plan of Arrangement.

“**Arrangement Agreement**” means the Arrangement Agreement, dated as of November 5, 2013, among Endo, New Endo, Sportwell II Limited (subsequently renamed Endo Limited), Endo U.S., Merger Sub, CanCo 1, and Paladin, as same may be amended, supplemented, restated or otherwise modified from time to time, a copy of which is included as Appendix “C” to this Circular.

“**Arrangement Cash Consideration**” means, in respect of each Paladin Share subject to the Arrangement, \$1.16 in cash, subject to adjustment in accordance with the terms of the Plan of Arrangement.

“**Arrangement Consideration**” means, collectively, the Arrangement Cash Consideration, the New Endo Arrangement Consideration and the Knight Therapeutics Arrangement Consideration.

“**Arrangement Resolution**” means a special resolution of the Paladin Shareholders to approve the Arrangement on the terms and subject to the conditions set forth in the Plan of Arrangement, substantially in the form attached as Appendix “B” to this Circular.

“**Articles of Arrangement**” means the articles of arrangement of Paladin in respect of the Arrangement to be filed with the Director after the Final Order is made, which shall be in form and substance satisfactory to Endo and Paladin, each acting reasonably.

“**ASC 805**” means Accounting Standards Codification 805, “Business Combinations”.

“**ASC 820**” means ASC 820, “Fair Value Measurement”.

“**Barbco**” means Paladin Labs (Barbados) Inc., an international business corporation incorporated under the laws of Barbados (and a subsidiary of Paladin which will become an indirect subsidiary of New Endo as of the Effective Time).

“**Barbco License**” means the license agreement dated January 1, 2012 between Barbco and Delco and pursuant to which Barbco granted a license to Delco to make, market and sell Impavido in the United States.

“**Business Separation Agreement**” means the agreement to be entered into by Paladin and Knight Therapeutics prior to the Effective Time in accordance with the Arrangement Agreement and providing for, among other things, the transfer of all rights of Paladin or one of its affiliates related to Impavido and the Voucher to Knight Therapeutics or one of its affiliates.

“**Canada-U.S. Tax Convention**” means the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended.

“**CanCo 1**” means 8312214 Canada Inc., a corporation incorporated under the laws of Canada.

“**CAT**” means Irish capital acquisitions tax.

“**CBCA**” means the *Canada Business Corporations Act* and all regulations made thereunder, as amended.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**Circular**” means this management information circular, including the notice of meeting to Paladin Shareholders and all schedules and appendices hereto.

“**Closing**” means the closing of the Transactions.

“**Closing Date**” means the date on which the Closing occurs.

“**Code**” means the U.S. Internal Revenue Code of 1986.

“**Companies Act**” means the Irish Companies Acts of 1963 to 2013, as amended.

“**Competition Act (Canada)**” means the *Competition Act* (Canada), as amended, and includes the regulations promulgated thereunder.

“**Competition Act (Canada) Approval**” means (a) the issuance of an Advance Ruling Certificate by the Competition Commissioner under the Competition Act (Canada) and such Advance Ruling Certificate has not been modified or withdrawn prior to Closing; (b) New Endo and Paladin have given the notice required under section 114 of the Competition Act (Canada) with respect to the Transactions and the applicable waiting periods under section 123 of the Competition Act (Canada) have expired or have been terminated in accordance with the Competition Act (Canada); or (c) the obligation to give the requisite notice has been waived pursuant to paragraph 113(c) of the Competition Act (Canada), and in the case of either (b) or (c), the Competition Commissioner shall have issued a No-Action Letter, and any terms and conditions attached to such No-Action Letter are acceptable to Endo acting reasonably, and such No-Action Letter has not been modified or withdrawn prior to Closing.

“**Competition Act (South Africa)**” means the *Competition Act* (South Africa), as amended.

“**Competition Commissioner**” means the Commission of Competition appointed under subsection 7(1) of the Competition Act (Canada) and includes any person designated by the Competition Commissioner to act on his behalf.

“Continuing Employees” means employees of Paladin who continue as employees of New Endo or its subsidiaries after the completion of the Transactions.

“Covered Individual” means an individual who is or was an executive officer or director of Endo or New Endo and subject to the reporting requirements of section 16(a) of the Exchange Act at any time during the six months before and six months after the Closing.

“CRA” means the Canada Revenue Agency.

“Credit Suisse” means Credit Suisse Securities USA, LLC, Paladin’s financial advisor.

“Davies” means Davies Ward Phillips & Vineberg LLP, Paladin’s legal counsel.

“Delco” means Paladin Therapeutics, Inc., a corporation incorporated under the laws of Delaware and currently a wholly-owned subsidiary of Paladin.

“Deutsche Bank” means Deutsche Bank Securities Inc., Endo’s financial advisor.

“Director” means the Director appointed pursuant to section 260 of the CBCA.

“Distributable Reserves Resolution” means an ordinary resolution of Paladin Shareholders to approve the creation of “distributable reserves” of New Endo, which are required under Irish law in order for New Endo to make distributions and pay dividends and to purchase or redeem shares in the future by reducing some or all of the share premium of New Endo.

“Distribution and License Agreement” means the distribution and license agreement to be entered into between Knight Therapeutics, or one of its affiliates, and Barbro which, among other things, grants Barbro exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term.

“DTC” means The Depository Trust Company.

“DWT” means Irish dividend withholding tax.

“Effective Date” means the date upon which all of the conditions to the completion of the Arrangement as set out in the Arrangement Agreement have been satisfied or waived in accordance with the provisions of the Arrangement Agreement and the Arrangement becomes effective in accordance with the CBCA and the Final Order.

“Effective Time” means 7:00 a.m. (Montréal Time) on the Effective Date, or such other time as the parties to the Arrangement Agreement may agree to in writing before the Effective Date.

“Endo” means Endo Health Solutions Inc., a corporation incorporated under the laws of Delaware.

“Endo 2013 Third Quarter Financial Statements” means the unaudited condensed consolidated financial statements of Endo for the nine months ended September 30, 2013 and 2012 attached as Appendix “I” to this Circular.

“Endo Annual Financial Statements” means the audited annual financial statements of Endo for the financial years ended December 31, 2012, December 31, 2011 and December 31, 2010 attached as Appendix “G” to this Circular.

“Endo Financial Statements” means, collectively, the Endo Annual Financial Statements and the Endo 2013 Third Quarter Financial Statements.

“Endo MD&A Discussion” means the Management’s Discussion and Analysis of Financial Condition and Results of Operations for Endo for (i) each of the years ended December 31, 2012, 2011 and 2010 attached as Appendix “H” to this Circular and (ii) the nine months ended September 30, 2013 attached as Appendix “J” to this Circular.

“Endo Pharmaceuticals” means Endo Pharmaceuticals Solutions Inc., a corporation incorporated under the laws of Delaware.

“Endo Proposal 1” means the proposal to adopt the Arrangement Agreement and the transactions contemplated thereby (including the Merger) at the special meeting of the Endo Shareholders.

“Endo Share” means a share of common stock, par value \$0.01, in the capital of Endo.

“Endo Shareholder” means a holder of one or more Endo Shares.

“Endo U.S.” means Endo U.S. Inc. (formerly known as ULU Acquisition Corp.), a corporation incorporated under the laws of Delaware.

“Endo’s Endo Projections” means certain unaudited prospective financial information relating to Endo for the calendar years 2014-2016.

“Endo’s Paladin Projections” means certain unaudited prospective financial information relating to Paladin based on certain estimates made by Endo’s management for the calendar years 2014-2018 and incorporating certain adjustments thereto made by the management of Endo as well as certain extrapolations for the calendar years 2019-2023 made by management of Endo.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Excise Tax Payment” means a payment made by Endo to Covered Individuals with respect to the excise tax under Section 4985 of the Code.

“FDA” means the U.S. Food and Drug Administration.

“Final Order” means an order of the Québec Court in a form acceptable to Paladin and Endo, each acting reasonably, approving the Arrangement under section 192(4) of the CBCA, as such order may be affirmed, amended, modified, supplemented or varied by the Québec Court at any time prior to the Effective Date, or if appealed, then, unless such appeal is withdrawn, abandoned or denied, as affirmed or amended on appeal.

“Former Paladin Optionholder” means, at and following the Effective Time, the holder of one or more Paladin Options immediately prior to the Effective Time.

“Former Paladin Shareholder” means, at and following the Effective Time, the holders of Paladin Shares (other than Qualifying Holdcos) and the holders of Qualifying Holdco Shares, in each case immediately prior to the Effective Time.

“FTC” means the U.S. Federal Trade Commission.

“Hay Group” means Hay Group, Endo’s compensation consultant.

“HealthTronics” means HealthTronics, Inc., a corporation incorporated under the laws of Georgia.

“HealthTronics Business” means all of the issued and outstanding shares of common stock of HealthTronics.

“HealthTronics Sale Agreement” means the Stock Purchase Agreement dated as of January 8, 2014 between Endo and HT Intermediate Company, LLC.

“Holdco Alternative” means the alternative for a Qualifying Holdco Shareholder to elect to sell its Paladin Shares through its Qualifying Holdco in accordance with the terms and conditions of the Arrangement Agreement, such terms and conditions being described in the section titled *“The Arrangement Agreement—Alternative Election Procedure for Certain Paladin Shareholders”* beginning on page 116.

“Holdco Election Time” means 5:00 p.m. on the 10th business day prior to the Effective Date.

“Holders” means beneficial owners of Paladin Shares who, for purposes of the ITA, and at all relevant times, hold their Paladin Shares, and will hold any New Endo Shares and Knight Shares received pursuant to the Arrangement, as capital property and deal at arm’s length with, and are not affiliated with any of, Paladin, New Endo, Knight Therapeutics and CanCo 1.

“Houlihan Lokey” means Houlihan Lokey Financial Advisors, Inc., Endo’s financial advisor in connection with the Transactions.

“HSR Act” means the United States *Hart-Scott-Rodino Antitrust Improvements Act of 1976* or any successor act.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board.

“Impavido” means Impavido® (miltefosine), a Paladin product indicated for the treatment of leishmaniasis approved in certain jurisdictions.

“Impavido IP” means all intellectual property rights of Paladin related to Impavido.

“Interim Order” means the interim order of the Québec Court attached as Appendix “D” hereto providing for, among other things, the calling and holding of the Meeting, as such order may be amended, modified, supplemented or varied by the Québec Court with the consent of both Paladin and Endo, each acting reasonably.

“Intermediary” means an intermediary that is the record holder or registered holder of Paladin Shares, such as a bank, a trust company, a securities dealer or broker, which holds such Paladin Shares in its name on behalf of a beneficial owner.

“In-the-Money Amount per Share” means, in respect of each Paladin Option, the amount by which the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date exceeds the exercise price for each Paladin Share subject to that Paladin Option.

“Investment Canada Act” means the *Investment Canada Act* (Canada).

“Investment Canada Act Approval” means that New Endo shall have received written evidence from the responsible Minister or Ministers under the Investment Canada Act that the Minister(s) are satisfied or deemed to be satisfied that the Transactions are likely to be of net benefit to Canada pursuant to the Investment Canada Act and such approval has not been modified or withdrawn.

“IPR&D” means in-process research and development.

“Ireland-U.S. Tax Treaty” means the Convention between Ireland and the United States of America with Respect to Taxes on Income and Capital Gains, signed July 28, 1997, as amended.

“Irish Revenue Commissioners” means the Irish governmental agency responsible for customs, excise, taxation and related matters created by the *Revenue Commissioners Order, 1923* (Ireland).

“Irish Takeover Rules” means the Irish Takeover Rules made pursuant to the Irish Takeover Panel Act 1997.

“**IRS**” means the U.S. Internal Revenue Service.

“**ITA**” means the *Income Tax Act* (Canada), as amended.

“**Joddes**” means Joddes Limited, a private corporation incorporated under the laws of Canada.

“**Knight Shares**” means the common shares without par value in the capital of Knight Therapeutics.

“**Knight Therapeutics**” means Knight Therapeutics Inc., a corporation incorporated under the laws of Canada and currently a wholly-owned subsidiary of Paladin.

“**Knight Therapeutics Arrangement Consideration**” means, in respect of each Paladin Share subject to the Arrangement, one Knight Share.

“**Knight Therapeutics Valuation Report**” means the valuation report in respect of Knight Therapeutics to be delivered to Endo by Paladin in accordance with the terms of the Arrangement Agreement.

“**KPMG**” means KPMG LLP, Endo’s tax advisor.

“**Letter of Transmittal**” means the enclosed letter of transmittal for use by Paladin Shareholders (other than Qualifying Holdcos) with respect to the Arrangement.

“**Litha**” means Litha Health Care Group Limited, a company incorporated in South Africa.

“**Meeting**” means the special meeting of Paladin Shareholders including any adjournment or postponement thereof, to be called and held in accordance with the Arrangement Agreement and the Interim Order for the purpose of considering and, if thought fit, approving the Arrangement Resolution, among other things.

“**Merger**” means the merger of Merger Sub with and into Endo pursuant to the Arrangement Agreement with Endo as the Surviving Corporation in the Merger.

“**Merger Effective Time**” means the time that the certificate of merger relating to the Merger has been duly filed with the Secretary of the State of Delaware, or at such later time as Paladin and Endo shall agree and specify in the certificate of merger, provided that the Merger shall become effective immediately following the effectiveness of the Arrangement, to the extent possible.

“**Merger Sub**” means RDS Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of Endo U.S.

“**MI 61-101**” means Multilateral Instrument 61-101—*Take-Over Bids and Special Transactions*.

“**NASDAQ**” means NASDAQ Global Select Market.

“**NCIB**” means a normal course issuer bid of Paladin.

“**New Endo**” means Endo International Limited (formerly known as Sportwell Limited), a private limited company incorporated under the laws of Ireland and which will be re-registered as a public limited company.

“**New Endo Arrangement Consideration**” means, in respect of each Paladin Share subject to the Arrangement, 1.6331 New Endo Shares.

“**New Endo Financial Statement**” means the audited consolidated balance sheet of New Endo and subsidiaries as of December 31, 2013, and the related consolidated statement of operations and comprehensive loss, stockholders’ deficit, and cash flows for the period from October 31, 2013 (date of incorporation) through December 31, 2013, set out in Appendix “M” to this Circular.

“New Endo Memorandum and Articles of Association” means the Memorandum and Articles of Association of New Endo substantially in the form attached as Appendix “K” to this Circular.

“New Endo Shares” means the ordinary shares of New Endo following the completion of the Transactions described in this Circular.

“No-Action Letter” means a no-action letter from the Competition Commissioner advising that he does not have grounds, at the time, on which to initiate proceedings before the Competition Tribunal under section 92 of the Competition Act (Canada) to challenge the Transactions and seek an order in respect of the Transactions.

“Non-GAAP Financial Measures” means financial measures other than those prescribed by U.S. GAAP, in the case of Endo, and IFRS, in the case of Paladin.

“Non-Resident Shareholder” means a Holder who, at all relevant times is not, and is not deemed to be, a resident of Canada for the purposes of the ITA, and does not, and is not deemed to, use or hold Paladin Shares, or Knight Shares to be received pursuant to the Arrangement, in a business carried on in Canada or deemed to be carried on in Canada.

“Notifiable Merger” means a merger, defined in terms of section 12 of the Competition Act (South Africa), that meets the thresholds prescribed in terms of section 11 of the Competition Act (South Africa) read with the Government General Notice 216 of 2009 (South Africa).

“Notifiable Transactions” means certain transactions that exceed the thresholds set out in sections 109 and 110 of the Competition Act (Canada).

“Orange Book” means a list of patents that have received new drug application approval published by the FDA.

“Ownership Test” means, in respect of section 7874 of the Code, if the former Endo Shareholders own (within the meaning of Section 7874 of the Code) less than 80% (by both vote and value) of the New Endo Shares by reason of holding Endo Shares.

“Paladin” means Paladin Labs Inc., a corporation continued under the laws of Canada.

“Paladin Board of Directors” means the board of directors of Paladin.

“Paladin ESPP” means the employee share purchase plan adopted by the Paladin Board of Directors on May 10, 2000, as amended from time to time.

“Paladin Exchange Agent” means Computershare Trust Company of Canada at its offices set out in the Letter of Transmittal.

“Paladin Mexico” means Laboratorios Paladin de Mexico S.A., a corporation incorporated under the laws of Mexico.

“Paladin Options” means, at any time, rights to acquire Paladin Shares granted pursuant to the Paladin Stock Option Plan which are, at such time, outstanding and unexercised, whether or not vested.

“Paladin Shareholders” means the holders of Paladin Shares.

“Paladin Shares” means the issued and outstanding common shares without par value in the capital of Paladin.

“Paladin Stock Option Plan” means the stock option plan adopted by the Paladin Board of Directors on May 10, 2000, as amended from time to time.

“**Panel**” means the Irish Takeover Panel which regulates Irish Takeover Rules.

“**PFIC**” means a passive foreign investment company as defined under section 1297 of the Code.

“**Pharmaplan**” means Pharmaplan (Proprietary) Limited (Registration No. 1996/017921/07), a private company incorporated and registered in accordance with the laws of South Africa.

“**Phase I**” means the phase of clinical trials frequently beginning with the initial introduction of the compound into healthy human subjects prior to introduction into patients, involves testing the product for safety, adverse effects, dosage, tolerance, absorption, metabolism, excretion and other elements of clinical pharmacology.

“**Phase II**” means the phase of clinical trials typically involving studies in a small sample of the intended patient population to assess the efficacy of the compound for a specific indication, to determine dose tolerance and the optimal dose range as well as to gather additional information relating to safety and potential adverse effects.

“**Phase III**” means the phase of clinical trials during which trials are undertaken to further evaluate clinical safety and efficacy in an expanded patient population at typically dispersed study sites, in order to determine the overall risk-benefit ratio of the compound and to provide an adequate basis for product labeling.

“**Phoenix**” means CST Phoenix Advisors, a division of Canadian Stock Transfer Company Inc., Paladin’s information and proxy solicitation agent.

“**Plan of Arrangement**” means the plan of arrangement substantially in the form and content set out in Appendix “A” to this Circular (which updates the plan of arrangement attached to the Arrangement Agreement), as the same may be amended, supplemented or varied from time to time in accordance with Article 5 of the Plan of Arrangement or at the direction of the Québec Court in the Final Order with the prior written consent of Paladin and Endo, each acting reasonably.

“**POP**” means pelvic organ prolapse.

“**Principal Knight Shareholders**” means, collectively, Jonathan Ross Goodman and 3487911 Canada Inc. (which is controlled by Jonathan Ross Goodman).

“**Principal Paladin Shareholders**” means, collectively, Jonathan Ross Goodman, Joddes, 3487938 Canada Inc., 3260217 Nova Scotia Company, 3487911 Canada Inc., The Goodman Davis (2008) Family Trust, and Deborah Goodman Davis.

“**Proposed Amendments**” means the proposed amendments to the ITA and the regulations thereunder that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Circular.

“**Qualifying Holdco**” means a corporation satisfying the conditions set out in the Arrangement Agreement to participate in the Holdco Alternative, such conditions being described in the section titled “*The Arrangement Agreement—Alternative Election Procedure for Certain Paladin Shareholders*” beginning on page 116.

“**Qualifying Holdco Letter of Transmittal**” means the letter of transmittal in respect of the Holdco Alternative.

“**Qualifying Holdco Shareholder**” means any person that is a registered owner of Paladin Shares before the 10th business day prior to the Effective Time that is not a non-resident of Canada within the meaning of the ITA and that has validly elected the Holdco Alternative in accordance with the Arrangement Agreement.

“**Qualifying Holdco Shares**” means shares in the capital of a Qualifying Holdco.

“Qualitest Pharmaceuticals” means Generics International (US Parent), Inc., a corporation incorporated under the laws of Delaware.

“Québec Court” means the Superior Court of Québec.

“Resident Shareholder” means a Holder who, for purposes of the ITA and any applicable income tax treaty, is or is deemed to be a resident of Canada at all relevant times.

“RRIF” means a registered retirement income fund, as defined in the ITA.

“RRSP” means a registered retirement savings plan, as defined in the ITA.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“SEC” means the U.S. Securities and Exchange Commission.

“Section 7874 Opinion” means the legal opinion dated as of the Closing Date, subject to certain qualifications and limitations set forth therein, to the effect that Section 7874 of the Code and the regulations promulgated thereunder should not apply in such a manner so as to cause New Endo to be treated as a U.S. corporation for U.S. federal income tax purposes from and after the Closing Date.

“SEDAR” means the System for Electronic Document Analysis and Retrieval maintained by the Canadian Securities Administrators at www.sedar.com.

“Share Purchase Rights” means the unvested rights of a participant under the Paladin ESPP to require Paladin to make future cash contributions to be used to purchase additional Paladin Shares for the account of the participant.

“Skadden” means Skadden, Arps, Slate, Meagher & Flom LLP, Endo’s legal counsel.

“South African Competition Commission” means the Competition Commission under the Competition Act (South Africa).

“Subject Paladin Shares” means the Paladin Shares owned, indirectly or directly, now or in the future, whether beneficially or of record, by the Principal Paladin Shareholders.

“SUI” means stress urinary incontinence.

“Surviving Corporation” means Endo following the Merger Effective Time.

“TFSA” means a tax-free savings account, as defined in the ITA.

“Torys” means Torys LLP, Endo’s special Canadian counsel in connection with the Transactions.

“Transactions” means, collectively, the Arrangement and the Merger.

“Treasury Regulations” means the U.S. Treasury Regulations (whether final, temporary, or proposed).

“TSX” means Toronto Stock Exchange.

“TSX-V” means TSX Venture Exchange.

“U.S. GAAP” means accounting principles generally accepted in the United States, consistently applied.

“Voting Agreements” means the voting agreements dated November 5, 2013 between the Principal Paladin Shareholders and Endo.

“Voting Trustee” means, in respect of the Subject Paladin Shares other than the Subject Paladin Shares held directly by Jonathan Ross Goodman, 4527712 Canada Inc., a private corporation incorporated under the laws of Canada and controlled by Mr. Morris Goodman.

“Voucher” means a priority review voucher that, if issued by the FDA upon the approval of Impavido by the FDA, will be issued in the name of Delco.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Circular and the documents incorporated in this Circular by reference contain certain “Forward-Looking Statements” with respect to the respective financial conditions, results of operations, financial projections and businesses of Paladin, Endo and New Endo, and the expected impact of the proposed Merger and Arrangement on New Endo and its business. Statements including words such as “pro forma”, “anticipates”, “expects”, “intends”, “plans”, “predicts”, “believes”, “seeks”, “estimates”, “could”, “would”, “will”, “may”, “can”, “continue”, “potential”, “should”, “look forward”, “guidance”, and the negative of these terms or other comparable or similar terminology or expressions often identify Forward-Looking Statements. Statements included or incorporated in this Circular that are not historical facts are hereby identified as “Forward-Looking Statements” for the purpose of the safe harbor provided by section 27A of the Securities Act and section 21E of the Exchange Act and forward-looking information within the meaning defined under applicable Canadian securities legislation (collectively, “**Forward-Looking Statements**”).

These Forward-Looking Statements may include, without limitation, statements regarding the completion of the Transactions, expected synergies and other benefits, including tax, financial and strategic benefits of the Transactions to New Endo and the respective shareholders of Endo and Paladin, the expected tax consequences to holders of Endo Shares and New Endo Shares and the expected accounting treatment for the Transactions and other statements that are not historical facts.

Although Paladin believes its Forward-Looking Statements are reasonable, they are subject to important risks and uncertainties. Those include, without limitation, the failure to receive, on a timely basis or otherwise, the required approvals by Endo and Paladin Shareholders, the Québec Court and applicable government and regulatory authorities, the terms of those approvals, the risk that a condition to Closing contemplated by the Arrangement Agreement may not be satisfied or waived, the inability to realize expected synergies or cost savings or difficulties related to the integration of the Endo and Paladin operations, the ability of New Endo to retain and hire key personnel and maintain relationships with customers, suppliers or other business partners, or other adverse events, changes in applicable laws or regulations, competition from other pharmaceutical companies, and other risks disclosed in Endo’s and Paladin’s public filings, any or all of which could cause actual results to differ materially from future results expressed, projected or implied by the Forward-Looking Statements. The Forward-Looking Statements in this Circular are qualified by these risk factors. As a result of these risks and uncertainties, the Transactions could be modified, restructured or not be completed, and actual results and events may differ materially from the results and events contemplated in these Forward-Looking Statements and from historical results. You are cautioned not to put undue reliance on any Forward-Looking Statements, which speak only as of the date of this Circular or the date of any document incorporated by reference. You should carefully read this Circular together with the information incorporated herein by reference as described under the headings “*Documents Incorporated by Reference*” and “*Additional Information*” completely and with the understanding that actual future results may be materially different from those that are expected by Endo and Paladin. Except as otherwise required by law, none of Endo, Paladin or New Endo undertakes any obligation to publicly update or revise any Forward-Looking Statements, whether as a result of new information, future events or otherwise, or to comment on expectations of, or statements made by the other party or third parties in respect of the Transactions. These Forward-Looking Statements are not guarantees of future performance, given that they involve risks and uncertainties. You should not assume that any lack of update to previously issued forward-looking statement constitutes a reaffirmation of that statement. Continued reliance on Forward-Looking Statements is at your own risk.

Additional information about these and other risks and uncertainties and about the material factors or assumptions underlying such Forward-Looking Statements may be found in this Circular under the section captioned “*Risk Factors*”, as well as under the section entitled “Risk Factors” in Endo’s Form 10-K, Form 10-Q and Form 8-K filings with the SEC and the section entitled “Risks Related to Paladin Labs’ Business” in the Paladin Annual Information Form incorporated by reference in this Circular and filed on SEDAR at www.sedar.com.

Information concerning Endo and New Endo, including financial information contained herein, has been taken from the Form S-4 registration statement of Endo, of which the proxy statement and prospectus in respect

of a solicitation of proxies by the Endo board of directors for use at the special meeting of Endo Shareholders (“**Endo’s Proxy Statement/Prospectus**”) forms a part, filed on December 10, 2013 with the SEC, or has otherwise been supplied by Endo or taken from its publicly filed documents.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by Paladin with the securities commission or similar authority in each of the provinces of Canada are specifically incorporated by reference into, and form an integral part of, this Circular:

1. Paladin’s business acquisition report dated September 14, 2012 (amended version filed January 17, 2014) in respect of the acquisition by Paladin of 44.54% of the common shares outstanding in the Litha Healthcare Group Limited, a publicly listed diversified healthcare company on the Johannesburg Stock Exchange, with headquarters in Johannesburg, South Africa;
2. Paladin’s audited annual consolidated financial statements as at and for the years ended December 31, 2012 and 2011, together with the report of the auditors thereon, and management’s discussion and analysis in respect of those statements (the “**Paladin Audited Annual Consolidated Financial Statements**”);
3. Paladin’s annual information form dated March 25, 2013 for the fiscal year ended December 31, 2012 (the “**Paladin Annual Information Form**”);
4. Paladin’s notice of annual meeting of shareholders and management information circular dated April 2, 2013 in respect of the annual meeting of Paladin Shareholders held on May 7, 2013 (the “**Paladin Annual Meeting Circular**”);
5. Paladin’s condensed interim consolidated financial statements for the quarter and nine months ended September 30, 2013, together with the management’s discussion and analysis in respect of those statements (the “**Paladin Condensed Interim Consolidated Financial Statements**”); and
6. Paladin’s material change report dated November 8, 2013 in respect of the Arrangement Agreement and the Transactions.

Any documents of the types referred to above (excluding confidential material change reports) filed by Paladin or Knight Therapeutics with the securities regulatory authorities in Canada after the date of this Circular and prior to the Closing Date will be deemed to be incorporated by reference in this Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Circular to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Circular except as so modified or superseded.

Information has been incorporated by reference in this Circular from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Paladin at 100 Alexis-Nihon Blvd., Suite 600, Saint-Laurent, Québec (telephone: 514-340-1112). These documents may also be obtained over the Internet on SEDAR at www.sedar.com.

REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES

The historical financial statements of Paladin incorporated by reference in this Circular are reported in Canadian dollars and have been prepared in accordance with IFRS. The historical financial statements of Endo included in Appendix “G” and Appendix “I” are reported in U.S. dollars and have been prepared in accordance with U.S. GAAP.

FREQUENTLY ASKED QUESTIONS ABOUT THE ARRANGEMENT AND THE MEETING

The following are answers to some of the questions you may have as a Paladin Shareholder. These questions and answers only highlight some of the information contained in this Circular. They may not contain all the information that is important to you. You should read carefully this entire Circular, including the appendices and the documents incorporated by reference into this Circular, to understand fully the Transactions and the voting procedures for the Meeting.

Q: Why am I receiving this Circular?

A: This Circular is being provided to Paladin Shareholders as part of a solicitation of proxies by the Paladin Board of Directors for use at the Meeting. Endo and Paladin (amongst others) have entered into the Arrangement Agreement, pursuant to which Endo and Paladin will be acquired by New Endo, a newly formed Irish holding company as further described in this Circular.

In order to complete the Arrangement:

- Paladin Shareholders must approve the Arrangement Resolution at the Meeting; and
- Endo Shareholders must approve and adopt the Arrangement Agreement.

Endo and Paladin will hold separate special meetings to obtain these approvals. This Circular contains important information about the Arrangement and the Meeting, and you should read it carefully. This Circular also provides Paladin Shareholders with information they need to be able to vote or instruct their vote to be cast at the Meeting. Endo is preparing a separate proxy statement and prospectus as part of a solicitation of proxies by the Endo board of directors for use at the special meeting of Endo Shareholders.

Your vote is important. You do not need to attend the Meeting in person to vote. We encourage you to vote as soon as possible.

Q: What are the proposals on which I am being asked to vote at the Meeting?

A: There are three matters scheduled for a vote at Meeting:

- Proposal to approve with or without variation, the Arrangement Resolution;
- Proposal to approve with or without variation, the Distributable Reserves Resolution; and
- Proposal to transact such further or other business as may properly come before the Meeting.

Q: What is the Arrangement?

A: Under the terms of the Arrangement Agreement, New Endo will acquire the Paladin Shares pursuant to the Plan of Arrangement under Canadian law. At the Effective Time, Paladin Shareholders will be entitled to receive the Arrangement Consideration, being (a) \$1.16 in cash, subject to adjustment, (b) 1.6331 newly issued New Endo Shares and (c) one Knight Share, in exchange for each Paladin Share held by such shareholders. Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time and has a positive In-the-Money Amount per Share will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date.

Q: What are Paladin's reasons for the Arrangement?

A: In evaluating the Arrangement Agreement and the Arrangement, the Paladin Board of Directors consulted with management, as well as Paladin's outside legal counsel and its financial advisor, and considered a number of factors,

weighing both perceived benefits of the Arrangement as well as potential risks in connection with the Arrangement. The Paladin Board of Directors has unanimously determined that the Arrangement is fair, from a financial point of view, to the public shareholders of Paladin. Please see “*The Arrangement and the Merger—Recommendations of the Paladin Board of Directors; Paladin’s Reasons for the Arrangement*” beginning on page 64.

Q: What will I receive as consideration in the Arrangement?

A: If the Arrangement is completed, Paladin Shareholders will receive the Arrangement Consideration, being (a) \$1.16 in cash, subject to adjustment, (b) 1.6331 New Endo Shares and (c) one Knight Share, in exchange for each Paladin Share held by such shareholder. Paladin Shareholders will therefore become shareholders of New Endo and of Knight Therapeutics. Knight Therapeutics will own certain rights associated with Impavido and \$1 million in cash. Please see “*The Companies*” beginning on page 111 for more information on New Endo and Appendix “F” for more information on Knight Therapeutics.

Q: What is the value of the Arrangement Consideration?

A: The Arrangement values each Paladin Share at \$77.00. The consideration payable therefor is based on the 5-day volume weighted average price of Endo Shares and the 5-day average currency exchange rate calculated at close of market on November 1, 2013.

The Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo’s 10-day volume weighted average price declines during the ten trading day period ending on the third trading day prior to the Meeting by more than 7% relative to a reference price of US\$44.4642 per share. Full cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) will be provided by Endo to Paladin Shareholders for any share price declines of more than 7% but less than 20% from the reference price. If Endo’s share price declines between 20% and 24% from the reference price during the agreed reference period, Endo will provide cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) for one half of the incremental decline to Paladin Shareholders. Declines in Endo’s share price beyond 24% from the reference price will not give rise to further cash compensation to Paladin Shareholders. The maximum amount potentially payable to Paladin Shareholders under this price protection mechanism is US\$233 million.

In addition, if the volume weighted average price per share of Endo Shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period), then the Voting Agreements with the Principal Paladin Shareholders may be terminated by such shareholders. See “*The Voting Agreements*” beginning on page 136.

Q: Why am I being asked to approve the Distributable Reserves Resolution?

A: Under Irish law, dividends may only be paid (and share repurchases and redemptions must generally be funded) out of “distributable reserves”. New Endo will not have distributable reserves immediately following the completion of the Transactions. See “*Creation of Distributable Reserves of New Endo*” beginning on page 137. Although New Endo does not expect to pay dividends for the foreseeable future, shareholders of Endo and Paladin are being asked at their respective special meetings to approve the creation of distributable reserves of New Endo (through the reduction of some or all of the share premium account of New Endo), in order to permit New Endo to be able to pay dividends (and repurchase or redeem shares) after the Transactions.

The approval of the Distributable Reserves Resolution is not a condition to the consummation of the Transactions. Accordingly, if the Paladin Shareholders approve the Arrangement Resolution, and the shareholders of Endo approve the Transactions, but the Paladin Shareholders do not approve the Distributable Reserves Resolution and/or shareholders of Endo do not approve the distributable reserves proposal, and the

Transactions are consummated, New Endo will not have sufficient distributable reserves to pay dividends (or to repurchase or redeem shares) following the Transactions. In addition, the creation of distributable reserves of New Endo requires the approval of the Irish High Court. Although New Endo is not aware of any reason why the Irish High Court would not approve the creation of distributable reserves, the issuance of the required order is a matter for the discretion of the Irish High Court. See “*Risk Factors*” beginning on page 40 and “*Creation of Distributable Reserves of New Endo*” beginning on page 137.

Q: What are the voting recommendations of Paladin Board of Directors?

A: The Paladin Board of Directors unanimously recommends that you vote your Paladin Shares “For” the Arrangement Resolution and “For” the Distributable Reserves Resolution.

Q: How many shares will Paladin’s executive officers and directors be entitled to vote at the Meeting? Do you expect them to vote in favour of the proposals?

A: As of the record date, Paladin’s executive officers and directors, together with the shareholders with which certain of Paladin’s directors are affiliated or associated, have the right to vote approximately 900,792 Paladin Shares, representing approximately 4.3% of the Paladin Shares outstanding and entitled to vote at the Meeting. Paladin expects that its executive officers and directors, and the shareholders with which certain of Paladin’s directors are affiliated or associated, will vote “For” the Arrangement Resolution and “For” the Distributable Reserves Resolution. Please see “*The Voting Agreements*” beginning on page 135.

Q: What votes have been agreed upon pursuant to the Voting Agreements between Endo and certain Paladin Shareholders?

A: Pursuant to the Voting Agreements, the Principal Paladin Shareholders, owning in the aggregate approximately 34% of the Paladin Shares as of the date of the Arrangement Agreement, have agreed to vote their Paladin Shares in favour of the Arrangement and against, among other things, another acquisition proposal or merger and any other action that would reasonably be likely to prevent, delay or impede the consummation of the Arrangement.

Q: How are the Paladin Options and other equity awards being treated in the Arrangement?

A: Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time and has a positive In-the-Money Amount per Share will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date. All Share Purchase Rights for each participant under the Paladin ESPP will be cancelled for a cash amount equal to 25% of the aggregate number of Paladin Shares purchased on behalf of that participant multiplied by the closing price of a Paladin Share on TSX on the trading day immediately preceding the date the Arrangement Agreement becomes effective. Please see “*The Arrangement Agreement—Treatment of Outstanding Paladin Equity Awards*” beginning on page 118.

Q: What is required to complete the Transactions?

A: The obligations of Endo and Paladin to consummate the Transactions contemplated by the Arrangement Agreement are subject to certain conditions, including conditions with respect to the receipt by Endo, the Section 7874 Opinion, approval of the Merger by Endo Shareholders; approval of the Arrangement Resolution by Paladin Shareholders; approval of the Arrangement by the Québec Court; accuracy of representations and warranties of the other party to the applicable standard provided by the Arrangement Agreement; no result, fact or circumstance, shall have occurred or arisen that had or would reasonably be expected to have a material adverse effect on Paladin or Endo; compliance by the other party with its covenants in the Arrangement Agreement in all material respects; all required regulatory clearances being obtained and remaining in full force

and effect and applicable waiting periods having expired or been terminated, in each case without the imposition of a restraint; the approval of NASDAQ for listing (subject only to official notice of issuance) and the conditional approval by TSX (subject only to customary listing conditions) of the New Endo Shares to be issued in the Arrangement and the Merger; and the effectiveness of the registration statement of which the Endo Proxy Statement/Prospectus forms a part, as well as other customary closing conditions. See *“The Arrangement Agreement—Conditions to the Completion of the Arrangement and the Merger”* beginning on page 130.

Q: What are the material Canadian federal income tax consequences of the Arrangement to Paladin Shareholders?

A: The exchange of Paladin Shares for the Arrangement Consideration by a Paladin Shareholder who is a resident of Canada will generally be a taxable event to such holder for the purposes of the ITA. A Paladin Shareholder who is not a resident of Canada will generally not be subject to tax in Canada in respect of such exchange of Paladin Shares unless such Paladin Shares constitute “taxable Canadian property” and are not “treaty-protected property” to such Paladin Shareholder for the purposes of the ITA. See *“Certain Canadian Federal Income Tax Consequences of the Arrangement”* beginning on page 93 for a general summary of the principal Canadian federal income tax considerations relevant to certain Paladin Shareholders who are either residents or non-residents of Canada for purposes of the ITA.

Q: When and where will the Meeting be held?

A: The Meeting will be held at 6111 Royalmount Ave., Montréal, Québec, H4P 2T4, on February 24, 2014, at 3 p.m. (Montréal time).

Q: Who is entitled to vote at the Meeting?

A: Paladin has fixed January 21, 2014 as the record date for the Meeting. If you were a Paladin Shareholder as of the close of business on such date, you are entitled to vote on matters that come before the Meeting.

Q: How many votes do I have?

A: You are entitled to one vote for each Paladin Share that you owned as of the close of business on the Paladin record date. As of the close of business on the Paladin record date, there were 20,765,385 outstanding Paladin Shares.

Q: How do I vote?

A: If you are a registered shareholder of Paladin as of the close of business on the record date for the Meeting, you may vote in person by attending the Meeting or, to ensure your shares are represented at the meeting, you may authorize a proxy to vote by:

- accessing the Internet website specified on your proxy form;
- calling the toll-free number specified on your proxy form; or
- signing and returning your proxy form to Computershare Investor Services Inc. in the postage-paid envelope provided.

If you hold Paladin Shares in “street name” through a stock brokerage account or through an Intermediary, please follow the voting instructions provided by your Intermediary to ensure that your shares are represented at the Meeting.

Q: My Paladin Shares are held in “street name” by my broker or I am a non-registered shareholder. Will my broker automatically vote my Paladin Shares for me?

A: No. If your Paladin Shares are held in the name of an Intermediary, you are considered the “beneficial owner” of the Paladin Shares held for you in what is known as “street name”. You are not the “record holder” or “registered holder” of such Paladin Shares. If this is the case, this Circular has been forwarded to you by your Intermediary. As the beneficial owner, unless your Intermediary has discretionary authority over your Paladin Shares, you generally have the right to direct your Intermediary as to how to vote your Paladin Shares. If you do not provide voting instructions, your Paladin Shares will not be voted on any proposal on which your Intermediary does not have discretionary authority. This is often called a “broker non-vote”.

Please follow the voting instructions provided by your Intermediary so that it may vote your Paladin Shares on your behalf. Please note that you may not vote Paladin Shares held in street name by returning a proxy form directly to Computershare Investor Services Inc. or by voting in person at the Meeting unless you first provide a proxy from your Intermediary.

If you are a Paladin Shareholder and you do not instruct your Intermediary on how to vote your Paladin Shares, your Intermediary will not vote your Paladin Shares on any matter over which they do not have discretionary authority. Such a broker non-vote will have no effect on the vote on any of the matters to be voted upon, assuming a quorum is present at the Meeting.

Q: What vote is required to approve matters to be voted upon at the Meeting?

A: The approval of the Arrangement Resolution requires the affirmative vote of at least two-thirds of the votes cast by Paladin Shareholders present in person or represented by proxy at the Meeting. The approval of the Distributable Reserves Resolution and of any proposal to transact such further or other business as may properly come before the Meeting requires the affirmative vote of holders of a majority of the votes cast by Paladin Shareholders present in person or represented by proxy at the Meeting.

Q: What are the Endo Shareholder votes required to approve each proposal at the Endo special meeting?

A: There are four matters scheduled for a vote by the Endo Shareholders at the Endo special meeting:

- Endo Proposal 1;
- Proposal to approve, on a non-binding advisory basis, certain compensatory arrangements between Endo and its named executive officers relating to the Merger contemplated by the Arrangement Agreement;
- Proposal to approve the creation or increase of “distributable reserves” of New Endo; and
- Proposal to approve the adjournment of the Endo special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the Endo special meeting to adopt the Arrangement Agreement and the transactions contemplated thereby (including the Merger).

For Endo Proposal 1, the adoption of the Arrangement Agreement and the transactions contemplated thereby requires the affirmative vote of holders of a majority of the Endo Shares outstanding on the record date for the Endo special meeting. The other three proposals require the affirmative vote of holders of a majority of the Endo Shares represented in person or by proxy at the Endo special meeting and entitled to vote. However, approval of the other proposals is not a condition to the completion of the Merger or the Arrangement.

Q: What will happen if I fail to vote or I abstain from voting?

A: If you are a Paladin Shareholder and fail to vote or fail to instruct your Intermediary to vote, it will have no effect on any of the matters to be voted upon, assuming a quorum is present at the Meeting.

Q: What will happen if I return my proxy form without indicating how to vote?

A: If you are a registered holder of Paladin Shares and sign and return your proxy form without indicating how to vote on any particular proposal, the Paladin Shares represented by your proxy will be voted in accordance with the recommendations of the Paladin Board of Directors.

Q: What constitutes a quorum?

A: At least one person present, being a shareholder entitled to vote at the Meeting, or a duly appointed proxyholder or representative for a shareholder so entitled, and holding or representing Paladin Shares having not less than 5% of the outstanding votes entitled to be cast at the Meeting, constitutes a quorum for the transaction of business at the Meeting. All Paladin Shares represented at the Meeting, including shares that are represented but that abstain from voting, will be treated as present and entitled to vote for purposes of determining the presence or absence of a quorum.

Q: Can I change my vote after I have returned a proxy or voting instruction card?

A: Yes.

If you are a registered holder of Paladin Shares as of the close of business on the record date for the Meeting: You can change your vote at any time before the start of the Meeting, unless otherwise noted. In addition to revocation in any other manner permitted by law, you can revoke your proxy in one of the following ways:

- you can grant a new, valid proxy bearing a later date (including by telephone or Internet);
- you can deposit a signed notice of revocation at Paladin's registered office at any time up to and including the last business day preceding the day of the Meeting (or any adjournment or postponement thereof) or with the chair of the Meeting on the day of the Meeting (or any adjournment or postponement thereof); or
- you can attend the Meeting and vote in person, which will automatically cancel any proxy previously given, or you may revoke your proxy in person, but your attendance alone will not revoke any proxy that you have previously given.

If you choose any of the foregoing methods, your notice of revocation or your new proxy must be received by Paladin no later than the beginning of the Meeting. If you have voted your shares by telephone or through the Internet, you may revoke your prior telephone or Internet vote by any manner described above. Only your latest dated proxy will count.

If you hold Paladin Shares in "street name": You may change your vote by submitting another later-dated voting instruction form to your Intermediary or by voting again by telephone or by Internet. In order to simply revoke a previous instruction, you must notify your Intermediary in writing of your revocation. In order to ensure that the Intermediary acts upon revocation, the written notice should be received by the Intermediary well in advance of the Meeting.

Q: When do you expect the Arrangement to be completed?

A: The Transactions are expected to close in the first quarter of 2014, subject to certain conditions and approvals being satisfied or, to the extent applicable, waived, including regulatory approvals in the U.S., Canada and South Africa, the approval of both companies' shareholders at special meetings, the approval of the Québec Court, the registration and listing of New Endo Shares and other customary closing conditions. On December 17, 2013, the FTC granted early termination of the waiting period, thereby satisfying the requirement for HSR Act approval under the Arrangement Agreement. On December 18, 2013, the Competition Commissioner issued a No-Action Letter, thereby satisfying the requirement for the Competition Act (Canada) Approval under the Arrangement Agreement. No assurance can be provided as to when or if the Transactions contemplated by the Arrangement Agreement will be completed.

Q: What do I need to do now?

A: If you are entitled to vote at the Meeting, you can vote in person by completing a ballot at the Meeting, or you can vote by proxy before the Meeting. Even if you plan to attend the Meeting, we encourage you to vote by proxy before the Meeting. After carefully reading and considering the information contained in this Circular, including the appendices and the documents incorporated by reference, please submit your proxy by telephone or Internet in accordance with the instructions set forth on the enclosed proxy form, or mark, sign and date the proxy form, and return it in the enclosed prepaid envelope as soon as possible so that your shares may be voted at the Meeting. Your proxy form or your telephone or Internet directions will instruct the persons identified as your proxy to vote your shares at the Meeting as directed by you.

If you are a beneficial holder or shareholder of record and you sign and send in your proxy form but do not indicate how you want to vote, your proxy may vote or abstain as he or she sees fit.

If you hold your Paladin Shares through an Intermediary, you should follow the instructions provided by your Intermediary when instructing them on how to vote your shares.

Q: How do I receive my share of the Arrangement Consideration?

A. *If you are a registered Paladin Shareholder or a registered Qualifying Holdco Shareholder* (i.e. if you do not hold your Paladin Shares through CDS or DTC (or through an Intermediary who in turn holds such shares through CDS or DTC)): you will be entitled to receive, upon surrender for cancellation of your certificate representing Paladin Shares or Qualifying Holdco Shares, as applicable, to the Paladin Exchange Agent, together with a duly completed and executed Letter of Transmittal or Qualifying Holdco Letter of Transmittal, as applicable: (a) a certificate representing the number of New Endo Shares that you are entitled to receive under the Arrangement, (b) a cheque for the Arrangement Cash Consideration that you are entitled to receive under the Arrangement, and (c) a certificate representing the number of Knight Shares that you are entitled to receive under the Arrangement. Please see “*The Arrangement and the Merger—Procedures for Exchange of Paladin Shares*” beginning on page 88.

However, due to the potential Irish stamp duty on transfers of New Endo Shares, it is strongly recommended that registered Paladin Shareholders (other than Qualifying Holdcos) arrange for the transfer of their Paladin Shares into CDS or DTC as soon as possible and before the Transactions are consummated. Please also see “*The Arrangement and the Merger—Procedures for Exchange of Paladin Shares*” beginning on page 88 and “*Certain Irish Tax Consequences of the Arrangement and the Merger*” beginning on page 106.

If you are a non-registered Paladin Shareholder: you should carefully follow the instructions from your Intermediary so that it may deposit your Paladin Shares on your behalf and to ensure that you receive your share of the Arrangement Consideration.

Holders of Paladin Options will be provided with a separate letter of transmittal to use for their Paladin Options.

Q: Will transfers of New Endo Shares be subject to Irish stamp duty?

A: Transfers of New Endo Shares could be subject to Irish stamp duty. However, transfers of New Endo Shares effected by means of the transfer of book entry interests in CDS or DTC will not be subject to Irish stamp duty.

If you will hold your New Endo Shares directly (i.e. you are a registered Paladin Shareholder), any transfer of your New Endo Shares could be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the shares acquired). Payment of Irish stamp duty is generally a legal obligation of the transferee. The imposition of Irish stamp duty could adversely affect the price of your shares.

Due to the potential Irish stamp duty charge on transfers of New Endo Shares, it is strongly recommended that those registered Paladin Shareholders (other than Qualifying Holdcos) who do not hold their Paladin Shares through CDS or DTC (or through an Intermediary who in turn holds such shares through CDS or DTC) arrange for the transfer of their Paladin Shares into CDS or DTC as soon as possible and before the Transactions are consummated.

See “*The Arrangement and the Merger—Procedures for Exchange of Paladin Shares*” beginning on page 88 and “*Certain Irish Tax Consequences of the Arrangement and the Merger*” beginning on page 106.

Q: Should I send in my share certificates now?

A: Registered Paladin Shareholders who wish to become registered shareholders of New Endo and Knight Therapeutics should carefully follow the instructions to complete the Letter of Transmittal and return it with the certificate(s) representing their Paladin Shares to the Paladin Exchange Agent at any of the offices set forth in the Letter of Transmittal. However, due to the potential Irish stamp duty on transfers of New Endo Shares described above, it is strongly recommended that those registered Paladin Shareholders (other than Qualifying Holdcos) who do not hold their shares through CDS or DTC (or through an Intermediary who in turn holds such shares through CDS or DTC) arrange for the transfer of their Paladin Shares into CDS or DTC as soon as possible and before the Transactions are consummated. Please see also “*The Arrangement and the Merger—Procedures for Exchange of Paladin Shares*” beginning on page 88 and “*Certain Irish Tax Consequences of the Arrangement and the Merger*” beginning on page 106.

Non-registered Paladin Shareholders will not have certificate(s) representing their Paladin Shares and should instead carefully follow the instructions from their Intermediary to ensure they receive their share of the Arrangement Consideration. It is also strongly recommended that any person who wishes to acquire New Endo Shares after the Effective Time acquires such shares through CDS or DTC (or through an Intermediary who in turn holds such shares through CDS or DTC).

Q: What happens if I sell my shares before the Meeting?

A: The record date of the Meeting is earlier than the date of the Meeting and the date that the Arrangement is expected to be completed. If you transfer your Paladin Shares after the record date but before the Meeting, you will retain (subject to any arrangements made with the purchaser of your Paladin Shares) your right to vote at Meeting. In order to receive the Arrangement Consideration, you must hold your Paladin Shares through the Effective Time.

Q: Who is soliciting my proxy?

A: Paladin’s management is soliciting your proxy for use at the Meeting and any adjournment or postponement thereof. All associated costs of the proxy solicitation will be borne by Paladin. In addition to the use of the mail, proxies may be solicited by directors, officers and other employees of Paladin, without additional remuneration, by personal interview, telephone, facsimile or otherwise. Intermediaries will forward proxy materials to the beneficial owners of Paladin Shares and Paladin will provide customary reimbursement to such firms for the cost of forwarding these materials. Paladin has retained Phoenix to assist in its solicitation of proxies and has agreed to pay them a fee of approximately \$45,000, plus reasonable expenses, for these services.

Q: What if I hold shares in both Endo and Paladin?

A: If you are both a shareholder of Endo and Paladin, you will receive two separate packages of proxy materials. A vote as an Endo Shareholder will not count as a vote as a Paladin Shareholder, and a vote as a Paladin Shareholder will not count as a vote as an Endo Shareholder. Therefore, please separately vote each of your shares of Endo and Paladin by marking, signing, dating and returning all proxy forms that you receive, whether for Endo or Paladin, or submit a separate proxy as both an Endo Shareholder and a Paladin Shareholder for each special meeting over the Internet or by telephone.

Q: How can I find out the results of the voting at the Meeting?

A: Paladin expects to make a public announcement of the preliminary voting results as soon as practicable following the Meeting. Final results will be published on SEDAR shortly after the Meeting.

Q: Who can help answer my questions?

A: Paladin Shareholders who have questions about the Arrangement or the other matters to be voted on at the Meeting or desire additional copies of this Circular or additional proxy forms should contact Phoenix:

North American Toll Free Number: 1-800-239-6813

Banks, Brokers and collect calls: 1-201-806-2222

Toll free facsimile: 1-888-509-5907

inquiries@phoneixadvisorscst.com

Q: Where can I find more information about Endo and Paladin?

A: You can find more information about Endo and Paladin from various sources described under “*Additional Information*” beginning on page 216 of this Circular.

**If you have additional questions about the information contained in this Circular,
or require assistance voting your proxy, please contact our information and proxy solicitation agent
CST Phoenix Advisors:**



North American Toll Free Phone:

1-800-239-6813

Banks, Brokers and collect calls: 201-806-2222

Toll Free Facsimile: 1-888-509-5907

Email: inquiries@phoenixadvisorscst.com

SUMMARY

The following is a summary of the principal features of the Transactions and should be read together with more detailed information and financial data and statements contained elsewhere in this Circular, including the appendices and the documents incorporated by reference. See also the section entitled “Additional Information” beginning on page 216. The page references have been included in this summary to direct you to a more complete description of the topics presented below.

All information in this Circular is given as of January 21, 2014, unless otherwise indicated.

The Companies (Page 111)

Endo International Limited
25-28 North Wall Quay
International Financial Services Centre
Dublin 1, Ireland
(011) 353-1-649-2000

New Endo is a private limited company incorporated in Ireland (registered number 534814) pursuant to the Companies Acts on October 31, 2013 for the purpose of holding Paladin and Endo following completion of the Transactions. To date, New Endo has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the taking of certain steps in connection thereto, including the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

On or prior to the completion of the Transactions, New Endo will be re-registered as a public limited company and renamed “Endo International plc”. Following the consummation of the Transactions, Endo and Paladin will be indirect wholly-owned subsidiaries of New Endo. Upon consummation of the Arrangement and the Merger, the former shareholders of Endo are expected to own approximately 77.4% of the outstanding New Endo Shares on a fully-diluted basis, and the Paladin Shareholders and Paladin Optionholders are expected to own approximately 22.6% of the outstanding New Endo Shares on a fully-diluted basis.

It is a condition to the Arrangement and the Merger that as of the Effective Time, New Endo Shares will be approved for listing on NASDAQ and conditionally approved for listing on TSX. New Endo has applied to list the New Endo Shares to be issued or made issuable pursuant to the Arrangement and the Merger on NASDAQ and TSX. Listing will be subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX.

Endo Health Solutions Inc.
1400 Atwater Drive
Malvern, PA 19355
(484) 216-0000

Endo is a U.S.-based, specialty healthcare company focused on branded and generic pharmaceuticals, devices and services. Endo provides products to its customers, which ultimately improve the lives of patients. Endo aims to maximize shareholder value by adapting to the continually evolving healthcare market and customer needs. Through Endo’s four operating segments: AMS, Endo Pharmaceuticals, HealthTronics and Qualitest Pharmaceuticals, Endo is dedicated to improving care through an innovative suite of branded products, generics, devices, technology and services. On January 9, 2014 Endo announced that it had entered into the HealthTronics Sale Agreement to sell the HealthTronics Business. Please see “*Information Concerning Endo Health Solutions Inc.—Overview*” beginning on page 138. Endo regularly evaluates and, where appropriate,

executes on opportunities to expand through acquisitions of products and companies in areas that will serve patients and customers and that Endo believes will offer above average growth characteristics and attractive margins. In particular, Endo looks to continue to enhance its product lines by acquiring or licensing rights to additional products and regularly evaluating selective acquisition and license opportunities. Such acquisitions or licenses may be effected through the purchase of assets, joint ventures and licenses or by acquiring other companies.

Paladin Labs Inc.

100 Alexis-Nihon Blvd.
Suite 600
Saint-Laurent, Québec H4M 2P2
(514) 340-1112

Paladin, headquartered in Montréal, Canada, is a specialty pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian and world markets. With this strategy, a focused national sales team and proven marketing expertise, Paladin has evolved into one of Canada's leading specialty pharmaceutical companies. Paladin's shares trade on TSX under the symbol "PLB". More information about Paladin can be found at www.paladin-labs.com.

RDS Merger Sub, LLC

The Corporation Trust Company
1209 Orange Street
Wilmington, DE 19801

Merger Sub is a limited liability company incorporated in Delaware and a direct wholly-owned subsidiary of Endo U.S. (formerly ULU Acquisition Corp.), formed on November 1, 2013. To date, Merger Sub has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the taking of certain steps in connection thereto, including the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

Endo Limited

25-28 North Wall Quay
International Financial Services Centre
Dublin 1 Ireland
(011)-353-1-649-2000

Endo Limited is a private limited company incorporated in Ireland as Sinopia II Limited on October 29, 2013 with a name change to Sportwell II Limited on October 31, 2013 and a further name change to Endo Limited on November 28, 2013. Endo Limited is a direct subsidiary of New Endo. To date, Endo Limited has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the taking of certain steps in connection thereto, including the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

Endo U.S. Inc.

The Corporation Trust Company
1209 Orange Street
Wilmington, DE 19801

Endo U.S. is a corporation incorporated in Delaware as ULU Acquisition Corp. on November 1, 2013 with a name change to Endo U.S. on December 5, 2013 and is an indirect subsidiary of New Endo. To date, Endo U.S.

has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the taking of certain steps in connection thereto, including the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

8312214 Canada Inc.
79 Wellington Street West
Suite 3000, TD Centre
Toronto, Ontario M5K 1N2

8312214 Canada Inc. is a corporation incorporated in Canada and an indirect subsidiary of New Endo, formed on November 1, 2013. To date, 8312214 Canada Inc. has not conducted any activities other than those incident to its formation and the execution of the Arrangement Agreement.

The Arrangement and the Merger (Page 57)

Under the terms of the Arrangement Agreement, (a) New Endo will cause CanCo 1 to acquire the Paladin Shares pursuant to the Plan of Arrangement under Canadian law and (b) Merger Sub will merge with and into Endo, with Endo as the Surviving Corporation in the Merger. As a result of the Transactions, both Endo and Paladin will become indirect wholly-owned subsidiaries of New Endo.

At the Effective Time, Paladin Shareholders will be entitled to receive the Arrangement Consideration, being (a) \$1.16 in cash, subject to adjustment, (b) 1.6331 newly issued New Endo Shares, and (c) one Knight Share, in exchange for each Paladin Share held by such shareholders. Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time and has a positive In-the-Money Amount per Share will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date. All Share Purchase Rights will be settled for a cash amount based on the Paladin Share price immediately prior to Closing.

The Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo's 10-day volume weighted average price declines during the ten trading day period ending on the third trading day prior to the Meeting by more than 7% relative to a reference price of US\$44.4642 per share. Full cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) will be provided by Endo to Paladin Shareholders for any share price declines of more than 7% but less than 20% from the reference price. If Endo's share price declines between 20% and 24% from the reference price during the agreed reference period, Endo will provide cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) for one half of the incremental decline to Paladin Shareholders. Declines in Endo's share price beyond 24% from the reference price will not give rise to further cash compensation to Paladin Shareholders. The maximum amount potentially payable to Paladin Shareholders under this price protection mechanism is US\$233 million.

In addition, if the volume weighted average price per share of Endo Shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period), then the Voting Agreements may be terminated by the Principal Paladin Shareholders.

At the Merger Effective Time, each Endo Share will be converted into the right to receive one New Endo Share.

Treatment of Outstanding Paladin Equity Awards (Page 118)

Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time and has a positive In-the-Money Amount per Share will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date. If the In-the-Money Amount per Share is equal to or less than zero then the consideration for the settlement of such right will be nil.

All Share Purchase Rights of each participant under the Paladin ESPP will be cancelled for a cash amount equal to 25% of the aggregate number of Paladin Shares purchased on behalf of that participant under the Paladin ESPP, with the participant's contributions in respect of each of the eight fiscal quarters ending immediately prior to the Effective Time (but excluding any Paladin Shares purchased with such participant's contributions after November 5, 2013 that exceeded his or her rate of contribution before that date), multiplied by the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date.

Each of the Paladin Stock Option Plan and the Paladin ESPP will be terminated at the Effective Time.

Risk Factors (Page 40)

Paladin Shareholders should be aware that there are certain risks related to the Transactions, the business of New Endo, the financial condition of New Endo, the New Endo Shares and to certain tax consequences of the Transactions. Such risks include, without limitation: that the failure to consummate the Transactions could negatively impact the share price and the future business and financial results of Paladin; that Endo's and Paladin's respective business relationships may be subject to disruption due to uncertainty with the Transactions; that agreements between branded pharmaceutical companies and generic pharmaceutical companies are facing increased scrutiny in both the U.S. and abroad; that the combination of the businesses currently conducted by Endo and Paladin will create numerous risks and uncertainties, which could adversely affect New Endo's operating results; and, that the IRS may not agree with the conclusion that New Endo should be treated as a foreign corporation for U.S. federal income tax purposes following the Transactions.

Paladin Shareholders should carefully consider the risk factors set out under the heading "*Risk Factors*" beginning on page 40 in evaluating whether to vote to approve the Arrangement Resolution. These risk factors should be considered in conjunction with the other information included in or incorporated by reference into this Circular, including the risks discussed in the Paladin Annual Information Form and the Paladin Audited Annual Consolidated Financial Statements. Additional Information about these and other risks and uncertainties may be found in Endo's Annual Report on Form 10-K for the year ended December 31, 2012 and Endo's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 under the heading "*Risk Factors*". Also see "*Additional Information*" beginning on page 216 of this Circular.

Comparative Per Share Market Price Data and Dividend Information (Page 174)

The Endo Shares are listed on NASDAQ under the symbol "ENDP". Paladin Shares are listed and traded on TSX under symbol "PLB". The following table shows the closing prices of the Endo Shares as reported on NASDAQ and of the Paladin Shares as reported on TSX on November 4, 2013, the last trading day before the Arrangement Agreement was announced, and on January 21, 2014.

	<u>Endo Shares</u>	<u>Paladin Shares</u>
November 4, 2013	US\$43.64	\$ 63.91
January 21, 2014	US\$68.83	\$126.06

Separation of Knight Therapeutics (Page 130)

Pursuant to the Arrangement Agreement, prior to the Effective Time, Paladin and Knight Therapeutics will enter into the Business Separation Agreement. The Business Separation Agreement will provide for, among other things, the transfer of all rights of Paladin or one of its affiliates related to Impavido and the Voucher, to Knight Therapeutics or one of its affiliates. The Business Separation Agreement will also provide that Knight Therapeutics, or one of its affiliates, as licensor, will enter into the Distribution and License Agreement granting Barbo the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term. See *“The Arrangement Agreement—Separation of Knight Therapeutics”* beginning on page 130. For more information on Knight Therapeutics and on the Business Separation Agreement, see Appendix “F” of this Circular.

Recommendations of Paladin Board of Directors; Paladin’s Reasons for the Arrangement (Page 64)

The Paladin Board of Directors unanimously recommends that you vote your Paladin Shares “For” the Arrangement Resolution and “For” the Distributable Reserves Resolution.

In considering the recommendation of the Paladin Board of Directors, Paladin Shareholders should be aware that all of the executive officers and all of the directors of Paladin will have interests in the Transactions that may be different from, or in addition to, the interests of Paladin Shareholders generally. See *“The Arrangement and the Merger—Interests of Certain Persons in the Arrangement”* beginning on page 74.

Opinion of Paladin’s Financial Advisor (Page 71)

In connection with the Arrangement, Credit Suisse, Paladin’s financial advisor, delivered to the Paladin Board of Directors an oral opinion at the meeting of the Paladin Board of Directors on November 4, 2013, which was subsequently confirmed by delivery of the written fairness opinion, to the effect that, based on and subject to various assumptions and limitations described in its written fairness opinion, the Arrangement Cash Consideration and the New Endo Arrangement Consideration was fair, from a financial point of view, to the Paladin Shareholders, other than the Principal Paladin Shareholders. The full text of the written fairness opinion of Credit Suisse, dated November 5, 2013, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Appendix “E” to this Circular. The summary of Credit Suisse’s fairness opinion set forth in this Circular is qualified in its entirety by reference to the full text of Credit Suisse’s fairness opinion.

Credit Suisse’s fairness opinion does not address any other aspect or implication of the Arrangement or any other agreement, arrangement or understanding entered into in connection with the Arrangement or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, (a) the Knight Shares or (b) any compensation to any officers, directors or employees of any party to the Arrangement, or class of such persons, relative to the Arrangement Cash Consideration and the New Endo Arrangement Consideration or otherwise. Credit Suisse’s fairness opinion was for the information of the Paladin Board of Directors in connection with its consideration of the Arrangement and does not constitute advice or a recommendation to any Paladin Shareholder as to how such Paladin Shareholder should vote or act on any matter relating to the Arrangement.

See *“The Arrangement and the Merger—Opinion of Paladin’s Financial Advisor”* and the complete text of the written fairness opinion of Credit Suisse, which is attached as Appendix “E” to this Circular and which should be read in its entirety.

Procedures for Exchange of Paladin Shares (Page 88)

Registered Paladin Shareholders (other than Qualifying Holdcos) have been provided with the Letter of Transmittal along with this Circular. Registered Paladin Shareholders (other than Qualifying Holdcos) must

carefully follow the instructions to complete the Letter of Transmittal. The Letter of Transmittal will also be made available on SEDAR at www.sedar.com. Holders of Paladin Options will be provided with a separate letter of transmittal for their Paladin Options.

However, due to the potential Irish stamp duty on transfers of New Endo Shares, it is strongly recommended that registered Paladin Shareholders arrange for the transfer of their Paladin Shares into CDS or DTC as soon as possible and before the Transactions are consummated. Please also see “*Certain Irish Tax Consequences of the Arrangement and the Merger*” beginning on page 106.

If registered Paladin Shareholders (other than Qualifying Holdcos) are unable to transfer their Paladin Shares into CDS or DTC before the transactions are consummated, they may elect to receive their New Endo Shares registered in the name of the nominee of CDS or DTC and delivered through the facilities of the applicable depositary to the Intermediary designated on their duly completed and executed Letter of Transmittal, provided that either the registered Paladin Shareholder or the Intermediary submits the certificates representing such shareholder’s Paladin Shares along with the duly completed and executed Letter of Transmittal specifying such election, together with all other required documents described therein, to the Paladin Exchange Agent no later than 5 p.m., Montréal time, on February 24, 2014. If such documents are not received by the Paladin Exchange Agent by such time, the New Endo Shares issuable to the registered Paladin Shareholder (other than a Qualifying Holdco) will be issued in physical certificate form in the name of such registered Paladin Shareholder as it appears on the register of Paladin as of the Effective Date and delivered to such registered Paladin Shareholder upon that registered Paladin Shareholder depositing a duly completed and executed Letter of Transmittal, together with all other required documents described therein, with the Paladin Exchange Agent.

If Paladin Shares are held by a non-registered Paladin Shareholder through an Intermediary, such non-registered Paladin Shareholder should contact such Intermediary for instructions. Non-registered Paladin Shareholders should carefully follow instructions from their Intermediary to ensure that such shareholders receive their share of the Arrangement Consideration.

Paladin Shareholders who wish to utilize the Holdco Alternative should contact the Paladin Exchange Agent to obtain a Qualifying Holdco Letter of Transmittal to be used in such circumstances. Eligible Paladin Shareholders must elect the Holdco Alternative not later than the Holdco Election Time by giving written notice to CanCo 1 and Endo. See “*The Arrangement Agreement—Alternative Election Procedure for Certain Paladin Shareholders*” beginning on page 116.

Qualifying Holdco Shareholders may elect to receive New Endo Shares registered in the name of the nominee of CDS or DTC and delivered through the facilities of the applicable depositary to the Intermediary designated on their duly completed and executed Qualifying Holdco Letter of Transmittal, provided that either the Qualifying Holdco Shareholder or the Intermediary submits the certificates representing such shareholder’s Qualifying Holdco Shares along with the duly completed and executed Qualifying Holdco Letter of Transmittal specifying such election, together with all other required documents described therein, to the Paladin Exchange Agent no later than 5 p.m., Montréal time, on February 24, 2014. If such documents are not received by the Paladin Exchange Agent by such time, the New Endo Shares issuable pursuant to the Holdco Alternative will be issued in physical certificate form in the name of the former Qualifying Holdco Shareholder and delivered to the former Qualifying Holdco Shareholder upon that former Qualifying Holdco Shareholder depositing a duly completed and executed Qualifying Holdco Letter of Transmittal, together with all other required documents described therein, with the Paladin Exchange Agent.

Whether or not Paladin Shareholders forward the certificate(s) representing their Paladin Shares, upon completion of the Arrangement on the Effective Date, Paladin Shareholders (other than Qualifying Holdcos) will cease to be Paladin Shareholders as of the Effective Date and any Paladin Share certificates and Qualifying Holdco Share certificates not surrendered for cancellation will represent the right to receive the Arrangement Consideration to which the holder of such certificate is entitled under the Arrangement.

The Special Meeting of Paladin Shareholders (Page 53)

Date, Time & Place of the Meeting

Paladin will hold the Meeting at 6111 Royalmount Ave., Montréal, Québec, H4P 2T4, on February 24, 2014, at 3 p.m., Montréal time.

Proposals

At the Meeting, Paladin Shareholders will vote upon proposals:

1. to consider and, if thought fit, approve with or without variation, the Arrangement Resolution (a copy of which is included in Appendix “B” to this Circular) to approve the Arrangement on the terms and subject to the conditions set forth in the Plan of Arrangement;
2. to consider and, if thought fit, approve with or without variation, the Distributable Reserves Resolution to approve the creation of “distributable reserves” of New Endo; and
3. to transact such further or other business as may properly come before the Meeting and any adjournments or postponements thereof.

Paladin Record Date; Shares Entitled to Vote

Only holders of Paladin Shares at the close of business on January 21, 2014, the record date for the Meeting, will be entitled to notice of, and to vote at, the Meeting or any adjournments or postponements thereof. On the record date, there were outstanding a total of 20,765,385 Paladin Shares. Each Paladin Share is entitled to one vote on each proposal and any other matter properly coming before the Meeting.

Share Ownership by and Voting Rights of Paladin’s Directors and Executive Officers

As of the close of business on the record date, Paladin’s directors and executive officers and their affiliates beneficially owned and had the right to vote 900,792 Paladin Shares at the Meeting, which represents approximately 4.3% of Paladin Shares entitled to vote at the Meeting. Paladin expects that Paladin’s directors and executive officers will vote their Paladin Shares in favour of the Paladin proposals. Jonathan Ross Goodman, Chairman of the Paladin Board of Directors, is a registered Paladin Shareholder and owns 25% of the non-voting shares of Joddes. The Principal Paladin Shareholders together hold approximately 34% of the Paladin Shares. The Subject Paladin Shares, other than those held directly by Jonathan Ross Goodman, are controlled by the Voting Trustee which is controlled by Mr. Morris Goodman. The Principal Paladin Shareholders entered into the Voting Agreements with Endo on November 5, 2013 pursuant to which such shareholders have agreed to vote, subject to certain conditions, in favour of the Arrangement Resolution. See “*The Voting Agreements*” beginning on page 135.

Vote Required

The approval of the Arrangement Resolution requires the affirmative vote of at least two-thirds of the votes cast by Paladin Shareholders present in person or represented by proxy at the Meeting. The approval of the Distributable Reserves Resolution and of any proposal to transact such further or other business as may properly come before the Meeting requires the affirmative vote of holders of a majority of the votes cast by Paladin Shareholders present in person or represented by proxy at the Meeting.

Interests of Certain Persons in the Arrangement (Page 74)

In considering the recommendation of the Paladin Board of Directors, Paladin Shareholders should be aware that all of the executive officers and directors of Paladin are parties to certain agreements or participants in

certain benefit plans that are being dealt with in the context of the Arrangement The Paladin Board of Directors was aware of these matters and considered them when it adopted the Arrangement Agreement and approved the Arrangement. These interests are described in *“The Arrangement and the Merger—Interests of Certain Persons in the Arrangement”* beginning on page 74.

Certain executives of Paladin have entered into employment letters with Paladin in connection with their employment following the Arrangement and the Merger. The terms and conditions of these employment letters are summarized below under the heading *“The Arrangement and the Merger—Interests of Certain Persons in the Arrangement—Paladin Arrangement-Related Compensation”* beginning on page 74 and *“The Arrangement and the Merger—Description of Key Agreements”* beginning on page 75.

The following current key employees of Paladin will continue their employment with Paladin following the Merger (titles in parenthesis indicate titles in effect immediately after the Effective Time): Mark A. Beaudet (President of Paladin), Samira Sakhia (Chief Financial Officer of Paladin), Mark Nawacki (Executive Vice President, Business & Corporate Development of Paladin), François Desrosiers (Vice President, International Operations, IT & Market Data of Paladin) and Patrice Larose (Vice President of Scientific Affairs of Paladin). In addition, it is anticipated that Jonathan Ross Goodman, who served as President & Chief Executive Officer prior to his medical leave and is the Chairman of the Paladin Board of Directors, will become a consultant to New Endo.

Additionally, as described below under the heading *“The Arrangement Agreement—Treatment of Outstanding Paladin Equity Awards”* beginning on page 118, the vesting and exercisability of the equity awards held by participants in incentive plans of Paladin, including the key employees, will be accelerated at the Effective Time and the Share Purchase Rights held by key employees will be settled for a cash amount based on the price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date.

Indemnification

All indemnification or exculpation rights existing in favour of present or former directors and officers of Paladin, Endo or any of their respective subsidiaries as provided in the constating documents of such party or contracts to which such a party is bound and which is in effect as of the date of the Arrangement Agreement will continue in full force and effect and without modification for the period contemplated in such constating documents.

Certain Canadian Federal Income Tax Consequences of the Arrangement to Paladin Shareholders (Page 93)

The exchange of Paladin Shares for the Arrangement Consideration by a Paladin Shareholder who is a resident of Canada will generally be a taxable event to such holder for the purposes of the ITA.

A Paladin Shareholder who is not a resident of Canada will generally not be subject to tax in Canada in respect of such exchange of Paladin Shares unless such Paladin Shares constitute “taxable Canadian property” and are not “treaty-protected property” to such Paladin Shareholder for the purposes of the ITA.

See *“Certain Canadian Federal Income Tax Consequences of the Arrangement”* beginning on page 93 for a general summary of the principal Canadian federal income tax considerations relevant to certain Paladin Shareholders who are either residents or non-residents of Canada for purposes of the ITA.

Certain U.S. Tax Consequences of the Merger and the Arrangement (Page 98)

Tax Residence of New Endo for U.S. Federal Income Tax Purposes

Under current U.S. federal income tax law, a corporation generally will be considered to be resident for U.S. federal income tax purposes in its place of organization or incorporation. Accordingly, under the generally

applicable U.S. federal income tax rules, New Endo, which is an Irish incorporated entity, would generally be classified as a non-U.S. corporation (and, therefore, not a U.S. tax resident). Section 7874 of the Code and the regulations promulgated thereunder, however, contain specific rules (more fully discussed below) that may cause a non-U.S. corporation to be treated as a U.S. corporation for U.S. federal income tax purposes. These rules are complex and there is little or no guidance as to their application.

As more fully described under “*Certain U.S. Tax Consequences of the Merger and the Arrangement—Certain U.S. Federal Income Tax Consequences of the Merger to New Endo and Endo—Tax Residence of New Endo for U.S. Federal Income Tax Purposes*” beginning on page 100, Section 7874 of the Code is currently expected to apply in a manner such that New Endo should not be treated as a U.S. corporation for U.S. federal income tax purposes. However, whether the rules of Section 7874 of the Code have been satisfied will be finally determined after the Closing, by which time there could be adverse changes to the relevant facts and circumstances. In addition, there could be a change in law under Section 7874 of the Code, and the regulations promulgated thereunder, or other changes in law or subsequent changes in facts that could (possibly retroactively) cause New Endo to be treated as a U.S. corporation for U.S. federal income tax purposes. In such event, New Endo could be liable for substantial additional U.S. federal income tax on its operations and income following the Closing.

Endo’s obligation to complete the Transactions is conditional upon its receipt of the Section 7874 Opinion.

Regardless of the application of Section 7874 of the Code, New Endo is expected to be treated as an Irish resident company for Irish tax purposes because New Endo is incorporated under Irish law and is intending to have its place of central management and control (as determined for Irish tax purposes) in Ireland. The remaining discussion assumes that New Endo will not be treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code.

Dissent Rights

Dissent rights refer to the right of shareholders to receive a cash payment for the fair value of their shares when they have dissented from a shareholder vote to approve certain fundamental corporate transactions (e.g., amalgamation, continuance). However, dissent rights are not available in all circumstances. Dissent rights are not available to Paladin Shareholders in connection with the Arrangement.

Regulatory Approvals Required (Page 83)

U.S. Regulatory Approvals

Under the HSR Act and the rules and regulations promulgated thereunder by the FTC, the Merger cannot be consummated until notifications have been submitted and certain information has been furnished to the Antitrust Division and the FTC, and specified waiting period requirements have been satisfied or early termination of the waiting period has been granted.

Endo and Paladin each filed a Pre-Merger Notification and Report Form pursuant to the HSR Act with the Antitrust Division and the FTC on November 27, 2013. The waiting period under the HSR Act was scheduled to expire at 11:59 p.m. Eastern Time on the thirtieth day following receipt of both filings (which, if it should fall on a weekend or holiday, is moved to the next business day). However, on December 17, 2013, the FTC granted early termination of the waiting period, thereby satisfying the requirement for approval pursuant to the HSR Act under the Arrangement Agreement.

Canadian Regulatory Approvals

Competition Act (Canada)

Part IX of the Competition Act (Canada), requires that the parties to Notifiable Transactions, provide the Competition Commissioner with pre-closing notice of the transaction. Subject to certain limited exceptions, the parties to a Notifiable Transaction cannot complete the transaction until an applicable waiting period has expired or been terminated or an appropriate waiver has been provided by the Competition Commissioner.

In addition or as an alternative to filing the prescribed information, a party to a Notifiable Transaction may comply with Part IX by applying to the Competition Commissioner for: (a) an Advance Ruling Certificate; or (b) a No-Action Letter, and an exemption from the pre-merger notification obligation under paragraph 113(c) of the Competition Act (Canada).

The Transactions are a Notifiable Transaction under the Competition Act (Canada), and as such, Endo and Paladin must comply with the Part IX merger notification provisions.

Endo submitted a request for an Advance Ruling Certificate or No-Action Letter to the Competition Commissioner on November 27, 2013. The Competition Commissioner issued a No-Action Letter on December 18, 2013, thereby satisfying the requirement for Competition Act (Canada) Approval under the Arrangement Agreement.

Investment Canada Act

Under the Investment Canada Act, certain transactions involving the “acquisition of control” of a Canadian business by a non-Canadian are subject to review and cannot be implemented unless the Minister of Industry is satisfied that the transaction is likely to be of “net benefit” to Canada. Such a transaction is referred to in this Circular as a “reviewable transaction”. The Transactions constitute a reviewable transaction under the Investment Canada Act.

Pursuant to the Arrangement Agreement, Investment Canada Act Approval will be obtained if New Endo shall have received written evidence from the Minister of Industry that the Minister of Industry is satisfied or deemed to be satisfied that the Transactions are likely to be of “net benefit” to Canada pursuant to the Investment Canada Act and such approval has not been modified or withdrawn.

Endo filed an application for review with the Investment Review Division of Industry Canada on November 26, 2013 and the initial 45-day review period expired on January 10, 2014. This initial review period was unilaterally extended for an additional 30 days by the Minister of Industry and can only be extended further on consent of the parties beyond that date. Endo and Paladin are cooperating with the Minister of Industry in his review of the application and in connection thereto Endo submitted draft undertakings on December 24, 2013 and revised draft undertakings on January 17, 2014 to the Minister of Industry. As of the date of this Circular, the Investment Canada Act Approval required pursuant to the Arrangement Agreement has not been obtained and no assurance can be provided that it will be obtained.

South African Competition Act Approval

Chapter 3 of the Competition Act (South Africa) requires that parties to a merger, defined in terms of section 12 of the Competition Act (South Africa), that meet thresholds prescribed for an intermediate merger in terms of section 11 of the Competition Act (South Africa) read with the Government General Notice 216 of 2009, notify the South African Competition Commission of that merger in the prescribed manner and form. In terms of section 13A(3) of the Competition Act (South Africa), parties to an intermediate merger may not implement that merger until it has been approved, with or without conditions, by the South African Competition Commission in terms of section 14(1)(b) of the Competition Act (South Africa). Endo and Paladin meet the

thresholds prescribed for an intermediate merger. Endo and Paladin prepared a merger notification in the prescribed manner and form, which was notified to the South African Competition Commission on November 26, 2013. On December 3, 2013, Endo and Paladin received an extension certificate, notifying them that the review period under the Competition Act (South Africa) was extended for a period of 40 business days and would expire at 11:59 p.m., Central Africa Time on February 24, 2014. Endo and Paladin are cooperating with the South African Competition Commission in the review of the Transactions. As of the date of this Circular, the Competition Act (South Africa) approval required pursuant to the Arrangement Agreement has not been obtained and no assurance can be provided that it will be obtained.

Listing of New Endo Shares on NASDAQ and TSX (Page 111)

It is a mutual condition to the completion of the Transactions that the New Endo Shares will be approved for listing on NASDAQ and conditionally approved for listing on TSX. New Endo has applied to list the New Endo Shares to be issued or made issuable pursuant to the Transactions on NASDAQ and TSX. Listing will be subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX.

Endo Shares and Paladin Shares will be delisted from NASDAQ and TSX, respectively, following the completion of the Transactions.

Conditions to the Completion of the Arrangement and the Merger (Page 130)

As more fully described in this Circular, the completion of the Arrangement and the Merger depends upon a number of conditions being satisfied or, to the extent permitted by applicable law, waived, including:

- each party's shareholders shall have approved the Arrangement at a special meeting of its shareholders;
- the Québec Court shall have issued (i) the Interim Order, and (ii) the Final Order approving the Arrangement, in each case on terms acceptable to Paladin and Endo;
- NASDAQ shall have approved for listing (subject only to official notice of issuance) and TSX shall have conditionally approved (subject only to customary listing conditions) of the New Endo Shares to be issued in the Arrangement and the Merger;
- all required regulatory approvals shall have been obtained and shall remain in full force and effect and applicable waiting periods shall have expired or been terminated, in each case without the imposition of any restraint that would be material and adverse to Paladin and Endo, taken as a whole;
- no governmental authority shall have enacted a law or order that prevents the consummation of the Transactions or instituted a proceeding to prohibit consummation of the Transactions;
- the registration statement of which the Endo Proxy Statement/Prospectus forms a part shall be effective, and there shall not be a stop order issued by the SEC suspending the effectiveness of such registration statement or any proceedings initiated for that purpose by the SEC;
- the other party has complied in all material respects with its obligations, covenants and agreements in the Arrangement Agreement to be performed or complied with on or before the Closing Date;
- since the date of the Arrangement Agreement, no material adverse effect on either Endo or Paladin shall be continuing and there shall not have occurred a result, fact, change, effect, event, circumstance, occurrence or development that would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Endo or Paladin;
- as of the date of the Arrangement Agreement and as of the Closing Date, the representation and warranty made by the other party relating to the absence of a material adverse effect since December 31, 2012 shall be true and correct in all respects;

- the remaining representations and warranties made by the other party shall be true and correct in all respects as of the date of the Arrangement Agreement and as of the Closing Date, except for breaches of representations and warranties which have not had and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on such other party;
- the representations and warranties made by New Endo in the Arrangement Agreement shall be true and correct in all respects as of the date of the Arrangement Agreement and as of the Closing Date; and
- each of Endo and Paladin shall have each received a certificate dated the Closing Date and validly executed by a senior officer of the other to the effect that certain conditions have been satisfied.

In addition, Endo's obligation to complete the Transactions is further conditioned upon its receipt of the Section 7874 Opinion from Skadden, dated as of the Closing Date, to the effect that Section 7874 of the Code should not apply in such a manner so as to cause New Endo to be treated as a domestic corporation for U.S. federal income tax purposes from and after the Closing Date.

Termination of the Arrangement Agreement (Page 133)

Either Endo or Paladin can terminate the Arrangement Agreement under certain circumstances, which would prevent the Arrangement from being consummated.

Termination Fees; Effect of Termination (Page 134)

Under the Arrangement Agreement, Paladin will be required to pay Endo a termination fee equal to \$60,000,000 if the Arrangement Agreement is terminated:

- by Paladin to permit Paladin to enter into an agreement that constitutes a "superior proposal"; or
- by:
 - Endo or Paladin if the Closing does not occur by May 5, 2014,
 - Paladin following the failure of Paladin Shareholders to approve the Arrangement Resolution, or
 - Endo if the Paladin Board of Directors has changed its recommendation to approve the Arrangement or if Paladin materially breaches its non-solicitation covenants under the Arrangement Agreement,
- if (x) prior to such termination, an acquisition proposal for Paladin shall have been made public and (y) within nine months following such termination, Paladin or its subsidiaries shall have consummated any transaction in respect to an acquisition proposal for Paladin or entered into an agreement expected to lead to an acquisition proposal for Paladin.

Under the Arrangement Agreement, Endo will be required to pay Paladin a termination fee equal to \$60,000,000 if the Arrangement Agreement is terminated:

- by Endo to permit Endo to enter into an agreement that constitutes a "superior proposal";
- by Paladin if the Endo board of directors has changed its recommendation to approve the Arrangement Agreement and the Transactions; or
- by:
 - Endo or Paladin if the Closing does not occur by May 5, 2014,
 - Endo or Paladin following the failure of Endo Shareholders to approve the Merger, or
 - Paladin if Endo materially breaches its non-solicitation covenants under the Arrangement Agreement,

- if (x) prior to such termination, an acquisition proposal for Endo shall have been made public and (y) within nine months following such termination, Endo or its subsidiaries shall have consummated any transaction in respect to an acquisition proposal for Endo or entered into an agreement expected to lead to an acquisition proposal for Endo.

Voting Agreements (Page 135)

Concurrently with the execution and delivery of the Arrangement Agreement, Jonathan Ross Goodman and the other Principal Paladin Shareholders, who owned in the aggregate approximately 34% of the outstanding Paladin Shares as of the date of the Arrangement Agreement, entered into Voting Agreements with Endo.

Jonathan Ross Goodman has agreed to vote (or cause to be voted) all Paladin Shares owned, indirectly or directly, now or in the future, whether beneficially or of record, by him, and the other Principal Paladin Shareholders, each of whom is party to a voting trust agreement, have agreed that the Voting Trustee shall vote (or cause to be voted) all Paladin Shares owned, indirectly or directly, now or in the future, whether beneficially or of record, by such shareholders at any meeting of the Paladin Shareholders, or at any adjournment or postponement thereof, and on every action by written consent taken by the Paladin Shareholders where votes on the Arrangement Resolution is sought:

- in favour of the Transactions, including the approval of the Arrangement Resolution and any actions required in furtherance thereof;
- against any acquisition proposal or merger, takeover bid or similar transaction involving Paladin;
- against any reorganization, recapitalization, dissolution, liquidation or winding up of Paladin or its subsidiaries; any amendment of Paladin's incorporation documents that would reasonably be regarded as being directed towards or likely to prevent, delay or impede consummation of the Transactions; and
- against any action that would result in a breach of representation, warranty or covenant of Paladin under the Arrangement Agreement; or any other action that would reasonably be regarded as being directed towards or likely to prevent, delay or impede the consummation of the Transactions.

The Voting Agreements will terminate upon the earlier of (i) the termination of the Arrangement Agreement or (ii) the consummation of the Transactions. The Voting Agreements may also be terminated in writing by mutual agreement of the parties prior to the Effective Time, or by Jonathan Ross Goodman or the Voting Trustee, as the case may be (i) if the Effective Date has not occurred by May 5, 2014 (or such later date as agreed to by the parties to the Arrangement Agreement), (ii) if the Arrangement Agreement is amended by the parties resulting in a reduction in the purchase price payable per security or (iii) if the volume weighted average price per share of Endo Shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period).

Senior Management of New Endo (Page 178)

The New Endo executive officers after the Transactions are expected to be the same as the executive officers of Endo prior to the Effective Time.

Description of New Endo Shares and Comparison of the Rights of Holders of Paladin Shares and New Endo Shares (Pages 179 and 193)

As a result of the Arrangement, the Paladin Shareholders will become holders of New Endo Shares and their rights will be governed by Irish law and the New Endo Memorandum and Articles of Association, instead of the

CBCA and Paladin's articles of amalgamation and by-laws. The rights and restrictions to which the New Endo Shares will be subject, including preemption and share option rights, dividend rights, liquidation and other rights and redemption, repurchase or exchange rights, will be prescribed in the New Endo Memorandum and Articles of Association and are more fully described in the section entitled "*Description of New Endo Shares*" beginning on page 179.

In connection with the completion of the Transactions, New Endo is expected to (i) issue approximately 35.4 million New Endo Shares with a nominal value of US\$0.0001 each to the Former Paladin Shareholders based on the number of Paladin Shares outstanding as of the record date and (ii) deliver to Endo Shareholders a number of New Endo Shares with a nominal value of US\$0.0001 each equal to the number of Endo Shares outstanding as of the Closing Date. All New Endo Shares issued upon consummation of the Transactions will be issued as fully paid-up and non-assessable.

The form of the New Endo Memorandum and Articles of Association substantially as they will be in effect from and after the Closing are attached as Appendix "K" to this Circular. Following the Transactions, Former Paladin Shareholders will have different rights as New Endo Shareholders than they did as Paladin Shareholders. For a summary of the description of New Endo Shares and certain of the material differences between the rights of Paladin Shareholders and New Endo Shareholders, see "*Description of New Endo Shares*" beginning on page 179 and "*Comparison of the Rights of Holders of Paladin Shares and New Endo Shares*" beginning on page 193, respectively.

Summary of Financial Information (Pages 149, 151 and 153)

Certain historical consolidated financial information of Paladin is presented in this Circular to assist Paladin Shareholders in their analysis of the financial aspects of Transactions. Paladin derived such financial information from the Paladin Audited Annual Consolidated Financial Statements and the Paladin Condensed Interim Consolidated Financial Statements which are incorporated by reference in this Circular. The Paladin Audited Annual Consolidated Financial Statements have been audited. For more information, see the sections entitled "*Selected Historical Financial Data of Paladin*", "*Documents Incorporated by Reference*" and "*Additional Information*" beginning on pages 151, 14 and 216 of this Circular, respectively.

Certain selected consolidated financial information of Endo is presented in this Circular and has been derived from the Endo Annual Financial Statements and the Endo 2013 Third Quarter Financial Statements which are included in this Circular as Appendix "G" and Appendix "T", respectively. The Endo Annual Financial Statements have been audited. For more information, see the sections entitled "*Selected Historical Financial Data of Endo*" and "*Additional Information*" beginning on pages 149 and 216, respectively. Certain unaudited pro forma condensed combined financial information is presented in this Circular to illustrate, among other things, the estimated effects of the pending acquisition of Paladin by Endo. The unaudited pro forma condensed combined balance sheet as of September 30, 2013 and unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2013 are based upon and derived from and should be read in conjunction with the Endo 2013 Third Quarter Financial Statements (which are included as Appendix "G" to this Circular) and the Paladin Condensed Interim Consolidated Financial Statements (which are incorporated by reference in this Circular). The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2012 is based upon, derived from and should be read in conjunction with the Endo Annual Financial Statements (which are included as Appendix "G" in this Circular) and the Paladin Audited Annual Consolidated Financial Statements (which are incorporated by reference in this Circular). Please see the sections entitled "*Unaudited Pro Forma Condensed Combined Financial Information*", "*Documents Incorporated by Reference*" and "*Additional Information*" beginning on pages 153, 14 and 216 of this Circular, respectively.

RISK FACTORS

Paladin Shareholders should carefully consider the following factors in evaluating whether to vote to approve the Arrangement Resolution. These risk factors should be considered in conjunction with the other information included in or incorporated by reference into this Circular, including the risks discussed in the Paladin Annual Information Form and the Paladin Audited Annual Consolidated Financial Statements. Additional Information about these and other risks and uncertainties may be found in Endo's Annual Report on Form 10-K for the year ended December 31, 2012 and Endo's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 under the heading "Risk Factors". Also see "Additional Information" beginning on page 216 of this Circular.

For a more detailed discussion of the risk factors that could materially affect the results of operations and the financial condition of Paladin, please refer to the Paladin Annual Information Form incorporated by reference into this Circular and filed on SEDAR at www.sedar.com. See "Documents Incorporated by Reference".

Risks Related to the Transactions

The number of New Endo Shares that Endo Shareholders will receive as consideration for the Merger will be based on a fixed exchange ratio, which will not be adjusted to reflect changes in the market value of Paladin Shares or Endo Shares prior to consummation of the Transactions.

As consideration for the Merger, each Endo common share then issued and outstanding will be cancelled and automatically converted into the right to receive one New Endo Share, pursuant to a fixed exchange ratio. This one-for-one fixed exchange ratio will not adjust upwards to compensate for changes in the price of Endo Shares or Paladin Shares prior to the Effective Time. Share price changes may result from a variety of factors, including changes in the business, operations or prospects of Endo or Paladin, market assessments of the likelihood that the Transactions will be completed, the timing of the transaction, regulatory considerations, general market and economic conditions and other factors. Shareholders are urged to obtain current market quotations for Endo Shares and Paladin Shares. See "*Comparative per Share Market Price Data and Dividend Information*" beginning on page 174 for additional information on the market value of Endo Shares and Paladin Shares.

The Arrangement Cash Consideration to be paid to Paladin Shareholders may be increased depending on a decline in the market value of Endo Shares.

Although the New Endo Arrangement Consideration to be received by Paladin Shareholders will not be adjusted to reflect changes in the market value of the Endo Shares or Paladin Shares, the Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo's 10-day volume weighted average price declines during the ten trading day period ending on the third trading day prior to the Meeting by more than 7% relative to a reference price of US\$44.4642 per share. Full cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) will be provided by Endo to Paladin Shareholders for any share price declines of more than 7% but less than 20% from the reference price. If Endo's share price declines between 20% and 24% from the reference price during the agreed reference period, Endo will provide cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) for one half of the incremental decline to Paladin Shareholders. Declines in Endo's share price beyond 24% from the reference price will not give rise to further Arrangement Cash Compensation to Paladin Shareholders. The maximum amount potentially payable to Paladin Shareholders under this price protection mechanism is US\$233 million.

Failure to consummate the Transactions could negatively impact the share price and the future business and financial results of Paladin.

If the Transactions are not consummated, the ongoing business of Paladin may be materially and adversely affected and, without realizing any of the benefits of having consummated the Transactions, Paladin will be subject to a number of risks, including the following:

- Paladin may be required to reimburse Endo for certain expenses incurred by Endo in connection with certain governmental filings or certain lawsuits, as described in the Arrangement Agreement and summarized under the caption “*The Arrangement Agreement—Expenses*” beginning on page 135;
- Paladin will be required to pay certain costs relating to the Transactions, including legal, accounting, filing and possible other fees and mailing, financial printing and other expenses in connection with the Transactions whether or not the Transactions are consummated;
- the current prices of Paladin Shares may reflect a market assumption that the Transactions will occur, meaning that a failure to complete the Transactions could result in a material decline in the price of Paladin Shares;
- Paladin will be required, upon a termination of the Arrangement Agreement under certain circumstances, to pay Endo a termination fee of \$60,000,000, as described in the Arrangement Agreement and summarized under the caption “*The Arrangement Agreement—Termination Fees; Effect of Termination*” beginning on page 134;
- matters relating to the Transactions (including integration planning) have required and will continue to require substantial commitments of time and resources by Paladin management, which could otherwise have been devoted to other opportunities that may have been beneficial to Paladin; and
- Paladin could also be subject to litigation related to any failure to consummate the Transactions or related to any enforcement proceeding commenced against Paladin to perform its obligations under the Arrangement Agreement.

If the Transactions are not consummated, these risks may materialize and may materially and adversely affect Paladin’s business, financial results and share price.

Endo’s and Paladin’s respective business relationships, including customer relationships, may be subject to disruption due to uncertainty associated with the Transactions.

Parties with which Endo and Paladin currently do business or may do business in the future, including customers and suppliers, may experience uncertainty associated with the Transactions, including with respect to current or future business relationships with Endo, Paladin or New Endo. As a result, Endo’s and Paladin’s business relationships may be subject to disruptions if customers, suppliers and others attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than Endo or Paladin. These disruptions could have a material and adverse effect on the businesses, financial condition, results of operations or prospects of New Endo following the Closing. The effect of such disruptions could be exacerbated by a delay in the consummation of the Transactions or termination of the Arrangement Agreement.

Loss of key personnel could impair the integration of the two businesses, lead to loss of customers and a decline in revenues, adversely affect the progress of pipeline products or otherwise adversely affect the operations of Endo, Paladin and New Endo.

The success of New Endo after the completion of the Arrangement and the Merger will depend, in part, upon its ability to retain key employees, especially during the integration phase of the two businesses. Current and prospective employees of Endo and Paladin might experience uncertainty about their future roles with New Endo following completion of the Merger, which might materially and adversely affect Endo’s and New Endo’s

ability to retain key managers and other employees. In addition, competition for qualified personnel in the biotechnology industry is very intense. If Endo or Paladin lose key personnel or New Endo is unable to attract, retain and motivate qualified individuals or the associated costs to New Endo increase significantly, Endo's business and New Endo's business could be materially and adversely affected.

Obtaining required approvals necessary to satisfy the conditions to the completion of the Transactions may delay or prevent completion of the Transactions, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the Transactions.

The Transactions are subject to closing conditions. These closing conditions include, among others, the receipt of required approvals of Endo and Paladin Shareholders, approval of the Arrangement by the Québec Court, the effectiveness of the registration statement of which Endo's Proxy Statement/Prospectus forms a part, the receipt by Endo of a tax opinion rendered by Skadden, the expiration or termination of the waiting period under the HSR Act and receipt of Competition Act (Canada) and Investment Canada Act approvals in Canada and receipt of Competition Act (South Africa) approval in South Africa.

The governmental agencies from which the parties will seek certain of these approvals have broad discretion in administering the governing regulations. As a condition to their approval, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of New Endo's business after the Closing. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the Transactions or may reduce the anticipated benefits of the Transactions. Further, no assurance can be given that the required shareholder approval will be obtained or that the required closing conditions will be satisfied, and, if all required consents and approvals are obtained and the closing conditions are satisfied, no assurance can be given as to the terms, conditions and timing of the approvals. If Endo and Paladin agree to any material requirements, limitations, costs or restrictions in order to obtain any approvals required to consummate the Arrangement and the Merger, these requirements, limitations, costs or restrictions could materially and adversely affect the anticipated benefits of the Transactions. This could result in a failure to consummate the Transactions or have a material adverse effect on New Endo's business and results of operations. See "*The Arrangement Agreement—Conditions to the Completion of the Arrangement and the Merger*" beginning on page 130, for a discussion of the conditions to the completion of the Transactions, and "*The Arrangement Agreement—Regulatory Approvals*" beginning on page 127.

All of Paladin's executive officers and directors have interests in the Transactions in addition to those of the Paladin Shareholders.

In considering the recommendations of the Paladin Board of Directors with respect to the Arrangement Agreement, you should be aware that all of Paladin's executive officers and all of Paladin's directors have financial and other interests in the Transactions in addition to interests they might have as Paladin Shareholders. See "*The Arrangement and the Merger—Interests of Certain Persons in the Arrangement*" beginning on page 74. You should consider these interests in connection with your vote on the related proposal. See "*The Arrangement and the Merger—Interests of Certain Persons in the Arrangement*".

As a result of the Arrangement and the Merger, New Endo will incur additional direct and indirect costs.

New Endo will incur additional costs and expenses in connection with and as a result of the Transactions. These costs and expenses include professional fees to comply with Irish corporate and tax laws, costs and expenses incurred in connection with holding a majority of the meetings of the New Endo board of directors and certain executive management meetings in Ireland, as well as any additional costs New Endo will incur going forward as a result of its new corporate structure. There can be no assurance that these costs will not exceed the costs historically borne by Endo and Paladin.

If goodwill or other intangible assets that New Endo records in connection with the Merger become impaired, New Endo could have to take significant charges against earnings.

In connection with the accounting for the Merger, it is expected that New Endo will record a significant amount of goodwill and other intangible assets. Under U.S. GAAP, New Endo must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect New Endo's results of operations and shareholders' equity in future periods.

Until the completion of the Transactions or the termination of the Arrangement Agreement in accordance with its terms, Endo and/or Paladin are prohibited from entering into certain transactions that might otherwise be beneficial to Endo and/or Paladin or their respective shareholders.

During the period that the Arrangement Agreement is in effect, other than with the other party's written consent, each of Paladin and Endo are subject to certain restrictions. See "The Arrangement Agreement—Additional Agreements" beginning on page 128. For example, without Paladin's written consent, Endo is prohibited from making any acquisition that would be reasonably likely to prevent the Transactions from occurring. The foregoing prohibition could have the effect of delaying other strategic transactions and may, in some cases, make it impossible to pursue other strategic transactions that are available only for a limited time.

Endo has entered into Voting Agreements with the Principal Paladin Shareholders who owned in the aggregate approximately 34% of the outstanding Paladin Shares as of the date of the Arrangement Agreement, and termination of the Voting Agreements could result in significantly decreased support for the Arrangement.

The Voting Agreements may be terminated if the Effective Date has not occurred by May 5, 2014 (or such later date as agreed to by the parties to the Arrangement Agreement), if the Arrangement Agreement is amended by the parties resulting in a reduction in the purchase price payable per security or if the volume weighted average price per share of Endo Shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period).

Risks Related to the Business of New Endo

The global nature of Paladin's business exposes New Endo to risks associated with adapting to emerging markets and taking advantage of growth opportunities.

The globalization of Paladin's business, including in Mexico and Brazil, and the increased volume of operations and profits through Litha may expose New Endo to increased risks. Emerging markets have been identified as one of Paladin's growth platforms and is a key element of Paladin's overall strategy. Any difficulties in adapting to emerging markets and/or a material decline in the anticipated growth rate in any of these regions could impair New Endo's ability to take advantage of these growth opportunities and affect New Endo's business, results of operations or financial condition.

There is no assurance that New Endo's efforts to expand sales in emerging markets or that Paladin's significant investment in South Africa will succeed. The expansion of New Endo's activities in emerging markets may further expose New Endo to more volatile economic conditions, political instability and competition from companies that are already well established in these markets and the inability of New Endo to adequately respond to the unique characteristics of these markets, particularly with respect to their regulatory frameworks, the difficulties in recruiting qualified personnel, potential exchange controls, weaker intellectual property protection, higher crime levels and corruption and fraud, could have a material adverse effect on the business of New Endo.

New Endo's policies and procedures, which are designed to help New Endo, its employees and its agents comply with various laws and regulations regarding corrupt practices and anti-bribery, cannot guarantee protection against liability for actions taken by businesses in which Paladin has historically invested. Failure to comply with domestic or international laws could result in various adverse consequences, including possible delay in the approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, or the imposition of criminal or civil sanctions, including substantial monetary penalties.

From a financial reporting perspective, differences in banking systems and business cultures could have an adverse effect on the efficiency of internal controls over financial reporting matters. Given the significant learning curve to fully understand the emerging markets' business, operating environment and the quality of controls in place, New Endo may not be able to adequately assess the efficiency of internal controls over financial reporting or the effects of the laws and requirements of the local business jurisdictions.

Many jurisdictions require specific permits or business licenses, particularly if the business is considered foreign. These requirements including, in particular, requirements in South Africa related to the Broad-Based Black Economic Empowerment Strategy, may affect New Endo's ability to carry out its business operations in the emerging markets.

Agreements between branded pharmaceutical companies and generic pharmaceutical companies are facing increased scrutiny in both the U.S. and abroad.

Endo is involved in numerous patent litigations in which generic companies challenge the validity or enforceability of its products' listed patents and/or the applicability of these patents to the generic applicant's products. Likewise, Endo's Qualitest Pharmaceuticals segment is also involved in patent litigations in which it challenges the validity or enforceability of innovator companies' listed patents and/or their applicability to its generic products. Therefore, settling patent litigations has been and is likely to continue to be part of Endo's business. Parties to such settlement agreements in the U.S., including Endo, are required by law to file them with the FTC and the Antitrust Division for review. The FTC has publicly stated that, in its view, some of these settlement agreements violate the antitrust laws and has brought actions against some branded and generic companies that have entered into such agreements. Accordingly, Endo may receive formal or informal requests from the FTC for information about a particular settlement agreement, and there is a risk that the FTC may commence an action against Endo alleging violation of the antitrust laws. Any adverse outcome of these actions or investigations could have a significant adverse effect on Endo's business, financial condition and results of operations. In addition, some members of Congress have proposed legislation that would limit the types of settlement agreements generic manufacturers can enter into with branded companies. In 2013, the U.S. Supreme Court issued an opinion in the *FTC v. Actavis* case, in which it held that patent settlement agreements between a generic and brand company that permit generic entry within the scope of the patent, but also involve payments from the brand company to the generic company are neither presumptively unlawful nor presumptively lawful. Instead, the lawfulness and/or reasonableness of these agreements must be assessed on a case-by-case basis. Because the U.S. Supreme Court did not articulate a precise rule of lawfulness for such settlements, there may be extensive litigation over what constitutes a reasonable and lawful patent settlement between a brand and generic company. Recently, Endo was notified of three lawsuits purporting to be class actions brought by third-party payors alleging that its settlement agreement with Actavis regarding the Lidoderm® patent litigation was unlawful and in violation of federal antitrust laws, as well as various state laws. Additional similar suits may be filed in the future. The impact of such pending and future litigation, legislative proposals and potential future U.S. Supreme Court review is uncertain and could adversely affect New Endo's business, financial condition and results of operations.

Mesh litigation and FDA actions in connection with transvaginal mesh may continue to adversely affect sales of Endo's female incontinence and pelvic floor repair products and the expense or potential liabilities of that litigation may exceed Endo's current insurance coverage.

There have been FDA actions to continue to advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI. Additionally, AMS

and, in certain cases, Endo or certain of its other subsidiaries, have been named as defendants in multiple lawsuits in various federal and state courts alleging personal injury resulting from use of transvaginal surgical mesh products designed to treat POP and SUI. Plaintiffs in these suits allege various personal injuries including chronic pain, incontinence and inability to control bowel function, and permanent deformities. On February 7, 2012, the U.S. Judicial Panel on Multidistrict Litigation issued an order to consolidate and transfer certain of these claims filed against AMS in various federal courts to the Southern District of West Virginia as MDL 2325. Endo may be subject to liabilities arising out of these cases, and is responsible for the cost of managing these cases. Endo intends to contest all of these cases vigorously but will also explore all options as appropriate in the best interests of Endo. However, there can be no assurance that Endo's defense will be successful, and any defense may result in significant expense and divert management's attention from Endo's business. Endo believes it is reasonably possible that the outcomes of such cases could result in losses in excess of insurance reimbursement levels that could have a material adverse effect on Endo's business, financial condition, results of operations and cash flows.

Endo believes that the significant increase in the number of lawsuits filed against AMS and/or Endo concerning transvaginal mesh devices may have contributed to recent declines in Endo's AMS segment's women's health revenue. This litigation and any additional action on the part of the FDA may negatively affect revenue in Endo's AMS segment's women's health line in the future. Endo cannot predict the extent to which these developments could result in future decreases in the number of surgical procedures using surgical mesh. Future decreases in the number of surgical procedures using surgical mesh may adversely affect sales of Endo's female incontinence and pelvic floor repair products.

In addition, Endo has been contacted regarding a civil investigation that has been initiated by a number of state attorneys general into mesh products, including transvaginal surgical mesh products designed to treat POP and SUI. On November 19, 2013, AMS and Endo received a subpoena from the California Attorney General's Office relating to this civil investigation. Subsequently, AMS and Endo have received additional subpoenas from other states, also related to this same civil investigation. Endo cannot predict or determine the outcome of this investigation or reasonably estimate the amount or range of amounts of fines or penalties, if any, that might result from a settlement or an adverse outcome from this investigation.

The combination of the businesses currently conducted by Endo and Paladin will create numerous risks and uncertainties, which could adversely affect New Endo's operating results or prevent New Endo from realizing the expected benefits of the Arrangement and the Merger.

Strategic transactions like the Arrangement and the Merger create numerous uncertainties and risks and require significant efforts and expenditures. Paladin will transition from a standalone public Canadian corporation to being part of a combined company incorporated in Ireland. This combination will entail many changes, including the integration of Paladin and its personnel with those of Endo, and changes in systems. These transition activities are complex, and New Endo may encounter unexpected difficulties or incur unexpected costs, including:

- the diversion of New Endo management's attention to integration of operations and the establishment of corporate and administrative infrastructures;
- difficulties in achieving anticipated business opportunities and growth prospects from combining the business of Paladin with that of Endo;
- difficulties in the integration of operations and systems;
- difficulties in the assimilation of employees and corporate cultures;
- challenges in keeping existing customers and obtaining new customers; and
- challenges in attracting and retaining key personnel.

If any of these factors impairs New Endo's ability to integrate the operations of Endo with those of Paladin successfully or on a timely basis, New Endo may not be able to realize the anticipated synergies, business

opportunities and growth prospects from combining the businesses. In addition, New Endo may be required to spend additional time or money on integration that otherwise would be spent on the development and expansion of its business.

In addition, the market price of New Endo Shares may decline following the business combination if, among other things, the integration of Endo and Paladin is unsuccessful, takes longer than expected or fails to achieve financial benefits to the extent anticipated by financial analysts or investors, or the effect of the business combination on the financial results of the combined company is otherwise not consistent with the expectations of financial analysts or investors.

The IRS may not agree with the conclusion that New Endo should be treated as a foreign corporation for U.S. federal income tax purposes following the Transactions.

Although New Endo will be incorporated in Ireland, the IRS may assert that it should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal income tax purposes pursuant to Section 7874 of the Code. A corporation is generally considered a tax resident in the jurisdiction of its organization or incorporation for U.S. federal income tax purposes. Because New Endo is an Irish incorporated entity, it would generally be classified as a foreign corporation (and, therefore, a non-U.S. tax resident) under these rules. Section 7874 of the Code provides an exception pursuant to which a foreign incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal income tax purposes.

Under Section 7874 of the Code, New Endo would be treated as a foreign corporation for U.S. federal income tax purposes if the Ownership Test is not satisfied. The Endo Shareholders are expected to own less than 80% (by both vote and value) of the shares in New Endo after the Merger by reason of their ownership of shares of Endo Shares. As a result, under current law, New Endo is expected to be treated as a foreign corporation for U.S. federal income tax purposes. However, there can be no assurance that there will not exist in the future a subsequent change in the facts or in law which might cause New Endo to be treated as a domestic corporation for U.S. federal income tax purposes, including with retroactive effect. Further, there can be no assurance that the IRS will agree with the position that the Ownership Test is satisfied. There is limited guidance regarding the application of Section 7874 of the Code, including with respect to the provisions regarding the application of the Ownership Test. Endo's obligation to complete the Transactions is conditional upon its receipt of the Section 7874 Opinion from Skadden, dated as of the Closing Date and subject to certain qualifications and limitations set forth therein, to the effect that Section 7874 of the Code and the regulations promulgated thereunder should not apply in such a manner so as to cause New Endo to be treated as a U.S. corporation for U.S. federal income tax purposes from and after the Closing Date. However, an opinion of tax counsel is not binding on the IRS or a court. Therefore, there can be no assurance that the IRS will not take a position contrary to Skadden's Section 7874 Opinion or that a court will not agree with the IRS in the event of litigation.

See "*Certain U.S. Tax Consequences of the Merger and the Arrangement—Certain U.S. Federal Income Tax Consequences of the Merger to New Endo and Endo—Tax Residence of New Endo for U.S. Federal Income Tax Purposes*" beginning on page 100 of this Circular for a more detailed discussion of the application of Section 7874 of the Code to the Transactions.

Section 7874 of the Code likely will limit Endo's and its U.S. affiliates' ability to utilize certain U.S. tax attributes to offset certain U.S. taxable income, if any, generated by the Transactions or certain specified transactions for a period of time following the Transactions.

Following the acquisition of a U.S. corporation by a foreign corporation, Section 7874 of the Code may limit the ability of the acquired U.S. corporation and its U.S. affiliates to utilize certain U.S. tax attributes such as net operating losses to offset U.S. taxable income resulting from certain transactions as more fully described in "*Certain U.S. Tax Consequences of the Merger and the Arrangement—Certain U.S. Federal Income Tax Consequences of the Merger to New Endo and Endo—Tax Residence of New Endo for U.S. Federal Income Tax*

Purposes” and “—Potential Limitation on the Utilization of Endo’s (and its U.S. Affiliates’) Tax Attributes” beginning on page 101 of this Circular. Based on the limited guidance available, Endo currently expects that following the Transactions, this limitation will apply and as a result, Endo currently does not expect that it or its U.S. affiliates will be able to utilize certain U.S. tax attributes to offset U.S. taxable income, if any, resulting from certain specified taxable transactions. See “Certain U.S. Tax Consequences of the Merger and the Arrangement— Certain U.S. Federal Income Tax Consequences of the Merger to New Endo and Endo—Tax Residence of New Endo for U.S. Federal Income Tax Purposes” and “—Potential Limitation on the Utilization of Endo’s (and its U.S. Affiliates’) Tax Attributes” beginning on page 101 of this Circular.

Future changes to U.S. and non-U.S. tax laws could materially adversely affect New Endo.

Under current law, New Endo is expected to be treated as a foreign corporation for U.S. federal income tax purposes. However, changes to the rules in Section 7874 of the Code or regulations promulgated thereunder or other guidance issued by the Treasury or the IRS, could adversely affect New Endo’s status as a foreign corporation for U.S. federal income tax purposes, and any such changes could have prospective or retroactive application to New Endo, Endo, their respective shareholders and affiliates, and/or the Transactions. In addition, recent legislative proposals would expand the scope of U.S. corporate tax residence, and such legislation, if enacted, could have a material and adverse effect on New Endo.

In addition, the U.S. Congress, the Organization for Economic Co-operation and Development, and other Government agencies in jurisdictions where New Endo and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations and there are several current legislative proposals that, if enacted, would substantially change the U.S. federal income tax system as it relates to the taxation of multinational corporations. One example is in the area of “base erosion and profit shifting”, where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. As a result, the tax laws in the U.S. and other countries in which New Endo and its affiliates do business could change on a prospective or retroactive basis, and any such changes could materially and adversely affect New Endo.

New Endo may be subject to U.S. federal withholding tax as a result of Endo U.S.’s subscription for New Endo Shares in exchange for its promissory note.

If certain conditions are met, New Endo should be treated for U.S. tax purposes as receiving a distribution from Endo U.S. immediately prior to the Merger (a “**Deemed Distribution**”). The Deemed Distribution for U.S. tax purposes will be treated as a taxable dividend to the extent of Endo U.S.’s current and accumulated earnings and profits for the year of the Deemed Distribution and such dividend will be subject to U.S. withholding tax (at a rate of 5%) in accordance with the Ireland-U.S. Tax Treaty. The amount of Endo U.S.’s current and accumulated earnings and profits for the year of the Deemed Distribution is uncertain, but could be substantial, and will not be known until the end of Endo’s current taxable year. See “*Certain U.S. Tax Consequences of the Merger and the Arrangement—U.S. Federal Withholding Tax Consequences of the Merger to New Endo*” beginning on page 102 of this Circular.

Paladin is currently not subject to the compliance obligations of the Sarbanes-Oxley Act of 2002 and New Endo may not be able to timely and effectively implement controls and procedures over Paladin’s operations as required under the Sarbanes-Oxley Act of 2002.

Paladin is currently not subject to the information and reporting requirements of the Exchange Act and other federal securities laws, and the compliance obligations of the Sarbanes-Oxley Act of 2002. Subsequent to the completion of the Transactions, New Endo will need to timely and effectively implement the internal controls necessary to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of internal controls over financial reporting and a report by New Endo’s independent registered public accounting firm addressing these assessments. New Endo intends to take appropriate measures to establish or implement an internal control environment at Paladin aimed at successfully adopting the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. However, it is possible that New

Endo may experience delays in implementing or be unable to implement the required internal financial reporting controls and procedures, which could result in enforcement actions, the assessment of penalties and civil suits, failure to meet reporting obligations and other material and adverse events that could have a negative effect on the market price for New Endo Shares.

Risks Related to the Financial Condition of New Endo

Growing the business of New Endo will require the commitment of substantial resources, which could result in future losses or otherwise limit the opportunities of New Endo.

Growing the New Endo business over the longer-term will require New Endo to commit substantial resources towards in-licensing and/or acquiring new products and product candidates, or towards costly and time-consuming product development and clinical trials of New Endo product candidates. It will also require continued investment in the commercial operations of New Endo. New Endo's future capital requirements will depend on many factors, including many of those discussed above, such as:

- the revenues from New Endo commercial products and the costs of New Endo's commercial operations;
- the extent of generic competition for New Endo products;
- the cost of acquiring and/or licensing new products and product candidates;
- the scope, rate of progress, results and costs of New Endo's development and clinical activities;
- the cost and timing of obtaining regulatory approvals and of compliance with laws and regulations;
- the cost of preparing, filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- the cost of investigations, litigation and/or settlements related to regulatory activities and third-party claims; and
- changes in laws and regulations, including, for example, healthcare reform legislation.

One of New Endo's goals will be to expand the business through the licensing, acquisition and/or development of additional products and product candidates. There can be no assurance that New Endo's funds will be sufficient to fund these activities if opportunities arise, and New Endo may be unable to expand the business if it does not have sufficient capital or cannot borrow or raise additional capital on attractive terms.

New Endo may not be able to successfully maintain its low tax rates, which could adversely affect its business and financial condition, results of operations and growth prospects.

New Endo will be incorporated in Ireland and will maintain subsidiaries in the United States, Canada and South Africa. Taxing authorities, such as the IRS, actively audit and otherwise challenge these types of arrangements, and have done so in the pharmaceutical industry. The IRS may challenge the New Endo structure and transfer pricing arrangements through an audit or lawsuit. Responding to or defending such a challenge could be expensive and consume time and other resources, and divert management's time and focus from operating the New Endo business. New Endo cannot predict whether taxing authorities will conduct an audit or file a lawsuit challenging this structure, the cost involved in responding to any such audit or lawsuit, or the outcome. If New Endo is unsuccessful, it may be required to pay taxes for prior periods, interest, fines or penalties, and may be obligated to pay increased taxes in the future, any of which could require New Endo to reduce its operating expenses, decrease efforts in support of its products or seek to raise additional funds, all of which could have a material adverse effect on the New Endo business, financial condition, results of operations and growth prospects.

New Endo's actual financial positions and results of operations may differ materially from the unaudited pro forma financial data included in this Circular.

The pro forma financial information contained in this Circular is presented for illustrative purposes only and may not be an indication of what New Endo's financial position or results of operations would have been had the Transactions been completed on the dates indicated. The pro forma financial information has been derived from the audited and unaudited historical financial statements of Endo and Paladin and certain adjustments and assumptions have been made regarding the combined company after giving effect to the Transactions. The assets and liabilities of Paladin have been measured at fair value based on various preliminary estimates using assumptions that Endo management believes are reasonable utilizing information currently available. The process for estimating the fair value of acquired assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. Differences between preliminary estimates in the pro forma financial information and the final acquisition accounting will occur and could have a material impact on the pro forma financial information and the combined company's financial position and future results of operations.

In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect New Endo's financial condition or results of operations following the Closing. Any potential decline in New Endo's financial condition or results of operations may cause significant variations in the share price of New Endo. See "*Unaudited Pro Forma Condensed Combined Financial Information*" beginning on page 153.

Risks Related to the New Endo Shares

The market price of New Endo Shares may be volatile, and the value of your investment could materially decline.

Investors who hold New Endo Shares may not be able to sell their shares at or above the price at which they purchased Paladin Shares or for which they are exchanged on the Arrangement. The prices of Endo Shares and Paladin Shares have fluctuated materially from time to time, and New Endo cannot predict the price of the New Endo Shares. The risk factors described above could cause the price of New Endo Shares to fluctuate materially. In addition, the stock market in general, including the market for specialty pharmaceutical companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may materially harm the market price of New Endo Shares, regardless of New Endo's operating performance. In addition, the New Endo Share price may be dependent upon the valuations and recommendations of the analysts who cover the New Endo business, and if its results do not meet the analysts' forecasts and expectations, the New Endo Share price could decline as a result of analysts lowering their valuations and recommendations or otherwise. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against New Endo, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect New Endo's business, financial condition, results of operations and growth prospects.

Future sales of New Endo Shares in the public market could cause volatility in the price of New Endo Shares or cause the share price to fall.

Sales of a substantial number of New Endo Shares in the public market, or the perception that these sales might occur, could depress the market price of New Endo Shares, and could impair New Endo's ability to raise capital through the sale of additional equity securities. Subject to the terms of the Voting Agreements, the Paladin Principal Shareholders may enter into sale, hedging or other transactions with respect to the New Endo Shares that they will receive as consideration in the Arrangement.

The New Endo Shares to be received by Paladin Shareholders in connection with the Arrangement will have different rights from the Paladin Shares.

Upon consummation of the Arrangement, Paladin Shareholders will become New Endo Shareholders and their rights as shareholders will be governed by the New Endo Memorandum and Articles of Association and Irish law. The rights associated with Paladin Shares are different from the rights associated with New Endo Shares. See “*Comparison of the Rights of Holders of Paladin Shares and New Endo Shares*” beginning on page 193.

New Endo will not have sufficient distributable reserves to pay dividends or repurchase or redeem shares following the Arrangement and the Merger even if considered appropriate by the New Endo board of directors unless it is permitted by the Irish High Court to create distributable reserves. This is because, under Irish law, dividends may only be paid, and share purchases and redemptions must generally be funded out of, distributable reserves. New Endo can provide no assurance that Irish High Court approval of the creation of distributable reserves will be forthcoming.

If New Endo proposes to pay dividends or to repurchase or redeem shares in the future, it may be unable to do so under Irish law. Under Irish law, dividends may only be paid, and share repurchases and redemptions must generally be funded only out of, “distributable reserves”. New Endo will not have distributable reserves immediately following the Closing even if the Distributable Reserves Resolution is approved by the Paladin Shareholders and the proposal to approve the creation of distributable reserves of New Endo is approved by the Endo Shareholders. The creation of distributable reserves requires the approval of the Irish High Court which New Endo plans to seek following completion of the Transactions. New Endo is not aware of any reason why the Irish High Court would not approve the creation of distributable reserves; however, the issuance of the required order is a matter for the discretion of the Irish High Court and there is no guarantee that such approval will be forthcoming. Even if the Irish High Court does approve the creation of distributable reserves, it may take substantially longer than the parties anticipate.

New Endo does not expect to pay dividends for the foreseeable future, and you must rely on increases in the trading prices of the New Endo Shares for returns on your investment.

Endo has never paid cash dividends on its Endo Shares. New Endo does not expect to pay dividends in the immediate future. New Endo anticipates that it will retain all earnings, if any, to support its operations. Any future determination as to the payment of dividends will, subject to Irish legal requirements, be at the sole discretion of the New Endo board of directors and will depend on New Endo’s financial condition, results of operations, capital requirements and other factors the New Endo board of directors deems relevant. Holders of New Endo Shares must rely on increases in the trading price of their shares for returns on their investment in the foreseeable future.

After the completion of the Arrangement, attempted takeovers of New Endo will be subject to Irish Takeover Rules and subject to review by the Irish Takeover Panel.

Canadian laws and securities regulations regarding directors’ fiduciary duties give the boards of directors of Canadian corporations certain latitude to defend against unwanted takeover proposals. Following the Closing, New Endo will become subject to Irish Takeover Rules, as discussed in greater detail under “*Description of New Endo Shares—Anti-Takeover Provisions*”, under which the New Endo board of directors will not be permitted to take any action which might frustrate an offer for New Endo Shares once it has received an approach which may lead to an offer or has reason to believe an offer is imminent. Further, it could be more difficult for New Endo to obtain shareholder approval for a merger or negotiated transaction after the Closing because the shareholder approval requirements for certain types of transactions differ, and in some cases are greater, under Irish law than under Canadian law. See “*Description of New Endo Shares*” beginning on page 179.

Following the completion of the Transactions, a future transfer of New Endo Shares may be subject to Irish stamp duty.

Transfers of New Endo Shares could be subject to Irish stamp duty. However, transfers of New Endo Shares effected by means of the transfer of book entry interests in DTC will not be subject to Irish stamp duty.

A submission was made to the Irish Revenue Commissioners seeking confirmation in relation to the operation of stamp duty in respect of the transfer of book entry interests in CDS. This confirmation has been obtained and confirms that transfers of New Endo Shares effected by means of the transfer of book entry interests in CDS will not be subject to Irish stamp duty.

It is anticipated that the majority of New Endo Shares will be traded through DTC and/or CDS by brokers who hold such shares on behalf of customers.

If you hold your New Endo Shares directly (i.e. you are a registered shareholder), any transfer of your New Endo Shares could be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the shares acquired). Payment of Irish stamp duty is generally a legal obligation of the transferee.

The imposition of stamp duty could adversely affect the price of your shares.

See “*Certain Irish Tax Consequences of the Arrangement and the Merger—Stamp Duty*” beginning on page 106.

Dividends paid by New Endo may be subject to Irish dividend withholding tax.

In certain limited circumstances, dividend withholding tax (currently at a rate of 20%) may arise in respect of dividends paid on New Endo Shares. A number of exemptions from dividend withholding tax exist, such that shareholders resident in European Union member states (other than Ireland) or other countries with which Ireland has signed a double tax treaty, which would include Canada and the U.S., should generally be entitled to exemptions from dividend withholding tax provided that the appropriate documentation is in place. See “*Certain Irish Tax Consequences of the Arrangement and the Merger—Withholding Tax on Dividends*” beginning on page 107 and, in particular, please note the requirement to complete certain dividend withholding tax forms in order to qualify for many of the exemptions.

It is expected that shareholders resident in the U.S. who hold their shares through DTC may not be subject to dividend withholding tax if the addresses of the beneficial owners of such shares in the records of the brokers holding such shares are recorded as being in the U.S. (and such brokers have further transmitted the relevant information to a qualifying intermediary appointed by New Endo).

However, other shareholders may be subject to dividend withholding tax, which could adversely affect the price of your shares. See “*Certain Irish Tax Consequences of the Arrangement and the Merger—Withholding Tax on Dividends*” beginning on page 107.

After the Transactions, dividends received by Irish residents and certain other shareholders may be subject to Irish income tax.

Shareholders entitled to an exemption from Irish dividend withholding tax on dividends received from New Endo will not be subject to Irish income tax in respect of those dividends, unless they have some connection with Ireland other than their shareholding in New Endo (for example, they are resident in Ireland). Shareholders who receive dividends subject to Irish dividend withholding tax will generally have no further liability to Irish income tax on those dividends. See “*Certain Irish Tax Consequences of the Arrangement and the Merger—Income Tax on Dividends Paid on New Endo Shares*” beginning on page 110.

Risks Related to the Tax Consequences of the Arrangement and the Merger

Certain Canadian Federal Income Tax Consequences of the Arrangement.

The exchange of Paladin Shares for the Arrangement Consideration by a Paladin Shareholder who is a resident of Canada will generally be a taxable event to such holder for the purposes of the ITA.

A Paladin Shareholder who is not a resident of Canada will generally not be subject to tax in Canada in respect of such exchange of Paladin Shares unless such Paladin Shares constitute “taxable Canadian property” and are not “treaty-protected property” to such Paladin Shareholder for the purposes of the ITA.

See “*Certain Canadian Federal Income Tax Consequences of the Arrangement*” for a general summary of the principal Canadian federal income tax considerations relevant to certain Paladin Shareholders who are either residents or non-residents of Canada for purposes of the ITA.

Paladin Shareholders should consult their own tax advisors as to the tax consequences to them of the Arrangement.

Certain Irish Tax Consequences of the Merger and Arrangement.

No Irish tax should arise for Paladin Shareholders pursuant to the Arrangement, unless such shareholders are resident or ordinarily resident in Ireland or hold such shares in connection with a trade carried on in Ireland through an Irish branch or agency. See “*Certain Irish Tax Consequences of the Arrangement and the Merger*” beginning on page 106 for a more detailed description of the Irish tax consequences of the Transactions.

It is recommended that each Paladin Shareholder consult his or her own tax advisor as to the tax consequences to them of holding shares in and receiving dividends from New Endo.

MANAGEMENT SOLICITATION

Overview

This Circular is being furnished in connection with the solicitation of proxies by or on behalf of the management of Paladin for use at the Meeting for the purposes set out in the accompanying notice of meeting to Paladin Shareholders. Except as otherwise stated, the information contained herein is given as of January 21, 2014. This Circular provides Paladin Shareholders with information they need to be able to vote or instruct their vote to be cast at the Meeting.

Date, Time and Place

The Meeting will be held at 6111 Royalmount Ave., Montréal, Québec, H4P 2T4, on February 24, 2014, at 3 p.m., Montréal time.

Purpose of the Meeting

At the Meeting, Paladin Shareholders will be asked:

- to consider and, if thought fit, approve with or without variation, the Arrangement Resolution to approve the Arrangement on the terms and subject to the conditions set forth in the Plan of Arrangement, a copy of such Arrangement Resolution is included as Appendix “B” to this Circular;
- to consider and, if thought fit, approve with or without variation, the Distributable Reserves Resolution to approve the creation of “distributable reserves” of New Endo; and
- to transact such further or other business as may properly come before the Meeting.

Completion of the Arrangement is conditioned on approval of the Arrangement Resolution.

Recommendations of the Paladin Board of Directors

At a meeting held on November 4, 2013, the Paladin Board of Directors unanimously determined that the Arrangement is fair, from a financial point of view, to the Paladin Shareholders, resolved that the Arrangement Agreement be executed and resolved to recommend that Paladin Shareholders vote in favour of the Arrangement. **For the reasons set forth in this Circular, the Paladin Board of Directors unanimously recommends that Paladin Shareholders vote “FOR” the Arrangement Resolution and “FOR” the Distributable Reserves Resolution.** For a discussion of the material factors considered by the Paladin Board of Directors in reaching its conclusions, see *“The Arrangement and the Merger—Recommendations of the Paladin Board of Directors; Paladin’s Reasons for the Arrangement”* beginning on page 64.

Paladin Shareholders should carefully read this Circular in its entirety for more detailed information concerning the Arrangement, the Arrangement Agreement and the Transactions contemplated therein. In addition, Paladin Shareholders are directed to the Arrangement Agreement which is included as Appendix “C” in this Circular.

Paladin Record Date; Shares Entitled to Vote

Only Paladin Shareholders at the close of business on January 21, 2014, the record date for the Meeting, will be entitled to notice of, and to vote at, the Meeting. On the record date, there were outstanding a total of 20,765,385 Paladin Shares. Each Paladin Share is entitled to one vote on each proposal and any other matter properly coming before the Meeting.

Share Ownership by and Voting Rights of Paladin’s Directors and Executive Officers

As of the close of business on the record date, Paladin’s directors and executive officers and their affiliates beneficially owned and had the right to vote 900,792 Paladin Shares at the Meeting, which represents approximately 4.3% of Paladin Shares entitled to vote at the Meeting. Paladin expects that its directors and executive officers will vote their shares in favour of the Paladin proposals.

Jonathan Ross Goodman, Chairman of the Paladin Board of Directors, is a record shareholder of Paladin and owns 25% of the non-voting shares of Joddes. The Principal Paladin Shareholders together hold approximately 34% of the Paladin Shares. The Paladin Shares held by the Principal Paladin Shareholders, other than those held directly by Jonathan Ross Goodman, are controlled by the Voting Trustee, which is controlled by Mr. Morris Goodman. The Principal Paladin Shareholders are either members of, or are owned and controlled by members of, the Goodman family. Each of the Principal Paladin Shareholders entered into Voting Agreements with Endo on November 5, 2013 pursuant to which such shareholders have agreed to vote, subject to certain conditions, in favour of the Arrangement Resolution. It is expected that, immediately after the Closing, all of the Principal Paladin Shareholders (or each of their affiliates that are Qualifying Holdco Shareholders), other than the Principal Knight Shareholders, will sell and transfer the Knight Shares they receive as of the Effective Time as the Knight Therapeutics Arrangement Consideration to the Principal Knight Shareholders (or any of their affiliates) for a per share amount based on the Knight Therapeutics Valuation Report. As such, the Principal Knight Shareholders (and/or their affiliates) are currently expected to own directly or indirectly in aggregate approximately 34% of the outstanding Knight Shares after giving effect to the Arrangement and the completion of the sale and transfer of Knight Shares to the Principal Knight Shareholders (or any of their affiliates). Please see *“The Arrangement and the Merger—Security Ownership of Certain Beneficial Owners and Management”* beginning on page 81, *“The Voting Agreements”* beginning on page 135 and Appendix “F” of this Circular.

Quorum

At least one person present being a Paladin Shareholder entitled to vote at the Meeting or a duly appointed proxyholder or representative for a shareholder so entitled, and holding or representing Paladin Shares having not less than 5% of the outstanding votes entitled to be cast at the Meeting, constitutes a quorum for the transaction of business at the Meeting.

Required Vote

The Arrangement Resolution requires the affirmative vote of at least two-thirds of the votes cast by Paladin Shareholders present in person or represented by proxy at the Meeting. The approval of the Distributable Reserves Resolution and of any proposal to transact such further or other business as may properly come before the Meeting requires the affirmative vote of a majority of the votes cast by Paladin Shareholders present in person or represented by proxy at the Meeting.

Failure to Vote and Broker Non-Votes

If you are a Paladin Shareholder and fail to vote or fail to instruct your Intermediary to vote, it will have no effect on any of the Paladin proposals, assuming a quorum is present at the Meeting.

Appointment of Proxyholder

The persons designated by management of Paladin in the enclosed proxy form are Mark A. Beaudet and Samira Sakhia. **Each Paladin Shareholder has the right to appoint as proxyholder a person or company, who need not be a Paladin Shareholder, other than the persons designated by management of Paladin in the enclosed form of proxy, to attend and act on the shareholder’s behalf at the Meeting or at any adjournment or postponement thereof.** Such right may be exercised by inserting the name of the person or company in the blank space provided in the enclosed proxy form or by completing another proxy form.

Record Holders

If you are a registered holder of Paladin Shares as of the close of business on the record date for the Meeting, a proxy form is enclosed for your use. Paladin requests that you vote your shares by telephone or through the Internet, or sign the accompanying proxy form and return it promptly in the enclosed postage-paid

envelope. Information and applicable deadlines for voting by telephone or through the Internet are set forth on the enclosed proxy form. When the enclosed proxy form is returned properly executed, the Paladin Shares represented by it will be voted at the Meeting or any adjournment or postponement thereof in accordance with the instructions contained in the proxy form and if the shareholder specifies a choice with respect to any matter to be acted upon, the Paladin Shares will be voted accordingly. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you had marked, signed and returned a proxy form.

Your vote is important. Accordingly, if you are a registered holder of Paladin Shares as of the close of business on the record date, please sign and return the enclosed proxy form or vote via telephone or the Internet whether or not you plan to attend the Meeting in person.

If a proxy form is signed and returned without an indication as to how the Paladin Shares represented are to be voted with regard to a particular proposal, the Paladin Shares represented by the proxy will be voted in accordance with the recommendations of the Paladin Board of Directors. At the date hereof, the Paladin Board of Directors has no knowledge of any business that will be presented for consideration at the Meeting and which would be required to be set forth in this Circular or the related Paladin proxy form other than the matters set forth in the accompanying notice of meeting of Paladin Shareholders. Business transacted at the Meeting is expected to be limited to those matters set forth in such notice. Nonetheless, if any amendments to matters identified in the accompanying notice of meeting of Paladin Shareholders or any other matter is properly presented at the Meeting for consideration, it is intended that the persons named in the enclosed proxy form and acting thereunder will vote in accordance with their best judgment and pursuant to such discretionary authority on such matter.

Shares Held in Street Name/Non-Registered Shareholders

The proxy form provided with this Circular will indicate whether or not you are a registered Paladin Shareholder. Non-registered Paladin Shareholders hold their Paladin Shares through Intermediaries. Non-registered Paladin Shareholders fall in two categories: (a) those who object to their identity being known to the issuers of securities they own (“**OBOs**”) and (b) those who do not object to their identity being made known to the issuers of securities they own (“**NOBOs**”).

If you are an OBO, the Intermediary holding your Paladin Shares has forwarded this Circular to you and has provided a voting instruction form which you must complete by using any one of the methods outlined therein. This voting instruction form will constitute voting instructions that the Intermediary must follow and should be returned in accordance with the instructions to ensure it is counted for the Meeting. In order to expedite your vote, you may vote by using a touch-tone telephone or via the Internet, following the instructions outlined on the voting instruction form.

Subject to the provisions of National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”), an issuer may request and obtain a list of their NOBOs from Intermediaries via their transfer agent. Pursuant to NI 54-101, an issuer may obtain and use the NOBO list for distribution of proxy-related material directly to such NOBOs. Paladin has decided to take advantage of the provisions of NI 54-101 that permit it to deliver proxy related-materials directly to NOBOs. By choosing to send materials directly to NOBOs, Paladin (and not the Intermediary holding Paladin Shares on your behalf) has assumed responsibility for (a) delivering these materials to you and (b) executing your proper voting instructions. As a result, if you are a NOBO, you can expect to receive a scannable voting instruction form from Computershare Investor Services Inc., the transfer agent of Paladin. Please complete and return the voting instruction form to Computershare Investor Services Inc. in the envelope provided or by facsimile, following the instructions outlined on the voting instruction form. Computershare Investor Services Inc. will tabulate the results of the voting instruction forms received from NOBOs and will provide appropriate instructions at the Meeting with respect to the Paladin Shares represented by the voting instruction forms they receive.

If, as a non-registered shareholder, you wish to attend the Meeting and vote your Paladin Shares in person, or have another person attend and vote your Paladin Shares on your behalf, you should fill your own name, or the

name of your appointee, in the space provided on the voting instruction form. A voting instruction form will likely provide corresponding instructions to cast your vote in person. In either case, you should carefully follow the instructions provided by the Intermediary or Computershare Investor Services Inc. and contact the Intermediary or Computershare Investor Services Inc., as applicable, promptly if you need help.

A non-registered shareholder may revoke a proxy or voting instruction which has been previously given to an Intermediary or Computershare Investor Services Inc. by written notice to the Intermediary or Computershare Investor Services Inc., as applicable. In order to ensure that the Intermediary acts upon a revocation, the written notice should be received by the Intermediary or Computershare Investor Services Inc., as applicable, well in advance of the Meeting.

Revocability of Proxy; Changing Your Vote

If you are a registered holder of Paladin Shares as of the close of business on the record date for the Meeting: You can change your vote at any time before the start of the Meeting, unless otherwise noted. In addition to revocation in any other manner permitted by law, you can do this in one of the following ways:

- you can grant a new, valid proxy bearing a later date (including by telephone or Internet);
- you can deposit a signed notice of revocation at Paladin's registered office at any time up to and including the last business day preceding the day of the Meeting or with the chair of the Meeting on the day of the Meeting; or
- you can attend the Meeting and vote in person, which will automatically cancel any proxy previously given, or you may revoke your proxy in person, but your attendance alone will not revoke any proxy that you have previously given.

If you choose any of the foregoing methods, your notice of revocation or your new proxy must be received by Paladin no later than the beginning of the Meeting. If you have voted your shares by telephone or through the Internet, you may revoke your prior telephone or Internet vote by any manner described above.

If you hold Paladin Shares in "street name": You must contact your Intermediary in writing to change your vote. In order to ensure that the Intermediary acts upon revocation, the written notice should be received by the Intermediary well in advance of the Meeting.

Solicitation of Proxies

The management of Paladin is soliciting proxies for use at the Meeting. All associated costs of the proxy solicitation will be borne by Paladin. In addition to the use of the mail, proxies may be solicited by directors, officers and other employees of Paladin, without additional remuneration, by personal interview, telephone, facsimile or otherwise. Paladin will also request Intermediaries to forward proxy materials to the beneficial owners of Paladin Shares and will provide customary reimbursement to such firms for the cost of forwarding these materials. Paladin has retained Phoenix to assist in its solicitation of proxies and has agreed to pay them a fee of approximately \$45,000 plus reasonable expenses, for these services.

Assistance

If you need assistance in completing your proxy form or have questions regarding the Meeting, please contact Phoenix, the information and proxy solicitation agent for Paladin, by phone at 1-800-239-6813 or by email at inquiries@phoenixadvisorscst.com.

THE ARRANGEMENT AND THE MERGER

The Arrangement and the Merger

Under the terms of the Arrangement Agreement, (a) New Endo will acquire Paladin pursuant to the Plan of Arrangement and (b) Merger Sub will merge with and into Endo, with Endo as the Surviving Corporation in the Merger. As a result of the Transactions, both Endo and Paladin will become indirect wholly-owned subsidiaries of New Endo.

At the Effective Time, Paladin Shareholders will be entitled to receive the Arrangement Consideration, being (a) \$1.16 in cash, subject to adjustment, (b) 1.6331 newly issued New Endo Shares, and (c) one Knight Share in exchange for each Paladin Share held by such shareholders. Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time and has a positive In-the-Money Amount per Share will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date. All Share Purchase Rights will be settled for a cash amount based on the Paladin Share price immediately prior to Closing.

The Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo's 10-day volume weighted average price declines by more than 7% relative to a reference price of US\$44.4642 per share during the reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable good faith estimate of such price for such reference valuation period). Full cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) will be provided by Endo to Paladin Shareholders for any share price declines of more than 7% but less than 20% from the reference price. If Endo's share price declines between 20% and 24% from the reference price during the agreed reference period, Endo will provide cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) for one half of the incremental decline to Paladin Shareholders. Declines in Endo's share price beyond 24% from the reference price will not give rise to further cash compensation to Paladin Shareholders. The maximum amount potentially payable to Paladin Shareholders under this price protection mechanism is US\$233 million.

In addition, if the volume weighted average price per share of Endo Shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period), then the Voting Agreements may be terminated by the shareholders party thereto. Please see "*The Voting Agreements*".

At the Effective Time, (a) each Endo Share will be converted into the right to receive one New Endo Share; and (b) each Endo Share option, restricted share award and other Endo Share-based award that is outstanding will be converted into the right to receive an equity award from New Endo, which award shall be subject to substantially the same terms and conditions as were applicable to the Endo award in respect of which it was issued.

Background of the Transactions

As part of the ongoing evaluation of each of Paladin's and Endo's businesses, members of Paladin's senior management and the Paladin Board of Directors and Endo's senior management and board of directors, respectively, periodically review and assess their respective company's financial performance, capital allocation and operations and industry and regulatory developments as they may each impact their respective company's long-term strategic goals and plans, including the consideration of potential opportunities to enhance shareholder value, such as through acquisitions, divestitures, business combinations and other financial and strategic alternatives.

In May 2012, Paladin undertook a review of strategic alternatives and engaged Credit Suisse as its financial advisor. From September 2012 through the middle of January 2013, a total of 25 parties were contacted, including both strategic and financial potential acquirors. No formal, binding offers to acquire Paladin were received as a result of such process. A small number of non-binding indications of interest were received. The valuation levels in such indications of interest were well below the consideration payable in the proposed transaction and, in the view of Paladin, the indications of interest did not reflect an appropriate valuation for Paladin and either contained or were on terms that were not acceptable.

On August 23, 2013, as part of its ongoing review and assessment of opportunities to enhance shareholder value, the Transactions Committee of the Endo board of directors held a telephonic meeting to discuss potential acquisition transactions in the specialty pharmaceutical industry. In addition to members of the Transactions Committee, members of Endo's senior management and representatives of Deutsche Bank, Endo's financial advisor, also attended the meeting. At the meeting, members of the Transactions Committee discussed potential transactions involving companies in the specialty pharmaceutical industry, including Paladin, and reviewed preliminary financial materials prepared by Deutsche Bank based on publicly available information. At the conclusion of the meeting, the committee authorized Endo's senior management to contact Paladin to discuss potential transactions, including a potential acquisition of Paladin by Endo.

In the days following the Transactions Committee meeting, Rajiv De Silva, President and Chief Executive Officer of Endo, contacted representatives of Credit Suisse to inquire about having discussions with Paladin senior management regarding a potential transaction. After conferring with Paladin, Paladin's advisors responded that if Endo intended to discuss a potential transaction to acquire all of Paladin, then the discussion must include a preliminary non-binding proposal as to the per share purchase price and the form of consideration.

On August 30, 2013, senior management of Endo, including Mr. De Silva, held a telephonic meeting with the Chairman of the Endo board of directors, Roger Kimmel, and the Chairman of the Transactions Committee, Michael Hyatt, to discuss, among other things, the status of communications between Endo and Paladin. Representatives of Skadden, Endo's legal advisor, also participated in the meeting. Mr. De Silva updated Messrs. Kimmel and Hyatt on his discussions with representatives of Paladin. Following an extensive discussion of a potential transaction with Paladin, it was determined that Mr. De Silva would make a preliminary, non-binding oral indication of interest to acquire Paladin at a purchase price of \$72 per share, payable primarily in shares of a newly-formed Irish holding company that would acquire both Endo and Paladin as well as in cash, subject to among other things, completion of a due diligence investigation of Paladin, negotiation of mutually acceptable definitive transaction agreements and the approval of the transaction by the Endo board of directors. In addition, in connection with the transaction, Endo would require certain members of the Goodman family and the voting trust holding certain of the Goodman family's Paladin Shares to enter into Voting Agreements in support of the Transactions. Later that day, Mr. De Silva communicated to representatives of Credit Suisse that he was authorized to discuss such preliminary, non-binding oral indication of interest with Jonathan Ross Goodman, Chairman of the Paladin Board of Directors, at a face to face meeting.

A few days later, representatives of Credit Suisse called Mr. De Silva to provide feedback on Endo's preliminary, non-binding oral indication of interest. Representatives of Credit Suisse stated that the Paladin Board of Directors was not actively seeking a sale transaction involving Paladin, but that Paladin would consider engaging in exploratory discussions with Endo regarding such a potential transaction. Credit Suisse further related that any such transaction must provide certainty of closing for the Paladin Shareholders and certainty of value.

Following this discussion, it was agreed that Messrs. Goodman and De Silva should meet to discuss a potential transaction. In anticipation of this meeting and the sharing of non-public information, Endo and Paladin negotiated mutual confidentiality and standstill agreements, which were executed on September 10, 2013.

On September 11, 2013, Messrs. Goodman and De Silva met in New York City to discuss a potential transaction. At this meeting, each of Mr. Goodman and Mr. De Silva provided the other with an overview of their

respective companies and their strategies, and Mr. De Silva discussed the terms of a potential transaction with Paladin at a purchase price of \$72 per share, payable in shares of a newly-formed Irish holding company, and the benefits that the Paladin Shareholders would enjoy in the combined company following such a transaction. Following this meeting, it was agreed that Paladin would consider Endo's non-binding, indicative proposal and provide additional feedback to Endo.

On September 17, 2013, Mr. Goodman called Mr. De Silva to respond to Endo's non-binding, indicative proposal. Mr. Goodman stated that Paladin would be willing to proceed in discussions regarding a potential transaction at a higher purchase price of \$77 per share. Mr. Goodman also stated that the potential Voucher should remain with the Paladin Shareholders following the transaction. Mr. Goodman reiterated that Paladin viewed certainty of closing and certainty of value, including the need for a portion of the consideration to be paid in cash, as key issues for the Paladin Shareholders.

On September 18, 2013, the Transactions Committee of the Endo board of directors held a telephonic meeting, which was also attended by members of Endo senior management and representatives of Deutsche Bank and Skadden, to discuss Paladin's response. At this meeting, representatives of Deutsche Bank discussed preliminary valuation analyses of Paladin, and senior management of Endo discussed the strategic and financial opportunities presented by an acquisition of Paladin and Endo by a newly-formed Irish holding company, to be owned, following the transaction, by the former shareholders of Endo and Paladin. Following an extensive discussion, including questions from members of the committee, it was determined that Endo should send a written, non-binding proposal letter to Paladin, setting forth Endo's proposed transaction terms, which included a purchase price of \$77 per Paladin Share and sought exclusive negotiations with Paladin and immediate access to Paladin due diligence materials. It was also determined to reiterate that the Endo board of directors would require that certain members of the Goodman family and the voting trust holding certain of the Goodman family's Paladin Shares enter into Voting Agreements in support of the Transactions.

Later that day, Endo delivered a non-binding proposal letter to Paladin. Among other things, the non-binding proposal letter proposed an acquisition of Endo and Paladin by a newly-formed Irish holding company with the Paladin Shares being acquired at a purchase price of \$77 per share, payable primarily in shares of a newly-formed Irish holding company according to a to-be-determined fixed exchange ratio, to be owned, following the transaction, by the former shareholders of Endo and Paladin. The letter also stated that the transaction consideration to be paid to Paladin Shareholders would be 90%-100% in shares of the new Irish holding company, with the remainder, if any, being paid in cash, and that Endo was open to considering transaction structures that would allow the Voucher to remain with the Paladin Shareholders following the transaction.

That same day, Mr. Goodman discussed Endo's non-binding proposal letter with Paladin Board of Directors. The directors discussed the valuation being proposed, both in the context of the valuations described and the outcome of the recent review of strategic alternatives process undertaken by Paladin, the then current share price, the premium that the Endo proposed valuation represented, as well as the future prospects of Paladin. The Paladin Board of Directors authorized management of Paladin to enter into an exclusivity agreement with Endo for a 45-day period during which the parties would pursue both mutual due diligence and the negotiation of definitive agreements.

During the period from September 20, 2013 to September 27, 2013, the parties continued to negotiate the terms of the exclusivity agreement, which was executed by the parties on September 27, 2013.

On September 24, 2013, the Endo board of directors discussed the status of the proposed transaction. The meeting was attended by members of Endo's senior management team as well as by representatives of Deutsche Bank and KPMG. The Endo board of directors discussed, among other things, the strategic rationale for a potential acquisition of Paladin, a preliminary view of valuation, the pro-forma implications for Endo, potential transaction risks and a possible timeline to announcement.

On October 2, 2013, Paladin opened a virtual dataroom containing certain non-public information requested by Endo, and Endo began its due diligence investigation of the information provided.

On October 5, 2013, Messrs. Goodman and De Silva discussed the status of the parties' due diligence investigations in connection with the proposed transaction, and determined that senior management of each company should meet in Montreal in mid-October for a mutual due diligence session. During this call, Mr. Goodman reiterated the importance of the Voucher to the Paladin Shareholders and stated that the Paladin Board of Directors preferred that, following the transaction, the new Irish holding company have a listing on TSX. Mr. De Silva indicated that Endo would be open to exploring the feasibility of such a listing.

On October 10, 2013, senior management of Endo held a telephonic meeting with Messrs. Kimmel and Hyatt to provide an update on the status of negotiations with Paladin. Representatives from Deutsche Bank and Skadden also participated in this meeting. Also on this date, at the direction of Endo's Transactions Committee, Endo senior management contacted Houlihan Lokey to discuss, among other things, retaining Houlihan Lokey as a financial advisor in connection with the transaction. From this date through November 4, 2013, senior management of Endo provided representatives of Houlihan Lokey with information requested in connection with Houlihan Lokey's analyses related to the proposed transaction.

Also on October 10, 2013, the Paladin Board of Directors held a telephonic meeting. This meeting was also attended by representatives of Credit Suisse and Davies and certain members of Paladin senior management, who provided an update to the board on the process and the proposed transaction.

On October 14, 2013, the Audit Committee of the Endo board of directors held a telephonic meeting. Members of Endo senior management and representatives of Deutsche Bank and Skadden also participated in this meeting. At this meeting, members of Endo senior management updated the members of the committee on the status of negotiations with Paladin and answered questions from members of the committee regarding the proposed transaction.

On October 17, 2013, senior management of Endo and Paladin met in Montréal to present an overview of their respective businesses and answer due diligence questions from one another. Following this meeting, Messrs. Goodman and De Silva held a meeting to discuss issues related to the proposed transaction. At this meeting, Mr. Goodman informed Mr. De Silva that members of the Goodman family and the Voting Trustee of the voting trust holding Paladin Shares on behalf of the Goodman family were concerned that the fixed exchange ratio in the proposed transaction would subject Paladin Shareholders to market risk in the event that the price of Endo Shares dropped between execution of definitive transaction documentation and the closing of the proposed transaction. Mr. De Silva suggested a follow-up call on this topic. Later that day, Endo opened a virtual dataroom containing certain non-public information requested by Paladin, and Paladin began its due diligence investigation of the information provided.

On October 19, 2013, representatives of Skadden sent a draft Arrangement Agreement for the proposed transaction to Davies and Paladin. Later that day, representatives of Credit Suisse contacted Mr. De Silva and representatives of Deutsche Bank to discuss the concerns regarding potential market risk of an Endo Share price decline between signing and closing, and the potential means to address these concerns proposed by the Goodman family, including a potential one-way adjustment mechanism to increase the amount of cash payable in the transaction upon a decrease in the Endo Share price and an ability to terminate the Voting Agreements if the Endo Share price dropped below a level to be specified in the Voting Agreements. Mr. De Silva informed representatives of Credit Suisse that he would discuss these concerns with the Endo board of directors, and these matters were discussed at the October 28, 2013 meeting of Endo's Audit and Transactions Committees and with certain other members of Endo's board of directors during Mr. De Silva's regular discussions with directors regarding the proposed transaction.

On October 20, 2013, representatives of Skadden sent a draft Voting Agreement to the Davies attorneys representing the Goodman family and the voting trust holding certain of the Goodman family's Paladin Shares.

On October 22, 2013, representatives of Endo, Paladin, Skadden and Davies held a conference call to discuss certain of Endo's open due diligence questions regarding Paladin.

On October 23, 2013, Davies delivered a written proposal to Endo regarding the separation of Paladin's Impavido product and the related Voucher to the Paladin Shareholders in connection with the transaction. The proposal contemplated that Impavido, the related Voucher and a \$1,000,000 capital contribution would be contributed to a new entity (later named Knight Therapeutics) that would be separated to the Paladin Shareholders in connection with the proposed transaction.

Also on October 23, 2013, representatives of Davies sent a revised draft of the Arrangement Agreement to Endo. Also on that date, Mr. De Silva and representatives of Deutsche Bank and Credit Suisse had a follow up discussion to discuss, among other things, the Paladin Board of Directors' concerns regarding potential market risk of an Endo Share price decline between signing and closing.

On October 24, 2013, the Audit and Transactions Committees of Endo's board of directors held a joint telephonic meeting to discuss the status of the proposed transaction. Also attending this meeting were members of Endo's senior management and representatives of Deutsche Bank, KPMG and Skadden. At this meeting, members of Endo's senior management provided an update on, among other things, Endo's due diligence investigation of Paladin, the open business issues between the parties and the status of Endo's financing discussions. Representatives of Deutsche Bank presented updated valuation materials.

That same day, the Paladin Board of Directors held a telephonic meeting, during which representatives of Davies, along with certain members of Paladin senior management, provided an update to the board on the proposed transaction.

On October 25, 2013, representatives of Endo and Paladin held a due diligence conference call to discuss Endo's open due diligence questions.

On October 28, 2013, the Audit and Transactions Committees of Endo's board of directors held a joint telephonic meeting to discuss the status of the proposed transaction. Also attending this meeting were members of Endo's senior management and representatives of Deutsche Bank, KPMG and Skadden. At this meeting, representatives of Skadden provided an overview of the issues presented by Paladin's revised draft of the Arrangement Agreement, which included, among other things, (i) the size of the termination fee payable by Paladin, (ii) the size of the termination fee payable by Endo, (iii) the treatment of employee options to acquire Paladin Shares, (iv) the inclusion of Impavido, together with the Voucher, in Knight Therapeutics, and other transaction terms; and (v) the extent of Endo's representations and warranties in the Arrangement Agreement. At this meeting, Mr. De Silva also updated members of the committees on Paladin's concerns regarding the potential market risk of an Endo Share price decline between signing and closing, and the members of the committees discussed these concerns with senior management of Endo and representatives of Skadden and Deutsche Bank. Finally, members of the committees and representatives of Skadden and KPMG discussed the potential tax effects of the proposed transaction structure on Endo Shareholders and the potential that an excise tax under the Code could be applied to certain of Endo's officers and all of Endo's directors.

Following extensive discussion, including numerous questions from members of the committees, it was determined to respond to Paladin's revised draft by stating to Paladin that (i) Impavido could be contributed to Knight Therapeutics (and, in any event, the \$1,000,000 capital contribution described above should not be made in connection with any stock exchange listing of Knight Therapeutics), (ii) the termination fees payable by Endo and Paladin should each be equal to approximately 3.6% of Paladin's equity value as calculated based on the transaction and (iii) Endo would not give fully reciprocal representations and warranties in the Arrangement Agreement, but Endo would consider providing additional representations as to litigation reserves, taxes and employee benefits matters. The members of the committees determined that more information was required before the treatment of employee options to acquire Paladin Shares could be resolved. It was also determined that

Endo's senior management should explore resolving Paladin's concerns regarding the potential market risk of an Endo's share price decline between signing and closing by a potential increase to the cash portion of the consideration in the event of such a decline and by agreeing to give the Goodman family the right to terminate the Voting Agreements, but only in the event of a significant drop in the Endo Share price. The members of the committees also determined that key members of Paladin senior management should execute employment letters in connection with the transaction.

Later in the day on October 28, 2013, representatives of Skadden sent a revised draft of the Arrangement Agreement to Davies reflecting, among other things, the response on the open points discussed above.

That same day, representatives of Davies sent a revised draft of the Voting Agreements to Skadden and Endo. Among other things, this revised draft provided that the Goodman family could terminate the Voting Agreements if the volume weighted average trading price of Endo Shares declined by more than 7% during a five business day reference period.

On October 30, 2013, representatives of Davies provided a revised draft of the Arrangement Agreement to Skadden and Endo.

That same day, representatives of Endo, Deutsche Bank and Credit Suisse discussed the issues regarding the Goodman family's concerns about potential Endo Share price declines prior to consummation of the proposed transaction. Following this discussion Endo and representatives of the Goodman family generally agreed, subject to approval by the Endo board of directors, that the cash consideration to be received by Paladin Shareholders would be increased if Endo's volume weighted average share price during an agreed 10 trading day reference period declined by more than 7% relative to a reference price based on the volume weighted average trading price for the five trading days ended November 1, 2013 (which was later determined to be US\$44.4642), with Endo providing additional cash compensation to compensate Paladin Shareholders for Endo Share price declines of more than 7% but less than 20%, Endo providing additional cash compensation to compensate Paladin Shareholders for half of the amount of Endo Share price declines between 20% and 24 % and no additional cash compensation being paid for Endo Share price declines in excess of 24%. The parties also agreed that the Goodman family would be able to terminate the Voting Agreements if the volume weighted average share price of Endo during an agreed upon 10 trading day reference period declined by more than 24% from the reference price described above.

On October 31, 2013, representatives of Davies representing certain members of the Goodman family provided a revised draft of the Voting Agreements reflecting the termination right agreed to by the parties.

On November 1, 2013, Endo formally retained Houlihan Lokey to serve as a financial advisor in connection with the transaction.

That same day, the Endo board of directors held a day-long special meeting in New York City to discuss the status of the proposed transaction. Also attending this meeting were members of Endo's senior management and representatives of Deutsche Bank, Skadden, KPMG and certain other of Endo's advisors. At this meeting, representatives of Skadden discussed with the board of directors their fiduciary duties under applicable law. Next, Mr. De Silva provided an overview of the transaction status and representatives of Endo's senior management provided an update on the status of Endo's due diligence investigation of Paladin. Following discussion of Endo's due diligence investigation, representatives of Deutsche Bank reviewed with the board of directors the presentation previously prepared by Deutsche Bank, including information regarding the valuation of Paladin and Deutsche Bank's financial analysis of the consideration to be received by the Endo Shareholders in the proposed transaction. Next, Mr. De Silva and representatives of Endo's senior management discussed with the board of directors the proposed transaction structure, the risks to Endo of undertaking the transaction and the potential integration of the two companies. Representatives of KPMG and Skadden discussed with the board of directors the potential tax treatment of the proposed transaction for Endo Shareholders and the potential that an

excise tax under the Code could be applied to certain of Endo's officers and all of Endo's directors. Following numerous questions from directors on these topics, representatives of Deutsche Bank were excused and representatives of Houlihan Lokey joined the meeting and reviewed with the board of directors the presentation previously prepared by Houlihan Lokey, including information regarding the valuation of Paladin and Houlihan Lokey's financial analysis of the consideration to be received by the Endo Shareholders in the proposed transaction. Next, representatives of Endo's senior management discussed the public relations and investor communications plan in the event the proposed transaction was executed. Finally, the board of directors and members of Endo's senior management discussed the process towards execution of definitive transaction documentation and announcement of a transaction, if the remaining issues could be resolved.

During the course of the day and in consultation with the Endo board of directors, members of Endo's senior management and representatives of Deutsche Bank, Skadden and Torys engaged in negotiations of open transaction issues. Paladin agreed that the tax opinion condition was acceptable, subject to having further discussions among tax experts to understand the circumstances in which the tax opinion would not be deliverable. The parties also agreed that, subject to resolving the appropriate legal mechanics, Paladin Options would be accelerated in connection with the proposed transaction.

From November 1, 2013 to the morning of November 5, 2013, Endo and Paladin, assisted by representatives of Deutsche Bank, Credit Suisse, Davies, Skadden and Torys negotiated the remaining aspects of the proposed transaction, including, among other things, the details of the Knight Therapeutics separation, the scope of the representations, warranties and covenants in the Arrangement Agreement and the parties' respective confidential disclosure materials.

On November 2, 2013, following the determination of the calculation of the exchange ratio applicable to the Paladin Shares in the proposed transactions, Endo began negotiating with members of Paladin's senior management team the terms of their respective employment letters.

On November 3, 2013, the Paladin Board of Directors held a telephonic meeting to discuss the potential transaction, during which meeting, representatives of Credit Suisse, Ernst & Young LLP and Davies, together with certain members of Paladin's senior management, provided an update to the board on the proposed transaction. Later that same day, Endo senior management began negotiating with Mr. Goodman the terms of Mr. Goodman's consulting agreement with Endo, which was signed on November 5, 2013.

On the evening of November 4, 2013, the Endo board of directors held a special telephonic meeting to discuss the approval of the Arrangement Agreement and the other definitive transaction documentation. Prior to this meeting, members of the Endo board of directors had received an overview of the material provisions of the Arrangement and Voting Agreements, as well as draft board resolutions and presentation materials from each of Deutsche Bank and Houlihan Lokey. Also attending this meeting were representatives of Deutsche Bank, Houlihan Lokey, KPMG, Skadden and certain other advisors of Endo. At this meeting, Mr. De Silva provided an update on the status of the proposed transaction since the meeting of the board of directors on November 1, 2013. Next, representatives of Skadden discussed the resolution of the final open issues in connection with the proposed transaction.

Following this discussion and numerous questions from the board of directors, representatives of Deutsche Bank reviewed with the board of directors the presentation previously prepared by Deutsche Bank, including information regarding the valuation of Paladin and Deutsche Bank's financial analysis of the consideration to be received by the Endo Shareholders in the transaction, and delivered its oral opinion, which was later confirmed by a written opinion dated November 5, 2013, that, as of November 5, 2013 and based upon and subject to the assumptions, limitations, qualifications and conditions set forth in its opinion, the exchange ratio (taking into account the Arrangement) was fair, from a financial point of view, to the holders of the outstanding Endo Shares.

At the request of Endo's board of directors, Houlihan Lokey then reviewed and discussed its financial analyses. Thereafter, at the request of Endo's board of directors, Houlihan Lokey verbally rendered its opinion to

Endo's board of directors (which was subsequently confirmed in writing by delivery of Houlihan Lokey's written opinion addressed to Endo's board of directors dated November 5, 2013) to the effect that, as of that date and based on and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in connection with the preparation of its opinion, and taking into account the Transactions, the exchange ratio was fair, from a financial point of view, to the holders of the outstanding Endo Shares.

Following this presentation, the Endo board of directors discussed in detail the proposed transaction and approved the Arrangement Agreement and its terms and conditions, substantially in the form presented to the board of directors, and the Transactions contemplated by the Arrangement Agreement, including the Merger.

At a meeting of the Paladin Board of Directors during the evening of November 4, 2013, which was also attended by representatives of Credit Suisse, Davies and Ernst & Young LLP, Credit Suisse provided its opinion, orally, on the fairness, from a financial point of view, to Paladin Shareholders (other than the Principal Paladin Shareholders) of the consideration to be received by them under the terms of the transaction and on November 5, 2013, Credit Suisse delivered to Paladin its written fairness opinion confirming the oral fairness opinion delivered on November 4, 2013. At this meeting, the Paladin Board of Directors approved the Arrangement Agreement and its terms and conditions, substantially in the form presented to the Paladin Board of Directors and the Transactions contemplated by the Arrangement Agreement.

On the evening of November 4, 2013, members of the board of directors of New Endo discussed in detail the proposed transaction and approved the Arrangement Agreement and its terms and conditions, substantially in the form presented to the board of directors and the Transactions contemplated by the Arrangement Agreement.

On the morning of November 5, 2013, the parties executed the Arrangement Agreement, the Voting Agreements and the employment letters and publicly announced the Transactions.

On November 21, 2013, the Compensation Committee of the Endo board of directors held a telephonic meeting to discuss if the pending transaction would be taxable to Endo Shareholders and the potential that an excise tax under the Code could be applied to certain of Endo's officers and all of Endo's directors in connection with the proposed transaction. Representatives of Skadden, KPMG and Hay Group, Endo's compensation consultant, also attended this meeting. At this meeting, members of the committee also discussed potential actions that could be taken to mitigate the impact of the excise tax on certain of Endo's officers and all of Endo's directors.

On December 2, 2013, the Compensation Committee of the Endo board of directors held a telephonic meeting, which was also attended by representatives of Skadden, KPMG, Hay Group and A&L Goodbody, Endo's special Irish counsel. At this meeting, the members of the committee continued their earlier discussion of the potential for an excise tax under the Code to be applied to certain of Endo's officers and all of Endo's directors in connection with the proposed transaction. The members of the committee had an extensive discussion of possible alternatives for mitigating the potential excise tax, including discussions related to the granting of equity awards following the transaction. Additionally, representatives of A&L Goodbody discussed certain aspects of Irish tax laws and their impact on Endo benefit plans and Endo's executive officers and directors. On December 9, 2013, the Compensation Committee of the Endo board of directors approved resolutions approving Endo's payment of any potential excise tax under the Code to be applied to certain of Endo's officers and all of Endo's directors in connection with the Transactions.

Recommendations of the Paladin Board of Directors; Paladin's Reasons for the Arrangement

At its meeting on November 4, 2013, the members of the Paladin Board of Directors unanimously determined that the Arrangement is fair, from a financial point of view, to Paladin Shareholders, resolved that the Arrangement Agreement be executed and resolved to recommend that Paladin Shareholders vote in favour of the Arrangement.

The Paladin Board of Directors unanimously recommends that Paladin Shareholders vote “FOR” the Arrangement Resolution at the Meeting and “FOR” the Distributable Reserves Resolution.

In evaluating the Arrangement Agreement and the Arrangement, the Paladin Board of Directors consulted with management, as well as Paladin’s outside legal counsel and its financial advisor, and considered a number of factors, weighing both perceived benefits of the Arrangement as well as potential risks in connection with the Arrangement.

The Paladin Board of Directors considered the following factors that it believes support its determinations and recommendations:

Aggregate Value and Composition of the Consideration

- that the Arrangement Consideration valued each Paladin Share at \$77.00, based on the 5 day volume weighted average share price of Endo Shares and the 5 day average currency exchange rate calculated at close of market on Friday, November 1, 2013, representing a 20% premium to the Paladin closing share price on November 4, 2013 of \$63.91 and a 25% premium to Paladin’s 3 month volume weighted average share price of \$61.67, which the Paladin Board of Directors viewed as an attractive valuation relative to other arrangements and peer comparisons;
- that Paladin Shareholders will receive the Arrangement Consideration for each Paladin Share they own upon Closing;
- that the New Endo equity component of the Arrangement Consideration offers Paladin Shareholders the opportunity to participate in the future earnings and growth of the combined company and the Knight Therapeutics equity component of the Arrangement Consideration offers Paladin Shareholders the opportunity to participate in Knight Therapeutics, a new Canadian public company that intends to become a specialty pharmaceutical company through the acquisition or in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products, and through the acquisition of specialty pharmaceutical businesses in select international markets;
- that the exchange ratio of 1.6331 New Endo Shares for each Paladin Share provides certainty to the Paladin Shareholders as to their pro forma percentage ownership of the combined company;
- that the Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo’s 10 day volume weighted average price during an agreed reference period detailed in the Arrangement Agreement declines by more than 7%. Full cash compensation (on a U.S. dollar basis) will be provided by Endo to Paladin Shareholders for any share price declines of more than 7% but less than 20%. If Endo’s share price declines between 20% and 24% during the agreed reference period, Endo will also provide cash compensation (on a U.S. dollar basis) for one half of the incremental decline to Paladin Shareholders;

Synergies and Strategic Considerations

- the potential for Paladin Shareholders, as future New Endo shareholders, to benefit to the extent of their interest in New Endo from the expected synergies of the Arrangement;
- the perceived benefits of New Endo being organized under the laws of Ireland, including significant global cash management flexibility of the combined company;
- the Paladin Board of Directors’ expectation that the Arrangement would position the combined company to expand its geographic footprint and increase its exposure to attractive end markets;
- the Paladin Board of Directors’ familiarity with and understanding of Paladin’s business, results of operations, financial and market position, and its expectations concerning Paladin’s future prospects;

- information and discussions with Paladin’s management, in consultation with Credit Suisse, regarding Endo’s business, results of operations, financial and market position, and Paladin’s management’s expectations concerning Endo’s future prospects, and historical and current share trading prices and volumes of Endo Shares;
- information and discussions regarding the benefits of size and scale, and expected credit profile, of the combined company and the expected pro forma effect of the proposed Arrangement;

Risks of Status Quo or Pursuing Other Strategic Alternatives

- the current and anticipated future structure and composition of the industry, and the pressures facing industry participants as a result of emerging-market, low-cost competitor/generic products, and the risks to Paladin of functioning on a stand-alone basis in a consolidating, competitive industry, in which size and scale are increasingly significant in responding to challenges;
- the rate of growth of Paladin and its ability to sustain such growth at its recent rate and Paladin’s current size and profile;
- the Paladin Board of Directors’ evaluation of strategic alternatives for maximizing shareholder value over the long term, including senior management’s stand-alone plan and Paladin’s previous discussions with other third parties regarding potential business combinations and strategic arrangements with such parties, including acquisitions of various sizes, and the potential risks, rewards and uncertainties associated with such alternatives, and the Paladin Board of Directors’ belief that the proposed Arrangement with Endo was the most attractive option available to Paladin Shareholders;

Opinion of Financial Advisor

- the opinion of Credit Suisse to the Paladin Board of Directors that, as of November 4, 2013 and based upon and subject to the factors and assumptions set forth therein, the Arrangement Cash Consideration and the New Endo Arrangement Consideration to be paid to the holders of Paladin Shares (other than the Principal Paladin Shareholders) pursuant to the Arrangement Agreement was fair, from a financial point of view, to such holders, together with the financial analyses presented by Credit Suisse to the Paladin Board of Directors in connection with the delivery of the opinion, as further described under “*The Arrangement and the Merger—Opinion of Paladin’s Financial Advisor*” beginning on page 71;

Likelihood of Completion of the Arrangement

- the likelihood that the Arrangement will be consummated, based on, among other things:
 - the closing conditions to the Arrangement, including the fact that the obligations of Endo are not subject to a financing condition;
 - the commitment made by Endo to Paladin to use commercially reasonable efforts to obtain regulatory clearances, including under the Competition Act (Canada), Investment Canada Act, HSR Act and Competition Act (South Africa);
 - the advice of Paladin’s legal counsel concerning the likelihood that regulatory approvals and clearances necessary to consummate the Arrangement would be obtained;

Favourable Terms of the Arrangement Agreement and Expenses Reimbursement Agreement

- the terms and conditions of the Arrangement Agreement and the expenses reimbursement agreement and the course of negotiations of such agreement, including, among other things:
 - the ability of the Paladin Board of Directors, in connection with a “superior proposal”, to change its recommendation to Paladin Shareholders concerning the Arrangement, as further described under “*The Arrangement Agreement—Third Party Acquisition Proposals*” beginning on page 126;

- the ability of the Paladin Board of Directors to terminate the Arrangement Agreement under certain circumstances, including to enter into an agreement providing for a “superior proposal”, subject to certain conditions (including certain rights of Endo giving it the opportunity to match the “superior proposal”), as further described under “*The Arrangement Agreement—Third Party Acquisition Proposals*”;
- the Paladin Board of Directors’ belief that the termination fee to be paid to Endo upon termination of the Arrangement Agreement under specified circumstances, which is \$60,000,000 or approximately 3.6% of the equity value of Paladin, is not likely to significantly deter another party from making a superior acquisition proposal;

The Paladin Board of Directors also considered a variety of risks and other countervailing factors, including:

Taxable Arrangement

- that the Arrangement will be a fully taxable arrangement for resident Paladin Shareholders for Canadian federal and provincial income tax purposes;

Limitations on Paladin’s Business Pending Completion of the Arrangement

- the restrictions on the conduct of Paladin’s business during the pendency of the Arrangement, which may delay or prevent Paladin from undertaking business opportunities that may arise or may negatively affect Paladin’s ability to attract and retain key personnel;
- the terms of the Arrangement Agreement that restrict Paladin’s ability to solicit alternative business combination arrangements and to provide confidential due diligence information to, or engage in discussions with, a third party interested in pursuing an alternative business combination arrangement, as further discussed under “*The Arrangement Agreement—Covenants*” beginning on page 122;

Possible Disruption of Paladin’s Business

- the potential for diversion of management and employee attrition and the possible effects of the announcement and pendency of the pending Arrangement on customers and business relationships;

Risks of Delays or Non-Completion

- the amount of time it could take to complete the Arrangement, including the fact that completion of the Arrangement depends on factors outside of Paladin’s control, and that there can be no assurance that the conditions will be satisfied even if the Arrangement is approved by Paladin Shareholders;
- the possibility of non-consummation of the Arrangement and the potential consequences of non-consummation, including the potential negative impacts on Paladin, its business and the trading price of its shares;

Uncertainties Following Completion

- the difficulty and costs inherent in integrating diverse, global businesses and the risk that the benefits expected to be obtained as a result of the Arrangement might not be fully or timely realized; and

Other Risks

- the risks of the type and nature described under the sections entitled “*Risk Factors*” and “*Cautionary Note Regarding Forward-Looking Statements*”.

In considering the recommendation of the Paladin Board of Directors of Paladin, you should be aware that all of the directors and officers of Paladin will have interests in the proposed Arrangement in addition to interests they might have as shareholders. See *“The Arrangement and the Merger—Interests of Certain Persons in the Arrangement”* beginning on page 74.

The Paladin Board of Directors concluded that the uncertainties, risks and potentially negative factors relevant to the Arrangement were outweighed by the potential benefits that it expected Paladin and the Paladin Shareholders would achieve as a result of the Arrangement.

This discussion of the information and factors considered by the Paladin Board of Directors includes the principal positive and negative factors considered by the Paladin Board of Directors, but is not intended to be exhaustive and may not include all of the factors considered by the Paladin Board of Directors. In view of the wide variety of factors considered in connection with its evaluation of the Arrangement, and the complexity of these matters, the Paladin Board of Directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the Arrangement and to make its recommendations to the Paladin Shareholders. Rather, the Paladin Board of Directors viewed its decisions as being based on the totality of the information presented to it and the factors it considered. In addition, individual members of the Paladin Board of Directors may have given differing weights to different factors.

Endo and Paladin Unaudited Prospective Financial Information

Neither Paladin nor Endo, as a matter of course, makes public long-term projections as to future revenues, earnings or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, in connection with the evaluation of the Transactions, in October 2013, each of Paladin and Endo made available to the other party and its financial advisors certain unaudited prospective financial information on a stand-alone, pre-transaction basis.

Furthermore, Endo’s financial advisors reviewed certain internal financial and operating information with respect to the business, operations and prospects of Paladin and Endo, including, with respect to Paladin, Endo’s Paladin Projections and, with respect to Endo, Endo’s Endo Projections. Endo’s management made certain adjustments to the Paladin management projected financial information for the years 2014 through 2018. The adjustments reduced Paladin’s revenue estimates and were primarily based on an expectation by Endo management that prescription volume will be lower for certain on-market and pipeline products. In aggregate, these differences in assumptions reduce Paladin’s projected revenues over a five-year forecast period by approximately 15%. Endo management did not consult Paladin management in making such adjustments. Endo’s Endo Projections and Endo’s Paladin Projections were also made available to the Endo board of directors in connection with the presentation of the financial analyses of Endo’s financial advisors. Endo’s Endo Projections were also made available to Credit Suisse. The inclusion of information about Endo’s Endo Projections and Endo’s Paladin Projections in this Circular should not be regarded as an indication that any of Paladin, Endo or any other recipient of this information considered, or now considers, Endo’s Endo Projections or Endo’s Paladin Projections to be predictive of actual future results. The information about Endo’s Endo Projections and Endo’s Paladin Projections included in this Circular is presented solely to give Endo Shareholders access to the information that was made available to Endo’s financial advisors and/or the Endo board of directors, as applicable.

Endo’s Endo Projections and Endo’s Paladin Projections are each subjective in many respects and thus subject to interpretation. While presented with numeric specificity, and considered reasonable by management at the time they were prepared, Endo’s Endo Projections and Endo’s Paladin Projections reflect numerous estimates and assumptions with respect to industry performance and competition, general business, economic, market and financial conditions and matters specific to Paladin’s and Endo’s businesses, including, but not limited to, the launch of products currently in Endo’s and Paladin’s respective pipelines, the commercial performance of certain

products, closing of Endo's previously announced acquisition of Boca Pharmacal, and cost savings unrelated to the Transactions which may ultimately prove to be incorrect; and the factors listed in this Circular under the section entitled "*Risk Factors*", all of which are difficult to predict and many of which are beyond Paladin's or Endo's control. Furthermore, other than with respect to certain adjustments made by Endo management, Endo's Paladin Projections were not internally prepared or adopted by Endo management. The information contained in Endo's Paladin Projections was prepared at the time for purposes unrelated to the management of Paladin's or Endo's business and was based on assumptions that may no longer be accurate. Many of the assumptions reflected in Endo's Endo Projections and Endo's Paladin Projections are subject to change and none of Endo's Endo Projections or Endo's Paladin Projections reflect revised prospects for Endo's or Paladin's business, changes in general business or economic conditions or any other transaction or event that has occurred or that may occur and that was not anticipated at the time such financial information was prepared. Neither Endo nor Paladin has updated, nor does either of them intend to update or otherwise revise, Endo's Endo Projections or Endo's Paladin Projections (excluding, in the case of Endo, possible ordinary course updates of Endo's fiscal 2013-2014 guidance), except as required by law. There can be no assurance that the results reflected in any of Endo's Endo Projections or Endo's Paladin Projections will be realized or that actual results will not materially vary from Endo's Endo Projections or Endo's Paladin Projections, respectively. In addition, since Endo's Endo Projections and Endo's Paladin Projections cover multiple years, such information by its nature becomes less predictive with each successive year. Therefore, the inclusion of Endo's Endo Projections and Endo's Paladin Projections in this Circular should not be relied on as predictive of actual future events nor construed as financial guidance.

Paladin Shareholders are urged to review the Paladin Annual Information Form, the Paladin Annual Financial Statements and the Paladin Condensed Interim Consolidated Financial Statements incorporated by reference herein and Endo's most recent SEC filings for a description of risk factors with respect to Paladin's and Endo's businesses. You should read the section entitled "*Cautionary Note Regarding Forward-Looking Statements*" beginning on page 13 of this Circular for additional information regarding the risks inherent in forward-looking information such as the financial projections and "*Additional Information*" beginning on page 216 of this Circular.

Endo's Endo Projections and Endo's Paladin Projections were not prepared with a view toward public disclosure or for complying with the published guidelines of the SEC or any Canadian securities regulators regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither Endo's independent registered public accounting firm, nor Paladin's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to Endo's Endo Projections or Endo's Paladin Projections, nor have they expressed any opinion or any other form of assurance on Endo's Endo Projections or Endo's Paladin Projections or the achievability of the results reflected in Endo's Endo Projections or Endo's Paladin Projections, and they assume no responsibility for Endo's Endo Projections and Endo's Paladin Projections. The Deloitte & Touche LLP reports included in this Circular relate to Endo's historical financial information, and the Ernst & Young LLP reports incorporated by reference in this Circular relate to Paladin's historical financial information. They do not extend to the prospective financial information and should not be read to do so. Certain of the financial projections set forth herein, including "Non-GAAP net income" and "Free cash flow", may be considered Non-GAAP Financial Measures. Non-GAAP Financial Measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with U.S. GAAP, and Non-GAAP Financial Measures as used by Endo and Paladin may not be comparable to similarly titled amounts used by other companies. Quantitative reconciliations of the prospective Non-GAAP Financial Measures included herein to the most directly comparable U.S. GAAP financial measures have not been provided. Not all of the information necessary for quantitative reconciliations is available to Endo and Paladin at this time without unreasonable efforts. This is due primarily to variability and difficulty in making accurate detailed forecasts and projections. Accordingly, we do not believe that reconciling information for such projected figures would be meaningful.

For the reasons described above, readers of this Circular are cautioned not to unduly rely on Endo's Endo Projections or Endo's Paladin Projections. Neither Paladin nor Endo has made any representation to Endo or Paladin, as applicable, or any other person in the Arrangement Agreement or otherwise concerning any of Endo's Endo Projections or Endo's Paladin Projections.

Endo's Endo Projections and Endo's Paladin Projections were prepared based on each of Paladin and Endo, respectively, as a stand-alone company. Such forecasts do not take into account the Transactions, including the impact of negotiating or executing the Transactions, the expenses that may be incurred in connection with consummating the Transactions, the potential synergies that may be achieved by the combined company as a result of the Transactions, the effect of any business or strategic decision or action that has been or will be taken as a result of the Arrangement Agreement having been executed, or the effect of any business or strategic decisions or actions which would likely have been taken if the Arrangement Agreement had not been executed but which were instead altered, accelerated, postponed or not taken in anticipation of the Transactions.

The following tables present a summary of Endo's Endo Projections and Endo's Paladin Projections. These financial forecasts were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of Paladin or Endo. Important factors that may affect actual results and cause these financial forecasts not to be achieved include, but are not limited to, risks and uncertainties relating to Paladin's and Endo's businesses (including the ability to achieve strategic goals, objectives and targets over the applicable periods), industry performance, the regulatory environment, general business and economic conditions, future acquisition and disposition activity and other factors described or referenced under "*Cautionary Note Regarding Forward-Looking Statements*" beginning on page 13 of this Circular. In addition, the forecasts also reflect assumptions that are subject to change and do not reflect revised prospects for Paladin's or Endo's businesses, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the financial forecasts were prepared. Accordingly, there can be no assurance that these financial forecasts will be realized or that Paladin's or Endo's future financial results will not materially vary from these financial forecasts. No one has made or makes any representation to any shareholder or anyone else regarding the information included in the financial forecasts set forth below. Readers of this Circular are cautioned not to rely on the forecasted financial information. Some or all of the assumptions which have been made regarding, among other things, the timing of certain occurrences or impacts, may have changed since the date such forecasts were made. Endo has not updated and does not intend to update, or otherwise revise the financial forecasts to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions on which such forecasts were based are shown to be in error. Endo's projections are based on Endo management's assumptions at the time. While management of Endo believed such assumptions to be reasonable at the time, there can be no assurance that matters would develop as assumed and actual results may differ substantially. Management does not have any obligation to update any such assumptions. Accordingly, no undue reliance should be placed on any such assumptions or forecasts.

Endo's Endo Projections
(in millions of USD)
Year Ending December 31,

	2014E	2015E	2016E
	\$	\$	\$
Total revenues	2,475	2,468	2,618
U.S. GAAP net income	251	279	343
Adjusted net income ⁽¹⁾	483	462	511
Free cash flow ⁽²⁾	348	466	585

Notes:

- (1) Non-GAAP Financial Measure. For this purpose, Non-GAAP net income represents U.S. GAAP net income adjusted for certain projected upfront and milestone payments; amortization of intangible assets related to

marketed products and customer relationships; inventory step-up recorded as part of the acquisitions; non-cash interest expense; certain litigation related expenses; certain other items that we believe do not reflect Endo's core operating performance; the cash tax savings resulting from the recent acquisitions; and the tax effect of the pre-tax adjustments above at applicable tax rates.

- (2) Non-GAAP Financial Measure. For this purpose, free cash flow represents Non-GAAP net income plus certain amounts related to depreciation expense, amortization expense, interest expense, income tax expense and certain other items, less cash taxes, capital expenditures, certain research and development milestones and litigation and restructuring charges and less the amount of any increase or plus the amount of any decrease in net working capital.

Endo's Paladin Projections
(in millions of USD)
Year Ending December 31,

	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	271	318	356	385	414	440	465	488	515	545
Net income	56	70	80	92	101	105	108	111	115	118
Adjusted net income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Opinion of Paladin's Financial Advisor

Paladin entered into an engagement letter dated May 17, 2012, subsequently amended on November 4, 2013, with Credit Suisse, pursuant to which, among other things, Credit Suisse agreed to provide the Paladin Board of Directors with its opinion as to the fairness of the Arrangement Cash Consideration and the New Endo Arrangement Consideration under the Arrangement, from a financial point of view, to the Paladin Shareholders other than the Principal Paladin Shareholders.

At the meeting of the Paladin Board of Directors on November 4, 2013, Credit Suisse made a financial presentation to the Paladin Board of Directors and delivered its oral opinion, subsequently confirmed by delivery of the fairness opinion by Credit Suisse, to the effect that, based on and subject to various assumptions and limitations described in its written fairness opinion, the Arrangement Cash Consideration and the New Endo Arrangement Consideration to be received by the Paladin Shareholders pursuant to the Arrangement was fair, from a financial point of view, to such holders, other than the Principal Paladin Shareholders.

The full text of Credit Suisse's fairness opinion, which sets forth, among other things, assumptions made, information reviewed, matters considered and limitations on the scope of the review undertaken by Credit Suisse in rendering its opinion, is attached as Appendix "E" to this Circular. Paladin Shareholders are urged to read Credit Suisse's fairness opinion in its entirety. The summary of Credit Suisse's fairness opinion set forth in this Circular is qualified in its entirety by reference to the full text of Credit Suisse's fairness opinion.

In connection with rendering the fairness opinion, Credit Suisse, among other things:

- reviewed the Arrangement Agreement, the Plan of Arrangement, the Voting Agreements and certain related agreements;
- reviewed certain publicly available business and financial information relating to Paladin and Endo;
- reviewed certain other information relating to Paladin and Endo, including financial forecasts provided to or discussed with Credit Suisse by Paladin (including estimates of the amounts and availability of Paladin's net operating losses, and the financial forecasts relating to Serelaxin, Paladin's pipeline product for the treatment of acute heart failure, and the Latin American operations of Paladin provided to Credit Suisse by Paladin, as adjusted with Paladin's consent after discussions with the management of Paladin);

- met with the management of Paladin to discuss the business and prospects of Paladin and Endo;
- reviewed certain estimates provided to Credit Suisse by the management of Endo with respect to the anticipated synergies, including tax synergies, to be achieved by New Endo and its affiliates as a result of the Arrangement;
- considered certain financial and stock market data of Paladin and Endo, and compared that data with similar data for other publicly held companies in businesses Credit Suisse deemed similar to those of Paladin and Endo;
- considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced; and
- considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which Credit Suisse deemed relevant.

In arriving at the fairness opinion, Credit Suisse did not independently verify any of the foregoing information and assumed and relied upon such information being complete and accurate in all material respects. With respect to the financial forecasts for Paladin and Endo that Credit Suisse used in its analyses, Credit Suisse was advised by the management of Paladin, and assumed, that such forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Paladin as to the future financial performance of Paladin and Endo. With respect to (a) the estimates provided to Credit Suisse by the management of Endo with respect to the anticipated tax synergies to be achieved by New Endo and its affiliates as a result of the Arrangement and (b) the amount and availability of the net operating losses of Paladin and Endo after the consummation of the Arrangement, Credit Suisse was advised by the managements of Paladin and Endo, as applicable, and assumed, that such estimates were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Paladin and Endo, as applicable, and will be realized in the amounts and the times indicated thereby. With respect to outstanding litigation matters involving Endo and for which significant damages are alleged in the aggregate, Credit Suisse was instructed by Paladin to rely solely upon the information provided by the management of Paladin relating to, among other matters, the expected costs of litigation and settlements. With respect to the shares of the common stock of Litha owned by Paladin, Credit Suisse assumed, with Paladin's consent, that the value of such shares are equal to the publicly traded price of such shares, as of the date of the fairness opinion. Credit Suisse also assumed, with Paladin's consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Arrangement, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Paladin, Endo or the contemplated benefits of the Arrangement and that the Arrangement will be consummated in accordance with the terms of the Arrangement Agreement without waiver, modification or amendment of any material term, condition or agreement thereof. In addition, Credit Suisse was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Paladin or Endo, nor was Credit Suisse furnished with any such evaluations or appraisals.

Credit Suisse's fairness opinion addresses only the fairness, from a financial point of view, to the Paladin Shareholders, other than the Principal Paladin Shareholders, of the Arrangement Cash Consideration and the New Endo Arrangement Consideration and does not address any other aspect or implication of the Arrangement or any other agreement, arrangement or understanding entered into in connection with the Arrangement or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, (a) the Knight Shares or (b) any compensation to any officers, directors or employees of any party to the Arrangement, or class of such persons, relative to the Arrangement Cash Consideration and the New Endo Arrangement Consideration or otherwise. Credit Suisse did not express any opinion as to any tax or other consequences that might result from the Arrangement, nor does Credit Suisse's fairness opinion address any legal, tax, regulatory or accounting matters, as to which Credit Suisse understood that Paladin obtained such advice as it deemed necessary from qualified professionals.

Credit Suisse's fairness opinion is necessarily based upon information made available to Credit Suisse as of the date of the fairness opinion and financial, economic, market and other conditions as they exist and can be

evaluated on the date of the fairness opinion. Credit Suisse did not express any opinion as to what the value New Endo Shares or Knight Shares actually will be when issued to the Paladin Shareholders pursuant to the Arrangement or the prices at which New Endo Shares or Knight Shares will trade at any time. Credit Suisse's fairness opinion does not address the relative merits of the Arrangement as compared to alternative transactions or strategies that might be available to Paladin, nor does it address the underlying business decision of Paladin to proceed with the Arrangement. Credit Suisse was previously requested to solicit third party indications of interest in acquiring all or substantially all of Paladin in May 2012. In connection with the Arrangement, however, Credit Suisse was not requested to, and did not, solicit third party indications of interest in acquiring all or any part of Paladin. Credit Suisse's fairness opinion was for the information of the Paladin Board of Directors in connection with its consideration of the Arrangement and does not constitute advice or a recommendation to any Paladin Shareholder as to how such shareholder should vote or act on any matter relating to the Arrangement.

Credit Suisse's fairness opinion was given as of the date of the fairness opinion and Credit Suisse has disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting the fairness opinion that may come or be brought to its attention after the date of the fairness opinion. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the fairness opinion after the date of the fairness opinion, Credit Suisse has reserved the right to change, modify or withdraw the fairness opinion. The issuance of the fairness opinion was approved by Credit Suisse's authorized internal committee.

The type and amount of the Arrangement Cash Consideration and the New Endo Arrangement Consideration payable in the Arrangement was determined through arms-length negotiations between Paladin and Endo and were approved by the Paladin Board of Directors. Credit Suisse provided advice to Paladin during such negotiations; however, Credit Suisse did not recommend any specific consideration or advise that any specific consideration constituted the only appropriate consideration in connection with the proposed Arrangement. The opinion of Credit Suisse was among many factors considered by the Paladin Board of Directors in its evaluation of the Arrangement and should not be viewed as determinative of the views of the Paladin Board of Directors or Paladin management with respect to the Arrangement or the Arrangement Cash Consideration and the New Endo Arrangement Consideration.

Credit Suisse has acted as financial advisor to Paladin in connection with the Arrangement and will receive a fee of \$20 million for its services, payment of which is contingent upon the consummation of the Arrangement. Credit Suisse also became entitled to receive a fee of \$2 million upon the rendering of the fairness opinion, which fee may be credited against the total fees payable upon consummation of the Arrangement. In addition, Paladin has agreed to indemnify Credit Suisse and certain related parties for certain liabilities and other items arising out of or related to its engagement of Credit Suisse. Credit Suisse and its affiliates have in the past provided investment banking and other financial services to Paladin and its affiliates, including in connection with the solicitation of third party indications of interest in acquiring all or substantially all of Paladin in May 2012. Credit Suisse and its affiliates have also in the past provided and are currently providing investment banking and other financial services to Endo and its affiliates, including in connection with Credit Suisse's participation as a lender in certain of Endo's term loan and revolving credit facilities, and other financing and refinancing transactions.

Credit Suisse and its affiliates may have provided other financial advice and services, and may in the future provide financial advice and services, to Paladin, Endo, New Endo, Knight Therapeutics and their respective affiliates for which Credit Suisse and its affiliates may have received, and would expect to receive, compensation. Credit Suisse is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, Credit Suisse and its affiliates may acquire, hold or sell, for its own and its affiliates' accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of Paladin, Endo, New Endo, Knight Therapeutics and any other company that may be involved in the Arrangement, as well as provide investment banking and other financial services to such companies.

Interests of Certain Persons in the Arrangement

In considering the recommendation of the Paladin Board of Directors, Paladin Shareholders should be aware that all of the executive officers and directors of Paladin are parties to certain agreements or participants in certain benefit plans that are being dealt with in the context of the Arrangement. The Paladin Board of Directors was aware of these matters and considered them when it adopted the Arrangement Agreement and approved the Arrangement.

Jonathan Ross Goodman, Chairman of the Paladin Board of Directors, and the other Principal Paladin Shareholders hold approximately 34% of the Paladin Shares which are controlled by the Voting Trustee. The Principal Paladin Shareholders are either members of, or are owned and controlled by members of, the Goodman family. Each of the Principal Paladin Shareholders has entered into a Voting Agreement in respect of the Arrangement. See “*The Voting Agreements*” beginning on page 135. It is expected that, immediately after the Closing, all of the Principal Paladin Shareholders (or each of their affiliates that are Qualifying Holdco Shareholders), other than the Principal Knight Shareholders, will sell and transfer the Knight Shares they receive as of the Effective Time as the Knight Therapeutics Arrangement Consideration to the Principal Knight Shareholders (or any of their affiliates) for a per share amount based on the Knight Therapeutics Valuation Report. As such, the Principal Knight Shareholders (and/or their affiliates) are currently expected to own directly or indirectly in aggregate approximately 34% of the outstanding Knight Shares after giving effect to the Arrangement and the completion of the sale and transfer of Knight Shares to the Principal Knight Shareholders (or any of their affiliates). Please see “*The Arrangement and the Merger—Security Ownership of Certain Beneficial Owners and Management*” beginning on page 81 and Appendix “F” of this Circular.

In addition, each of the officers and directors and certain employees of Paladin are participants in the Paladin Stock Option Plan, the Paladin ESPP and, in the case of each of the officers and directors of Paladin, a related indemnification agreement. See “—*Paladin Arrangement-Related Compensation*” and “—*Indemnification*” below, and “*The Arrangement and the Merger—Applicable Canadian Securities Laws Matters—Application of MI 61-101*” beginning on page 86. In addition, certain executive officers of Paladin are parties to change of control agreements, which are described in the Paladin Annual Meeting Circular which is incorporated by reference in this Circular, and to certain new employment arrangements with Paladin which are described below in “—*Description of Key Agreements*”, including the consulting agreement entered into between Jonathan Ross Goodman and Endo. See “*Documents Incorporated by Reference*” beginning on page 14 and “—*Description of Key Agreements*” on page 75.

Paladin Arrangement-Related Compensation

Certain current key employees of Paladin have entered into employment letters with Paladin, as described below under “*Description of Key Agreements*”, relating to their employment following the Transactions.

Additionally, as described in “*The Arrangement Agreement—Treatment of Outstanding Paladin Equity Awards*”, the vesting and exercisability of the Paladin Options held by the key employees will be accelerated at the Effective Time, and all Share Purchase Rights held by key employees will be settled for a cash amount. The following table summarizes the value of such vesting acceleration and purchase right cash-out for certain keys employees of Paladin:

<u>Name</u>	<u>Equity⁽¹⁾</u>	<u>Total⁽²⁾</u>
Jonathan Ross Goodman	\$4,600,000	\$4,600,889
Mark A. Beaudet	\$9,357,750	\$9,393,564
Samira Sakhia	\$6,311,000	\$6,341,226
Mark Nawacki	\$6,311,000	\$6,321,287
François Desrosiers	\$2,565,545	\$2,587,262
Patrice Larose	\$3,786,600	\$3,789,013

Notes:

- (1) Represents the value of the accelerated vesting of unvested options held by each individual under the Paladin Stock Option Plan. Amounts in respect of unvested Paladin Options included in this column are all

“single-trigger” in nature, namely, eligibility to receive the payment is conditioned solely on the occurrence of a change in control. The value of such Paladin Options under the Paladin Stock Option Plan will be calculated, in respect of each Paladin Option, as the aggregate of the value of one Knight Share plus an amount of New Endo Shares equal to an exchange rate of 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount Per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date. If the In-the-Money Amount per Paladin Share is equal to or less than zero, then the value of the Paladin Options will be nil. For purposes of the table above, the values are based on a closing price of \$127.00 per Paladin Share TSX on January 10, 2014. The actual value on the vesting date of the Paladin Options subject to accelerated vesting will depend on a number of factors, including the value of Knight Shares on that date, the value of Endo Shares prior to the date of the special meeting of Endo Shareholders and the value of Paladin Shares on the trading day immediately preceding the Effective Date. The cash value in respect of the Share Purchase Rights is calculated as outlined in the section “*The Arrangement Agreement—Treatment of Outstanding Paladin Equity Awards*”.

- (2) As described above, the amounts set forth under the column captioned “Total” consist of the value of the accelerated vesting of unvested Paladin Options held by each individual, determined as described in footnote (1) above, and the amount of cash that each individual will receive in respect of the Share Purchase Rights under the Paladin ESPP. For the purposes of the table above, the values are based on a closing price of \$127.00 per Paladin Share on TSX on January 10, 2014.

Description of Key Agreements

Jonathan Ross Goodman Consulting Agreement. In connection with the Transactions, Endo and Mr. Goodman have entered into a consulting agreement that will become effective on the Closing Date. Mr. Goodman’s employment with Paladin will cease upon the Closing Date, and for one year thereafter, Mr. Goodman will serve as an advisor to the New Endo board of directors. For his advisory services, Mr. Goodman will receive a cash payment of US\$25,000 each calendar quarter. In addition, on the first trading day following the Closing Date, New Endo will grant restricted stock units to Mr. Goodman equal in value to US\$150,000, which will be subject to the terms and conditions in the applicable equity plan and award agreement.

Mark A. Beaudet Employment Letter. In connection with the Transactions, Paladin and Mr. Beaudet have entered into an employment letter that will become effective on the Closing Date. Following the Closing Date, Mr. Beaudet will continue his employment with Paladin as President. Mr. Beaudet’s base salary will be \$357,500 per year. Mr. Beaudet will also be entitled to receive a cash bonus of \$200,000 subject to his continued employment for a period of six months following the Closing Date and provided that applicable integration objectives are satisfied. Mr. Beaudet would receive the cash bonus amount prior to the expiring of the said six month period if his employment is terminated by Paladin without serious reason (as such term is used in the Civil Code of Québec) or he terminates his employment for “Good Reason” as such term is defined in a “change in control” letter from Paladin to Mr. Beaudet dated March 4, 2013. On the first trading day following the Closing Date, New Endo will grant 50,000 stock options to Mr. Beaudet, which will be subject to the terms and conditions in the applicable equity plan and award agreement. Mr. Beaudet is eligible to receive the severance and benefits as set forth in his current change in control letter if (i) prior to twenty-four months following the Closing Date, he is terminated by Paladin without serious reason or he terminates his employment for Good Reason or (ii) between six and twenty-four months following the Closing Date Mr. Beaudet resigns (other than a resignation in connection with events constituting serious reason), provided that, in either case, he executes a release at the time of his termination of employment.

Samira Sakhia Employment Letter. In connection with the Transactions, Paladin and Ms. Sakhia have entered into an employment letter that will become effective on the Closing Date. Following the Closing Date, Ms. Sakhia will continue her employment with Paladin as Chief Financial Officer. Ms. Sakhia’s base salary will be \$311,709 per year. Ms. Sakhia will also be entitled to receive a cash bonus of \$200,000 subject to her

continued employment for a period of six months following the Closing Date and provided that applicable integration objectives are satisfied. Ms. Sakhia would receive the cash bonus amount prior to the expiring of the said six month period if her employment is terminated by Paladin without serious reason (as such term is used in the Civil Code of Québec) or she terminates her employment for “Good Reason” as such term is defined in a “change in control” letter from Paladin to Ms. Sakhia dated March 4, 2013. On the first trading day following the Closing Date, New Endo will grant 25,000 stock options to Ms. Sakhia, which will be subject to the terms and conditions in the applicable equity plan and award agreement. Ms. Sakhia is eligible to receive the severance and benefits as set forth in her current change in control letter if (i) prior to twenty-four months following the Closing Date, she is terminated by Paladin without serious reason or she terminates her employment for Good Reason or (ii) between six and twenty-four months following the Closing Date, Ms. Sakhia resigns (other than a resignation in connection with events constituting serious reason), provided that, in either case, she executes a release at the time of her termination of employment.

Mark Nawacki Employment Letter. In connection with the Transactions, Paladin and Mr. Nawacki have entered into an employment letter that will become effective on the Closing Date. Following the Closing Date, Mr. Nawacki will continue his employment with Paladin as Executive Vice President, Business & Corporate Development. Mr. Nawacki’s base salary will be \$311,709 per year. Mr. Nawacki will also be entitled to receive a cash bonus of \$200,000 subject to his continued employment for a period of six months following the Closing Date and provided that applicable integration objectives are satisfied. Mr. Nawacki would receive the cash bonus amount prior to the expiring of the said six month period if his employment is terminated by Paladin without serious reason (as such term is used in the Civil Code of Québec) or he terminates his employment for “Good Reason” as such term is defined in a “change in control” letter from Paladin to Mr. Nawacki dated March 4, 2013. On the first trading day following the Closing Date, New Endo will grant 25,000 stock options to Mr. Nawacki, which will be subject to the terms and conditions in the applicable equity plan and award agreement. Mr. Nawacki is eligible to receive the severance and benefits as set forth in his current change in control letter if (i) prior to twenty-four months following the Closing Date, he is terminated by Paladin without serious reason or he terminates his employment for Good Reason or (ii) between six and twenty-four months following the Closing Date, Mr. Nawacki resigns (other than a resignation in connection with events constituting serious reason), provided that, in either case, he executes a release at the time of his termination of employment.

François Desrosiers Employment Letter. In connection with the Transactions, Paladin and Mr. Desrosiers have entered into an employment letter that will become effective on the Closing Date. Following the Closing Date, Mr. Desrosiers will continue his employment with Paladin as Vice President, International Operations, IT & Market Data. Mr. Desrosiers’s base salary will be \$221,143 per year. Mr. Desrosiers will also be entitled to receive a cash bonus of \$100,000 subject to his continued employment for a period of six months following the Closing Date and provided that applicable integration objectives are satisfied. Mr. Desrosiers would receive the cash bonus amount prior to the expiring of the said six month period if his employment is terminated by Paladin without serious reason (as such term is used in the Civil Code of Québec) or he terminates his employment for “Good Reason” as such term is defined in a “change in control” letter from Paladin to Mr. Desrosiers dated April 1, 2013. On the first trading day following the Closing Date, New Endo will grant 25,000 stock options to Mr. Desrosiers, which will be subject to the terms and conditions in the applicable equity plan and award agreement. Mr. Desrosiers is eligible to receive the severance and benefits as set forth in his current change in control letter if (i) prior to twenty-four months following the Closing Date, he is terminated by Paladin without serious reason or he terminates his employment for Good Reason or (ii) between six and twenty-four months following the Closing Date, Mr. Desrosiers resigns (other than a resignation in connection with events constituting serious reason), provided that, in either case, he executes a release at the time of his termination of employment.

Patrice Larose Employment Letter. In connection with the Transactions, Paladin and Dr. Larose have entered into an employment letter that will become effective on the Closing Date. Following the Closing Date, Dr. Larose will continue his employment with Paladin as Vice President of Scientific Affairs. Dr. Larose’s base salary will be \$210,125 per year. Dr. Larose will also be entitled to receive a cash bonus of \$100,000 subject to

his continued employment for a period of six months following the Closing Date and provided that applicable integration objectives are satisfied. Dr. Larose would receive the cash bonus amount prior to the expiring of the said six month period if his employment is terminated by Paladin without serious reason (as such term is used in the Civil Code of Québec) or he terminates his employment for “Good Reason” as such term is defined in a “change in control” letter from Paladin to Dr. Larose dated March 4, 2013. On the first trading day following the Closing Date, New Endo will grant 20,000 stock options to Dr. Larose, which will be subject to the terms and conditions in the applicable equity plan and award agreement. Dr. Larose is eligible to receive the severance and benefits as set forth in his current change in control letter if (i) prior to twenty-four months following the Closing Date, he is terminated by Paladin without serious reason or he terminates his employment for Good Reason or (ii) between six and twenty-four months following the Closing Date Mr. Larose resigns (other than a resignation in connection with events constituting serious reason), provided that, in either case, he executes a release at the time of his termination of employment.

Indemnification

Endo had obtained directors and officers indemnification insurance coverage. This insurance covers directors and officers individually where exposures exist, other than those for which Endo is able to provide indemnification.

Paladin’s by-laws include standard indemnification provisions for its directors and officers. In addition, Paladin has entered into indemnification agreements with all of its directors and officers and certain outside directors of Paladin’s subsidiaries in respect of liability reasonably incurred by such persons in connection with any proceeding that relates to or arises from such persons service as officer or director of Paladin or as officer or director of any other entity at the request of Paladin. Paladin’s indemnification obligations under such agreements are conditional upon such persons (i) having acted honestly and in good faith with a view to the best interests of Paladin, or as the case may be, to the best interests of the other entity for which such persons acted as officer or director at the request of Paladin; and (ii) in the case of a criminal or administrative action that is enforced by a monetary proceeding, such persons had reasonable ground for believing that their conduct was lawful.

All indemnification or exculpation rights existing in favour of present or former directors and officers of Paladin, Endo or any of their respective subsidiaries as provided in the constating documents of such party or contracts to which such a party is bound and which is in effect as of the date of the Arrangement Agreement will continue in full force and effect and without modification for the period contemplated therein.

In addition, New Endo will, and will cause each of Endo and Paladin to, maintain in effect for seven years from the Closing Date directors’ and officers’ liability insurance covering those persons who are currently covered by the directors’ and officers’ liability insurance policies of Endo and Paladin, as applicable, on terms not less favourable than such existing insurance coverage.

Endo will indemnify and hold harmless the members of the boards of directors of New Endo, CanCo 1, Endo Limited, Endo U.S., Merger Sub and their affiliates to the fullest extent permitted by applicable law for losses actually incurred by the director in connection with his or her duties as director for such entity from the date of the Arrangement Agreement to the Closing Date, unless such loss is related to:

- a violation of the director’s duties under applicable law;
- gross negligence, fraud or intentional misconduct by the director; or
- actions taken or omitted by such director in violation of the organizational documents of the entities on which they serve as director or of the Arrangement Agreement.

Endo Golden Parachute Compensation

Under current U.S. federal income tax law, the tax treatment of the Merger to Endo Shareholders is uncertain. There is risk that Endo Shareholders will be required to recognize gain (but not loss) on the Endo

Share exchange. If Endo Shareholders are required to recognize gain, any Covered Individual will be subject to an excise tax (15% in 2013) under Section 4985 of the Code on the value of certain stock compensation held at any time during the same period by the Covered Individual.

It will not be known until after the Merger (possibly as late as the first quarter of 2015) whether or not Endo Shareholders will be required to recognize gain in connection with the share exchange and, therefore, whether or not the Covered Individuals will be subject to the excise tax. If applicable, the excise tax applies to all payments (or rights to payment) granted to the Covered Individuals by Endo or New Endo in connection with the performance of services if the value of such payment is based on (or determined by reference to) the value of stock in Endo or New Endo (excluding certain statutory incentive stock options and holdings in tax qualified plans). This includes any outstanding (1) nonqualified stock options, whether vested or unvested, (2) restricted stock awards that remain subject to forfeiture, (3) unvested restricted stock unit awards, (4) vested but deferred shares and (5) unvested performance restricted stock unit awards, held by the Covered Individuals during this twelve month period. However, even if the excise tax is applicable generally, the excise tax will not apply to (1) any stock option which is exercised prior to the Closing Date, or to the stock acquired in such exercise, if the related income is recognized on or before the Closing Date, and (2) any other specified stock compensation which is exercised, sold, distributed, cashed-out, or otherwise paid prior to the closing date in a transaction in which income is recognized.

The Endo board of directors carefully considered the impact of the potential Section 4985 excise tax on the Covered Individuals, determining that the imposition of the tax on the Covered Individuals, when the vesting of outstanding equity awards subject to the excise tax is not being accelerated and Covered Individuals are receiving no additional benefit in connection with the Transaction, would result in the affected individuals being deprived of a substantial portion of the value of their equity awards. The Endo board of directors concluded that it would not be appropriate to permit a significant burden arising from a transaction expected to bring significant strategic and financial benefits to Endo and the Endo Shareholders, including operational and tax synergies, to be imposed on the individuals most responsible for consummating the Transactions and promoting the success of the combined companies.

In addition, the Endo board of directors assessed and compared the relative costs and benefits of two approaches for mitigating the possible impact of the Section 4985 excise tax: (1) reimbursing the Covered Individuals for the Section 4985 excise tax that would be payable by them as a result of the Transaction (and any resulting income), and (2) accelerating the vesting of and/or canceling these officers' and directors' equity awards. In weighing these alternatives, and deciding in favour of reimbursing the Covered Individuals for the Section 4985 excise tax and the resulting income, as opposed to accelerating the vesting and delivery of outstanding equity awards, the Endo board of directors considered the uncertainty of whether the excise tax will apply and the high cost to Endo, New Endo and their shareholders of accelerating the awards given, in particular, the short tenure of many members of Endo's current leadership team. Specifically, given that as discussed in *"Certain U.S. Tax Consequences of the Merger and the Arrangement—Certain U.S. Federal Income Tax Consequences of the Merger to New Endo and Endo"*, the Merger may qualify as a non-taxable "reorganization," the Endo board of directors determined that accelerating the vesting and payment of outstanding equity awards to avoid the excise tax (which would have to be done prior to the closing of the Merger and therefore prior to when it would be known whether the excise tax applied) could result in Endo or New Endo incurring an unnecessary compensation expense following the Merger to make the new grants that would be necessary to incentivize and retain key individuals and align the interests of the executive officers and directors with shareholders following the Merger. Conversely, if the Covered Individuals are reimbursed for the excise tax, Endo will only incur additional expense if and when it is determined that the excise tax is applicable.

In addition, the Endo board of directors considered the strong desire to continue to align the interests of executive officers and directors with stockholder interests through substantial and meaningful officer and director equity ownership. Several of Endo's executive officers are newly employed and therefore have a significant number of unvested equity awards. The Endo board of directors determined that the effect of accelerating the

vesting of, or canceling, such awards would be to lose significant retention value during a crucial period. Furthermore, the Endo board of directors considered the strong preference communicated by Endo's investors that Endo's executive officers hold long-term performance-based compensation, which represents a large percentage of the unvested awards outstanding, and that accelerating the vesting of these performance-based awards could result in unearned compensation being paid to the executives.

Therefore, after careful consideration, the Endo compensation committee of the board of directors concluded that, if the excise tax becomes applicable, Endo would provide the Covered Individuals with the Excise Tax Payment so that, on a net after-tax basis, they would be in the same position as if no such excise tax had been applied. The actual amounts to be paid to the Covered Individuals by Endo, if any, will not be determinable until after the consummation of the Transactions. These amounts would be paid following the Closing, which is subject to approval and adoption of the Arrangement Agreement and the Merger by Endo Shareholders, and following the determination that the exchange was taxable. These Excise Tax Payments are intended only to place them in the same position as other equity compensation holders after the Merger. In addition, the Covered Individuals will retain the obligation to pay income and other taxes on all of their individual equity awards when due. The outstanding equity awards held by the Covered Individuals will continue to reflect the same terms, including vesting schedules, at the combined entity.

The estimated value of the Excise Tax Payment for each of the named executive officers (and each additional executive officer identified) is set forth below in the table entitled "Endo Golden Parachute Compensation". When compared against the enhanced value of the Transactions to Endo Shareholders, the potential cost of the Excise Tax Payment is relatively insignificant. The estimated aggregate Excise Tax Payment to be paid to the Endo executive officers not set forth in the table below (which includes three additional individuals) is approximately US\$3,956,553. The estimated aggregate Excise Tax Payment to Endo's nine non-employee directors is approximately US\$6,994,007. In each case, the value of the payments was calculated based on certain assumptions as set forth in footnote 3 to the "Endo Golden Parachute Compensation" table and does not include any tax reimbursement related to any stock-based compensation grants that may be made to the Covered Individuals during the 6-month period following the Merger. Any such grants will be made in the discretion of the compensation committee of the New Endo board of directors as determined to be appropriate in furtherance of a compensation philosophy intended to support New Endo's business strategy by attracting and retaining highly-talented individuals and motivating them to achieve competitive corporate performance. The value of any such grants (and any related tax reimbursement) is not determinable at this time. However, the Endo board of directors expects that the New Endo board of directors will determine that no grants of stock-based compensation will be made to any director of New Endo who is currently a director of Endo or to New Endo's chief executive officer during the 6-month period following the Merger.

The following table and the related footnotes present information about the compensation payable to the named executive officers of Endo in connection with the Merger (and such additional individuals identified in the table below), assuming it occurs on February 28, 2014. The compensation shown in the table below is subject to a nonbinding advisory vote of Endo Shareholders at the special meeting of Endo Shareholders.

Endo Golden Parachute Compensation

Named Executive Officer ⁽¹⁾	Tax Reimbursement USD ⁽²⁾	Total USD ⁽³⁾
Rajiv De Silva	7,831,424	7,831,424
David P. Holveck ⁽⁴⁾	—	—
Suketu P. Upadhyay	901,268	901,268
Alan G. Levin ⁽⁵⁾	2,157,247	2,157,247
Julie H. McHugh ⁽⁶⁾	—	—
Ivan P. Gergel, M.D.	3,047,050	3,047,050
Caroline B. Manogue	6,285,625	6,285,625

Notes:

- (1) Under applicable SEC rules, Endo's named executive officers for this purpose include the individuals who served as Endo's principal executive officer and principal financial officer during 2012 as well as Endo's three other most highly compensated executive officers during 2012. Endo's current chief executive officer, Rajiv De Silva, and current chief financial officer, Suketu P. Upadhyay, who both commenced employment with Endo after the end of 2012, have been included in this table for informational purposes even though they are not named executive officers under applicable SEC rules.
- (2) Represents the potential aggregate payments in U.S. dollars to be made in respect of certain equity awards, as described in greater detail above in the section entitled "*—Endo Golden Parachute Compensation*".
- (3) The amounts in this column are in U.S. dollars and consist of the Excise Tax Payments to be made to the individuals set forth in this table if such individuals become subject to the excise tax under Section 4985 of the Code as a result of the consummation of the Transaction. The amount of the payment would be calculated based on the closing price of the Endo Shares as of the consummation of the Merger and each individual's relevant equity awards held as of that date. For purposes of the table above, the payment is based on: (1) an assumed price of the Endo Shares of US\$58.446 (the average closing price per Endo Share over the first five business days following the public announcement of the Transactions on November 5, 2013); (2) the assumption that the Transactions will be consummated on February 28, 2014; (3) the individuals' relevant stock-based compensation held as of November 5, 2013, except for any restricted stock units or performance share units that are scheduled to vest prior to February 28, 2014; (4) the assumption that no stock options are exercised between November 5, 2013 and February 28, 2014; (5) a 15% excise tax rate; and (6) each individual's estimated effective tax rate, including a federal marginal income tax rate of 39.6% and applicable state, local and payroll taxes. The amounts in this column do not include any tax reimbursement related to any stock-based compensation grants that may be made to the Covered Individuals during the 6-month period following the Merger. The actual amount of the excise tax payment for each Covered Individual, if any, will be determinable following the consummation of the Transactions.
- (4) Mr. Holveck retired from Endo effective March 18, 2013. Because Mr. Holveck was not an executive officer within six months before closing, his equity awards are not subject to the excise tax and accordingly, he will not receive any payment in connection with the Merger.
- (5) Mr. Levin retired as chief financial officer of Endo effective as of September 23, 2013 and terminated his employment on December 6, 2013.
- (6) Ms. McHugh terminated her employment effective as of May 29, 2013. Because Ms. McHugh was not an executive officer within six months before closing, her equity awards are not subject to the excise tax and accordingly, she will not receive any payment in connection with the Merger.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of Paladin Shares as of January 21, 2014 (except as noted) by: (i) each of Paladin's directors at any time since the beginning of Paladin's last financial year; (ii) each of Paladin's executive officers at any time since the beginning of Paladin's last financial year; (iii) all current executive officers and directors of Paladin as a group; and (iv) all those known by Paladin to be beneficial owners of more than 10% of the Paladin Shares.

<u>Name of Beneficial Owner</u>	<u>Number of Paladin Shares Beneficially Owned</u>	<u>Percentage of Class (a)</u>
<i>Directors and Executive Officers:</i>		
Jonathan Ross Goodman	839,635 ^{(a)(b)(c)}	4%
Robert N. Lande	6,600	*
Mark A. Beaudet	4,264 ^(d)	*
Gerald McDole	5,932	*
James C. Gale	29,053	*
Joel H. Raby	4,500	*
Samira Sakhia	7,570	*
Mark H. Nawacki	3,932	*
Patrice Larose	144	*
François Desrosiers	778	*
All current directors and executive officers of Paladin Labs Inc. as a group (10 persons)	900,792	4.3%
<i>Other Shareholders:</i>		
4527712 Canada Inc. ^(e)	6,975,187	34.0%
<i>Former Directors and Executive Officers (during last financial year):</i>		
Michael Freeman	7,760 ^(f)	*
Ted S. Wise	318,915 ^(g)	1.5%

Notes:

* The percentage of the class to be owned by such security holder represents less than 1%.

- (a) Jonathan Ross Goodman owns 25% of the non-voting shares of Joddes, which directly owns 4,241,245 Paladin Shares. 4527714 Canada Inc. is the Voting Trustee for and has direction and control over the Paladin Shares held by Joddes.
- (b) Includes 100 Paladin Shares owned by Noah Goodman.
- (c) Includes 683,486 Paladin Shares owned by 3487911 Canada Inc. which is controlled by Jonathan Ross Goodman. 4527712 Canada Inc. is the Voting Trustee for, and has direction and control over, the Paladin Shares held by 3487911 Canada Inc.
- (d) Includes 100 Paladin Shares owned by Matthew Beaudet and 100 Paladin Shares owned by Ethan Beaudet.
- (e) 4527712 Canada Inc. is the Voting Trustee in respect of Paladin Shares owned directly by Joddes (4,241,245 Paladin Shares) and indirectly held by members of the Goodman family (2,733,942 Paladin Shares). 4527712 Canada Inc. is controlled by Mr. Morris Goodman.
- (f) Paladin Shares held as at March 27, 2013.
- (g) Includes 306,666 Paladin Shares owned through 125567 Canada Inc., which is controlled by members of the Wise family. As of the date of this Circular, all of the Paladin Shares formerly held by the late Ted S. Wise are controlled by members of the Wise family.

Financing

New Endo anticipates that the total funds needed to complete the Transactions will be funded through a combination of:

- (a) available cash on hand of Endo; and
- (b) third-party debt financing consisting of the following:
 - (i) senior secured term loan facilities consisting of (x) a term loan A facility in an aggregate principal amount equal to US\$1,100.0 million and (y) a term loan B facility in an aggregate principal amount equal to US\$425.0 million;
 - (ii) a senior secured revolving credit facility in an aggregate amount of US\$750.0 million and together with the term loan facilities, the senior secured credit facilities; provided however that up to US\$200.0 million of Revolving Credit Facility funds may be utilized to complete the transaction or to pay transaction costs; and
 - (iii) US\$700.0 million in aggregate principal amount of 5.75% Senior Notes due 2022 that were issued on December 19, 2013 (the “**New Senior Notes**”).

The New Senior Notes were issued by Endo Finance Co., a wholly-owned subsidiary of Endo (“**Endo Finance**”). Upon issuance of the New Senior Notes, 100% of the gross proceeds were deposited with an escrow agent to be held until (i) consummation of the Transactions or (ii) the earlier of the July 1, 2014 or the date that Endo has determined to terminate or abandon the Transactions. If the Transactions are consummated, (i) Endo Finance will merge with and into an indirect wholly-owned subsidiary of New Endo (“**New Endo Finance**”), with New Endo Finance surviving and assuming all of Endo Finance’s obligations under the New Senior Notes; (ii) an indirect wholly-owned subsidiary of New Endo will become a co-obligor of the New Senior Notes; (iii) the escrowed funds will be released from escrow simultaneously with the consummation of the Transactions; and (iv) the net proceeds of the offering of New Senior Notes will be used, together with borrowings under the term loan facilities, to refinance certain existing indebtedness of Endo, to pay related fees and expenses and for general corporate purposes, which may include strategic acquisitions. If the Transactions are not consummated, upon the earlier of July 1, 2014 or the date that Endo has determined to terminate or abandon the Transactions, (i) Endo Finance will merge with and into Endo, with Endo surviving and assuming all of Endo Finance’s obligations under the New Senior Notes; (ii) the escrowed funds will be released; and (iii) the net proceeds of the offering of New Senior Notes will be used for general corporate purposes, which may include strategic acquisitions.

On November 5, 2013, Endo received a debt commitment letter from Deutsche Bank AG New York Branch, Deutsche Bank AG Cayman Islands Branch, Deutsche Bank Securities Inc., Royal Bank of Canada, and RBC Capital Markets, LLC, as agents, to provide the facilities, subject to the conditions set forth in the debt commitment letter.

Each agent’s commitments with respect to the facilities, and each agent’s agreements to perform the services described in the debt commitment letter, will automatically terminate on the first to occur of (i) 5:00 p.m., New York City time, on May 5, 2014, unless on or prior to such time the Transactions have been consummated, (ii) the date of the termination of the Arrangement Agreement, or (iii) the consummation of the Arrangement without the use of the senior secured credit facilities.

The documentation governing the debt financing has not been finalized and, accordingly, the actual terms of the debt financing may differ from those described in this document. Although the debt financing described in this document is not subject to a due diligence or “market out”, such financing may not be considered assured. The obligation of the arrangers to provide debt financing under the debt commitment letter is subject to a number of conditions. There is a risk that these conditions will not be satisfied and the debt financing may not be funded

when required. As of the date of this Circular, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described in this document is not available.

Endo has, with the consent of the holders of a majority in aggregate principal amount outstanding of each of (i) its US\$500 million in aggregate principal amount outstanding of 7% Senior Notes due 2019, (ii) its US\$400 million in aggregate principal amount outstanding of 7.00% Senior Notes due 2020 and (iii) its US\$400 million in aggregate principal amount outstanding of 7¼% Senior Notes due 2022, entered into amendments to the related indentures providing that no change of control offer will be required under such indentures as a result of the Transactions. The amendments will become operative immediately prior to the Effective Time. As a result of the receipt of such consents, the commitments under the debt commitment letter with respect to the senior bridge facility to fund the takeout of such senior notes were terminated.

Regulatory Approvals Required

U.S. Regulatory Approvals

Under the HSR Act, and the rules and regulations promulgated thereunder by the FTC, the Merger cannot be consummated until notifications have been submitted and certain information has been furnished to the Antitrust Division and the FTC, and specified waiting period requirements have been satisfied or early termination of the waiting period has been granted.

Endo and Paladin each filed a Pre-Merger Notification and Report Form pursuant to the HSR Act with the Antitrust Division and the FTC on November 27, 2013. The waiting period under the HSR Act was scheduled to expire at 11:59 p.m. Eastern Time on the thirtieth day following receipt of both filings (which, if it should fall on a weekend or holiday, is moved to the next business day). However, on December 17, 2013, the FTC granted early termination of the waiting period, thereby satisfying the requirement for approval pursuant to the HSR Act under the Arrangement Agreement.

Canadian Regulatory Approvals

Competition Act (Canada) Approval

Part IX of the Competition Act (Canada) requires that the parties to certain transactions that exceed the thresholds set out in sections 109 and 110 of the Competition Act (Canada) provide the Competition Commissioner with pre-closing notice of the transaction.

Subject to certain limited exceptions, the parties to a Notifiable Transaction cannot complete the transaction until they have provided to the Competition Commissioner the information prescribed pursuant to subsection 114(1) of the Competition Act (Canada) or otherwise complied with Part IX and the applicable waiting period pursuant to section 123 of the Competition Act (Canada) has expired or been terminated or an appropriate waiver has been provided by the Competition Commissioner. The waiting period is 30 calendar days after the day on which the parties to the transaction submit the prescribed information, provided that, before the expiry of this period, the Competition Commissioner has not notified the parties pursuant to subsection 114(2) of the Competition Act (Canada) that he requires additional information that is relevant to the Competition Commissioner's assessment of the transaction.

In addition or as an alternative to filing the prescribed information, a party to a Notifiable Transaction may comply with Part IX by applying to the Competition Commissioner for: (a) an Advance Ruling Certificate; or (b) a No-Action Letter. The Competition Commissioner may issue either an Advance Ruling Certificate or No-Action Letter in respect of a transaction if he is satisfied that there are not sufficient grounds on which to apply to the Competition Tribunal for an order under section 92 of the Competition Act (Canada). In these circumstances, a transaction may be completed before the end of the applicable waiting period if the Competition Commissioner

notifies the parties (either by issuing an Advance Ruling Certificate pursuant to subsection 102 of the Competition Act (Canada) or a No-Action Letter).

The obligation of Endo and Paladin to complete the Arrangement is conditional upon Competition Act (Canada) Approval being obtained in accordance with the Arrangement Agreement. Pursuant to the Arrangement Agreement, Competition Act (Canada) Approval will be obtained if either (a) the Competition Commissioner has issued an Advance Ruling Certificate and such Advance Ruling Certificate has not been modified or withdrawn prior to the Closing; (b) New Endo and Paladin have given the notice required under section 114 of the Competition Act (Canada) with respect to the transactions contemplated by the Arrangement Agreement and the applicable waiting periods under section 123 of the Competition Act (Canada) have expired or been terminated in accordance with the Competition Act (Canada); or (c) the obligation to give the requisite notice has been waived pursuant to paragraph 113(c) of the Competition Act (Canada), and, in the case of either (b) or (c), the Competition Commissioner shall have issued a No-Action Letter, and any terms and conditions attached to such No-Action Letter are acceptable to Endo acting reasonably, and such No-Action Letter has not been modified or withdrawn prior to Closing.

The Transactions are a Notifiable Transaction under the Competition Act (Canada), and as such, Endo and Paladin must comply with the Part IX merger notification provisions. Endo submitted a request for an Advance Ruling Certificate or No-Action Letter to the Competition Commissioner on November 27, 2013. The Competition Commissioner issued a No-Action Letter on December 18, 2013, thereby satisfying the requirement for Competition Act (Canada) Approval under the Arrangement Agreement.

Investment Canada Act Approval

Under the Investment Canada Act, certain transactions involving the “acquisition of control” of a Canadian business by a non-Canadian are subject to review under Part IV or IV.1 of the Investment Canada Act and cannot be implemented unless the Minister of Industry is satisfied that the transaction is likely to be of “net benefit” to Canada. The Transactions constitute a reviewable transaction under the Investment Canada Act.

If a transaction is a reviewable transaction, an application for review must be filed with the Investment Review Division of Industry Canada and the approval of the Minister of Industry must be obtained prior to implementation of the reviewable transaction.

The submission of an application for review triggers an initial review period of up to 45 days. If the Minister of Industry has not completed the review by that date, the Minister of Industry may unilaterally extend the review period by up to a further 30 days (and he may seek additional extensions with agreement of the applicant).

The prescribed factors to be considered by the Minister of Industry in determining whether a reviewable transaction is likely to be of “net benefit” to Canada include, among other things, (i) the effect of the investment on the level and nature of economic activity in Canada (including the effect on employment, capital investment, resource processing, utilization of Canadian products and services and exports), (ii) the degree and significance of participation by Canadians in the acquired business, (iii) the effect of the investment on productivity, industrial efficiency, technological development, product innovation, product variety and competition in Canada, (iv) the effect of the investment on competition within an industry in Canada, (v) the compatibility of the investment with national and provincial industrial, economic and cultural policies, and (iv) the contribution of the investment to Canada’s ability to compete in world markets. The Minister of Industry will also consider, among other things, the views of the provincial governments where Paladin carries on business and any written undertakings offered by Endo to Her Majesty in right of Canada in determining whether a reviewable transaction is likely to be of “net benefit” to Canada.

If, following his review, the Minister of Industry is satisfied that a reviewable transaction is likely to be of “net benefit” to Canada, the Minister of Industry is required to send a notice to that effect to Endo. If the Minister

of Industry does not send notice to Endo of his approval within the 45-day period or the extended period, as the case may be, the Minister of Industry is deemed to be satisfied that the reviewable transaction is likely to be of “net benefit” to Canada and shall send a notice to that effect to Endo.

If, following his review, the Minister of Industry is not satisfied that a reviewable transaction is likely to be of “net benefit” to Canada, the Minister of Industry is required to send a notice to that effect to Endo, advising Endo of its right to make further representations and submit (additional) undertakings within 30 days from the date of such notice or any further period that may be agreed to by Endo and the Minister of Industry.

Within a reasonable time after the expiry of the period for making representations and submitting undertakings as described above, the Minister of Industry shall send notice to the applicant that either the Minister of Industry is satisfied that the investment is likely to be of “net benefit” to Canada or confirmation that the Minister of Industry is not satisfied that the investment is likely to be of “net benefit” to Canada. In the latter case, the reviewable transaction may not be implemented.

The obligation of Endo and Paladin to complete the Arrangement is conditional upon Investment Canada Act Approval being obtained in accordance with the Arrangement Agreement. Pursuant to the Arrangement Agreement, Investment Canada Act Approval will be obtained if New Endo shall have received written evidence from the Minister of Industry that the Minister of Industry is satisfied or deemed to be satisfied that the transactions contemplated by the Arrangement Agreement are likely to be of “net benefit” to Canada pursuant to the Investment Canada Act and such approval has not been modified or withdrawn.

Endo filed an application for review with the Investment Review Division of Industry Canada on November 26, 2013 and the initial 45 day review period expired on January 10, 2014. This initial review period was unilaterally extended for an additional 30 days by the Minister of Industry and can only be extended further on consent of the parties beyond that date. Endo and Paladin are cooperating with the Minister of Industry in his review of the application and in connection thereto Endo submitted draft undertakings on December 24, 2013 and revised draft undertakings on January 17, 2014 to the Minister of Industry. As of the date of this Circular, the Investment Canada Act Approval required pursuant to the Arrangement Agreement has not been obtained and no assurance can be provided that it will be obtained.

South African Competition Act Approval

Chapter 3 of the Competition Act (South Africa) requires that parties to a Notifiable Merger notify the South African Competition Commission of that merger in the prescribed manner and form. Endo and Paladin meet the thresholds prescribed for an intermediate merger, which is a Notifiable Merger under the Competition Act (South Africa). In terms of section 13A(3) of the Competition Act (South Africa), parties to an intermediate merger may not implement that merger until it has been approved, with or without conditions, by the South African Competition Commission in terms of section 14(1)(b) of the Competition Act (South Africa). In terms of section 14(1) of the Competition Act (South Africa), within 20 business days after all parties to an intermediate merger have fulfilled all their notification requirements in the prescribed manner and form, the South African Competition Commission may extend the period in which it has to consider the proposed merger by a single period not exceeding 40 business days and, in that case, must issue an extension certificate to any party who notified it of the merger; or after having considered the merger in terms of section 12A, must issue a certificate in the prescribed form (i) approving the merger; (ii) approving the merger subject to any conditions; or (iii) prohibiting implementation of the merger.

Because of Paladin’s ownership interest in Litha, a company operating in South Africa, among other places, the Transactions constitute a Notifiable Merger under the Competition Act (South Africa). As such, Endo and Paladin must comply with the section 13A merger notification provision and the obligations of Endo and Paladin to complete the Arrangement are conditional upon Competition Act (South Africa) Approval. Endo and Paladin prepared a merger notification in the prescribed manner and form, which was notified to the South African

Competition Commission on November 26, 2013. On December 3, 2013, Endo and Paladin received an extension certificate, notifying them that the review period under the Competition Act (South Africa) was extended for a period of 40 business days and would expire at 11:59 p.m., Central Africa Time, on February 24, 2014. Endo and Paladin are cooperating with the South African Competition Commission in the review of the Transactions.

As of the date of this Circular, the Competition Act (South Africa) approval required pursuant to the Arrangement Agreement has not been obtained and no assurance can be provided that it will be obtained.

Applicable Canadian Securities Laws Matters

Application of MI 61-101

As a reporting issuer or the equivalent in all provinces of Canada, Paladin is, among other things, subject to the securities laws of Ontario and Quebec, including MI 61-101. MI 61-101 regulates certain types of related party transactions to ensure equality of treatment among security holders and may require enhanced disclosure, approval by a majority of security holders (excluding interested or related parties), independent valuations and, in certain instances, approval and oversight of certain transactions by a special committee of independent directors. The protections afforded by MI 61-101, apply to, among other transactions, “business combinations” (as defined in MI 61-101) which may terminate the interests of security holders without their consent.

The Arrangement is not a “business combination” under MI 61-101 as no person that, at the time the Transactions were agreed to, was a “related party” (as defined in MI 61-101) to Paladin, is entitled to receive, directly or indirectly, (a) as a consequence of the Arrangement, consideration for securities of a class of equity securities of the issuer that is greater than the entitlement of the general body of holders in Canada of every other class of equity securities of the issuer in relation to the voting and financial participating interests in the issuer, and/or (b) a “collateral benefit” (as defined in MI 61-101). Accordingly, the Arrangement does not require a formal valuation or a “minority approval” (as defined in MI 61-101) under MI 61-101.

Under MI 61-101, benefits received by a related party are not considered to be collateral benefits if they are received solely in connection with the related party’s services as a director, officer, employee or consultant of the issuer, of an affiliated entity of the issuer or of a successor to the business of the issuer if: (i) the benefit is not conferred for the purpose, in whole or in part, of increasing the value of the consideration paid to the related party for securities relinquished under the Arrangement; (ii) the conferring of the benefit is not, by its terms, conditional on the related party supporting the Arrangement in any manner; (iii) full particulars of the benefit are disclosed in the directors’ circular for the Arrangement; and (iv) either (A) at the time the Arrangement is publicly announced, the related party and its associated entities beneficially own or exercise control or direction over less than 1% of the outstanding securities of each class of equity securities of the issuer, or (B) (x) the related party discloses to an independent committee of the issuer the amount of consideration that the related party expects it will be beneficially entitled to receive, under the terms of the Arrangement, in exchange for the equity securities beneficially owned by the related party, (y) the independent committee, acting in good faith, determines that the value of the benefit, net of any offsetting costs to the related party, is less than 5% of the value referred to in (x) above, and (z) the independent committee’s determination is disclosed in the directors’ circular. Each of the directors and officers participate in the Paladin Stock Option Plan and the Paladin ESPP.

Each of the directors and officers of Paladin participates in the Paladin Stock Option Plan and the Paladin ESPP. The Paladin Stock Option Plan permits the directors of Paladin to accelerate the vesting of Paladin Options on a change of control transaction such as the Arrangement. The treatment of the Paladin Options under the Arrangement Agreement and the Plan of Arrangement, described in the section titled “*The Arrangement Agreement—Treatment of Outstanding Paladin Equity Awards*” beginning on page 118, is intended to put the holders of Paladin Options in substantially the same position they would have been in if their Paladin Options had been accelerated and exercised immediately before the completion of the Arrangement and then the

underlying Paladin Shares exchanged for the Arrangement Consideration. Rather than requiring holders to fund the cash exercise price and exercise their Paladin Options in advance of closing, the Arrangement Agreement and the Plan of Arrangement provide that holders of unexercised Paladin Options will dispose of those Paladin Options for consideration payable in Knight Shares and New Endo Shares that is calculated based on the In-the-Money Amount per Share of the relevant Paladin Option, and permit the holders to receive comparable tax treatment to the treatment they would have received on an exercise or disposition of their Paladin Options in the absence of the Transactions.

The treatment of the outstanding Share Purchase Rights pursuant to the Arrangement Agreement and the Plan of Arrangement, as described in the section titled “*The Arrangement Agreement—Treatment of Outstanding Paladin Equity Awards*” beginning on page 118, is intended to put the participants under the Paladin ESPP in the same position they would have been in if their Share Purchase Rights had been accelerated immediately before the completion of the Arrangement and the Paladin Shares acquired as a result of the acceleration had been sold for cash at the market value of the Paladin Shares at that time.

The treatment of Paladin Options and Share Purchase Rights for directors and officers under the Arrangement Agreement and Plan of Arrangement is not a collateral benefit under MI 61-101 for the following reasons: (i) the treatment of the Paladin Options and Share Purchase Rights is the same as for all other participants in the Paladin Stock Option Plan and the Paladin ESPP and (ii) it is not intended to increase the consideration paid to directors and officers under the Arrangement nor is it conditional on their support of the Arrangement. Other than Jonathan Ross Goodman, none of the directors or officers owns more than 1% of the Paladin Shares. The Paladin Board of Directors formed an independent committee which determined that the value of the benefit to Jonathan Ross Goodman conferred by such treatment of his Paladin Options and Share Purchase Rights is less than 5% of the consideration that he will receive for the Paladin Shares that he beneficially owns.

Distribution and Resale of New Endo Shares and Knight Shares under Canadian Securities Laws

The New Endo Shares and Knight Shares received pursuant to the Arrangement will not be legended and may be resold through registered dealers in each of the provinces of Canada provided that (a) the trade is not a “control distribution” (as defined in National Instrument 45-102—*Resale of Securities*); (b) no unusual effort is made to prepare the market or create a demand for those securities; (c) no extraordinary commission or consideration is paid in respect of that trade; and (d) if the selling security holder is an insider (as defined under applicable Canadian securities legislation) or officer of New Endo or Knight Therapeutics, as applicable, the insider or officer has no reasonable grounds to believe that New Endo or Knight Therapeutics, as applicable, is in default of that legislation. Each Paladin Shareholder is urged to consult the holder’s professional advisors with respect to restrictions applicable to trades in New Endo Shares and Knight Shares under applicable Canadian securities legislation.

Upon completion of the Arrangement, New Endo will become a reporting issuer in each of the provinces of Canada. As the New Endo Shares are not currently listed on a stock exchange, unless and until such a listing is obtained, holders of New Endo Shares may not have a market for their shares. New Endo has applied to list the New Endo Shares to be issued or made issuable pursuant to the Arrangement and the Merger on NASDAQ and TSX. Listing will be subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX. It is a mutual condition to the completion of the Transactions that the New Endo Shares be approved for listing on NASDAQ and TSX, subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX.

Upon completion of the Arrangement, it is expected that Knight Therapeutics will become a reporting issuer in each of the provinces of Canada. As the Knight Shares are not currently listed on a stock exchange, unless and until such a listing is obtained, holders of Knight Shares may not have a market for their shares. Knight Therapeutics has applied to list the Knight Shares to be issued or made issuable pursuant to the Arrangement on TSX-V. Listing will be subject to Knight Therapeutics fulfilling all the listing requirements of TSX-V. The

approval for listing on TSX-V of the Knight Shares is not a condition to the completion of the Transactions. For more information on Knight Therapeutics, see Appendix “F”.

Ongoing Canadian Reporting Obligations of New Endo

Upon completion of the Arrangement, New Endo will become a reporting issuer in each of the provinces of Canada. Pursuant to National Instrument 71-102—*Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, New Endo will be generally exempt from Canadian statutory financial and other continuous and timely reporting requirements, including the requirement for insiders of New Endo to file reports with respect to trades of New Endo securities and the requirements with respect to meetings of shareholders. As a condition of the availability of these exemptions New Endo must (a) comply with the requirements of U.S. securities laws and the rules of NASDAQ stock market; (b) file with the relevant provincial securities regulatory authorities copies of its documents filed with the SEC under the Exchange Act; and (c) send to Canadian securityholders the same material that is sent to U.S. securityholders.

Additionally, New Endo will be required to comply with Canadian legal requirements under MI 61-101, subject to certain minimum percentage thresholds of New Endo Shares being held by residents of Canada. MI 61-101 includes requirements for the protection of minority shareholders in certain transactions, including transactions with insiders and other related parties.

New Endo as an SEC Foreign Issuer under Canadian Securities Laws

Although New Endo will be a reporting issuer in Canada, it will be an SEC foreign issuer and will be exempt from certain Canadian securities laws relating to continuous disclosure obligations and proxy solicitation if it complies with certain reporting requirements applicable in the United States, provided that the relevant documents filed with the SEC are filed in Canada and sent to shareholders in Canada to the extent and in the manner and within the time required by applicable U.S. requirements. In some cases the disclosure obligations applicable in the United States are different or less onerous than the comparable disclosure requirements applicable in Canada for a Canadian reporting issuer that is not exempt from Canadian disclosure obligations. Therefore, there may be less or different publicly available information about New Endo than would be available if New Endo was a Canadian reporting issuer that is not exempt from such Canadian disclosure obligations.

Procedures for Exchange of Paladin Shares

Letters of Transmittal

Registered Paladin Shareholders (other than Qualifying Holdcos) have been provided with the Letter of Transmittal along with this Circular. Registered Paladin Shareholders (other than Qualifying Holdcos) must carefully follow the instructions to complete the Letter of Transmittal and return it with the certificate(s) representing their Paladin Shares to the Paladin Exchange Agent, at any of the offices set forth in the Letter of Transmittal. The Letter of Transmittal will also be made available on SEDAR at www.sedar.com. Holders of Paladin Options will be provided with a separate letter of transmittal for their Paladin Options.

However, due to the potential Irish stamp duty on transfers of New Endo Shares, it is strongly recommended that registered Paladin Shareholders (other than Qualifying Holdcos) arrange for the transfer of their Paladin Shares into CDS or DTC as soon as possible and before the Transactions are consummated. Please also see “*Certain Irish Tax Consequences of the Arrangement and the Merger*” beginning on page 106.

If registered Paladin Shareholders (other than Qualifying Holdcos) are unable to transfer their Paladin Shares into CDS or DTC before the transactions are consummated, they may elect to receive their New Endo Shares registered in the name of the nominee of CDS or DTC and delivered through the facilities of the applicable depository to the Intermediary designated on their duly completed and executed Letter of Transmittal,

provided that either the registered Paladin Shareholder or the Intermediary submits the certificates representing such shareholder's Paladin Shares along with the duly completed and executed Letter of Transmittal specifying such election, together with all other required documents described therein, to the Paladin Exchange Agent no later than 5 p.m., Montréal time, on February 24, 2014. If such documents are not received by the Paladin Exchange Agent by such time, the New Endo Shares issuable to the registered Paladin Shareholder (other than a Qualifying Holdco) will be issued in physical certificate form in the name of such registered Paladin Shareholder as it appears on the register of Paladin as of the Effective Date and delivered to such registered Paladin Shareholder upon that registered Paladin Shareholder depositing a duly completed and executed Letter of Transmittal, together with all other required documents described therein, with the Paladin Exchange Agent.

Registered Paladin Shareholders (other than Qualifying Holdcos) may elect to receive their Knight Shares registered in the name of the nominee of CDS and delivered through the facilities of CDS to the Intermediary designated on their duly completed and executed Letter of Transmittal, provided that either the registered Paladin Shareholder or the Intermediary submits the certificates representing such shareholder's Paladin Shares along with the duly completed and executed Letter of Transmittal specifying such election, together with all other required documents described therein, to the Paladin Exchange Agent no later than 5:00 p.m., Montréal time, on February 24, 2014. If such documents are not received by the Paladin Exchange Agent by such time, the Knight Shares issuable to the registered Paladin Shareholder (other than a Qualifying Holdco) will be issued in physical certificate form in the name of such registered Paladin Shareholder as it appears on the register of Paladin as of the Effective Date and delivered to such registered Paladin Shareholder upon that registered Paladin Shareholder depositing a duly completed and executed Letter of Transmittal, together with all other required documents described therein, with the Paladin Exchange Agent.

If Paladin Shares are held by a non-registered Paladin Shareholder through an Intermediary, such non-registered Paladin Shareholder should contact such Intermediary for instructions. Non-registered Paladin Shareholders should carefully follow instructions from their Intermediary to ensure that such shareholders receive their share of the Arrangement Consideration.

Paladin Shareholders who wish to utilize the Holdco Alternative should contact the Paladin Exchange Agent to obtain a Qualifying Holdco Letter of Transmittal to be used in such circumstances. Eligible Paladin Shareholders must elect the Holdco Alternative not later than the Holdco Election Time by giving written notice to CanCo 1 and Endo. See "*The Arrangement Agreement—Alternative Election Procedure for Certain Paladin Shareholders*" beginning on page 116.

Qualifying Holdco Shareholders may elect to receive New Endo Shares registered in the name of the nominee of CDS or DTC and delivered through the facilities of the applicable depository to the Intermediary designated on their duly completed and executed Qualifying Holdco Letter of Transmittal, provided that either the Qualifying Holdco Shareholder or the Intermediary submits the certificates representing such shareholder's Qualifying Holdco Shares along with the duly completed and executed Qualifying Holdco Letter of Transmittal specifying such election, together with all other required documents described therein, to the Paladin Exchange Agent no later than 5 p.m., Montréal time, on February 24, 2014. If such documents are not received by the Paladin Exchange Agent by such time, the New Endo Shares issuable pursuant to the Holdco Alternative will be issued in physical certificate form in the name of the former Qualifying Holdco Shareholder and delivered to the former Qualifying Holdco Shareholder upon that former Qualifying Holdco Shareholder depositing a duly completed and executed Qualifying Holdco Letter of Transmittal, together with all other required documents described therein, with the Paladin Exchange Agent.

Qualifying Holdco Shareholders may elect to receive their Knight Shares registered in the name of the nominee of CDS and delivered through the facilities of CDS to the Intermediary designated on their duly completed and executed Qualifying Holdco Letter of Transmittal, provided that either the Qualifying Holdco Shareholder or the Intermediary submits the certificates representing such shareholder's Qualifying Holdco

Shares along with the duly completed and executed Qualifying Holdco Letter of Transmittal specifying such election, together with all other required documents described therein, to the Paladin Exchange Agent no later than 5:00 p.m., Montréal time, on February 24, 2014. If such documents are not received by the Paladin Exchange Agent by such time, the Knight Shares issuable pursuant to the Holdco Alternative will be issued in physical certificate form in the name of the former Qualifying Holdco Shareholder and delivered to the former Qualifying Holdco Shareholder upon that former Qualifying Holdco Shareholder depositing a duly completed and executed Qualifying Holdco Letter of Transmittal, together with all other required documents described therein, with the Paladin Exchange Agent.

Whether or not Paladin Shareholders forward the certificate(s) representing their Paladin Shares, upon completion of the Arrangement on the Effective Date, Paladin Shareholders other than Qualifying Holdcos will cease to be Paladin Shareholders as of the Effective Date and any Paladin Share certificates and Qualifying Holdco Share certificates not surrendered for cancellation will represent the right to receive the Arrangement Consideration to which the holder of such certificate is entitled under the Arrangement. Please also see “—*Share Exchange Mechanics—Extinction of Rights*” below.

Share Exchange Mechanics

Exchange of Certificates for New Endo Shares, Knight Shares and Cash

Upon surrender to the Paladin Exchange Agent for cancellation of a certificate which immediately prior to the Effective Time represented one or more outstanding Paladin Shares, Qualifying Holdco Shares or Paladin Options, together with a duly completed and executed Letter of Transmittal, Qualifying Holdco Letter of Transmittal or letter of transmittal for Paladin Options, as applicable, and such additional documents and instruments as the Paladin Exchange Agent may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and the Paladin Exchange Agent shall deliver to such holder following the Effective Time (in each case, less any amounts withheld pursuant to the ITA, the Code or any provision of provincial, state, local or foreign tax law, in each case as amended), (a) the number of New Endo Shares to which such holder is entitled to receive under the Arrangement, in the form (electronic or certificate) and issued in the name set forth in the duly completed and executed Letter of Transmittal, Qualifying Holdco Letter of Transmittal or letter of transmittal for Paladin Option, as applicable; (b) a cheque for the cash consideration to which such holder is entitled to under the Arrangement, if any; and (c) the number of Knight Shares to which such holder is entitled to under the Arrangement, in the form (electronic or certificate) and issued in the name set forth in the duly completed and executed Letter of Transmittal Qualifying Holdco Letter of Transmittal, or letter of transmittal for Paladin Options, as applicable. Notwithstanding the foregoing, if a holder fails to deliver the certificate representing one or more outstanding Paladin Shares, Qualifying Holdco Shares or Paladin Options, together with the duly completed and executed Letter of Transmittal, Qualifying Holdco Letter of Transmittal or letter of transmittal for Paladin Options, as applicable, and such additional documents and instruments as the Paladin Exchange Agent may reasonably require, by 5:00 p.m. (Montréal time) on February 24, 2014 then such holder shall no longer be entitled to elect to receive the consideration to which such holder is entitled under the Arrangement consisting of New Endo Shares and Knight Shares registered in the name of the nominee of CDS or DTC, as applicable. See “*Certain Irish Tax Consequences of the Arrangement and the Merger*”. However, the holder shall still be entitled to receive the consideration to which such holder is entitled under the Arrangement, provided the holder delivers the certificate representing one or more outstanding Paladin Shares, Qualifying Holdco Shares or Paladin Options, together with the duly completed and executed Letter of Transmittal, Qualifying Holdco Letter of Transmittal or letter of transmittal for Paladin Options, as applicable, and such additional documents and instruments as the Paladin Agent may reasonably require, within the time period set forth under “— *Share Exchange Mechanics — Extinction of Rights*”. However, in that case, each certificate representing the consideration to which such holder is entitled under the Arrangement shall be registered in the same name as the Paladin Shares, the Qualifying Holdco Shares or Paladin Options being exchanged. Please also see “—*Procedures for Exchange of Paladin Shares—Letters of Transmittal*” above.

After the Effective Time and until surrendered for cancellation in accordance with the Plan of Arrangement, each certificate which immediately prior to the Effective Time represented one or more Paladin Shares, Qualifying Holdco Shares or Paladin Options shall be deemed at all times to represent only the right to receive in exchange therefor the entitlements which the holder of such certificate is entitled to receive in accordance with the Plan of Arrangement.

The only property delivered to or acquired by a Former Paladin Shareholder or a Former Paladin Optionholder is that which is stipulated to have been delivered to or acquired by such person in the Plan of Arrangement.

Distributions with Respect to Unsurrendered Certificates

No dividend or other distribution declared or made after the Effective Time with respect to New Endo Shares or Knight Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered certificate which, immediately prior to the Effective Time, represented outstanding Paladin Shares or Qualifying Holdco Shares or Paladin Options unless and until the holder of such certificate shall surrender such certificate. Subject to applicable law and the Plan of Arrangement, at the time of such compliance, a Former Paladin Shareholder or a Former Paladin Optionholder entitled to receive New Endo Shares or Knight Shares shall receive, in addition to the delivery of a certificate representing the New Endo Shares or Knight Shares, a cheque for the amount of the dividend or other distribution, if any, with a record date after the Effective Time, without interest, paid with respect to such New Endo Shares or Knight Shares, respectively, prior to such delivery.

Fractional Shares

No certificates representing fractional New Endo Shares will be issued to the Former Paladin Shareholders or the Former Paladin Optionholders upon the surrender for exchange of certificates and no dividend, stock split or other change in the capital structure of New Endo shall relate to any such fractional security and such fractional interests shall not entitle the holder thereof to exercise any rights as a security holder of New Endo. In lieu of any such fractional shares, each Former Paladin Shareholder and each Former Paladin Optionholder otherwise entitled to a fractional interest in a New Endo Share will receive a cash payment equal to such Former Paladin Shareholder's or such Former Paladin Optionholder's pro rata portion of the net proceeds after expenses received by the Paladin Exchange Agent upon the sale of whole shares representing an accumulation of all fractional interests in New Endo Shares to which all such Former Paladin Shareholders and Former Paladin Optionholders would otherwise be entitled. The Paladin Exchange Agent will sell such New Endo Shares by private sale (including by way of sale through the facilities of any stock exchange upon which the New Endo Shares are then listed) as soon as reasonably practicable following the Effective Date. The aggregate net proceeds after expenses of such sale will be distributed by the Paladin Exchange Agent, pro rata in relation to the respective fractions, among the Former Paladin Shareholders and the Former Paladin Optionholders otherwise entitled to receive fractional interests in New Endo Shares.

If the aggregate cash amount which the Paladin Shareholders (other than Qualifying Holdcos) or the Qualifying Holdco Shareholders is entitled to receive would otherwise include a fraction of \$0.01, then the aggregate cash amount to which such Paladin Shareholder (other than Qualifying Holdcos) or such Qualifying Holdco Shareholder shall be entitled to receive shall be rounded up to the nearest whole \$0.01.

Lost Certificates

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Paladin Shares that were exchanged or that were held by a Qualifying Holdco (the Qualifying Holdco Shares of which were exchanged), shall have been lost, stolen or destroyed, then upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed, the Paladin Exchange Agent will deliver in exchange for such lost, stolen or destroyed certificate, the cash amount and the New Endo

Shares that such person is entitled to receive (and any dividends or distributions with respect thereto) and the Knight Shares that such person is entitled to receive (and any dividends or distributions with respect thereto), in accordance with the Plan of Arrangement and such holder's Letter of Transmittal or Qualifying Holdco Letter of Transmittal.

Withholding Rights

New Endo, CanCo 1, Amalco, Paladin and the Paladin Exchange Agent shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Paladin Shares, Qualifying Holdco Shares or Paladin Options or any participant of the Paladin ESPP, such amounts as New Endo, CanCo 1, Amalco, Paladin or the Paladin Exchange Agent are required to deduct and withhold with respect to such payment under the ITA, the Code or any provision of provincial, state, local or foreign tax law, in each case as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Paladin Shares, Qualifying Holdco Shares or Paladin Options or such participant of the Paladin ESPP in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to such holder or such participant exceeds the cash component of the consideration otherwise payable to the holder or such participant, New Endo, CanCo 1, Amalco, Paladin and the Paladin Exchange Agent are authorized to sell or otherwise dispose of such portion of the consideration otherwise payable to the holder or such participant as is necessary to provide sufficient funds to New Endo, CanCo 1, Amalco, Paladin or the Paladin Exchange Agent, as the case may be, to enable it to comply with such deduction or withholding requirement and New Endo, CanCo 1, Amalco, Paladin or the Paladin Exchange Agent shall notify the holder or such participant and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority, and shall remit to such holder or such participant any unapplied balance of the proceeds of such sale.

Extinction of Rights

Any certificate which immediately prior to the Effective Time represented outstanding Paladin Shares that were exchanged or that were held by a Qualifying Holdco (the Qualifying Holdco Shares of which were exchanged) and outstanding Paladin Options that were exchanged and not deposited with all other instruments required by the Plan of Arrangement on or prior to the second anniversary of the Effective Date, shall cease to represent a claim or any interest of any kind or nature as a shareholder of New Endo or Knight Therapeutics. On such date, the cash, New Endo Shares (or cash in lieu of fractional interests therein) and Knight Shares to which the former registered holder of the certificate referred to in the preceding sentence was ultimately entitled, shall be deemed to have been surrendered to New Endo in accordance with applicable laws, together with all entitlements to dividends, distributions and interest thereon held for such former registered holder.

Dissent Rights

Dissent rights refer to the right of shareholders to receive a cash payment for the fair value of their shares when they have dissented from a shareholder vote to approve certain fundamental corporate transactions (e.g., amalgamation, continuance). However, dissent rights are not available in all circumstances. Dissent rights are not available to Paladin Shareholders in connection with the Arrangement.

ELIGIBILITY FOR INVESTMENT IN CANADA

Based on the current provisions of the ITA and the regulations thereunder, the New Endo Shares and the Knight Shares, if acquired on the date hereof and, if listed on a designated stock exchange for purposes of the ITA (which currently includes TSX and TSX -V, Tiers 1 and 2), will be qualified investments under the ITA for trusts governed by an RRSP, a RRIF, a deferred profit sharing plan, a registered education savings plan, a registered disability savings plan and a TFSA, each as defined in the ITA. Even if not listed on a designated stock exchange, the Knight Shares will be qualified investments under the ITA for the above-mentioned trusts if Knight Therapeutics validly elects to be a public corporation for the purposes of the ITA effective at the time specified in the Arrangement.

Notwithstanding that New Endo Shares or Knight Shares may be qualified investments for a trust governed by an RRSP, RRIF and TFSA, the annuitant under an RRSP or RRIF, or the holder of a TFSA, as applicable, will be subject to a penalty tax on such shares if such shares are a “prohibited investment”. New Endo Shares or Knight Shares, as the case may be, will generally be a “prohibited investment” if the annuitant under the RRSP or RRIF, or the holder of a TFSA, does not deal at arm’s length with New Endo or Knight Therapeutics for purposes of the ITA or the annuitant under an RRSP or RRIF, or holder of the TFSA, has a “significant interest” (as defined in the ITA) in New Endo or Knight Therapeutics. An annuitant under the RRSP or RRIF, or a holder of a TFSA should consult its own tax advisor in this regard.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSEQUENCES OF THE ARRANGEMENT

The following is a summary of the principal Canadian federal income tax considerations relating to the Arrangement under the ITA that generally apply to Holders, and only addresses such Holders.

This summary does not apply to a Holder: (a) with respect to whom New Endo is or will be a “foreign affiliate” within the meaning of the ITA, (b) that is a “financial institution” for the purposes of the mark-to-market rules in the ITA, (c) an interest in which is a “tax shelter investment” as defined in the ITA, (d) that is a “specified financial institution” as defined in the ITA, (e) who has made a “functional currency” election under Section 261 of the ITA, (f) who received Paladin Shares upon exercise of a Paladin Option, (g) who acquired Paladin Shares under the Paladin ESPP, or (h) who has entered into or will enter into, with respect to their Paladin Shares, New Endo Shares or Knight Shares, a “derivative forward agreement” or a “synthetic disposition arrangement” as those terms are defined in the ITA. Any such Holder should consult its own tax advisor with respect to the Arrangement.

Paladin Shares, New Endo Shares and Knight Shares will generally be considered to be capital property unless such securities are held in the course of carrying on a business, or were acquired in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Holders who are residents of Canada for purposes of the ITA and whose Paladin Shares might not otherwise qualify as capital property, may, in certain circumstances, be entitled to make, or may already have made, an irrevocable election in accordance with subsection 39(4) of the ITA to have their Paladin Shares, and every “Canadian security” (as defined in the ITA) owned by such Holder in the taxation year of the election and in all subsequent taxation years, deemed to be capital property. Any person contemplating making a subsection 39(4) election should consult their tax advisor for advice as to whether the election is available or advisable in their particular circumstances.

This summary is based on the facts set out in this document, the current provisions of the ITA and the regulations thereunder and counsel’s understanding of the published administrative policies and assessing practices of the CRA publicly available prior to the date of this document. This summary takes into account all Proposed Amendments and assumes that such Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that such Proposed Amendments will be enacted in the form proposed, or at all.

Except for the Proposed Amendments, this summary does not take into account or anticipate any other changes in law or any changes in the CRA's administrative policies and assessing practices, whether by judicial, governmental or legislative action or decision, nor does it take into account other federal or any provincial, territorial or foreign tax legislation or considerations, which may differ from the Canadian federal income tax considerations described herein.

This summary does not address any tax consequences of participating in the Holdco Alternative described under "*The Arrangement Agreement—Alternative Election Procedure for Certain Paladin Shareholders*". The Holdco Alternative may have favourable Canadian federal income tax consequences for certain shareholders. Paladin Shareholders wishing to avail themselves of the Holdco Alternative should consult their own financial, tax and legal advisors.

This summary does not discuss the tax consequences to an individual who disposes of a Paladin Option or a Share Purchase Right pursuant to the Arrangement. This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to the Arrangement and/or the holding of New Endo Shares and Knight Shares. This summary is of a general nature only and is not intended to be, and should not be construed as legal, business or tax advice to any particular shareholder. Paladin Shareholders should consult their own tax advisors having regard to their own circumstances.

Generally for purposes of the ITA, all amounts relating to the acquisition, holding or disposition of securities (including dividends, adjusted cost base and proceeds of disposition) must be expressed in Canadian dollars. Amounts denominated in another currency must be converted into Canadian dollars based on exchange rates as determined in accordance with the ITA. The amount of dividends to be included in the income of, and the amount of capital gains or capital losses realized by, a Holder may be affected by fluctuation in the relevant Canadian dollar exchange rate.

Resident Shareholders

The following section of the summary applies to a Resident Shareholder.

Exchange of Paladin Shares for Cash, New Endo Shares and Knight Shares

A Resident Shareholder who exchanges Paladin Shares for cash, New Endo Shares and Knight Shares under the Arrangement will generally be considered to have disposed of such Paladin Shares for proceeds of disposition equal to the sum of (a) the cash consideration received and (b) the aggregate fair market value at the Effective Time of the New Endo Shares and Knight Shares acquired by such Resident Shareholder on the exchange, and generally will realize a capital gain (or capital loss) to the extent that such proceeds of disposition, net of any reasonable costs of the disposition, exceed (or are less than) the adjusted cost base to the Resident Shareholder of such Paladin Shares immediately before the disposition. See "*Taxation of Capital Gains and Capital Losses*" below.

The cost to a Resident Shareholder of any New Endo Shares or Knight Shares acquired on the exchange will be equal to the fair market value of the New Endo Shares or Knight Shares at the Effective Time. For the purpose of determining the adjusted cost base at any time to a Resident Shareholder of New Endo Shares or Knight Shares acquired under the Arrangement, the adjusted cost base of such shares will generally be determined by averaging their cost with the adjusted cost base of any other New Endo Shares or Knight Shares, as the case may be, held by the Resident Shareholder as capital property at that time.

Dividends on New Endo Shares

A Resident Shareholder will be required to include in computing such holder's income for a taxation year the amount of dividends, if any, received on New Endo Shares. Dividends received on New Endo Shares by a Resident Shareholder who is an individual will not be subject to the gross-up and dividend tax credit rules in the

ITA normally applicable to taxable dividends received from taxable Canadian corporations. A Resident Shareholder that is a corporation may not be entitled to deduct the amount of such dividends in computing its taxable income.

A Resident Shareholder that is throughout the year a “Canadian-controlled private corporation” (as defined in the ITA) may be liable to pay a refundable tax of $6\frac{2}{3}\%$ of its “aggregate investment income” (as defined in the ITA), including any dividends received or deemed to be received on New Endo Shares.

If a government of a country other than Canada imposes a withholding tax on dividends paid by New Endo on a New Endo Share held by a Resident Shareholder, the amount of such tax will generally be eligible for foreign tax credit or deduction treatment, subject to the detailed rules and limitations specified in the ITA. Resident Shareholders are advised to consult their own tax advisors with respect to the availability of a credit or deduction to them having regard to their own particular circumstances.

Dividends on Knight Shares

A Resident Shareholder will be required to include, in computing such Resident Shareholder’s income for a taxation year, the amount of dividends, if any, received, or deemed to be received, on Knight Shares. In the case of a Resident Shareholder who is an individual, dividends received or deemed to be received on Knight Shares will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the dividend tax credit rules applicable to dividends validly designated by Knight Therapeutics as “eligible dividends” for the purposes of the ITA. There are limits on the ability of a corporation to designate dividends as “eligible dividends” for the purposes of the ITA.

Dividends received or deemed to be received by a Resident Shareholder who is an individual or trust, other than certain specified trusts, may give rise to alternative minimum tax under the ITA.

In the case of a Resident Shareholder that is a corporation, dividends received or deemed to be received on Knight Shares will, subject to the special rules and limitations described below, generally be deductible in computing its taxable income to the extent and under the circumstances provided in the ITA.

A Resident Shareholder that is a “private corporation” (as defined in the ITA) or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals may be liable under Part IV of the ITA to pay a refundable tax of $33\frac{1}{3}\%$ on dividends received on Knight Shares to the extent that such dividends are deductible in computing the Resident Shareholder’s taxable income. A Resident Shareholder that, throughout the relevant taxation year, is a “Canadian controlled private corporation” (as defined in the ITA) may be liable to pay a refundable tax of $6\frac{2}{3}\%$ on its “aggregate investment income” (as defined in the ITA), including any dividends that are not deductible in computing taxable income.

Disposition of New Endo Shares

A disposition or deemed disposition of New Endo Shares by a Resident Shareholder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of the disposition, exceed (or are less than) the adjusted cost base to the holder of the New Endo Shares immediately before the disposition. See “*Taxation of Capital Gains and Capital Losses*” below. The Resident Shareholder may be entitled to claim a foreign tax credit or deduction in respect of any foreign tax payable by the Resident Shareholder on any gain realized on such disposition or deemed disposition to the extent and under the circumstances provided in the ITA.

Disposition of Knight Shares

A disposition or deemed disposition of Knight Shares by a Resident Shareholder will generally result in a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of the disposition, exceed (or are less than) the adjusted cost base to the Resident Shareholder of the Knight Shares immediately before the disposition. See “*Taxation of Capital Gains and Capital Losses*” below.

Taxation of Capital Gains and Capital Losses

Generally one-half of any capital gain (a “**taxable capital gain**”) realized by a Resident Shareholder will be included in the Resident Shareholder’s income for the year of disposition. One-half of any capital loss (an “**allowable capital loss**”) realized by a Resident Shareholder in a taxation year is required to be deducted by the holder against taxable capital gains in that year (subject to and in accordance with the rules of the ITA). Any excess of allowable capital losses over taxable capital gains of the Resident Shareholder realized in a taxation year may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains realized in such years, to the extent and under the circumstances provided in the ITA.

Capital gains realized by a Resident Shareholder who is an individual or trust, other than certain specified trusts, may give rise to alternative minimum tax under the ITA.

A Resident Shareholder that is throughout the relevant year a “Canadian-controlled private corporation” (as defined in the ITA) may be liable to pay a refundable tax of 6⅔% of its “aggregate investment income” (as defined in the ITA), including any taxable capital gains.

If the Resident Shareholder is a corporation, the amount of any capital loss arising from a disposition or deemed disposition of shares may be reduced by the amount of dividends received or deemed to have been received by it on such shares to the extent and under the circumstances prescribed by the ITA. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns shares, or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns any such shares. Resident Shareholders to whom these rules may be relevant should consult their own tax advisors.

Offshore Investment Fund Property

The ITA contains rules which, in certain circumstances, may require a Resident Shareholder to include an amount in income in each taxation year in respect of the acquisition and holding of New Endo Shares if (1) the value of such New Endo Shares may reasonably be considered to be derived, directly or indirectly, primarily from certain enumerated portfolio investments and (2) it may reasonably be concluded that one of the main reasons for the Resident Shareholder acquiring or holding the New Endo Shares was to derive a benefit from portfolio investments in such a manner that the taxes, if any, on the income, profits and gains from such portfolio investments for any particular year are significantly less than the tax that would have been applicable under Part I of the ITA if the income, profits and gains had been earned directly by the Resident Shareholder.

Where these rules apply, a Resident Shareholder will be required to include in income for each taxation year in which such shareholder owns the New Endo Shares the amount, if any, by which (i) an imputed return for the taxation year computed on a monthly basis, where the amount in respect of each month is calculated as the product obtained when the Resident Shareholder’s “designated cost” (within the meaning of the ITA) of the New Endo Shares at the end of the month is multiplied by one twelfth of the applicable prescribed rate for the period that includes such month plus two percent, exceeds (ii) any dividends or other amounts included in computing such shareholder’s income for the year (other than a capital gain) in respect of the New Endo Shares determined without reference to these rules. Any amount required to be included in computing a Resident Shareholder’s income under these provisions will be added to the adjusted cost base of the New Endo Shares.

These rules are complex and their application depends, to a large extent, on the reasons for a Resident Shareholder acquiring or holding New Endo Shares. Resident Shareholders are urged to consult their own tax advisors regarding the application and consequences of these rules in their own particular circumstances.

Foreign Property Information Reporting

A Resident Shareholder which is a “specified Canadian entity” for a taxation year or a fiscal period and whose total “cost amount” of “specified foreign property” (as such terms are defined in the ITA), including New Endo Shares, at any time in the year or fiscal period exceeds \$100,000 will be required to file an information return with the CRA for the year or period disclosing prescribed information in respect of such property. Substantial penalties may apply where a Resident Shareholder fails to file the required information return in respect of its specified foreign property.

Non-Resident Shareholders

The following section of the summary applies to a Non-Resident Shareholder. Special rules, which are not discussed in this summary, may apply to a non-Canadian holder that is an insurer carrying on an insurance business in Canada and elsewhere.

Exchange of Paladin Shares for Cash, New Endo Shares and Knight Shares

A Non-Resident Shareholder who participates in the Arrangement will not be subject to tax under the ITA on any capital gain realized on the disposition of Paladin Shares, unless the Paladin Shares are “taxable Canadian property” and are not “treaty-protected property” to the Non-Resident Shareholder for purposes of the ITA. See “*Taxable Canadian Property and Treaty-Protected Property*” below for a description of the circumstances in which Paladin Shares will constitute taxable Canadian property and treaty-protected property to a Non-Resident Shareholder.

Dividends on Knight Shares

Dividends paid or credited or deemed to be paid or credited on the Knight Shares to a Non-Resident Shareholder will be subject to Canadian withholding tax at the rate of 25%, subject to any reduction in the rate of withholding to which the Non-Resident Shareholder is entitled under any applicable income tax treaty.

Disposition of Knight Shares

A Non-Resident Shareholder will not be subject to tax under the ITA on any capital gain realized on a disposition or deemed disposition of Knight Shares, unless the Knight Shares are “taxable Canadian property” and are not “treaty-protected property” to the Non-Resident Shareholder for purposes of the ITA. See “*Taxable Canadian Property and Treaty-Protected Property*” below for a description of the circumstances in which Knight Shares will constitute taxable Canadian property and treaty-protected property to a Non-Resident Shareholder.

Taxable Canadian Property and Treaty-Protected Property

Generally, Paladin Shares or Knight Shares will not constitute taxable Canadian property to a Non-Resident Shareholder at a particular time provided that such Paladin Shares or Knight Shares are listed at that time on a designated stock exchange (which currently includes TSX and TSX-V, Tiers 1 and 2), unless at any particular time during the 60-month period that ends at that particular time (1) the Non-Resident Shareholder, persons with whom the Non-Resident Shareholder does not deal at arm’s length (for the purposes of the ITA) and partnerships in which the Non-Resident Shareholder or a person with whom the Non-Resident Shareholder does not deal at arm’s length holds a membership interest directly or indirectly through one or more partnerships, or the Non-Resident Shareholder together with all such persons or partnerships, has owned 25% or more of the issued shares of any class or series of Paladin or Knight Therapeutics, respectively and (2) more than 50% of the fair market value of the Paladin Shares or Knight Shares was derived directly or indirectly from one or any combination of: (i) real or immovable properties situated in Canada, (ii) “Canadian resource properties” (as defined in the ITA), (iii) “timber resource properties” (as defined in the ITA), and (iv) options in respect of, or interests in, or for civil law rights in, property in any of the foregoing whether or not the property exists. Notwithstanding the foregoing, in certain circumstances set out in the ITA, Paladin Shares or Knight Shares could be deemed to be taxable Canadian property.

Even if the Paladin Shares or Knight Shares are taxable Canadian property to a Non-Resident Shareholder, a taxable capital gain resulting from the disposition or deemed disposition of such shares will not be included in computing the Non-Resident Shareholder's taxable income earned in Canada for the purposes of the ITA if, at the time of the disposition, the Paladin Shares or Knight Shares, as the case may be, constitute "treaty-protected property" of the Non-Resident Shareholder for purposes of the ITA. Paladin Shares or Knight Shares will generally be considered treaty-protected property of a Non-Resident Shareholder for purposes of the ITA at the time of the disposition or deemed disposition if the gain from their disposition or deemed disposition would, because of an applicable income tax treaty between Canada and the country in which the Non-Resident Shareholder is resident for purposes of such treaty, be exempt from tax under the ITA.

Non-Resident Shareholders whose Paladin Shares or Knight Shares may constitute taxable Canadian property should consult their own tax advisors for advice having regard to their particular circumstances, including whether their Paladin Shares or Knight Shares constitute treaty-protected property and with regard to any Canadian reporting requirements.

Certain Canadian Federal and Provincial Tax Consequences of the Arrangement to Paladin

Certain of the transactions to be undertaken in connection with the Business Separation Agreement and the delivery of Knight Shares for Paladin Shares under the Arrangement are taxable events for Canadian federal and provincial income tax purposes and could potentially give rise to Canadian federal and provincial income tax for Paladin. It is not anticipated that the amount of any such tax liability will be material.

CERTAIN U.S. TAX CONSEQUENCES OF THE MERGER AND THE ARRANGEMENT

Scope of This Disclosure

The following is a general summary of certain U.S. federal income tax consequences of the Merger to New Endo and Endo, and of the Arrangement to U.S. holders (as defined below) that exchange their Paladin Shares for New Endo Shares, cash and Knight Shares pursuant to the Arrangement and the ownership and disposition of New Endo Shares and Knight Shares received pursuant to the Arrangement.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. holder as a result of the Arrangement or as a result of the ownership and disposition of New Endo Shares and Knight Shares received pursuant to the Arrangement. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. holder that may affect the U.S. federal income tax consequences to such U.S. holder, including specific tax consequences to a U.S. holder under an applicable tax treaty.

Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. holder. This summary does not address the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences to U.S. holders of the Arrangement or the ownership and disposition of New Endo Shares and Knight Shares. Each U.S. holder should consult its own tax advisor regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the Arrangement and the ownership and disposition of New Endo Shares and Knight Shares.

No legal opinion from U.S. legal counsel or ruling from the IRS has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the Arrangement or the ownership and disposition of New Endo Shares or Knight Shares received pursuant to the Arrangement. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

NOTICE PURSUANT TO IRS CIRCULAR 230: NOTHING CONTAINED IN THIS SUMMARY CONCERNING ANY U.S. FEDERAL TAX ISSUE IS INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY A U.S. HOLDER, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES UNDER THE CODE. THIS SUMMARY WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED BY THIS INFORMATION CIRCULAR. EACH U.S. HOLDER SHOULD SEEK U.S. FEDERAL TAX ADVICE, BASED ON SUCH U.S. HOLDER'S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.

Authorities

This summary is based on the Code, U.S. Treasury Regulations (whether final, temporary, or proposed) (the “**Treasury Regulations**”), published rulings of the IRS, published administrative positions of the IRS, the Canada-U.S. Tax Convention, the Ireland-U.S. Tax Convention and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this Information Circular. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis, which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive or prospective basis.

U.S. Holders

For purposes of this summary, the term “**U.S. holder**” means a beneficial owner of Paladin Shares (or, after the Arrangement, New Endo Shares or Knight Shares) that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the U.S., any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (b) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Non-U.S. Holders

For purposes of this summary, a “**non-U.S. holder**” is a beneficial owner of Paladin Shares (other than a partnership) that is not a U.S. holder. This summary does not address the U.S. federal income tax consequences applicable to non-U.S. holders arising from the Arrangement or the ownership and disposition of New Endo Shares and Knight Shares received pursuant to the Arrangement. Accordingly, a non-U.S. holder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local tax, and foreign tax consequences (including the potential application of and operation of any income tax treaties) relating to the Arrangement and the ownership and disposition of New Endo Shares and Knight Shares received pursuant to the Arrangement.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations of the Arrangement to U.S. holders that are subject to special provisions under the Code, including but not limited to the following: (a) U.S. holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. holders that are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. holders that are broker-dealers, dealers, or traders

in securities or currencies that elect to apply a mark-to-market accounting method; (d) U.S. holders that have a “functional currency” other than the U.S. dollar; (e) U.S. holders that own Paladin Shares (or after the Arrangement, New Endo Shares or Knight Shares) as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (f) U.S. holders that acquired Paladin Shares (or after the Arrangement, New Endo Shares or Knight Shares) in connection with the exercise of employee stock options or otherwise as compensation for services; (g) U.S. holders that hold Paladin Shares (or after the Arrangement, New Endo Shares or Knight Shares) other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); and (h) U.S. holders that own, directly, indirectly, or by attribution, 5% or more, by voting power or value, of the outstanding Paladin Shares (or after the Arrangement, New Endo Shares or Knight Shares). This summary also does not address the U.S. federal income tax considerations applicable to U.S. holders who are: (a) U.S. expatriates or former long-term residents of the U.S.; (b) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the ITA; (c) persons that use or hold, will use or hold, or that are or will be deemed to use or hold Paladin Shares (or after the Arrangement, New Endo Shares or Knight Shares) in connection with carrying on a business in Canada; (d) persons whose Paladin Shares constitute “taxable Canadian property” under the ITA; or (e) persons that have a permanent establishment in Canada for the purposes of the Canada-U.S. Tax Convention. U.S. holders that are subject to special provisions under the Code, including U.S. holders described immediately above, should consult their own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local tax, and foreign tax consequences relating to the Arrangement and the ownership and disposition of New Endo Shares or Knight Shares received pursuant to the Arrangement.

If an entity that is classified as a partnership (or “pass-through” entity) for U.S. federal income tax purposes holds Paladin Shares (or after the Arrangement, New Endo Shares or Knight Shares), the U.S. federal income tax consequences to such partnership and the partners of such partnership of participating in the Arrangement and the ownership and disposition of New Endo Shares or Knight Shares received pursuant to the Arrangement generally will depend in part on the activities of the partnership and the status of such partners. This summary does not address the tax consequences to any such partner or partnership. Partners of entities that are classified as partnerships or other “pass-through” entities for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences of the Arrangement and the ownership and disposition of New Endo Shares or Knight Shares received pursuant to the Arrangement.

Transactions Not Addressed

This summary does not address the U.S. federal income tax consequences of transactions effected prior or subsequent to, or concurrently with, the Arrangement (whether or not any such transactions are undertaken in connection with the Arrangement), including, without limitation, the following:

- any conversion into Paladin Shares or New Endo Shares of any notes, debentures or other debt instruments;
- any vesting, conversion, assumption, disposition, exercise, exchange, or other transaction involving any rights to acquire Paladin Shares or New Endo Shares, including the Paladin Options; and
- any transaction, other than the Arrangement, in which Paladin Shares, New Endo Shares or Knight Shares are acquired.

Certain U.S. Federal Income Tax Consequences of the Merger to New Endo and Endo

Tax Residence of New Endo for U.S. Federal Income Tax Purposes

Under current U.S. federal income tax law, a corporation generally is considered to be resident for U.S. federal income tax purposes in its place of organization or incorporation. Accordingly, under the generally applicable U.S. federal income tax rules, New Endo, which is an Irish incorporated entity, would generally be

classified as a non-U.S. corporation (and, therefore, not a U.S. tax resident). Section 7874 of the Code and the regulations promulgated thereunder, however, contain specific rules (more fully discussed below) that may cause a non-U.S. corporation to be treated as a U.S. corporation for U.S. federal income tax purposes. These rules are complex and there is little or no guidance as to their application.

Under Section 7874, a corporation created or organized outside the United States (i.e., a non-U.S. corporation) will nevertheless be treated as a U.S. corporation for U.S. federal income tax purposes (and, therefore, a U.S. tax resident subject to U.S. federal income tax on its worldwide income) if each of the following three conditions are met: (1) the non-U.S. corporation directly or indirectly acquires substantially all of the assets held directly or indirectly by a U.S. corporation (including through the acquisition of all of the outstanding shares of the U.S. corporation), (2) the non-U.S. corporation's expanded affiliated group does not have substantial business activities in the non-U.S. corporation's country of organization or incorporation relative to the expanded affiliated group's worldwide activities, and (3) the Ownership Test is not satisfied.

At the Merger Effective Time, New Endo will acquire all of Endo's assets through the indirect acquisition of all of Endo's outstanding shares, but New Endo, including its expanded affiliated group, is not expected to have substantial business activities in Ireland. As a result, New Endo will be treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 unless, after the Merger, the former shareholders of Endo are treated as owning (within the meaning of Section 7874) less than 80% (by both vote and value) of New Endo Shares by reason of holding shares in Endo.

Based on the rules for determining share ownership under Section 7874 and certain factual assumptions, after the Merger, Endo Shareholders are expected to be treated as holding less than 80% (by both vote and value) of the New Endo Shares by reason of their ownership of Endo Shares. However, whether the Ownership Test has been satisfied must be finally determined after the Closing of the Merger, by which time there could be adverse changes to the relevant facts and circumstances. Further, a subsequent change in the facts or in law might cause New Endo to be treated as a domestic corporation for U.S. federal income tax purposes, including with retroactive effect. In addition, by the time of the Closing of the Merger, there could be a change in law under Section 7874 of the Code, in the regulations promulgated thereunder, or other changes in law that, if enacted, could (possibly retroactively) cause New Endo to be treated as a U.S. corporation for U.S. federal income tax purposes. In such event, New Endo could be liable for substantial additional U.S. federal income tax on its operations and income following the Closing of the Merger.

Endo's obligation to effect the Transactions is conditional upon its receipt of the Section 7874 Opinion from Skadden, dated as of the Closing Date and subject to certain qualifications and limitations set forth therein, to the effect that Section 7874 of the Code and the regulations promulgated thereunder should not apply in such a manner so as to cause New Endo to be treated as a U.S. corporation for U.S. federal income tax purposes from and after the Closing Date.

Regardless of the application of Section 7874 of the Code, New Endo is expected to be treated as an Irish resident company for Irish tax purposes because New Endo is incorporated under Irish law and is intending to have its place of central management and control (as determined for Irish tax purposes) in Ireland. The remaining discussion assumes that New Endo will not be treated as a U.S. corporation for U.S. federal income tax purposes under Section 7874 of the Code.

Potential Limitation on the Utilization of Endo's (and its U.S. Affiliates') Tax Attributes

Following the acquisition of a U.S. corporation by a non-U.S. corporation, Section 7874 may limit the ability of the acquired U.S. corporation and its U.S. affiliates to utilize certain U.S. tax attributes (including net operating losses and certain tax credits) to offset U.S. taxable income resulting from certain transactions. Specifically, if the shareholders of the acquired U.S. corporation hold at least 60% (but less than 80%), by either vote or value, of the shares of the non-U.S. acquiring corporation by reason of holding shares in the U.S.

corporation, the taxable income of the U.S. corporation (and any person related to the U.S. corporation) for any given year, within a ten-year period beginning on the last date the U.S. corporation's properties were acquired, will be no less than that person's "inversion gain" for that taxable year. A person's inversion gain includes gain from the transfer of shares or any other property (other than property held for sale to customers) and income from the license of any property that is either transferred or licensed as part of the acquisition, or, if after the acquisition, is transferred or licensed to a non-U.S. related person.

Pursuant to the Arrangement Agreement, the Endo Shareholders are expected to receive at least 60% (but less than 80%) of the vote and value of the New Endo Shares by reason of holding Endo Shares. As a result, Endo and its U.S. affiliates would be limited in their ability to utilize certain U.S. tax attributes to offset their inversion gain, if any. However, neither Endo nor its U.S. affiliates expects to recognize any inversion gain as part of the Merger, nor do they currently intend to engage in any transaction in the near future that would generate inversion gain. If, however, Endo or its U.S. affiliates were to engage in any transaction that would generate any inversion gain in the future, such transaction may be fully taxable to Endo or its U.S. affiliates (notwithstanding that it may have certain deductions and other U.S. tax attributes which, but for the application of Section 7874, it would have been able to use to offset some or all of such gain) and thus Endo may pay U.S. federal income tax sooner than it otherwise would have.

U.S. Federal Withholding Tax Consequences of the Merger to New Endo

If certain conditions are met, New Endo should be treated as receiving a Deemed Distribution from Endo U.S. immediately prior to the Merger. The Deemed Distribution will be treated as a taxable dividend to the extent of Endo U.S.'s current and accumulated earnings and profits for the year of the Deemed Distribution (which may include accumulated earnings and profits, if any, of Endo U.S. from years prior to the year of the Deemed Distribution) and will be subject to U.S. withholding tax (at a rate of 5%) in accordance with the Ireland-U.S. Tax Convention. The amount of Endo U.S.'s current and accumulated earnings and profits for the year of the Deemed Distribution is uncertain, but could be substantial, and will not be known until the end of Endo U.S.'s current taxable year. Notwithstanding the foregoing, if the requisite conditions are not satisfied, the Deemed Distribution and U.S. withholding tax rules would not apply. Whether the requisite conditions have been satisfied will depend on the application of new and complex provisions of U.S. federal income tax law as well as certain facts that are subject to change and that could be affected by actions taken by Endo and other events beyond Endo's control. Moreover, certain of the relevant facts cannot be known until after the Merger is completed including for example the aggregate gain of U.S. shareholders in their Endo Shares as of the Closing Date (which has been and will continue to be affected by changes in Endo's stock price trading activity of Endo Shares, and the tax basis of U.S. holders of Endo Shares on the Closing Date) and the earnings and profits of Endo U.S. for the taxable year that includes the Closing Date (which will depend on overall business conditions and the overall tax position of Endo U.S. for such taxable year and will take into account among other things taxable operating income and loss as well as taxable non-operating income and loss (including dispositions outside the ordinary course of business and extra-ordinary items), subject to certain adjustments.

Certain U.S. Federal Income Tax Consequences of the Arrangement to U.S. Holders

In General

U.S. holders will receive the Arrangement Consideration in exchange for their Paladin Shares (for the purposes of this section, the "**Exchange**"). Subject to the discussion below about PFICs, U.S. holders of Paladin Shares that receive the Arrangement Consideration in the Exchange will generally recognize gain or loss (if any) in their Paladin Shares in an amount equal to the difference between the U.S. dollar equivalent value of the amount of cash plus the fair market value of New Endo Shares and the Knight Shares that they receive in the Exchange and their U.S. tax basis in their Paladin Shares. Any such gain or loss should qualify as capital gain, rather than ordinary income, and generally will be long-term capital gain for U.S. holders whose holding period for their Paladin Shares exceeds one year on the Closing Date. U.S. holders will take a fair market value basis in the New Endo Shares and the Knight Shares that they receive and will have a holding period for such New Endo Shares and Knight Shares that begins on the day after receipt of the New Endo Shares and the Knight Shares.

Certain U.S. Federal Income Tax Consequences of the Arrangement if Paladin Were Classified as a PFIC

A non-U.S. corporation such as Paladin is classified as a PFIC for U.S. federal income tax purposes for each tax year in which (i) 75% or more of its income is passive income (as defined for U.S. federal income tax purposes) or (ii) 50% or more of its assets (based on the quarterly average of the fair-market of such assets) either produce or are held for the production of passive income. For purposes of the PFIC provisions, “gross income” generally includes sales revenues less cost of goods sold, and “passive income” generally includes dividends, interest, royalties, rents, and gains from commodities or securities transactions, including certain transactions involving oil and gas. In determining whether or not it is classified as a PFIC, a non-U.S. corporation is required to take into account its *pro rata* portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value).

Paladin believes that its Paladin Shares should not be treated as stock of a PFIC for U.S. federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. With certain exceptions, the Paladin Shares would be treated as stock in a PFIC if Paladin were a PFIC at any time during a U.S. holder’s holding period in such U.S. holder’s Paladin Shares. There can be no assurance that Paladin will not be treated as a PFIC during a U.S. holder’s holding period. If Paladin were to be treated as a PFIC, then, unless a U.S. holder elected to be taxed annually on a mark-to-market basis with respect to the Paladin Shares, or on its allocated share of the earnings of Paladin, the gain realized on the exchange of Paladin Shares would in general not be treated as capital gain. Instead, a U.S. holder would be treated as if such U.S. holder had realized ordinary income in the amount of such gain ratably over such U.S. holder’s holding period for the Paladin Shares and would be subject to U.S. federal income tax at the highest tax rate in effect on ordinary income for each such year to which the gain was allocated, together with an interest charge in respect of the U.S. federal income tax attributable to each such year.

A U.S. holder should consult its own tax advisor as to the U.S. federal income tax treatment of its receipt of cash and Knight Shares in the Arrangement.

U.S. Federal Income Tax Consequences Related to the Ownership and Disposition of New Endo Shares or Knight Shares

Distributions on New Endo Shares or on Knight Shares

Subject to the PFIC rules discussed below, a U.S. holder that receives a distribution, including a constructive distribution, with respect to a New Endo Share or a Knight Share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any foreign income tax withheld from such distribution) to the extent of the current or accumulated earnings and profits of the payor, as computed for U.S. federal income tax purposes. Subject to the discussion in the next paragraph, a dividend generally will be taxed to a U.S. holder at ordinary income tax rates. To the extent that a distribution exceeds the current and accumulated earnings and profits of the payor, the distribution will be treated first as a tax free return of capital to the extent of a U.S. holder’s tax basis in its shares and thereafter as gain from the sale or exchange of such shares (see “—*Sale or Other Taxable Disposition of New Endo Shares or Knight Shares*” below). However, New Endo or Knight Therapeutics may not maintain the calculations of earnings and profits in accordance with U.S. federal income tax principles. Each U.S. holder should therefore assume that any distribution by New Endo or Knight Therapeutics with respect to its shares will constitute dividend income. Dividends received on New Endo Shares or Knight Shares by a U.S. holder that is treated as a corporation for U.S. federal tax purposes generally will not be eligible for the “dividends received deduction”.

A dividend paid by New Endo or Knight Therapeutics to a U.S. holder who is an individual, estate or trust generally will be taxed at the preferential tax rates applicable to long-term capital gains if the payor is a “qualified foreign corporation” (“QFC”), as defined under Section 1(h)(11) of the Code, and certain holding period requirements are met. New Endo and Knight Therapeutics generally will be QFCs if they are eligible for the benefits of the Ireland-U.S. or Canada-U.S. Tax Convention or their shares are readily tradable on an

established securities market in the U.S. However, even if New Endo or Knight Therapeutics satisfies one or more of these requirements, neither New Endo or Knight Therapeutics will be treated as a QFC if it is a PFIC for the tax year during which it pays a dividend or for the preceding tax year. See the discussion below under the heading “—*PFIC Rules Related to the Ownership and Disposition of New Endo Shares or Knight Shares*”.

Dividends paid in currencies other than the U.S. dollar, if any, will generally be taxable to a U.S. Holder as ordinary dividend income in an amount equal to the U.S. dollar value of the currency received on the date such distribution is actually or constructively received. Such U.S. dollar value must be determined using the spot rate of exchange on such date, regardless of whether the non-U.S. currency is actually converted into U.S. dollars on such date. The U.S. Holder may realize exchange gain or loss if the currency received is converted into U.S. dollars after the date on which it is actually or constructively received. Any such gain or loss will be ordinary and will be treated as from sources within the United States for U.S. foreign tax credit purposes.

The dividend rules are complex, and each U.S. holder should consult its own tax advisor regarding the application of such rules.

Subject to certain conditions and limitations, withholding taxes, if any, on dividends paid by New Endo or Knight Therapeutics may be treated as foreign taxes eligible for credit against a U.S. holder’s U.S. federal income tax liability under the U.S. foreign tax credit rules. For purposes of calculating the U.S. foreign tax credit, dividends paid on New Endo or Knight Shares will be treated as income from sources outside the United States and will generally constitute passive category income. The rules governing the U.S. foreign tax credit are complex. U.S. holders should consult their tax advisors regarding the availability of the U.S. foreign tax credit under their particular circumstances.

Sale or Other Taxable Disposition of New Endo Shares or Knight Shares

Subject to the PFIC rules discussed below, upon the sale or other taxable disposition of New Endo Shares or Knight Shares, a U.S. holder generally will recognize capital gain or loss in an amount equal to the difference between the amount of cash plus the fair market value of any property received and such U.S. holder’s tax basis in such New Endo Shares or Knight Shares sold or otherwise disposed of. A U.S. holder’s tax basis in New Endo Shares and Knight Shares received pursuant to the Arrangement will generally be determined as described above under “—*Certain U.S. Federal Income Tax Consequences of the Arrangement to U.S. Holders*”. Gain or loss recognized on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, the U.S. holder’s holding period in the New Endo Shares or Knight Shares exceeds one year.

Preferential tax rates apply to long-term capital gain of a U.S. holder that is an individual, estate, or trust. There are no preferential tax rates for long-term capital gain of a U.S. holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

PFIC Rules Related to the Ownership and Disposition of New Endo Shares or Knight Shares

If New Endo or Knight Therapeutics were to constitute a PFIC for any year during a U.S. holder’s holding period, then certain different and potentially adverse rules would affect the U.S. federal income tax consequences to a U.S. holder resulting from the acquisition, ownership and disposition of its New Endo and Knight Shares. In addition, in any year in which New Endo or Knight Therapeutics is classified as a PFIC, such holder would be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidelines may require. If New Endo or Knight Therapeutics were treated as a PFIC with respect to a U.S. holder for any taxable year, New Endo or Knight Therapeutics, respectively, would continue to be treated as a PFIC with respect to that U.S. holder in all succeeding taxable years, regardless of whether New Endo or Knight Therapeutics continues to meet the PFIC requirements in such years, unless certain elections are made.

Neither New Endo nor Knight Therapeutics is currently expected to be treated as a PFIC for U.S. federal income tax purposes for the taxable year of the Merger (taking into account the start-up exception) or for

foreseeable future taxable years. This conclusion is a factual determination, however, that must be made annually at the close of each taxable year and, thus, is subject to change. There can be no assurance that either New Endo or Knight Therapeutics will not be treated as a PFIC for any taxable year.

If either New Endo or Knight Therapeutics were to be treated as a PFIC, U.S. holders holding New Endo or Knight Shares could be subject to certain adverse U.S. federal income tax consequences with respect to gain realized on a taxable disposition of such shares and certain distributions received on such shares. In addition, dividends received with respect to New Endo or Knight Shares would not constitute qualified dividend income eligible for preferential tax rates if New Endo or Knight Therapeutics, respectively, were treated as a PFIC for the taxable year of the distribution or for its preceding taxable year. Certain elections (including a mark-to-market election and a qualified electing fund election) may be available to U.S. holders to mitigate some of the adverse tax consequences resulting from PFIC treatment. U.S. holders should consult their tax advisers regarding the application of the PFIC rules to their investment in the New Endo Shares and the shares of Knight Therapeutics.

Information Reporting; Backup Withholding Tax

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. holders must file information returns with respect to their investment in, or involvement in, a foreign corporation.

For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on individuals who are U.S. holders that hold certain specified foreign financial assets in excess of \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. holders may be subject to these reporting requirements unless their Paladin Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. holders should consult with their own tax advisors regarding the requirements of filing information returns under these rules, including the requirement to file an IRS Form 8938.

Payments made within the U.S. or by a U.S. payor or U.S. middleman, of (a) distributions on the New Endo Shares or Knight Shares, (b) proceeds arising from the sale or other taxable disposition of New Endo Shares or Knight Shares, or (c) any payments received in connection with the Arrangement generally may be subject to information reporting and backup withholding tax, at the current rate of 28% if a U.S. holder (i) fails to furnish its correct U.S. taxpayer identification number (generally on Form W-9), (ii) furnishes an incorrect U.S. taxpayer identification number, (iii) is notified by the IRS that such U.S. holder has previously failed to properly report items subject to backup withholding tax, or (iv) fails to certify, under penalty of perjury, that such U.S. holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. holder that it is subject to backup withholding tax. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. holder furnishes required information to the IRS in a timely manner. Each U.S. holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO HOLDERS OF PALADIN SHARES WITH RESPECT TO THE DISPOSITION OF THOSE SHARES PURSUANT TO THE ARRANGEMENT OR THE OWNERSHIP AND DISPOSITION OF NEW ENDO SHARES AND KNIGHT SHARES RECEIVED PURSUANT TO THE ARRANGEMENT. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM BASED ON THEIR PARTICULAR CIRCUMSTANCES.

CERTAIN IRISH TAX CONSEQUENCES OF THE ARRANGEMENT AND THE MERGER

Scope of Discussion

The following is a summary of the material Irish tax considerations for certain beneficial owners of Paladin Shares who receive consideration in the form of New Endo Shares and who are the beneficial owners of such shares. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to each of the shareholders. The summary is based upon Irish tax laws and the practice of the Irish Revenue Commissioners in effect on the date of this Circular. Changes in law and/or administrative practice may result in alteration of the tax considerations described below.

The summary does not constitute tax advice and is intended only as a general guide. The summary is not exhaustive and shareholders should consult their own tax advisors about the Irish tax consequences (and tax consequences under the laws of other relevant jurisdictions) of the Transactions and of the acquisition, ownership and disposal of New Endo Shares. The summary applies only to shareholders who will own New Endo Shares as capital assets and does not apply to other categories of shareholders, such as dealers in securities, trustees, insurance companies, collective investment schemes, pension funds and shareholders who have, or who are deemed to have, acquired their New Endo Shares by virtue of an Irish office or employment (performed or carried on in Ireland).

Irish Tax on Chargeable Gains

Paladin Shareholders who are neither resident nor ordinarily resident in Ireland for Irish tax purposes and do not hold their shares in connection with a trade carried on by such shareholders through an Irish branch or agency will not be within the charge to Irish tax on chargeable gains on the disposal of their Paladin Shares, or on the receipt of the Arrangement Consideration pursuant to the Arrangement.

Endo Shareholders or Paladin Shareholders who are resident or ordinarily resident for tax purposes in Ireland, or who hold their shares in connection with a trade or business carried on by such holder in Ireland through a branch or agency, should consult their own tax advisors as to the Irish tax consequences of the Merger and Arrangement.

New Endo Shareholders who are neither resident nor ordinarily resident in Ireland for Irish tax purposes and do not hold their shares in connection with a trade carried on by such shareholders through an Irish branch or agency will not be liable for Irish tax on chargeable gains realized on a subsequent disposal of their New Endo Shares.

Stamp Duty

The rate of stamp duty (where applicable) on transfers of shares of Irish incorporated companies is 1% of the price paid or the market value of the shares acquired, whichever is greater. Where Irish stamp duty arises it is generally a liability of the transferee.

The documents effecting the Merger and Arrangement will not attract Irish stamp duty.

Irish stamp duty may, depending on the manner in which the New Endo Shares are held, be payable in respect of transfers of New Endo Shares after the Effective Time of the Transactions.

Shares Held Through DTC

A transfer of New Endo Shares effected by means of the transfer of book entry interests in DTC will not be subject to Irish stamp duty.

Shares Held Through CDS

A submission was made to the Irish Revenue Commissioners seeking confirmation in relation to the operation of stamp duty in respect of transfers of New Endo Shares effected by means of the transfer of book entry interests in CDS. This confirmation has been obtained from the Irish Revenue Commissioners and confirms that a transfer of New Endo Shares effected by means of the transfer of book entry interests in CDS will not be subject to Irish stamp duty.

On the basis that most New Endo Shares are expected to be held through DTC or CDS, it is anticipated that most transfers of New Endo Shares will be exempt from Irish stamp duty.

Shares Held Outside of DTC Transferred Into or Out of DTC

A transfer of New Endo Shares where any party to the transfer holds such shares outside of DTC may be subject to Irish stamp duty. New Endo Shareholders wishing to transfer their shares into (or out of) DTC may do so without giving rise to Irish stamp duty provided:

- there is no change in the beneficial ownership of such shares as a result of the transfer; and
- the transfer into (or out of) DTC is not effected in contemplation of a subsequent sale of such shares by a beneficial owner to a third party.

Shares Held Outside of CDS Transferred Into or Out of CDS

As noted above, a submission was made to the Irish Revenue Commissioners seeking confirmation in relation to the operation of Irish stamp duty in respect of certain transfers of New Endo Shares. This submission sought confirmation that the analysis noted above in respect of transfers of New Endo Shares into or out of DTC would also apply in respect of transfers into or out of CDS. This confirmation has been obtained and confirms that shareholders wishing to transfer their shares into (or out of) CDS may do so without giving rise to Irish stamp duty provided:

- there is no change in the beneficial ownership of such shares as a result of the transfer; and
- the transfer into (or out of) CDS is not effected in contemplation of a subsequent sale of such shares by a beneficial owner to a third party.

Due to the potential Irish stamp duty charge on transfers of New Endo Shares, it is strongly recommended that those shareholders who do not hold their Paladin Shares through CDS or DTC (or through an Intermediary who in turn holds such shares through CDS or DTC) should arrange for the transfer of their Paladin Shares into CDS or DTC as soon as possible and before the Transactions are consummated. It is also strongly recommended that any person who wishes to acquire New Endo Shares after the Effective Time acquires such shares through CDS or DTC (or through an Intermediary who in turn holds such shares through CDS or DTC).

Withholding Tax on Dividends

As noted elsewhere in this Circular, New Endo does not expect to pay dividends for the foreseeable future. To the extent that it does make dividend payments (or other returns to shareholders that are treated as “distributions” for Irish tax purposes), it should be noted that such distributions made by New Endo will, in the absence of one of many exemptions, be subject to Irish dividend withholding tax (“DWT”), currently at a rate of 20%.

For DWT purposes, a distribution includes any distribution that may be made by New Endo to its shareholders, including cash dividends, non-cash dividends and additional shares taken in lieu of a cash dividend.

Where an exemption does not apply in respect of a distribution made to a particular shareholder, New Endo is responsible for withholding DWT prior to making such distribution.

General Exemptions

The following is a general overview of the scenarios where it will be possible for New Endo to make payments of dividends without deduction of DWT.

Irish domestic law provides that a non-Irish resident shareholder is not subject to DWT on dividends received from New Endo if such shareholder is beneficially entitled to the dividend and is either:

- a person (not being a company) resident for tax purposes in a “relevant territory”, being a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty (including Canada and the U.S.), and is neither resident nor ordinarily resident in Ireland;
- a company resident for tax purposes in a “relevant territory”, provided such company is not under the control, whether directly or indirectly, of a person or persons who is or are resident in Ireland;
- a company, wherever resident, that is controlled, directly or indirectly, by persons resident in a “relevant territory” and who is or are (as the case may be) not controlled by, directly or indirectly, persons who are not resident in a “relevant territory”;
- a company, wherever resident, whose principal class of shares (or those of its 75% direct or indirect parent) is substantially and regularly traded on a stock exchange in Ireland, on a recognized stock exchange in a “relevant territory” or on such other stock exchange approved by the Irish Minister for Finance; or
- a company, wherever resident, that is wholly-owned, directly or indirectly, by two or more companies where the principal class of shares of each of such companies is substantially and regularly traded on a stock exchange in Ireland, on a recognized stock exchange in a “relevant territory” or on such other stock exchange approved by the Irish Minister for Finance;

and provided, in all cases noted above, New Endo or, in respect of shares held through CDS or DTC, any qualifying intermediary appointed by New Endo, has received from the shareholder, where required, the relevant Irish Revenue Commissioners DWT forms (“**DWT forms**”) prior to the payment of the dividend. In practice, in order to ensure sufficient time to process the receipt of relevant DWT forms, the shareholder where required should furnish the relevant DWT forms to:

- its broker (and the relevant information should be further transmitted to any qualifying intermediary appointed by New Endo) before the record date for the dividend (or such later date before the dividend payment date as may be notified to the shareholder by the broker) if its shares are held through CDS or DTC, or
- New Endo’s transfer agent at least seven business days before the record date for the dividend if its shares are held outside of CDS or DTC.

Links to the various DWT forms are available at: <http://www.revenue.ie/en/tax/dwt/forms/index.html>. Such forms are generally valid, subject to a change in circumstances, until December 31 of the fifth year after the year in which such forms were completed.

For non-Irish resident shareholders who cannot avail themselves of one of Ireland’s domestic law exemptions from DWT, it may be possible for such shareholders to rely on the provisions of a double tax treaty to which Ireland is party to reduce the rate of DWT.

Shares Held by U.S. Resident Shareholders

It is expected that dividends paid in respect of New Endo Shares that are owned by U.S. residents and held through DTC may not be subject to DWT provided the addresses of the beneficial owners of such shares in the

records of the broker holding such shares are in the U.S. It is strongly recommended that such shareholders ensure that their information is properly recorded by their brokers (so that such brokers can further transmit the relevant information to a qualifying intermediary appointed by New Endo).

Dividends paid in respect of New Endo Shares that are held outside of DTC and are owned by residents of the U.S., will not be subject to DWT if such shareholders satisfy the conditions of one of the exemptions referred to above under the heading “General Exemptions”, including the requirement to furnish the appropriate and valid DWT form and IRS Form 6166 to New Endo’s transfer agent to confirm their U.S. residence at least seven business days before the record date for the dividend.

If any shareholder who is resident in the U.S. receives a dividend from which DWT has been withheld, the shareholder should generally be entitled to apply for a refund of such DWT from the Irish Revenue Commissioners, provided the shareholder is beneficially entitled to the dividend.

Shares Held by Residents of “Relevant Territories” Other Than the U.S.

Shareholders who are residents of “relevant territories”, other than the U.S., such as Canada, must satisfy the conditions of one of the exemptions referred to above under the heading “—*General Exemptions*”, including the requirement to furnish valid DWT forms, in order to receive dividends without suffering DWT. If such shareholders hold their shares through CDS or DTC, they must provide the appropriate DWT forms to their brokers (so that such brokers can further transmit the relevant information to a qualifying intermediary appointed by New Endo) before the record date for the dividend (or such later date before the dividend payment date as may be notified to the shareholder by the broker). If such shareholders hold their shares outside of CDS or DTC, they must provide the appropriate DWT forms to New Endo’s transfer agent at least seven business days before the record date for the dividend.

If any shareholder who is resident in a “relevant territory” receives a dividend from which DWT has been withheld, the shareholder may be entitled to a refund of DWT from the Irish Revenue Commissioners provided the shareholder is beneficially entitled to the dividend.

Shares Held by Residents of Ireland

Most Irish tax resident or ordinarily resident shareholders (other than Irish resident companies that have completed the appropriate DWT forms) will be subject to DWT in respect of dividends paid on their New Endo Shares.

Shareholders who are residents of Ireland, but are entitled to receive dividends without DWT, must complete the appropriate DWT forms and provide them to their brokers (so that such brokers can further transmit the relevant information to a qualifying intermediary appointed by New Endo) before the record date for the dividend (or such later date before the dividend payment date as may be notified to the shareholder by the broker) (in the case of shares held through CDS or DTC), or to New Endo’s transfer agent at least seven business days before the record date for the dividend (in the case of shares held outside of CDS or DTC).

New Endo Shareholders who are resident or ordinarily resident in Ireland or are otherwise subject to Irish tax should consult their own tax advisors.

Shares Held by Other Persons

New Endo Shareholders who do not fall within any of the categories specifically referred to above may nonetheless fall within other exemptions from DWT. If any shareholders are exempt from DWT, but receive dividends subject to DWT, such shareholders may apply for refunds of such DWT from the Irish Revenue Commissioners.

Qualifying Intermediary

Prior to paying any dividend, New Endo will put in place an agreement with an entity that is recognized by the Irish Revenue Commissioners as a “qualifying intermediary”, which will provide for certain arrangements relating to distributions in respect of shares of New Endo that are held through CDS or DTC. The agreement will provide that the qualifying intermediary shall distribute or otherwise make available to a depository nominee, any cash dividend or other cash distribution with respect to the deposited securities after New Endo delivers or causes to be delivered to the qualifying intermediary the cash to be distributed.

The qualifying intermediary will be responsible for determining where shareholders reside, whether they have provided the required U.S. tax information and whether they have provided the required DWT forms. Shareholders that are required to file DWT forms in order to receive dividends free of DWT should note that such forms are generally valid, subject to a change in circumstances, until December 31 of the fifth year after the year in which such forms were completed.

Income Tax on Dividends Paid on New Endo Shares

Irish income tax may arise for certain persons in respect of dividends received from Irish resident companies. A New Endo Shareholder who is neither resident nor ordinarily resident in Ireland and who is entitled to an exemption from DWT generally has no liability to Irish income tax or the universal social charge on a dividend from New Endo unless he or she holds his or her New Endo Shares through a branch or agency in Ireland through which a trade is carried on.

A New Endo Shareholder who is neither resident nor ordinarily resident in Ireland and who is not entitled to an exemption from DWT generally has no additional liability to Irish income tax or to the universal social charge unless he or she holds his or her New Endo Shares through a branch or agency in Ireland through which a trade is carried on. The DWT deducted by New Endo discharges the liability to Irish income tax.

A New Endo Shareholder who is neither resident nor ordinarily resident in Ireland and is a resident of a “relevant territory” or otherwise exempt from Irish DWT but who receives dividends subject to DWT should be able to make a reclaim of the DWT from the Irish Revenue Commissioners unless he or she holds his or her New Endo Shares through a branch or agency in Ireland through which a trade is carried on.

Irish residents or ordinarily resident New Endo Shareholders may be subject to Irish tax and/or the universal social charge and/or Pay Related Social Insurance on dividends received from New Endo. Such New Endo Shareholders should consult their own tax advisors.

Capital Acquisitions Tax

Irish capital acquisitions tax (“CAT”) comprises principally gift tax and inheritance tax. CAT could apply to a gift or inheritance of New Endo Shares irrespective of the place of residence, ordinary residence or domicile of the parties. This is because New Endo Shares are regarded as property situated in Ireland as the share register of New Endo must be held in Ireland. The person who receives the gift or inheritance has primary liability for CAT.

CAT is levied at a rate of 33% above certain tax-free thresholds. The appropriate tax-free threshold is dependent upon (i) the relationship between the donor and the donee and (ii) the aggregation of the values of previous gifts and inheritances received by the donee from persons within the same group threshold. Gifts and inheritances passing between spouses are exempt from CAT. Children have a tax-free threshold of €225,000 in respect of taxable gifts or inheritances received from their parents. New Endo Shareholders should consult their own tax advisors as to whether CAT is creditable or deductible in computing any domestic tax liabilities.

THE IRISH TAX CONSIDERATIONS SUMMARIZED ABOVE ARE FOR GENERAL INFORMATION ONLY. EACH PALADIN SHAREHOLDER SHOULD CONSULT HIS OR HER TAX ADVISOR AS TO THE PARTICULAR CONSEQUENCES THAT MAY APPLY TO SUCH SHAREHOLDER.

IN LIGHT OF THE FOREGOING, HOLDERS ARE URGED TO CONSULT AND MUST RELY ON THE ADVICE OF THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF THE ARRANGEMENT, INCLUDING APPLICABLE U.S. FEDERAL, PROVINCIAL, STATE, LOCAL, CANADIAN, IRISH AND OTHER FOREIGN, AND OTHER TAX CONSEQUENCES.

LISTING OF NEW ENDO SHARES ON NASDAQ AND TSX

It is a mutual condition to the completion of the Merger and the Arrangement that the New Endo Shares will be approved for listing on NASDAQ and conditionally approved for listing on TSX. New Endo has applied to list the New Endo Shares to be issued or made issuable pursuant to the Arrangement and the Merger on NASDAQ and TSX. Listing will be subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX.

Endo common stock and Paladin Shares will be delisted from NASDAQ and TSX, respectively, following the completion of the Arrangement.

THE COMPANIES

Endo International Limited

New Endo is a private limited company incorporated in Ireland (registered number 534814) pursuant to the Companies Acts, formed on October 31, 2013 for the purpose of holding Paladin and Endo following completion of the Transactions. To date, New Endo has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the taking of certain steps in connection thereto, including the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

On or prior to the completion of the Transactions, New Endo will be re-registered as a public limited company and renamed “Endo International plc”. Following the consummation of the Transactions, Endo will be an indirect wholly-owned subsidiary of New Endo. Upon consummation of the Merger and Arrangement, the former shareholders of Endo are expected to own approximately 77.4% of the outstanding New Endo Shares on a fully-diluted basis, and Former Paladin Shareholders and the Former Paladin Optionholders are expected to own approximately 22.6% of the outstanding New Endo Shares on a fully-diluted basis.

It is a mutual condition of the Merger that as of the Effective Time of the Transactions, New Endo Shares will be approved for listing on NASDAQ and conditionally approved for listing on TSX. New Endo’s principal executive offices are located at 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland, and its telephone number is (011) 353-1-649-2000.

Endo Health Solutions Inc.

Endo is a U.S.-based, specialty healthcare company focused on branded and generic pharmaceuticals, devices and services. Endo provides products to its customers which ultimately improve the lives of patients. Endo aims to maximize shareholder value by adapting to the continually evolving healthcare market and customer needs. Through Endo’s four operating segments: AMS, Endo Pharmaceuticals, HealthTronics and Qualitest Pharmaceutical, Endo is dedicated to improving care through an innovative suite of branded products, generics, devices, technology and services. On January 9, 2014 Endo announced that it had entered into the HealthTronics Sale Agreement to sell the HealthTronics Business. Please see “*Information Concerning Endo Health Solutions Inc.—Overview*” beginning on page 138. Endo regularly evaluates and, where appropriate, executes on opportunities to expand through acquisitions of products and companies in areas that will serve patients and customers and that Endo believes will offer above average growth characteristics and attractive margins. In particular, Endo looks to continue to enhance its product lines by acquiring or licensing rights to

additional products and regularly evaluating selective acquisition and license opportunities. Such acquisitions or licenses may be effected through the purchase of assets, joint ventures and licenses or by acquiring other companies.

As a result of the Merger, Endo will become an indirect wholly-owned subsidiary of New Endo.

Endo's principal executive offices are located at 1400 Atwater Drive, Malvern, Pennsylvania 19355 and its telephone number is (484) 216-0000. For additional information on Endo and its business, see "*Information Concerning Endo Health Solutions Inc.*" beginning on page 138 and "*Additional Information*" beginning on page 216.

Paladin Labs Inc.

Paladin Labs Inc., a Canadian corporation headquartered in Montréal, Canada, is a specialty pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian and world markets. With this strategy, a focused national sales team and proven marketing expertise, Paladin has evolved into one of Canada's leading specialty pharmaceutical companies. Paladin's shares trade on TSX under the symbol "PLB". More information about Paladin can be obtained at www.paladin-labs.com.

Paladin's principal executive offices are located at 100 Alexis-Nihon Blvd., Suite 600, Saint-Laurent, Québec H4M 2P2 and its telephone number is (514) 340-1112. For additional information on Paladin and its business see the Paladin Annual Information Form incorporated by reference in this Circular. See "*Documents Incorporated by Reference*".

RDS Merger Sub, LLC

Merger Sub is a limited liability company incorporated in Delaware and a direct wholly-owned subsidiary of Endo U.S., formed on November 1, 2013. To date, Merger Sub has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

Merger Sub's registered address is the Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801.

Endo Limited

Endo Limited is a private limited company incorporated in Ireland as Sinopia II Limited on October 29, 2013 with a name change to Sportwell II Limited on October 31, 2013 and with a further name change to Endo Limited on November 28, 2013. Endo Limited is a direct subsidiary of New Endo. To date, Endo Limited has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions.

Endo U.S.

Endo U.S. is a corporation incorporated in Delaware as ULU Acquisition Corp. on November 1, 2013, with a name change to Endo U.S. on December 5, 2013 and is an indirect subsidiary of New Endo. To date, Endo U.S. has not conducted any activities other than those incident to its formation, the execution of the Arrangement Agreement and the preparation of applicable filings under the U.S. securities laws and regulatory filings made in connection with the Transactions. Endo U.S.'s principal executive offices are located at 1209 Orange Street, Wilmington, DE 19801.

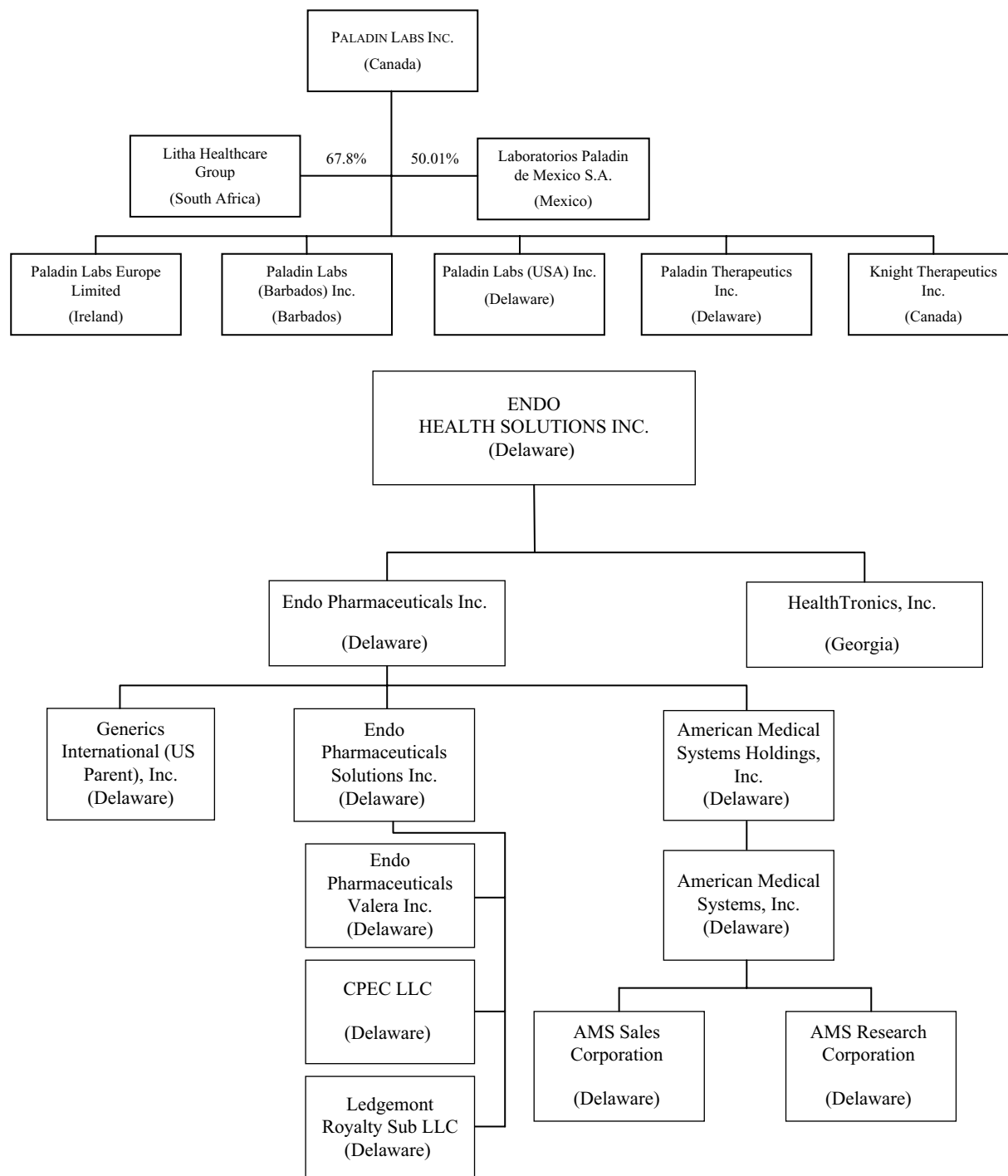
8312214 Canada Inc.

8312214 Canada Inc. is a corporation incorporated in Canada and an indirect subsidiary of New Endo, formed on November 1, 2013. To date, 8312214 Canada Inc. has not conducted any activities other than those

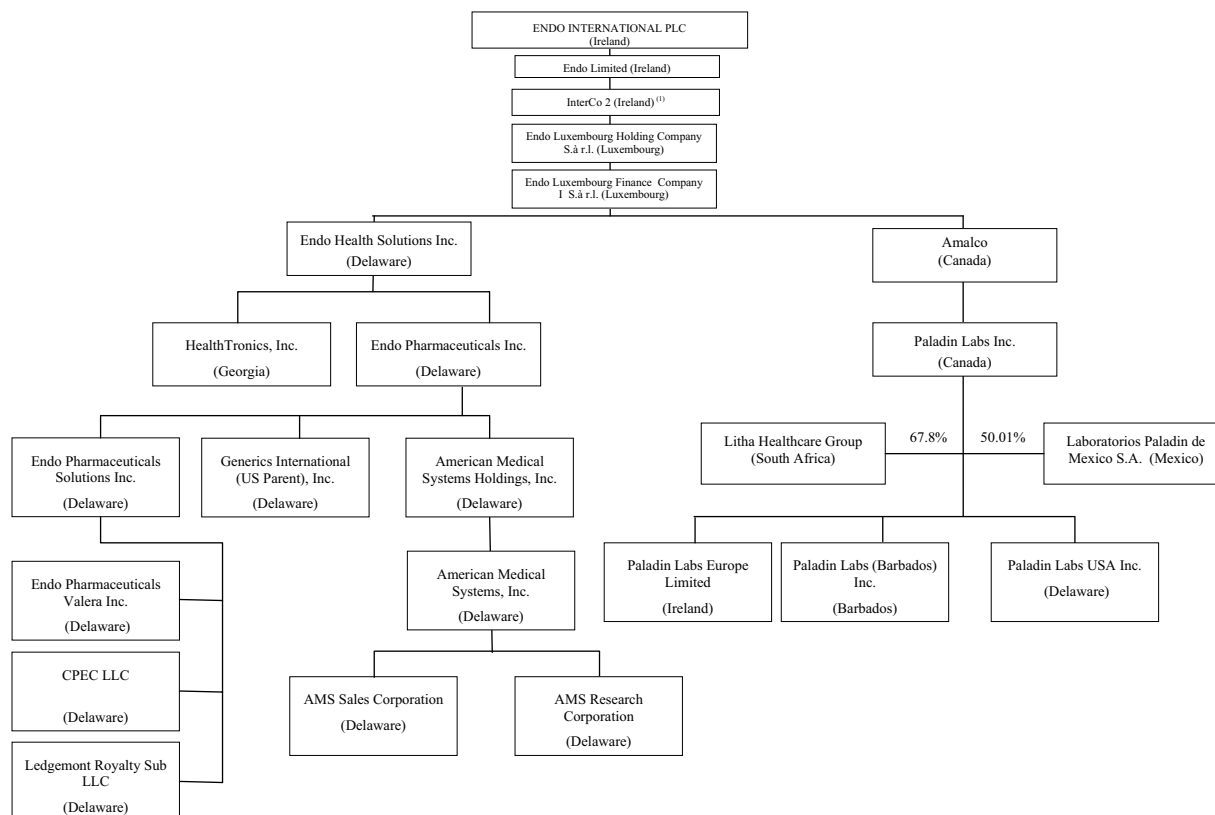
incident to its formation and the execution of the Arrangement Agreement. 8312214 Canada Inc.'s principle executive offices are located at 79 Wellington Street West Suite 3000, TD Centre Toronto, Ontario M5K 1N2.

Intercorporate Relationships of the Companies

The following is an organizational chart showing the intercorporate relationships of each of Paladin and Endo immediately before the commencement of the Arrangement:



The following is an organizational chart showing the intercorporate relationships of Paladin and Endo after the completion of the Transactions and other transactions expected to take place immediately thereafter:



Note:

(1) As defined in the Plan of Arrangement, as it may be amended in accordance with its terms.

Unless otherwise indicated, each subsidiary indicated on the above charts is wholly-owned. As of January 10, 2014, Paladin holds a 67.8% interest in Litha. See “*Interest of Informed Persons in Material Transactions—Litha Related Entities*” beginning on page 214. On January 9, 2014 Endo announced that it had entered into the HealthTronics Sale Agreement to sell the HealthTronics Business. The transaction contemplated by the HealthTronics Sale Agreement is expected to close in the first quarter of 2014, pending customary regulatory approvals and satisfaction of certain other customary closing conditions. See “*Information Concerning Endo Health Solutions Inc. —Recent Developments*” beginning on page 139.

THE ARRANGEMENT AGREEMENT

The following is a summary of certain material terms of the Arrangement Agreement and is qualified in its entirety by reference to the complete text of the Arrangement Agreement, which is incorporated into this Circular by reference in its entirety and attached as Appendix “C” to this Circular. Paladin urges you to read carefully this entire Circular, including the appendices and the documents incorporated by reference. You should also review the section entitled “*Additional Information*” beginning on page 216.

The Arrangement Agreement has been included to provide you with information regarding its terms, and Paladin recommends that you read the Arrangement Agreement carefully and in its entirety. Except for its status as the contractual document that establishes and governs the legal relations among the parties with respect to the

Arrangement and the Merger, Paladin does not intend for the Arrangement Agreement to be a source of factual, business or operational information about the companies. The Arrangement Agreement contains representations and warranties of the parties as of specific dates and may have been used for purposes of allocating risk between the parties rather than establishing matters as facts. Those representations and warranties are qualified in several important respects, which you should consider as you read them in the Arrangement Agreement. The representations and warranties are qualified in their entirety by certain information Endo filed with the SEC, or Paladin filed with the Canadian Securities Administrators prior to the date of the Arrangement Agreement, as well as by confidential disclosure letters that Endo and Paladin delivered to each other in connection with the execution of the Arrangement Agreement, and are qualified by contractual standards of materiality that may differ from what shareholders consider to be material. Information concerning the subject matter of the representations and warranties may have changed since the date of the Arrangement Agreement and new information qualifying a representation or warranty may have been included in this Circular. For the foregoing reasons, you should not rely on the representations and warranties contained in the Arrangement Agreement as statements of factual information.

Closing of the Arrangement and the Merger

Unless the Arrangement Agreement is terminated prior to such time (see “—*Termination of the Arrangement Agreement*” beginning on page 133), the Closing will occur on a date to be specified by Endo and Paladin, which shall be no later than the first business day following the satisfaction or waiver of all of the conditions set forth in the Arrangement Agreement (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions).

As soon as practicable on the Closing Date, Endo shall file the certificate of merger with the Secretary of State of the State of Delaware and make any and all other filings required under the General Corporation Law of the State of Delaware. On the terms and subject to the conditions of the Arrangement Agreement, at the Merger Effective Time, Merger Sub will be merged with and into Endo and the separate existence of Merger Sub will cease. Endo will survive the Merger as an indirect wholly-owned subsidiary of New Endo.

The Arrangement requires approval by the Quebec Court under section 192 of the CBCA. On January 17, 2014, Paladin obtained the Interim Order providing for the calling and the holding of the Meeting and other procedural matters related to the Arrangement. The text of the Interim Order is set out in Appendix “D” to this Circular.

Subsequent and subject to the approval of the Arrangement Resolution by Paladin Shareholders at the Meeting in accordance with the Interim Order, the hearing in respect of the Final Order will be scheduled. At the hearing, the Québec Court will consider, among other things, the fairness and reasonableness of the Arrangement. The Québec Court may approve the Arrangement in any manner it may direct, subject to compliance with such terms and conditions, if any, as it deems fit. Participation in the hearing on the Final Order, including who may participate and present evidence or argument and the procedure for doing so, will be subject to the terms of the Interim Order.

Any Paladin Shareholder or other person who wishes to participate, to appear, to be represented, and to present evidence or arguments at the hearing, must serve and file a notice of appearance and satisfy the other requirements of the Québec Court, as will be outlined in the Interim Order. In the event that the hearing is postponed, adjourned or rescheduled then, subject to further direction of the Québec Court, only those persons having previously served a notice of appearance in compliance with the Interim Order will be given notice of the new date. Assuming the Final Order is granted and the conditions to Closing contained in the Arrangement Agreement are satisfied or waived, then the Articles of Arrangement that are required by the CBCA to be sent to the Director, after the Final Order is made which shall be in form and substance satisfactory to each of Paladin and Endo, acting reasonably, will be filed with the Director to give effect to the Arrangement.

Merger Consideration to Endo Shareholders

At the Merger Effective Time, each Endo Share then issued and outstanding, and all rights in respect thereof, shall be cancelled and automatically converted into and become the right to receive one New Endo Share.

Arrangement Consideration to Paladin Shareholders

At the Effective Time, Paladin Shareholders will receive the Arrangement Consideration in exchange for each Paladin Share held by such shareholders.

The Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo's 10-day volume weighted average price during the agreed reference period declines by more than 7% relative to a reference price of US\$44.4642 per share. Full cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) will be provided by Endo to Paladin Shareholders for any share price declines of more than 7% but less than 20% from the reference price. If Endo's share price declines between 20% and 24% from the reference price during the agreed reference period, Endo will provide cash compensation (determined on a U.S. dollar basis converted into and paid in Canadian dollars) for one half of the incremental decline to Paladin Shareholders. Declines in Endo's share price beyond 24% from the reference price will not give rise to further cash compensation to Paladin Shareholders. The maximum amount potentially payable to Paladin Shareholders under this price protection mechanism is US\$233 million.

Alternative Election Procedure for Certain Paladin Shareholders

CanCo 1 has agreed pursuant to the Arrangement Agreement to allow Paladin Shareholders to elect to transfer their Paladin Shares to a Qualifying Holdco in exchange for Qualifying Holdco Shares and to sell such Qualifying Holdco Shares to CanCo 1 as described below. As consideration for the Qualifying Holdco Shares, such holder will be entitled to receive from CanCo 1 the Arrangement Consideration on the same basis as the Paladin Shareholders.

CanCo 1 will permit a Qualifying Holdco Shareholder to elect in respect of Paladin Shares, by notice in writing provided to CanCo 1 and Endo not later than the Holdco Election Time, to sell to CanCo 1 all of the issued Qualifying Holdco Shares, which shall not be comprised of more than one class of shares, that satisfies the conditions described below:

- (a) such Qualifying Holdco was incorporated under the laws of Canada not earlier than the date of the Arrangement Agreement, unless written consent is obtained from Endo;
- (b) such Qualifying Holdco is a single purpose corporation that has not carried on any business, has no employees, has not held or does not hold any assets other than Paladin Shares and a nominal amount of cash, has never entered into any transaction other than those relating to and necessary for the ownership of Paladin Shares or, with Endo's prior written consent, such other transactions as are necessary to facilitate those transactions described in the Plan of Arrangement;
- (c) at the Effective Time, such Qualifying Holdco has no liabilities or obligations of any kind whatever (except to New Endo, CanCo 1 or Paladin under the terms of the Holdco Alternative);
- (d) at the Effective Time, such Qualifying Holdco will not have unpaid declared dividends and, prior to the Effective Time, such Qualifying Holdco shall not have paid any dividends or other distributions, other than an increase in stated capital, a share/stock dividend, a cash dividend financed with a daylight loan or a dividend paid through the issuance of a promissory note with a determined principal amount and any such promissory note issued in relation to the payment of any such dividend shall no longer be outstanding at the Effective Time;
- (e) such Qualifying Holdco shall have no shares outstanding other than the shares being transferred to CanCo 1 by the Qualifying Holdco Shareholder, who shall be the sole beneficial owner of such shares

free and clear of all encumbrances, and no other person shall have any option, warrant or other right to acquire any securities of such Qualifying Holdco;

- (f) at all times such Qualifying Holdco shall be a resident of Canada for the purposes of the ITA and shall not be a resident of, and shall have no taxable presence in, any other country;
- (g) such Qualifying Holdco shall have not more than three directors and three officers;
- (h) the Qualifying Holdco Shareholder shall at its cost and in a timely manner prepare and file all income returns of such Qualifying Holdco in respect of the taxation year of such Qualifying Holdco ending immediately prior to the acquisition of such Qualifying Holdco by CanCo 1, subject to New Endo's right to approve all such returns as to form and substance, such approval not to be unreasonably withheld or delayed;
- (i) the Qualifying Holdco Shareholder shall indemnify Paladin and CanCo 1, and any successor thereof, for any and all liabilities of the Qualifying Holdco existing at or before the Effective Time in a form satisfactory to Endo acting reasonably;
- (j) each Qualifying Holdco Shareholder will be required to enter into a share purchase agreement and other ancillary documentation (collectively, the "**Holdco Agreements**") with CanCo 1 containing representations and warranties and covenants acceptable to Endo;
- (k) the Qualifying Holdco Shareholder will provide Paladin, Endo and CanCo 1 with copies of all documents necessary to effect the Transactions contemplated in the Arrangement Agreement on or before the 10th business day preceding the Effective Date, the completion of which will comply with applicable laws (including Canadian securities laws) at or prior to the Effective Time;
- (l) the entering into or implementation of the Holdco Alternative will not result in any delay in completing any other transaction contemplated by the Arrangement Agreement;
- (m) access to the books and records of such Qualifying Holdco shall have been provided on or before the 10th business day prior to the Effective Date and CanCo 1, Endo and its counsel shall have completed their due diligence regarding the business and affairs of such Qualifying Holdco; and
- (n) the Qualifying Holdco Shareholder will be required to pay all reasonable out-of-pocket expenses incurred by Endo, CanCo 1 and Paladin in connection with the Holdco Alternative, including any reasonable costs associated with any due diligence conducted by Endo, CanCo 1 or Paladin and the computation of Paladin's safe income.

Any Qualifying Holdco Shareholder who elects the Holdco Alternative will be required to make full disclosure to Endo and CanCo 1 of all transactions involved in such Holdco Alternative. In the event that the terms and conditions of or the transactions involved in such Holdco Alternative are not satisfactory to Endo, acting reasonably, no Holdco Alternative shall be offered and the other Transactions shall be completed subject to the other terms and conditions hereof.

Each Qualifying Holdco Shareholder that has elected the Holdco Alternative will be required to enter into the Holdco Agreements providing for the acquisition of all issued and outstanding shares of the Qualifying Holdco in a form consistent with the foregoing. Failure of any Qualifying Holdco Shareholder to properly elect the Holdco Alternative on or prior to the Holdco Election Date or failure of any Qualifying Holdco Shareholder to properly enter into the Holdco Agreements will disentitle such Qualifying Holdco Shareholder from the Holdco Alternative.

Upon request by a Qualifying Holdco Shareholder, Endo may in its sole discretion agree to waive any of the requirements described above.

Endo may, in its sole discretion and upon providing written notice to the other parties to the Arrangement Agreement, amend the structure of the Holdco Alternative, including to permit the Holdco Alternative to be

effected as a “tuck under” transaction, so long as any such amendments do not and will not have an adverse impact on any person wishing to elect the Holdco Alternative. In addition, Endo may, in its sole discretion and upon providing written notice to the other parties to the Arrangement Agreement, amend the Plan of Arrangement pursuant to Section 5.1(e) of the Plan of Arrangement to give effect to any such amendments to the Holdco Alternative so long as any such amendments to the Plan of Arrangement do not and will not have an adverse impact on any person wishing to elect the Holdco Alternative.

Choosing the Holdco Alternative will require a Paladin Shareholder to implement a corporate reorganization to hold the Paladin Shares. The Holdco Alternative may have favourable Canadian federal income tax consequences for certain Paladin Shareholders, but those consequences are not described in this Circular. Paladin Shareholders wishing to avail themselves of the Holdco Alternative should consult their own financial, tax and legal advisors.

Treatment of Outstanding Paladin Equity Awards

Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date. If the In-the-Money Amount per Share is equal to or less than zero then the consideration for the settlement of such right will be nil.

All Share Purchase Rights will be cancelled for a cash amount equal to 25% of the aggregate number of Paladin Shares purchased on behalf of that participant under the Paladin ESPP, with the participant's contributions in respect of each of the eight fiscal quarters ending immediately prior to the Effective Time (but excluding any Paladin Shares purchased with such participant's contributions after November 5, 2013 that exceeded his or her rate of contribution before that date), multiplied by the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date.

Each of the Paladin Stock Option Plan and the Paladin ESPP will be terminated at the Effective Time.

Representations and Warranties

Endo and Paladin made representations and warranties in the Arrangement Agreement on behalf of themselves and their respective subsidiaries that are subject, in some cases, to specified exceptions and qualifications contained in the Arrangement Agreement (including qualifications by concepts of knowledge, materiality and/or dollar thresholds) and are further modified and limited by confidential disclosure letters delivered by Endo and Paladin to each other. The representations and warranties made by Endo are also subject to and qualified by certain information included in Endo's filings made with the SEC and the representations and warranties made by Paladin are also subject to and qualified by certain information included in Paladin's filings on SEDAR at www.sedar.com.

The representations and warranties made by Paladin relate to the following subject matters, among other things:

- corporate organization and similar corporate matters, including the qualification to do business under applicable law, corporate standing and corporate power;
- the authority of Paladin to enter into the Arrangement Agreement and due execution and delivery of the Arrangement Agreement and the completion of the transactions contemplated thereby;
- required approvals;
- the absence of the violation of applicable laws, constating documents, material contracts or material permits as a result of the Arrangement and the Merger;

- the capital structure and equity securities of Paladin;
- Paladin subsidiaries;
- “reporting issuer” status under and compliance with applicable Canadian securities laws;
- compliance with listing requirements;
- certain financial statements;
- internal controls and disclosure controls;
- the absence of certain undisclosed liabilities;
- the absence of certain changes and events since December 31, 2012 or June 30, 2013, as applicable;
- compliance with applicable laws;
- possession of material permits required by applicable laws;
- litigation;
- title to real property, absence of liens and leasehold interests;
- leases of real property;
- assets;
- taxes;
- material contracts, including the absence of violation or breach in any material respect of each such contract;
- labour and other employment matters, including benefit plans;
- compliance with certain regulatory matters;
- intellectual property;
- environmental matters;
- insurance;
- relationships with third parties;
- books and records;
- non-arm’s length transactions;
- no collateral benefits;
- corrupt practices legislation;
- fairness opinion from Paladin’s financial advisor;
- Paladin board approval; and
- Paladin Shareholder approval.

The representations and warranties made by Endo relate to the following subject matters, among other things:

- corporate organization and similar corporate matters;
- the authority of Endo to enter into the Arrangement Agreement and due execution and delivery of the Arrangement Agreement and the completion of the transactions contemplated thereby;
- required approvals;

- the absence of the violation of applicable laws, constating documents, material contracts or material permits as a result of the Arrangement and the Merger;
- the capital structure and equity securities of Endo;
- validity and authorization to issue the New Endo Shares to be issued pursuant to the Plan of Arrangement and the Merger;
- Endo public disclosure record;
- certain financial statements;
- compliance with applicable listing requirements;
- absence of certain liabilities;
- absence of certain changes and events since December 31, 2012 or June 30, 2013, as applicable;
- compliance with applicable laws;
- litigation;
- material contracts, including the absence of violation or breach in any material respect of each such contract;
- Endo board approval;
- Endo Shareholder approval;
- classification as Canadian under Investment Canada Act;
- financial resources;
- taxes; and
- the effect of the Arrangement and the Merger on incorporation and incentive plans.

The representations and warranties made by New Endo relate to the following subject matters, among other things:

- business and operations;
- capital structure and equity securities of New Endo; and
- whitewash requirements under the Companies Acts.

Under the Arrangement Agreement, Endo and Paladin agreed that except for the representations and warranties expressly contained in the Arrangement Agreement, each party does not make any other representation or warranty.

Survival of Representations and Warranties

The representations and warranties of Endo, New Endo and Paladin contained in the Arrangement Agreement will terminate and expire immediately following the Closing (or, if the Arrangement Agreement is earlier terminated, at the time of the expiration).

Material Adverse Effect

Several of the representations, warranties, covenants, closing conditions and termination provisions contained in the Arrangement Agreement refer to the concept of a “material adverse effect”.

For purposes of the Arrangement Agreement, a “material adverse effect” with respect to each of Endo or Paladin means any result, fact, change, effect, event, circumstance, occurrence or development that, taken

together with all other results, facts, changes, effects, events, circumstances, occurrences or developments, has, or would reasonably be expected to have, a material and adverse effect on the business, operations, results of operations or condition (whether financial or otherwise) of the subject company and its subsidiaries, taken as a whole, except as arising out of or resulting from any of the following:

- changes, developments or conditions in or relating to general international, political, economic or financial or capital market conditions, or political, economic or financial or capital market conditions in any jurisdiction in which the subject company or any of its subsidiaries operate or carry on business;
- changes, developments or conditions resulting from any act of sabotage or terrorism or any outbreak of hostilities or declared or undeclared war, or any escalation or worsening of such acts of sabotage, terrorism, hostilities or war;
- any earthquake, hurricane, tornado or other similar natural disaster;
- changes or developments in or relating to currency exchange or interest rates;
- changes or developments generally affecting the pharmaceutical industry or the medical device industry (as applies only to an Endo material adverse effect);
- any change in IFRS or U.S. GAAP;
- any actions taken (or omitted to be taken) by the subject company upon the express written request of the other party; or
- any failure by the subject company to meet projections of revenue, earnings or other financial measures in and of itself (provided that the underlying cause of such failure may be taken into account in determining whether a material adverse effect has occurred unless otherwise excluded under this definition),

provided, however, that the effect of the changes or developments described in all bullets above other than the last two bullets shall not be excluded to the extent that any of the changes or developments therein disproportionately adversely affect the subject company and its subsidiaries, taken as a whole, in comparison to other persons who operate in a similar industry.

Covenants

Paladin Interim Operating Covenants

Paladin has undertaken covenants in the Arrangement Agreement relating to the conduct of its business prior to the completion of the Arrangement or the earlier termination of the Arrangement Agreement. Unless Endo otherwise consents in writing (to the extent that such consent is permitted by applicable law) or expressly permitted or specifically contemplated by the Arrangement Agreement or as is otherwise required by applicable law or order, Paladin:

- and its subsidiaries will maintain their respective facilities and will continue to operate and conduct their respective businesses in the ordinary course;
- and its subsidiaries will comply in all material respects with the terms of all material contracts and Paladin will use its commercially reasonable efforts to maintain and preserve its and its subsidiaries' respective business organizations, assets, permits, properties, rights, goodwill and business relationships and keep available the services of its and its subsidiaries' respective officers and employees as a group;
- will not, and will cause its wholly-owned subsidiaries not to, and will use its commercially reasonable efforts, in its capacity as a shareholder of Litha to cause Litha not to (provided that nothing shall restrict any director or officer of Litha in the exercise of its fiduciary or other applicable duties to Litha), directly or indirectly:
 - amend or otherwise change the Paladin charter documents;

- declare, set aside or pay any dividend on or make any distribution or payment or return of capital (x) in respect of Paladin Shares or (y) in respect of the equity interests of any subsidiary of Paladin that is not directly or indirectly wholly-owned by Paladin (in each case, whether in cash or property);
- split, divide, consolidate, combine or reclassify Paladin Shares or any other securities;
- issue, grant, sell or pledge or authorize or agree to issue, grant, sell or pledge any Paladin Shares or other securities of Paladin or its subsidiaries (including options or any equity-based or equity-linked awards such as restricted or deferred share units or phantom share plans), or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, Paladin Shares or other securities of Paladin or its subsidiaries, other than the issuance of Paladin Shares issuable pursuant to the exercise of options outstanding on the date hereof or otherwise in accordance with a certain Paladin ESPP;
- (A) grant any increases in the compensation of any of its directors, executive officers or employees, except for increases in the compensation of employees with total annual compensation not in excess of \$500,000 in the ordinary course of business consistent with past practice; (B) except as required by the Arrangement Agreement or as required by applicable law (i) grant or increase any severance, change in control, termination or similar compensation or benefits payable to any director, officer or employee, (ii) except as contemplated by the Arrangement Agreement, accelerate the time of payment or vesting of, or the lapsing of restrictions with respect to, or fund or otherwise secure the payment of, any compensation or benefits under any Paladin plan or (iii) enter into, terminate or materially amend any Paladin plan (or any plan, program, agreement, or arrangement that would constitute a Paladin plan if in effect on the date hereof); (C) hire any person to be employed by Paladin or any of its subsidiaries or terminate the employment of any employee of Paladin or any of its subsidiaries, other than the hiring or firing of employees with total annual compensation not in excess of \$500,000 in the ordinary course of business consistent with past practice or (D) grant any equity or equity-based awards;
- redeem, purchase or otherwise acquire any outstanding Paladin Shares or other securities or securities convertible into or exchangeable or exercisable for Paladin Shares or any such other securities, other than in transactions between two or more Paladin wholly-owned subsidiaries or between Paladin and a Paladin wholly-owned subsidiary;
- amend the terms of any securities of Paladin or any of its subsidiaries;
- adopt a plan of liquidation or resolution providing for the liquidation or dissolution of Paladin or any of its subsidiaries;
- reorganize, amalgamate or merge;
- make any material changes to any of its accounting policies, principles, methods, practices or procedures (including by adopting any material new accounting policies, principles, methods, practices or procedures) or as contemplated by the Arrangement Agreement or in connection with any transactions contemplated by the Arrangement Agreement, except as required by applicable laws or IFRS;
- make any material change to its general practices and policies relating to the payment of accounts payable or the collection of accounts receivable;
- except for sales in the ordinary course of business, or as contemplated hereby or in connection with any transactions contemplated hereby, sell, pledge, lease, license, dispose of or encumber any assets or properties of Paladin (including the shares or other equity securities of any subsidiary of Paladin) or of any of its subsidiaries having a value greater than \$1,000,000 in the aggregate;
- (A) acquire (by merger, amalgamation, consolidation, arrangement or acquisition of shares or other equity securities or interests or assets or otherwise) any corporation, partnership, association

or other business organization or division thereof or any property or asset, or make any investment by the purchase of securities, contribution of capital, property transfer, or purchase of any property or assets of any other person or entity that, together with all other such acquisitions, investments, contributions, transfers or purchases, has a value greater than \$5,000,000 in the aggregate other than in connection with the purchase of additional Litha shares for an aggregate consideration equal to \$15,000,000 or (B) enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement with respect to such a transaction;

- incur any indebtedness or issue any debt securities, or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other person or entity, or make any loans or advances in excess of \$1,000,000 in the aggregate to any other persons or entities;
- enter into any material currency, commodity, interest rate or equity related hedge, derivative, swap or other financial risk management contract;
- pay, discharge or satisfy any claim, liability or obligation prior to the same being due, other than the payment, discharge or satisfaction of liabilities reflected or reserved against in Paladin financial statements, or voluntarily waive, release, assign, settle or compromise any proceeding, where such payment, discharge, satisfaction, waiver, release, assignment, settlement or compromise exceeds \$1,000,000 in the aggregate or in any case, would entail any non-monetary damages;
- settle or compromise any action, claim or other proceeding brought by any present, former or purported holder of its securities in connection with the Transactions;
- enter into any material new line of business, enterprise or other activity;
- expend or commit to expend any amounts with respect to capital expenses, where such expenditure or commitment exceeds \$1,000,000 in the aggregate;
- enter into any lease or sublease of real property (whether as a lessor, sublessor, lessee or sublessee), or modify, amend or exercise any right to renew any lease or sublease of real property or acquire any interest in real property that would exceed \$500,000 per year;
- (x) other than in the ordinary course of business, enter into any contract that would, if entered into prior to the date hereof, be a Paladin material contract, or (y) materially modify, materially amend or terminate any Paladin material contract or waive, release or assign any material rights or claims thereunder;
- other than in the ordinary course of business, fail to use commercially reasonable efforts to maintain in full force and effect the existing material insurance policies covering Paladin or its subsidiaries;
- make, change, revoke or rescind any material election relating to taxes or make any material amendment with respect to any tax return;
- take any action that would reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger;
- make, or permit any of Paladin's subsidiaries to, make, any loan to any officer or director of Paladin or any of its subsidiaries;
- enter into, modify or terminate any contract with respect to any of the foregoing or otherwise agree or announce an intention to do any of the foregoing; or
- other than in the ordinary course of business, submit any material information to or enter into any material discussions with or respond to any enquiry from any regulatory authority with respect to any product, without having fully and promptly consulted with, and had due regard to the feedback received from, Endo;

- will comply with all laws, and use commercially reasonable efforts to comply with all regulatory guidelines affecting the operation of Paladin; and
- will promptly notify Endo in writing of any “material change” (as defined in the Securities Act (Ontario)) in relation to Paladin, and Paladin will promptly notify Endo in writing of any circumstance or development that, to the knowledge of Paladin, has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Paladin.

Endo Interim Operating Covenants

Endo has undertaken covenants in the Arrangement Agreement relating to the conduct of its business prior to the completion of the Merger or the earlier termination of the Arrangement Agreement. Unless Paladin otherwise consents in writing (to the extent that such consent is permitted by applicable law) or as is otherwise expressly permitted or specifically contemplated by the Arrangement Agreement or as is otherwise required by applicable law or order, Endo:

- and Endo’s material subsidiaries will maintain their respective facilities and will continue to operate and conduct their respective businesses in the ordinary course;
- will use commercially reasonable efforts to maintain and preserve its and its material subsidiaries’ respective business organizations, assets, properties, rights, goodwill and business relationships and keep available the services of its and its subsidiaries’ respective officers and employees as a group;
- will not, and will not permit any of its material subsidiaries to, directly or indirectly:
 - amend or otherwise change the Endo charter documents in a manner adverse to Paladin Shareholders;
 - declare, set aside, make or pay any dividend or other distribution with respect to any of its securities other than in the ordinary course of business and consistent with past practice, except, in the case of any of Endo’s wholly-owned subsidiaries, for dividends payable to Endo or among wholly-owned subsidiaries of Endo;
 - split, divide, consolidate, combine or reclassify the Endo Shares;
 - amend the material terms of any other securities;
 - adopt a plan of liquidation or resolution providing for the liquidation or dissolution of Endo or any of its subsidiaries;
 - issue any Endo securities other than in settlement of any outstanding equity compensation awards; and
- will promptly notify Paladin of any circumstance or development that, to the knowledge of Endo, has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect.

Board Recommendations; Endo and Paladin Shareholder Meetings

The Endo board of directors has unanimously adopted resolutions approving the Arrangement Agreement, recommending that the holders of Endo Shares vote to adopt the Arrangement Agreement and the Transactions and directing that the Arrangement Agreement and the Merger be submitted to a vote of the Endo Shareholders. The Paladin Board of Directors has adopted resolutions approving the Arrangement Agreement, recommending that the Paladin Shareholders vote to adopt the Arrangement Resolution approving the Arrangement. In furtherance thereof and subject to the requirements of applicable law, Endo and Paladin have agreed to take all lawful action to convene a meeting of their respective shareholders, at which Endo Shareholders will consider the adoption of the Arrangement Agreement and approval of the Merger and Paladin Shareholders will consider

approving the Arrangement Resolution, as promptly as practicable after Endo's registration statement on Form S-4 of which the Endo Proxy Statement/Prospectus forms a part, is declared effective.

Under the Arrangement Agreement, subject to the exceptions set forth below, the Endo and Paladin boards of directors have agreed to recommend that their respective shareholders vote in favour of the adoption of the Arrangement Agreement and the approval of the Merger, in the case of Endo Shareholders, and in favour of the Arrangement Resolution in the case of Paladin. The Arrangement Agreement further provides that the Endo and Paladin board of directors may withdraw or modify its recommendation if, prior to the special meeting of its shareholders, the Endo or Paladin board of directors, respectively, determines in good faith, after consultation with its outside legal and financial advisors, that the failure to take the relevant action would be reasonably likely to be inconsistent with its fiduciary duties to its shareholders under applicable law. The Arrangement Agreement will be submitted to the holders of Endo Shares for approval and adoption at the special meeting regardless of whether the Endo board of directors changes its recommendation or approval after the date of the Arrangement Agreement unless the Arrangement Agreement is terminated prior to the date of such meeting pursuant to the terms thereof. The Arrangement Resolution will be submitted to the holders of Paladin Shares for approval and adoption at the special meeting, regardless of whether the Paladin board of directors changes its recommendation or approval after the date of the Arrangement Agreement unless the Arrangement Agreement is terminated prior to the date of such meeting pursuant to the terms thereof.

Third Party Acquisition Proposals

Subject to the exceptions described below, Endo and Paladin have each agreed that it will not, and none of its subsidiaries will, directly or indirectly, through any of their representatives or otherwise:

- initiate, solicit, facilitate or knowingly encourage any inquiries or the making of any acquisition proposal or potential acquisition proposal (which, for the purposes of this Circular, is defined as any proposal, offer, inquiry or indication of interest, for either Endo or Paladin with respect to (a) any acquisition by any person of the voting equity securities of Endo or Paladin, respectively, representing 20% or more of its voting equity securities then outstanding or (b) any acquisition by any person of any assets of Endo or Paladin, respectively, and/or its subsidiaries individually or in the aggregate contributing 20% or more of the consolidated revenue or representing 20% or more of the assets of Endo or Paladin, respectively, and its subsidiaries taken as a whole, whether in a single or in a series of related transactions, in each case excluding the Arrangement (with respect to Paladin) or the Merger (with respect to Endo) and other transactions contemplated by the Arrangement Agreement and any transaction between Endo or Paladin, respectively, and its wholly-owned subsidiaries);
- participate or engage in any discussions or negotiations regarding, or provide any information with respect to, or otherwise cooperate in any way with, or assist or participate in, knowingly encourage or otherwise facilitate, any effort or attempt by any other person (other than it or its affiliates) to make or complete an acquisition proposal;
- effect any change of recommendation by its board of directors; or
- accept or enter into any letter of intent, transaction agreement or other agreement, arrangement or undertaking constituting or related to, or that would reasonably be expected to lead to, any acquisition proposal.

However, if, prior to the Meeting or the special meeting of the Endo Shareholders, as applicable, Paladin or Endo receives a written acquisition proposal that was not solicited after the date of the Arrangement Agreement in contravention of the restrictions described above, Paladin or Endo, as applicable, may:

- contact the person making the acquisition proposal (or such person's representatives) solely for the purpose of clarifying the terms of such acquisition proposal and the likelihood of consummation of such acquisition proposal; and

- if the Paladin Board of Directors or the board of directors of Endo, as applicable, determines in good faith, following consultation with its outside legal counsel and financial advisors, that such acquisition proposal is, or could reasonably be expected to lead to, a “superior proposal” (as defined below) and that the failure to take the applicable action would be inconsistent with such board of directors’ fiduciary duties under applicable law, then Paladin or Endo, as applicable, may:
- furnish to such person (and such person’s representatives) non-public information relating to Paladin or Endo, as applicable, pursuant to a confidentiality agreement that is no less restrictive of such person than the confidentiality agreement between Paladin and Endo; provided that such non-public information provided to such person is also provided to Paladin or Endo, as applicable; and
- engage in discussions and negotiations with such person and its representatives with respect to such acquisition proposal.

A “superior proposal” with respect to Endo or Paladin for the purpose of this Circular means, in general terms, an unsolicited bona fide acquisition proposal for Endo or Paladin, respectively, involving an acquisition of its securities or assets at the 50% level in the case of Endo and, in the case of Paladin, at the 100% level as it relates to securities of Paladin and “all or substantially all” as it relates to assets of Paladin, by a third party which: (a) the board of directors has determined in good faith, after consultation with its financial advisors and outside legal counsel: (i) would, taking into account all of the terms and conditions of such acquisition proposal, and if consummated in accordance with its terms (but not assuming away any risk of non-completion), result in a transaction which is more favourable to the shareholders from a financial point of view than the Arrangement and the Merger; (ii) is reasonably capable of being completed in accordance with its terms, without undue delay, taking into account all legal, financial, regulatory and other aspects of such acquisition proposal and the person or persons making such acquisition proposal; (b) is not subject to any financing condition and in respect of which any required financing to complete such acquisition proposal has been demonstrated to be available to the satisfaction of the board of directors, acting in good faith after consultation with its financial advisors and outside legal counsel; and (c) is made available to all of the Endo Shareholders or the Paladin Shareholders as applicable, on the same terms and conditions.

Paladin may, prior to the Meeting, terminate the Arrangement Agreement or enter into an agreement in respect of an acquisition proposal or effect a change of recommendation of its board of directors if and only if:

- such acquisition proposal did not result from a breach of Paladin’s non-solicitation covenants under the Arrangement Agreement;
- the Paladin Board of Directors has determined in good faith, after consultation with its outside legal and financial advisors, that such acquisition proposal constitutes a superior proposal, as applicable, and that the failure to take the relevant action would be reasonably likely to be inconsistent with its board’s fiduciary duties;
- Paladin has delivered a written notice to Endo promptly (but in any event within one day) after the determination by the Paladin board of directors that a superior proposal exists advising Endo that Paladin has received a superior proposal and including written notice of the determination of the Paladin board of directors that the acquisition proposal constitutes a superior proposal and provided Endo with the document containing the acquisition proposal;
- a period of five business days has elapsed from the date on which Endo received the notice relating to a superior proposal and the document containing the acquisition proposal;
- Endo has been given the opportunity to offer to amend the terms of the Arrangement Agreement and the Arrangement and the Merger during such five day period and the Paladin board of directors has determined in good faith, after consultation with its outside legal counsel and financial advisors, that such acquisition proposal continues to be a superior proposal as compared to the Arrangement Agreement, the Arrangement and the Merger and that the failure to take the relevant action would be reasonably likely to be inconsistent with the Paladin board’s fiduciary duties; and

- the Paladin Board of Directors determines to terminate the Arrangement Agreement to enter into any agreement in respect of a superior proposal, it terminates the Arrangement Agreement and pays the termination fee as required under the Arrangement Agreement.

Endo may, prior to the special meeting of Endo Shareholders, terminate the Arrangement Agreement or enter into an agreement in respect of an acquisition proposal or effect a change of recommendation of its board of directors if and only if:

- such acquisition proposal did not result from a breach of Endo's non-solicitation covenants under the Arrangement Agreement;
- Endo's board of directors has determined in good faith, after consultation with its outside legal and financial advisors, that such acquisition proposal constitutes a superior proposal, and that the failure to take the relevant action would be reasonably likely to be inconsistent with its board's fiduciary duties; and
- if its board of directors determines to terminate the Arrangement Agreement to enter into any agreement in respect of a superior proposal, it terminates the Arrangement Agreement and pays the termination fee as required under the Arrangement Agreement.

Regulatory Approvals

Each party to the Arrangement Agreement shall use commercially reasonable efforts to:

- as promptly as practicable, obtain from any governmental authority all waivers, consents, clearances and approvals required to be obtained in connection with the consummation of the Transactions;
- as promptly as reasonably practicable (but in any event within 14 days following the date of the Arrangement Agreement), make all filings and submissions, including, without limiting the foregoing, an application by New Endo for an Advance Ruling Certificate or No-Action Letter under the Competition Act (Canada) (to the extent the Competition Act (Canada) Approval is required under applicable law in respect of the Transactions) and an application by New Endo for review under the Investment Canada Act, except that each party's pre-merger notification filings under Part IX of the Competition Act (Canada) will be made within 20 days of the filing of the Advance Ruling Certificate unless the parties agree otherwise, and thereafter make any other required or appropriate submissions, that are required or reasonably necessary to consummate the Transactions, including all filings and submissions required in connection with the required regulatory approvals; and
- as promptly as reasonably practicable, take reasonable actions to provide notice to any third party, or obtain from any third party any waivers, consents and approvals required to be obtained, in connection with the consummation of the Transactions.

Each of the parties to the Arrangement Agreement agrees to cooperate and to use commercially reasonable efforts to obtain any waivers, consents, clearances and approvals required in connection with the consummation of the Transactions under the HSR Act, the Competition Act (Canada), the Investment Canada Act, Competition Act (South Africa) and any other federal, provincial, state or foreign law designed to prohibit, restrict or regulate actions for the purpose or effect of monopolization or restraint of trade or foreign investment, and respond to any requests of any governmental authority for information or documentary material under any such relevant laws. In furtherance of the foregoing, each of Endo and Paladin also agrees to take any and all steps necessary to resolve any objections from governmental authorities and to avoid or eliminate impediments under any relevant law that may be asserted by any governmental authority with respect to the transactions so as to enable the Closing to occur as promptly as practicable and in any event no later than May 5, 2014 (or such later date as agreed to by the parties of the Arrangement Agreement); provided, however, that Endo and Paladin are not required to take any action or consent to taking any action that would, individually or in the aggregate, reasonably be expected to be material and adverse to Paladin and its subsidiaries and to Endo and its subsidiaries, taken as a whole.

Additional Agreements

The Arrangement Agreement contains certain other covenants, including covenants relating to cooperation between Endo and Paladin in the preparation of this Circular, other filings to be made with the SEC and other governmental filings, obtaining consents, access to information and performing their respective obligations regarding public announcements. Endo and Paladin have further agreed, as applicable, to the following additional covenants and agreements in the Arrangement Agreement, among others:

- New Endo, Endo and Paladin have agreed to take all required steps to cause (i) dispositions of Endo Shares resulting from the Arrangement or the Merger by each individual who will be subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Endo immediately prior to the Merger Effective Time to be exempt under Rule 16b-3 of the Exchange Act and (ii) acquisitions of New Endo Shares or Endo Shares resulting from the Arrangement or the Merger by each individual who will be subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Endo immediately prior to the Merger Effective Time to be exempt under Rule 16b-3 of the Exchange Act;
- Endo and Paladin have agreed to use their respective commercially reasonable efforts to cause the New Endo Shares to be issued in the Arrangement and the Merger to be approved for listing on NASDAQ subject only to official notice of issuance and conditionally approved for listing on TSX, subject only to the satisfaction of the customary listing conditions of TSX, prior to the Closing;
- Endo and Paladin have agreed to use their respective commercially reasonable efforts to cause the Knight Shares to be issued in the Arrangement to be conditionally approved for listing on TSX-V, subject only to the satisfaction of the customary listing conditions of TSX-V, prior to the Closing, provided that the obligations of Paladin and Endo to complete the Arrangement or consummate the Merger are not conditioned upon any such approval for listing;
- Endo and Paladin have agreed to use all reasonable endeavors to submit to the vote of their respective shareholders to approve the creation of distributable reserves of New Endo; and
- Endo and Paladin agree to use commercially reasonable efforts to execute agreements necessary to effect the transactions contemplated by the Business Separation Agreement.

Endo has agreed to use commercially reasonable endeavors to procure the carrying out of the whitewash requirements by New Endo and/or Endo Limited and any of their Irish subsidiaries prior to taking actions contemplated by the Arrangement Agreement which may constitute unlawful financial assistance under Irish law, and Endo and Paladin have agreed that such actions shall not be performed until the whitewash requirements have been met.

Employee Matters

Under the Arrangement Agreement New Endo agrees, subject to applicable legal requirements that:

- Continuing Employees will receive, during the one year period following the Closing Date, compensation and benefits that, with respect to each such employee, are substantially similar in the aggregate to either, in New Endo's sole discretion, (a) the compensation and benefits provided to similarly situated employees of Endo or (b) the compensation and benefits provided to such employee under the Paladin benefit plans;
- Continuing Employees who participate in the benefit plans of New Endo and Endo, which are referred to in this Circular as the "new plans", will generally receive credit under such plans for their years of service with Paladin before the Closing Date for purposes of vesting, eligibility to participate and level of benefits, and New Endo will generally use all reasonable endeavors to cause (a) pre-existing condition exclusions and actively-at-work requirements of the new plans to be waived for such Continuing Employees and (b) eligible expenses incurred by such Continuing Employees and their

eligible dependents under the Paladin plans to be taken into account under the new plans for the satisfaction of deductible, coinsurance and out-of-pocket requirements.

Nothing contained in the Arrangement Agreement will (a) create any right in any employee of Paladin or any of the subsidiaries to continued employment by New Endo, Endo, Paladin, or any respective subsidiary or preclude the ability of Endo, Paladin, or any respective subsidiary to terminate the employment of any employee for any reason, (b) require New Endo, Endo, Paladin, or any respective subsidiary to continue any Paladin benefit plans or prevent the amendment, modification or termination thereof after the Closing Date, (c) confer upon any Paladin employee any rights or remedies under or by reason of the Arrangement Agreement or (d) be treated as an amendment to any particular employee benefit plan of Endo, Paladin or any respective subsidiary.

Financing Covenant

Paladin agreed in the Arrangement Agreement to, and to cause its wholly-owned subsidiaries to, use its commercially reasonable efforts to cause its and their representatives to, use commercially reasonable efforts to provide customary and reasonable cooperation with respect to the arrangement of debt financing in connection with the consummation of Closing, including, subject to certain conditions and exceptions, among other things:

- assisting in the preparation for and participation in a reasonable number of lender marketing meetings, presentations, road shows and calls and a reasonable number of other due diligence and drafting sessions with prospective lenders and/or underwriters and ratings agencies and otherwise providing cooperation that is customary and reasonable in connection with the marketing efforts,
- providing pertinent and customary information regarding Paladin and its subsidiaries reasonably requested, including any requested documentation and other information regarding Paladin and its subsidiaries required under applicable “know your customer” and anti-money laundering rules and regulations, financial statements and financial projections, and other pertinent financial information,
- assisting in the preparation of appropriate and customary offering documents, lender and investor presentations, rating agency presentations, bank information memoranda, prospectuses and similar documents for the debt financing, which contain all financial statements and other data relating to Paladin and its subsidiaries and all appropriate pro forma financial information of Paladin and its subsidiaries in accordance with, or reconciled to, U.S. GAAP and prepared in accordance with Regulation S-X under the Securities Act and under applicable Canadian securities law, and all other data (including selected financial data) relating to Paladin and its subsidiaries that the SEC and applicable Canadian securities regulators would require in a registered debt offering or that would be necessary for an investment bank to receive customary “comfort” (including “negative assurance” comfort) from independent accountants in connection with a registered debt offering,
- providing reasonable and customary authorization letters authorizing the distribution of information to prospective lenders,
- causing its independent accountants to provide reasonable assistance and cooperation, including accounting due diligence sessions, and providing consent to use audit reports relating to Paladin and reasonable assistance in facilitating the provision of customary “comfort” (including “negative assurance” comfort) by such independent accountants,
- assisting with the review of and comment on the debt financing definitive documentation,
- taking all reasonable and customary corporate or other organizational action reasonably requested and necessary to permit the consummation of the debt financing,
- providing pertinent and customary information with respect to its property and assets and facilitating the pledge and perfection of liens security and the providing of guarantees supporting the debt financing,
- using commercially reasonable efforts to ensure that the financing sources benefit from the existing lending relationships of Paladin and its subsidiaries,

- providing all cooperation that is reasonable and customary to satisfy the conditions precedent to the debt financing or any financing documents relating thereto, and
- assisting Endo and its affiliates in obtaining corporate and facilities ratings for the debt financing.

Separation of Knight Therapeutics

Paladin and Endo agreed to cooperate and use commercially reasonable efforts to effect the transactions by which Impavido, Paladin's product for the treatment of leishmaniasis, is transferred to Knight Therapeutics or one of its affiliates. Prior to the Effective Time, Paladin and Knight Therapeutics will enter into the Business Separation Agreement providing for the transfer of the assets to be owned by, and the liabilities to be assumed by, Knight Therapeutics (or one of its affiliates) from Paladin and Barbco. The assets to be owned by Knight Therapeutics (or one of its affiliates) consist of: (a) the Impavido IP, (b) the Voucher or, if not issued at the time of the consummation of the transactions contemplated by the Business Separation Agreement, any rights to the Voucher, (c) the common shares of Delco, (d) the rights of Barbco, as licensor under the Barbco License and (e) \$1,000,000 in cash. The Business Separation Agreement will also provide that Knight Therapeutics or one of its affiliates, as licensor, will enter into the Distribution and License Agreement with Barbco. Pursuant to the Distribution and License Agreement, Barbco shall pay to Knight Therapeutics, or one of its affiliates, as the case may be, a fee of 22.5% of gross sales resulting from the worldwide commercialization of Impavido, other than the United States. For more information on Knight Therapeutics and on the Business Separation Agreement, see Appendix "F" of this Circular.

In connection with the transactions contemplated by the Business Separation Agreement, prior to the Effective Date, but in any event not later than 20 business days before the Effective Date, Paladin shall provide Endo with the Knight Therapeutics Valuation Report, which shall determine the fair market value of (a) the Impavido IP, (b) the Voucher, (c) the common shares of Delco, (d) the rights of Barbco under the License, (e) the rights of each party to the Distribution and License Agreement and (f) the Knight Shares that will be issued and outstanding after the completion of transactions contemplated by the Business Separation Agreement. Paladin has selected MNP LLP to prepare the Knight Therapeutics Valuation Report. All costs for the Knight Therapeutics Valuation Report shall be borne by Paladin. The Knight Therapeutics Valuation Report will be made available to Paladin Shareholders on SEDAR at www.sedar.com when it is complete.

For more information on Knight Therapeutics and on the Business Separation Agreement, see Appendix "F" of this Circular.

Officers and Directors upon Completion of the Merger

The directors of Merger Sub immediately prior to the Merger Effective Time will be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly appointed, elected and qualified. The officers of Merger Sub immediately prior to the Merger Effective Time shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified.

Endo and Paladin shall take all actions necessary so that, as of the earlier of the Effective Time or the Merger Effective Time, the board of directors of New Endo shall consist of individuals who are the members of the board of directors of Endo as of the date of the Arrangement Agreement.

Conditions to the Completion of the Arrangement and the Merger

The completion of the Transactions depends upon the satisfaction or waiver of a number of conditions, all of which, to the extent permitted by applicable law, may be waived by Endo and/or Paladin, as applicable.

The following conditions, among other conditions, must be satisfied or waived before Paladin is obligated to complete the Arrangement:

- Paladin Shareholders shall have approved the Arrangement at the Meeting;

- Endo Shareholders shall have approved the Merger at the special meeting of Endo Shareholders;
- the Québec Court shall have approved (i) the Interim Order and (ii) the Arrangement, in each case on terms acceptable to Paladin and Endo;
- NASDAQ shall have approved for listing (subject only to official notice of issuance) and TSX shall have conditionally approved (subject only to customary listing conditions) of the New Endo Shares to be issued in the Arrangement and the Merger;
- all required regulatory approvals shall have been obtained and shall remain in full force and effect and applicable waiting periods shall have expired or been terminated, in each case without the imposition of any action or consent to taking of any action by Endo or Paladin which would, individually or in the aggregate, reasonably be expected to be material and adverse to Paladin and its subsidiaries and Endo and its subsidiaries, taken as a whole;
- no governmental authority shall have enacted a law or order that prevents the consummation of the Transactions or instituted a proceeding to prohibit consummation of the Transactions;
- the registration statement of which the Endo Proxy Statement/Prospectus forms a part shall be effective, and there shall not be a stop order issued by the SEC suspending the effectiveness of such registration statement or any proceedings initiated for that purpose by the SEC;
- Endo shall have complied in all material respects with its obligations, covenants and agreements in the Arrangement Agreement to be performed or complied with on or before the Closing Date;
- since the date of the Arrangement Agreement, no material adverse effect on Endo shall be continuing and there shall not have occurred a result, fact, change, effect, event, circumstance, occurrence or development that would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Endo;
- as of the date of the Arrangement Agreement and as of the Closing Date, the representation and warranty made by Endo in the Arrangement Agreement relating to the absence of a material adverse effect since December 31, 2012 shall be true and correct in all respects;
- the remaining representations and warranties made by Endo in the Arrangement Agreement shall be true and correct in all respects (disregarding all materiality or material adverse effect qualifications) as of the Closing Date (other than representations and warranties which by their terms are made as of a specific date, which will be accurate as of such date), except for breaches of representations and warranties which have not had and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Endo;
- the representations and warranties made by New Endo in the Arrangement Agreement shall be true and correct in all respects as of the date of the Arrangement Agreement and as of the Closing Date; and
- Paladin shall have received a certificate dated the Closing Date and validly executed by a senior officer of Endo to the effect that certain conditions have been satisfied.

The following conditions, among other conditions, must be satisfied or waived before Endo is obligated to complete the Merger:

- Paladin Shareholders shall have approved the Arrangement at the Meeting;
- Endo Shareholders shall have approved the Merger at the special meeting of Endo Shareholders;
- the Québec Court shall have approved (i) the Interim Order and (ii) the Arrangement, in each case on terms acceptable to Paladin and Endo;
- NASDAQ shall have approved for listing (subject only to official notice of issuance) and TSX shall have conditionally approved (subject only to customary listing conditions) of the New Endo Shares to be issued in the Arrangement and the Merger;

- all required regulatory approvals shall have been obtained and shall remain in full force and effect and applicable waiting periods shall have expired or been terminated, in each case without the imposition of any restraint;
- no governmental authority shall have enacted a law or order that prevents the consummation of the Transactions or instituted a proceeding to prohibit consummation of the Transactions;
- the registration statement of which the New Endo Proxy Statement/Prospectus forms a part shall be effective, and there shall not be a stop order issued by the SEC suspending the effectiveness of such registration statement or any proceedings initiated for that purpose by the SEC;
- Paladin shall have complied in all material respects with its obligations, covenants and agreements in the Arrangement Agreement to be performed or complied with on or before the Closing Date;
- since the date of the Arrangement Agreement, no material adverse effect on Paladin shall be continuing and there shall not have occurred a result, fact, change, effect, event, circumstance, occurrence or development that would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Endo;
- as of the date of the Arrangement Agreement and as of the Closing Date, the representation and warranty made by Paladin in the Arrangement Agreement relating to the absence of a material adverse effect since December 31, 2012 shall be true and correct in all respects;
- the remaining representations and warranties made by Paladin in the Arrangement Agreement shall be true and correct in all respects (disregarding all materiality or material adverse effect qualifications) as of the Closing Date (other than representations and warranties which by their terms are made as of a specific date, which will be accurate as of such date), except for breaches of, individually or in the aggregate, representations and warranties which have not and would not reasonably be expected to have a material adverse effect on Paladin;
- no applicable law or order shall be and remain in effect which imposes, and no suit, action, claim, proceeding or investigation shall be pending or threatened by any governmental authority which seeks to impose any material limitations on Endo's or New Endo's ownership of Paladin or any Paladin subsidiary or any requirement that Endo, New Endo or Paladin or any of their respective subsidiaries agree to or implement any restraint;
- the Plan of Arrangement shall not have been modified or amended in a manner adverse to Endo without Endo's consent;
- Endo shall have received from Skadden an opinion, dated as of the Closing Date, to the effect that Section 7874 of the Code and the regulations promulgated thereunder should not apply in a manner so as to cause New Endo to be treated as a domestic corporation for U.S. federal income tax purposes from and after the Closing Date; and
- Endo shall have received a certificate dated the Closing Date and validly executed by a senior officer of Paladin to the effect that certain conditions have been satisfied.

Indemnification

All indemnification or exculpation rights existing in favour of present or former directors and officers of Paladin, Endo or any of their respective subsidiaries as provided in the constating documents of such party or contracts to which such a party is bound and which is in effect as of the date of the Arrangement Agreement will continue in full force and effect and without modification for the period contemplated therein.

In addition, New Endo will, and will cause each of Endo and Paladin to, maintain in effect for seven years from the Closing Date directors' and officers' liability insurance covering those persons who are currently

covered by the directors' and officers' liability insurance policies of Endo and Paladin, as applicable, on terms not less favourable than such existing insurance coverage.

Endo will indemnify and hold harmless the members of the boards of New Endo, CanCo 1, Endo Limited, Endo U.S., Merger Sub and their affiliates to the fullest extent permitted by applicable law for losses actually incurred by the director in connection with his or her duties as director for such entity from the date of the Arrangement Agreement to the Closing Date, unless such loss is related to:

- a violation of the director's duties under applicable law;
- gross negligence, fraud or intentional misconduct by the director; or
- actions taken or omitted by such director in violation of the organizational documents of the entities on which they serve as director or of the Arrangement Agreement.

Termination of the Arrangement Agreement

The Arrangement Agreement may be terminated at any time prior to the Closing in the following ways:

- by mutual written consent of Endo and Paladin;
- by either Endo or Paladin if the Closing shall not have occurred by the close of business on the date that is six months after the date of the Arrangement Agreement (or such later date as agreed to by the parties to the Arrangement Agreement), except that the right to so terminate the Arrangement Agreement will not be available to Endo or Paladin if its failure to fulfill any obligation under the Arrangement Agreement has been a principal cause of, or resulted in the failure of the Closing to occur by such date;
- by either Endo or Paladin if the requisite vote for approval of the Merger by the Endo Shareholders shall not have been obtained upon the taking of such vote(s) at a duly held meeting of shareholders of Endo, or at any adjournment thereof;
- by either Endo or Paladin if the requisite vote for approval of the Arrangement by the Paladin Shareholders shall not have been obtained upon the taking of such vote(s) at a duly held meeting of Paladin Shareholders, or at any adjournment thereof;
- by either Endo or Paladin if the Closing shall not have occurred by the close of business on the outside date, except that the right to so terminate the Arrangement Agreement will not be available to Endo or Paladin if its failure to fulfill any obligation under the Arrangement Agreement has been a principal cause of, or resulted in the failure of the Closing to occur by such date;
- by either Endo or Paladin if any governmental authority shall have issued a law or order or taken any other action restraining, enjoining or otherwise prohibiting the Arrangement or the Merger and such order or other action shall have become final and nonappealable;
- by Endo, (i) if the Paladin board changes its recommendation to approve the Arrangement, (ii) to permit Endo to enter into an agreement providing for a "superior proposal", (iii) if Paladin materially breaches its non-solicitation covenants in the Arrangement Agreement, (iv) if Paladin breaches any of its representations, warranties, covenants or other agreements contained in the Arrangement Agreement, which breach or failure would render the conditions precedent to Endo's obligations under the Arrangement Agreement not to be satisfied and which breach is not cured within 30 days following written notice by Endo to Paladin of such breach or by its nature cannot be cured within that time or (v) a material adverse effect on Paladin shall have occurred; or
- by Paladin, (i) if the Endo board changes its recommendation to approve the Arrangement, (ii) to permit Paladin to enter into an agreement providing for a "superior proposal", (iii) if Endo breaches any of its representations, warranties, covenants or other agreements contained in the Arrangement

Agreement, which breach or failure would render the conditions precedent to Paladin's obligations under the Arrangement Agreement not to be satisfied and which breach is not cured within 30 days following written notice by Paladin to Endo of such breach or by its nature cannot be cured within that time or (iv) a material adverse effect on Endo shall have occurred.

Termination Fees; Effect of Termination

Under the Arrangement Agreement, Paladin will be required to pay Endo a termination fee equal to \$60,000,000 if the Arrangement Agreement is terminated:

- by Paladin to permit Paladin to enter into an agreement that constitutes a "superior proposal"; or
- by:
 - Endo or Paladin if the Closing does not occur by May 5, 2014,
 - Paladin following the failure of Paladin Shareholders to approve the Arrangement Resolution, or
 - Endo if the Paladin Board of Directors has changed its recommendation to approve the Arrangement or Paladin materially breaches its non-solicitation covenants under the Arrangement Agreement,

if (x) prior to such termination, an acquisition proposal for Paladin shall have been made public and (y) within nine months following such termination, Paladin or its subsidiaries shall have consummated any transaction in respect to an acquisition proposal for Paladin or entered into an agreement expected to lead to an acquisition proposal for Paladin.

Under the Arrangement Agreement, Endo will be required to pay Paladin a termination fee equal to \$60,000,000 if the Arrangement Agreement is terminated:

- by Endo to permit Endo to enter into an agreement that constitutes a "superior proposal";
- by Paladin if the Endo board of directors has changed its recommendation to approve the Arrangement Agreement and the Transactions; or
- by:
 - Endo or Paladin if the Closing does not occur by May 5, 2014,
 - Endo or Paladin following the failure of Endo Shareholders to approve the Merger, or
 - Paladin if Endo materially breaches its non-solicitation covenants under the Arrangement Agreement,

if (x) prior to such termination, an acquisition proposal for Endo shall have been made public and (y) within nine months following such termination, Endo or its subsidiaries shall have consummated any transaction in respect to an acquisition proposal for Endo or entered into an agreement expected to lead to an acquisition proposal for Endo.

Obligations in Event of Termination

In the event of a termination as described above, the Arrangement Agreement will become void and of no effect except for certain sections of the Arrangement Agreement. Such termination shall not relieve any party to the Arrangement Agreement of any liability for damages resulting from a breach of the Arrangement Agreement.

Expenses

Whether the Transactions contemplated by the Arrangement Agreement are or are not consummated, all legal and accounting costs and expenses incurred in connection with the Arrangement Agreement and the Transactions thereunder will be paid by the party incurring such costs and expenses, subject to certain exceptions, including the following:

- fees associated with any filings shall be split evenly between Endo and Paladin;
- Endo shall reimburse Paladin for any documented out-of-pocket costs and expenses incurred by Paladin in connection with its cooperation with respect to the debt financing; or
- in the event of the commencement of a suit resulting from the failure of Endo or Paladin to pay a termination fee, the party that has failed to pay shall pay the other party is reasonable and documented costs and expenses in connection with such suit.

Amendment

The Arrangement Agreement may, at any time prior to Closing, be amended by written agreement of Endo and Paladin without notice or authorization on the part of Endo or Paladin Shareholders; provided however, that the sections with respect to the governing law, waiver of jury trial, attornment, service of process, third party beneficiaries, amendments, injunctive release, and no recourse may not be modified, waived by Endo or terminated in a manner that is adverse in any respect to a source of debt financing without the prior written consent of such source of debt financing.

Governing Law

The Arrangement Agreement is governed by and construed in accordance with the laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware, except that the approval and effectiveness of the Arrangement shall be governed by the CBCA.

Injunctive Relief

Endo and Paladin have acknowledged and agreed, subject to the provisions described under “*Termination of the Arrangement Agreement*” beginning on page 133, that each would be irreparably harmed if any of the provisions of the Arrangement Agreement are not performed in accordance with their specific terms or are otherwise breached for which money damages would not be an adequate remedy at law. Accordingly, Endo and Paladin will be entitled to an injunction or injunctions and other equitable relief to prevent breaches of the Arrangement Agreement, any requirement for the securing or posting of any bond in connection with the obtaining of such injunctive or other equitable relief is waived.

THE VOTING AGREEMENTS

The following is a summary of the material provisions of the Voting Agreements entered into by the Principal Paladin Shareholders, and is qualified in its entirety by reference to the full text of such Voting Agreements, which are attached as Schedule D to Appendix “C” to this Circular and are incorporated by reference into this Circular.

Concurrently with the execution and delivery of the Arrangement Agreement, each of the Principal Paladin Shareholders entered into a Voting Agreement with Endo. The Principal Paladin Shareholders owned in the aggregate approximately 34% of the outstanding Paladin Shares as of the date of the Arrangement Agreement. Approximately 7,131,336 Paladin Shares, or 34%, of Paladin Shares outstanding on the record date for the Meeting were held by the Principal Paladin Shareholders and subject to the restrictions of the Voting Agreements.

Jonathan Ross Goodman has agreed to vote (or cause to be voted) all Paladin Shares owned, indirectly or directly, now or in the future, whether beneficially or of record, by him and each of the other key Principal Paladin Shareholders that is a party to a voting trust agreement with the Voting Trustee has agreed that the Voting Trustee shall vote (or cause to be voted) all Paladin Shares owned, indirectly or directly, now or in the future, whether beneficially or of record, by such shareholder (collectively, the “**Subject Paladin Shares**”) at any meeting of Paladin Shareholders, or at any adjournment or postponement thereof, and on every action by written consent taken by Paladin Shareholders where votes on the Arrangement Resolution is sought:

- in favour of the Transactions, including the approval of the Arrangement Resolution and any actions required in furtherance thereof;
- against any acquisition proposal or merger, takeover bid or similar transaction involving Paladin;
- against any reorganization, recapitalization, dissolution, liquidation or winding up of Paladin or its subsidiaries; any amendment of Paladin’s incorporation documents that would reasonably be regarded as being directed towards or likely to prevent, delay or impede consummation of the transactions; and
- against any action that would result in a breach of representation, warranty or covenant of Paladin under the Arrangement Agreement; or any other action that would reasonably be regarded as being directed towards or likely to prevent, delay or impede the consummation of the transactions.

Restrictions on Shares Held by the Principal Paladin Shareholders

The Principal Paladin Shareholders have agreed to certain transfer restrictions for the Subject Paladin Shares. In particular, prior to the termination of the Voting Agreements, the Principal Paladin Shareholders may not (i) directly or indirectly, sell, transfer, tender, pledge, encumber, gift, assign or otherwise dispose of or exchange any or all of their Subject Paladin Shares or enter into any related contract, option, agreement, arrangement or understanding (including any profit sharing agreement), (ii) grant any proxies or powers of attorney, or any other authorization or consent with respect to any or all such Subject Paladin Shares or (iii) deposit any such Subject Paladin Shares into a voting trust or enter into a voting agreement with respect to such shares. The Voting Agreements will terminate upon consummation of the Transactions and, accordingly, the restrictions contained therein will no longer apply.

Each Principal Paladin Shareholder agrees that it will not exercise appraisal or dissent rights provided under any applicable laws or otherwise in connection with the Arrangement and the Transactions considered at the Meeting.

Subject to the terms of the Voting Agreements, the Paladin Principal Shareholders may enter into sale, hedging or other transactions with respect to the New Endo Shares that they will receive as consideration in the Arrangement.

Termination of the Voting Agreements

The Voting Agreements will terminate upon the earlier of (i) the termination of the Arrangement Agreement or (ii) the consummation of the Transactions. The Voting Agreements may also be terminated in writing by mutual agreement of the parties prior to the Effective Time, or by Jonathan Ross Goodman or the Voting Trustee, as the case may be, (i) if the Effective Date has not occurred by six months after the date of the Arrangement Agreement (or such later date as agreed to by the parties to the Arrangement Agreement), (ii) if the Arrangement Agreement is amended by the parties resulting in a reduction in the purchase price payable per security or (iii) if the volume weighted average price per share of the Endo Shares is less than 76% of US\$44.4642 during a reference valuation period, which will be the ten trading days ending on the third trading day prior to the date of the Meeting (or if such volume weighted average price is not available, as determined by a calculation agent using a reasonable, good faith estimate of such price for such reference valuation period).

CREATION OF DISTRIBUTABLE RESERVES OF NEW ENDO

Background

Under Irish law, dividends and distributions and, generally, share repurchases or redemptions, will only be permitted to be made following the Transactions from “distributable reserves” in New Endo’s unconsolidated balance sheet prepared in accordance with the Companies Acts. Distributable reserves generally means accumulated realized profits of New Endo less accumulated realized losses of New Endo and includes reserves created by way of capital reduction. In addition, no distribution or dividend will be able to be made unless the net assets of New Endo are equal to, or in excess of, the aggregate of New Endo’s called up share capital plus undistributable reserves and the distribution does not reduce New Endo’s net assets below such aggregate. Undistributable reserves include the share premium account, the capital redemption reserve fund and the amount by which New Endo’s accumulated unrealized profits, so far as not previously utilized by any capitalization, will exceed New Endo’s accumulated unrealized losses, so far as not previously written off in a reduction or reorganization of capital. See “*Description of New Endo Shares—Dividends*” beginning on page 181 and “*Description of New Endo Shares—Share Repurchases, Redemptions and Conversions*” beginning on page 182.

No dividend has been declared or paid by New Endo on the New Endo Shares since its incorporation.

Immediately following the Transactions, the unconsolidated balance sheet of New Endo will not contain any distributable reserves, and “shareholders’ equity” in such balance sheet will be comprised entirely of “share capital” (equal to the aggregate par value of the New Endo Shares issued pursuant to the Transactions) and “share premium” resulting from the issuance of New Endo Shares in the Transactions. The share premium arising will be equal to (1) the sum of (a) the aggregate market value of the Paladin Shares as of the close of trading on TSX on the day the Transactions are completed, less the cash consideration paid to the Paladin Shareholders pursuant to the acquisition less the value of the Knight Shares issued to the Paladin Shareholders, and (b) the net market value of the Endo Shares exchanged by Endo Shareholders for the right to receive New Endo Shares pursuant to the Merger, less (2) the nominal value of the New Endo Shares issued pursuant to the Transactions.

Paladin Shareholders are being asked at the Meeting to approve the Distributable Reserves Resolution and the shareholders of Endo are being asked at the Endo special meeting to approve a proposal to reduce some or all of the share premium of New Endo to allow the creation of distributable reserves of New Endo. If the Paladin Shareholders approve the Distributable Reserves Resolution and if the shareholders of Endo approve the creation of distributable reserves and the Transactions are completed, such approval will facilitate New Endo seeking the approval of the Irish High Court, which is required for the creation of distributable reserves to be effective, as soon as practicable following the completion of the Transactions.

The approval of the Distributable Reserves Resolution by Paladin Shareholders and the approval of distributable reserves proposal to the shareholders of Endo are not a condition to the completion of the Transactions and whether or not they are approved will have no impact on the completion of the Transactions. Accordingly, if the Paladin Shareholders approve the Arrangement Resolution and the shareholders of Endo approve the Transactions but either the Paladin Shareholders do not approve the Distributable Reserves Resolution or the shareholders of Endo (or both) do not approve the distributable reserves proposal, the Transactions will still be completed.

Until the Irish High Court approval is obtained, or distributable reserves are created as a result of the profitable operation of the New Endo group, New Endo will not have sufficient distributable reserves to pay dividends or to repurchase or redeem shares following the Transactions. In addition, although New Endo is not aware of any reason why the Irish High Court would not approve the creation of distributable reserves, the issuance of the required order is a matter for the discretion of the Irish High Court. See “*Risk Factors—Risks Related to the New Endo Shares*” beginning on page 49.

INFORMATION CONCERNING ENDO HEALTH SOLUTIONS INC.

The following discussion contains Forward-Looking Statements. Actual results may differ significantly from those projected in the Forward-Looking Statements. Factors that might cause future results to differ materially from those projected in the Forward-Looking Statements include, but are not limited to, those discussed in “*Risk Factors*” and elsewhere in this Circular. Additional information regarding the business of Endo can be found in the Endo Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on April 17, 2013. See “*Additional Information*” beginning on page 216 and “*Cautionary Note Regarding Forward-Looking Statements*” beginning on page 13.

Overview

Endo is a U.S.-based, specialty healthcare company focused on branded and generic pharmaceuticals, devices and services. Endo provides products to its customers which ultimately improve the lives of patients. Endo aims to maximize shareholder value by adapting to the continually evolving healthcare market and customer needs. Through Endo’s four operating segments: AMS, Endo Pharmaceuticals, HealthTronics and Qualitest, Endo is dedicated to improving care through an innovative suite of branded products, generics, devices, technology and services. On January 9, 2014 Endo announced that it had entered into the HealthTronics Sale Agreement to sell the HealthTronics Business. Endo regularly evaluates and, where appropriate, executes on opportunities to expand through acquisitions of products and companies in areas that will serve patients and customers and that Endo believes will offer above average growth characteristics and attractive margins. In particular, Endo looks to continue to enhance its product lines by acquiring or licensing rights to additional products and regularly evaluating selective acquisition and license opportunities. Such acquisitions or licenses may be effected through the purchase of assets, joint ventures and licenses or by acquiring other companies.

Endo’s principal executive offices are located at 1400 Atwater Drive, Malvern, Pennsylvania 19355 and its telephone number is (484) 216-0000. The Endo Shares are listed on NASDAQ under the symbol “ENDP”.

On November 5, 2013, Endo announced the acquisition of Paladin. In June 2011, Endo acquired AMS, a leading provider of medical devices and therapies for treating male and female pelvic health conditions. The acquisition of AMS strengthened Endo’s leading core urology franchise and expanded its presence in the medical devices market. In November 2010, Endo acquired Qualitest Pharmaceuticals a leading U.S. based privately-held generics company and the sixth largest U.S. generics company, as measured by prescriptions filled in the year ended December 31, 2012. Qualitest Pharmaceuticals is focused on cost-competitive, high-quality manufactured products with cost advantages or with high barriers to entry. In September 2010, Endo acquired its partner on Opana® ER, Penwest Pharmaceuticals Co., a drug delivery company focused on applying its drug delivery technologies and drug formulation expertise to the formulation of its collaborators’ product candidates under licensing collaborations. In July 2010, Endo acquired HealthTronics, a provider of urological services, products and support systems to urologists, hospitals, surgery centers and clinics and manufacturer of certain related medical devices, primarily for the urology community. In February 2009, Endo completed its acquisition of Indevus Pharmaceuticals, Inc., which is now called Endo Pharmaceuticals. Endo Pharmaceuticals is a specialty pharmaceutical company engaged in the acquisition, development and commercialization of products to treat conditions in urology, endocrinology and oncology. Endo Pharmaceuticals and Qualitest segments offer a variety of branded and generic pharmaceutical products in multiple therapeutic areas.

Endo Pharmaceuticals has a portfolio of branded pharmaceuticals that includes established brand names such as Lidoderm®, Opana® ER, Voltaren® Gel, Percocet®, Frova®, Supprelin® LA, Vantas®, Valstar® and Fortesta® Gel. Endo Pharmaceuticals comprised approximately 55% of Endo’s total revenues in 2012. Qualitest, Endo’s generics business unit, accounted for 21% of Endo’s total revenues in 2012, currently consists of products primarily focused in controlled substances, liquids, semi-solids and oral dose solids. Qualitest generally concentrates on selective generics that have barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. The AMS segment accounted for 17% of Endo’s total

2012 revenues and the HealthTronics segment accounted for 7% of Endo's total 2012 revenues. Endo generated total revenues of US\$3.03 billion for the year ended December 31, 2012.

As a result of the Merger, Endo will become an indirect wholly-owned subsidiary of New Endo.

Recent Developments

During the fourth quarter of 2013, the board of directors of Endo approved a sale of Endo's HealthTronics business unit, consistent with its previously announced plans. On January 9, 2014, Endo announced it had entered into the HealthTronics Sale Agreement to sell HealthTronics Business to HT Intermediate Company, LLC. The HealthTronics Business includes the following Endo business lines: lithotripsy services, prostate treatment services, medical products manufacturing, sales and maintenance and IT solutions. Under the terms of the HealthTronics Sale Agreement, HT Intermediate Company, LLC will make an upfront cash payment of US\$85 million to Endo, subject to certain cash and working capital adjustments as described in the HealthTronics Sale Agreement, and Endo will deliver all of the issued and outstanding shares of common stock of HealthTronics to HT Intermediate Company, LLC. The HealthTronics Sale Agreement further stipulates that, upon the closing of the sale, the HealthTronics Business shall have no less than US\$10 million of cash, as defined in the HealthTronics Sale Agreement. Subsequent to the closing of the sale, HT Intermediate Company, LLC could also be required to make additional payments to Endo of up to US\$45 million based on the future operating results of the HealthTronics Business. Subject to certain limitations, should HT Intermediate Company, LLC sell or agree to sell all or a material portion of the HealthTronics IT solutions business to a third party within the first 18 months after the closing of Endo's sale of the HealthTronics Business, HT Intermediate Company, LLC could also be responsible to make additional payments to Endo of up to US\$10 million. The transaction is expected to close in the first quarter of 2014, pending customary regulatory approvals and satisfaction of certain other customary closing conditions.

Certain Financial Information Concerning Endo

Included as Appendix "G" to this Circular are the Endo Annual Financial Statements.

Included as Appendix "H" to this Circular is the Management's Discussion and Analysis of Financial Condition and Results of Operations for Endo for each of the years ended December 31, 2012, 2011 and 2010.

Included as Appendix "I" to this Circular are the Endo 2013 Third Quarter Financial Statements.

Included as Appendix "J" to this circular is the Management's Discussion and Analysis of Financial Condition and Results of Operations for Endo for the nine months ended September 30, 2013.

Endo Products Overview

Endo Pharmaceuticals

The following table summarizes select products in Endo's Endo Pharmaceuticals portfolio:

<u>Branded Pharmaceutical Products</u>	<u>Active Ingredient(s)</u>	<u>Status</u>
Lidoderm®	lidocaine 5%	Marketed
Opana® ER ⁽¹⁾	oxymorphone hydrochloride	Marketed
Percocet®	oxycodone hydrochloride and acetaminophen	Marketed
Voltaren® Gel ⁽²⁾	diclofenac sodium topical gel 1%	Marketed
Frova® ⁽³⁾	frovatriptan succinate	Marketed
Supprelin® LA	histrelin acetate	Marketed
Vantas®	histrelin acetate	Marketed
Valstar®	valrubicin	Marketed
Fortesta® Gel ⁽⁴⁾	2% testosterone	Marketed

Notes:

- (1) Licensed marketing and development rights from Grünenthal GMBH.
- (2) Licensed marketing rights from Novartis Consumer Health, Inc.
- (3) Licensed marketing rights from Vernalis Development Limited.
- (4) Licensed marketing and development rights from Strakan International Limited.

Lidoderm®. Lidoderm® (lidocaine patch 5%) was launched in September 1999. A topical patch product containing lidocaine, Lidoderm® was the first FDA-approved product for the relief of the pain associated with post-herpetic neuralgia, a condition thought to result after nerve fibers are damaged during a case of Herpes Zoster (commonly known as shingles). Although Lidoderm® continues to receive a certain degree of protection from Orange Book-listed patents for, among other things, a method of treating post-herpetic neuralgia and the composition of the lidocaine-containing patch, in May 2012, Endo entered into a settlement and license agreement with Actavis allowing Actavis to launch its lidocaine patch 5%, a generic version of Lidoderm® on September 15, 2013. This agreement is further discussed in “Note 15. Commitments and Contingencies” in the Audited Financial Statements of Endo, included in Appendix “G” to this Circular. In 2012, 2011 and 2010, Lidoderm® net sales were \$947.7 million, \$825.2 million and \$782.6 million, respectively. Lidoderm® accounted for approximately 31% of Endo’s 2012 total revenues.

Opana® ER. Opana® ER was launched during the second half of 2006 and had shown prescription growth since its launch until the 2012 supply disruption, which caused some patients to switch to other pain relief products. Opana® ER is indicated for the relief of moderate-to-severe pain in patients requiring continuous, around-the-clock opioid treatment for an extended period of time. Opana® ER represents the first drug in which oxymorphone is available in an oral, extended-release formulation and is available in 5 mg, 7.5 mg, 10 mg, 15 mg, 20 mg, 30 mg and 40 mg tablets. In December 2011, the FDA approved Endo’s formulation of Opana® ER designed to be crush-resistant, which is called Opana® ER (oxymorphone hydrochloride) Extended-Release Tablets with INTAC® technology. This formulation of Opana® ER with INTAC® technology has the same dosage strengths, color and packaging and similar tablet size as original Opana® ER. Endo transitioned to the crush-resistant formulation in March 2012 upon successfully accelerating production of this formulation. Opana® ER net sales were \$299.3 million, \$384.3 million and \$239.9 million in 2012, 2011 and 2010, respectively. Opana® ER accounted for approximately 10% of Endo’s 2012 total revenues.

Voltaren® Gel. Endo launched Voltaren® Gel (diclofenac sodium topical gel 1%) in March 2008 upon closing of the license and supply agreement with Novartis AG and Novartis Consumer Health, Inc. Voltaren® Gel received regulatory approval in October 2007 from the FDA, becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren® Gel was granted marketing exclusivity in the U.S. as a prescription medicine until October 2010. It is the first prescription topical osteoarthritis treatment to have proven its effectiveness in both the knees and joints of the hands through clinical trials. Voltaren® Gel delivers effective pain relief with a favourable safety profile as its systemic absorption is 94% less than the comparable oral diclofenac treatment. In 2012, 2011 and 2010, net sales of Voltaren® Gel were \$117.6 million, \$142.7 million and \$104.9 million, respectively. Voltaren® Gel accounted for approximately 4% of Endo’s 2012 total revenues.

Percocet®. Launched in 1976, Percocet® (oxycodone hydrochloride and acetaminophen USP) Tablets CII is approved for the treatment of moderate-to-moderately severe pain. The Percocet® family of products had net sales of \$103.4 million, \$104.6 million and \$121.3 million in 2012, 2011 and 2010, respectively. The Percocet® franchise accounted for approximately 3% of Endo’s 2012 total revenues.

Frova®. Endo began shipping Frova® (frovatriptan succinate) Tablets upon closing of the license agreement with Vernalis Development Limited in mid-August 2004. Frova® is indicated for the acute treatment of migraine headaches in adults. Endo believes that Frova® has differentiating features from other migraine products,

including the longest half-life in the triptan class and a very low reported migraine recurrence rate in its clinical program. In 2012, 2011 and 2010, Frova® net sales were \$61.3 million, \$58.2 million and \$59.3 million, respectively.

Supprelin® LA. Supprelin® LA (histrelin acetate) was launched in the U.S. in June 2007. Supprelin® LA is a soft, flexible 12-month hydrogel implant based on Endo's hydrogel polymer technology that delivers histrelin acetate, a gonadotropin releasing hormone agonist and is indicated for the treatment of central precocious puberty in children. Central precocious puberty is the early onset of puberty in young children resulting in the development of secondary sex characteristics and, if left untreated, can result in diminished adult height attainment. The development of these secondary sex characteristics is due to an increase in the secretion of sex hormones, the cause of which is unknown. Endo markets Supprelin® LA in the U.S. through a specialty sales force primarily to pediatric endocrinologists. In 2012, 2011 and 2010, Supprelin® LA net sales were \$57.4 million, \$50.1 million and \$46.9 million, respectively.

Vantas®. Vantas® (histrelin acetate) was launched in the U.S. in November 2004. Vantas® is a soft, flexible 12-month hydrogel implant based on Endo's hydrogel polymer technology that delivers histrelin acetate, a gonadotropin releasing hormone agonist and is indicated for the palliative treatment of advanced prostate cancer. Endo is party to a License, Supply and Distribution Agreement with Orion Corporation granting the latter the rights to market Vantas® throughout Europe as well as certain other countries. Vantas® is also approved in Thailand, Singapore, Malaysia, and Argentina. Net sales of Vantas® were \$17.5 million, \$19.0 million and \$17.0 million in 2012, 2011 and 2010, respectively, primarily in the U.S.

Valstar®. Endo launched Valstar® (valrubicin) in September 2009. Valstar® is a sterile solution for intravesical instillation of valrubicin, a chemotherapeutic anthracycline derivative. Valstar® is indicated for intravesical therapy of bacillus Calmette-Guerin -refractory carcinoma *in situ* of the urinary bladder in patients for whom immediate cystectomy would be associated with unacceptable morbidity or mortality. Net sales of Valstar® were \$27.1 million, \$21.5 million and \$14.1 million in 2012, 2011 and 2010, respectively.

Fortesta® Gel. Fortesta® Gel is a patented two percent (2%) testosterone transdermal gel and is a treatment for men suffering from hypogonadism, also known as low testosterone. The precision-metered dose delivery system can be accurately customized and adjusted to meet individual patient needs with the appropriate dose. In August 2009, Endo entered into a License and Supply Agreement with Strakan International Limited, a subsidiary of ProStrakan Group plc, for the exclusive right to commercialize Fortesta® Gel in the U.S. Fortesta® Gel was approved by the FDA in December 2010. Endo launched Fortesta® Gel in the first quarter of 2011. Net sales of Fortesta® Gel were \$30.6 million and \$14.9 million in 2012 and 2011, respectively.

Hydrogel Polymer Implant. The hydrogel polymer implant is a subcutaneous, retrievable, non-biodegradable, hydrogel reservoir drug delivery device designed to provide sustained release of a broad spectrum of drugs continuously, at constant, predetermined rates. This technology serves as the basis for two of Endo's currently marketed products: Vantas® and Supprelin® LA.

The hydrogel polymer implant is the only soft, flexible, reservoir-based drug delivery system available for parenteral administration. Endo's implant is designed for easy, in-office physician insertion under local anesthesia. The hydrogel polymer compositions possess flexible, tissue-like characteristics providing excellent biocompatibility and patient comfort. The hydrogel polymer implant delivers drugs at zero-order kinetics and the duration of delivery can be predetermined over a range of times.

Other. The balance of Endo's other branded portfolio consists of a number of products, each of which accounted for 1% or less of Endo's total revenues in 2012.

Qualitest

The following table summarizes select products currently in Endo's Qualitest portfolio:

<u>Generic Pharmaceutical Products</u>	<u>Active Ingredient(s)</u>	<u>Status</u>
Endocet®	oxycodone hydrochloride and acetaminophen	Marketed
Morphine Sulfate ER	morphine sulfate	Marketed
Hydrocodone and acetaminophen	hydrocodone and acetaminophen	Marketed
Oxycodone and acetaminophen	oxycodone and acetaminophen	Marketed
Carisoprodol	carisoprodol	Marketed
Hydrocortisone	hydrocortisone	Marketed
Promethazine	promethazine	Marketed
Multi Vitamins	multi vitamins	Marketed
Acetaminophen and codeine	acetaminophen and codeine	Marketed
Spironolactone	spironolactone	Marketed
Isosorbide Mononitrate ER	isosorbide	Marketed
Triamcinolone	triamcinolone	Marketed
Phenobarbital	phenobarbital	Marketed
Methylprednisolone	methylprednisolone	Marketed
Lisinopril	lisinopril	Marketed

When a branded pharmaceutical product is no longer protected by any relevant patents, normally as a result of a patent's expiration, or by other, non-patent "market exclusivity," third parties have an opportunity to introduce generic counterparts to such branded product. Generic pharmaceutical products are therapeutically equivalent to their brand-name counterparts and are generally sold at prices significantly less than the branded product. Accordingly, generic pharmaceuticals may provide a safe, effective and cost-effective alternative to users of branded products.

Endo's generic products are sold across multiple therapeutic categories, with pain management being the largest, and in various dosage forms including solids, semi-solids and liquids. Qualitest's top 15 products provided revenues of \$373.1 million, \$335.6 million and \$122.7 million in 2012, 2011 and 2010, respectively.

AMS

The following table summarizes select products in Endo's AMS portfolio:

<u>Medical Devices</u>	<u>Therapy/Condition</u>	<u>Status</u>
AMS 700 MS™ Series; CX™, CXR™ and LGX™ three-piece inflatable penile prostheses	Erectile dysfunction	Marketed
AMS 800® artificial urinary sphincter	Moderate to severe male stress urinary incontinence	Marketed
GreenLight XPS™	Mild to severe symptoms of benign prostatic hyperplasia	Marketed
Elevate™ Anterior and Posterior	Apical and posterior pelvic floor repair	Marketed
Monarc® subfascial hammock	Female stress urinary incontinence	Marketed

Through Endo's AMS segment, Endo offers a diverse product portfolio that treats men's and women's pelvic health conditions, including:

AMS 700 MS™ Series. The AMS 700 MS™ Series are market leading penile implants to treat erectile dysfunction, which is the inability to achieve or maintain an erection sufficient for sexual intercourse. This service contains a complete range of more naturally functioning inflatable prostheses than earlier generations of

the product and is distinguished from other penile implants with the use of the InhibiZone® antibiotic coating. InhibiZone® is intended to reduce the rate of revision surgery due to surgical infections and this claim was approved by the FDA in July 2009. AMS 700 MS™ revenue since Endo's June 2011 acquisition of AMS accounted for approximately 4% of Endo's total revenues in 2012 compared to 2% in 2011.

AMS 800® Artificial Urinary Sphincter. The AMS 800® artificial urinary sphincter is designed for the treatment of moderate to severe male urinary incontinence, the involuntary release of urine from the body. It includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff when he wishes to urinate. AMS 800® revenue since Endo's June 2011 acquisition of AMS accounted for approximately 3% of Endo's total revenues in 2012 compared to 2% in 2011.

GreenLight™ XPS Laser System. The GreenLight™ XPS laser system is used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of benign prostatic hyperplasia or bulbar urethral strictures. This therapy offers men experiencing a physical obstruction of the prostatic urethra an alternative to transurethral resection of the prostate. The GreenLight™ photovaporization of the prostate is designed to reduce the comorbidities associated with transurethral resection of the prostate. The GreenLight™ XPS and MoXy™ Liquid Cooled Fiber system provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight™ laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and provides enhanced surgical control compared to other laser systems. The GreenLight™ laser and fiber system revenue since Endo's June 2011 acquisition of AMS accounted for approximately 3% of Endo's total revenues in 2012 compared to 2% in 2011.

Elevate™ Anterior and Posterior Pelvic Floor Repair System. Endo's AMS segment offers the Elevate® transvaginal pelvic floor repair system, for the treatment of pelvic organ prolapse, which may be caused by pregnancy, labour, and childbirth. Using an anatomically designed needle and self-fixating tips, Elevate® allows for safe, simple and precise mesh placement through a single vaginal incision, avoiding an external incision. Elevate® revenue since Endo's June 2011 acquisition of AMS accounted for approximately 1% of Endo's total revenues in both 2012 and 2011.

Monarc® Subfascial Hammock. The Monarc® subfascial hammock is Endo's leading device to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. It incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramen. Monarc® revenue since Endo's June 2011 acquisition of AMS accounted for approximately 1% of Endo's total revenues in both 2012 and 2011.

Select Products in Development

Endo Pharmaceuticals

Endo's branded pharmaceuticals pipeline portfolio contains products and product candidates that have differentiating features for multiple therapeutic areas, including pain, urology, oncology, and endocrinology. A selection of Endo's pipeline products are as follows:

Aveed™. Aveed™ is a novel, long-acting injectable testosterone preparation for the treatment of male hypogonadism. Male hypogonadism is an increasingly recognized medical condition characterized by a reduced or absent secretion of testosterone from the testes. Reduced testosterone levels can lead to health problems and significantly impair quality of life. Common effects of hypogonadism include decreased sexual desire, erectile dysfunction, muscle loss and weakness, depression, and an increased risk of osteoporosis. If approved, Aveed™ would be the first long-acting injectable testosterone preparation available in the U.S. in the growing market for testosterone replacement therapies. The U.S. rights to Aveed™ were acquired from Schering AG, Germany, in July 2005. Although not yet approved in the U.S., Aveed™ is approved in and currently marketed in Europe and a number of other countries. In May 2010, a new patent covering Aveed™ was issued by the U.S. Patent and Trademark Office. The patent's expiration date is March 14, 2027.

On December 2, 2009, Endo received a Complete Response letter from the FDA regarding Aveed™. In 2010 and 2011, Endo met with the FDA to discuss the existing clinical data provided to the FDA as well as the potential path-forward. In November 2012, as a follow up to Endo's 2011 meeting with the FDA, Endo submitted a complete response to the FDA after conducting an extensive review of all clinical study and post-marketing data. The FDA has set a tentative Prescription Drug User Fee Act date for May 2013, the outcome of which could have a material impact on (1) Endo management's assessment of the overall probability of approval, (2) the timing of such approval, (3) the targeted indication or patient population and (4) the likelihood of additional clinical trials.

BEMA® Buprenorphine. In January 2012, Endo signed a worldwide license and development agreement with BioDelivery Sciences International, Inc. for the exclusive rights to develop and commercialize BEMA® Buprenorphine. BEMA® Buprenorphine is a transmucosal form of buprenorphine, a partial mu-opiate receptor agonist, which incorporates a bioerodible mucoadhesive (BEMA®) technology. BEMA® Buprenorphine is currently in Phase III trials for the treatment of moderate to severe chronic pain.

ODM-201. In January 2011 Endo signed a discovery, development and commercialization agreement with Orion Corporation. ODM-201, the most advanced compound in the alliance, is an androgen receptor antagonist being developed for the treatment of castrate resistant prostate cancer. It is currently in Phase II clinical testing.

EN3342. EN3342 is a soft, flexible six-month polyurethane implant designed to deliver risperidone for the maintenance treatment of schizophrenia in adults. It is currently in Phase I/II clinical testing.

Other. Endo also has other products, including certain undisclosed products in its therapeutic areas of interest in early stages of development.

Endo cannot predict when or if any of these products will be approved by the FDA.

Qualitest

Endo's generics pharmaceuticals pipeline portfolio contains products and product candidates for multiple therapeutic areas, including pain, urology, oncology, and endocrinology. Endo's Qualitest business has a number of products at various stages of development, including approximately 40 abbreviated new drug applications under active FDA review.

Endo cannot predict when or if any of these products will be approved by the FDA.

AMS

Endo's AMS segment maintains a portfolio of products and product candidates in development, with differentiating features for Endo's areas of focus in pelvic health. Current development products showing significant promise include enhancements to Endo's minimally invasive sling for mild to moderate incontinence in men, a urology drug delivery device, an adjustable tensioning sling for female incontinence and a fecal incontinence device. Endo also has other products, including certain undisclosed products in its therapeutic areas of interest in early stages of development.

Endo cannot predict when or if any of these products will be approved by the FDA.

Competition

Endo Pharmaceuticals

The branded pharmaceutical industry is highly competitive. Endo's products compete with products manufactured by many other companies in highly competitive markets throughout the U.S. Endo's competitors vary depending upon therapeutic and product categories. Competitors include many of the major brand name and

generic manufacturers of pharmaceuticals, especially those doing business in the U.S. In the market for branded pharmaceuticals, Endo's competitors, including Abbott Laboratories, Johnson & Johnson, Pfizer, Inc., Purdue Pharma, L.P., Allergan, Inc. and Actavis, vary depending on product category, dosage strength and drug-delivery systems.

Endo competes principally through its targeted product development and acquisition and in-licensing strategies. The competitive landscape in the acquisition and in-licensing of pharmaceutical products has intensified in recent years as there has been a reduction in the number of compounds available and an increase in the number of companies and the collective resources bidding on available assets. In addition to product development and acquisitions, other competitive factors in the pharmaceutical industry include product efficacy, safety, ease of use, price, demonstrated cost-effectiveness, marketing effectiveness, service, reputation and access to technical information.

The competitive environment of the branded product business requires Endo continually to seek out technological innovations and to market its products effectively. However, some of Endo's current branded products not only face competition from other brands, but also from generic versions. Generic versions are generally significantly less expensive than branded versions, and, where available, may be required in preference to the branded version under third-party reimbursement programs, or substituted by pharmacies. If competitors introduce new products, delivery systems or processes with therapeutic or cost advantages, Endo's products can be subject to progressive price reductions or decreased volume of sales, or both. Most new products that Endo introduces must compete with other products already on the market or products that are later developed by competitors. Manufacturers of generic pharmaceuticals typically invest far less in research and development than research-based pharmaceutical companies and therefore can price their products significantly lower than branded products. Accordingly, when a branded product loses its market exclusivity, it normally faces intense price competition from generic forms of the product. To successfully compete for business with managed care and pharmacy benefits management organizations, Endo must often demonstrate that its products offer not only medical benefits but also cost advantages as compared with other forms of care.

Endo is aware of certain competitive activities involving Lidoderm®, Opana® ER and Frova®. For a full description of these competitive activities, including the litigation related to Paragraph IV Certification Notices, see Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in the Audited Financial Statements of Endo, attached as Appendix "G" to this Circular.

Qualitest

In the generic pharmaceutical market, Endo faces intense competition from other generic drug manufacturers, brand name pharmaceutical companies through authorized generics, existing brand equivalents and manufacturers of therapeutically similar drugs. In the market for generic pharmaceuticals, Endo's competitors, including Actavis, Teva Pharmaceuticals Industries Ltd., Mylan Technologies Inc., and Sandoz, Inc., vary depending on product category and dosage strength.

Endo believes that its competitive advantages include its ability to continually introduce new generic equivalents for brand-name drug products, its quality and cost-effective production, its customer service and the breadth of its generic product line.

As a result of consolidation among wholesale distributors as well as rapid growth of large retail drug store chains, a small number of large wholesale distributors control a significant share of the market, and the number of independent drug stores and small drug store chains has decreased. This has resulted in customers gaining more purchasing power. Consequently, there is heightened competition among generic drug producers for the business of this smaller and more selective customer base.

Newly introduced generic products with limited or no other generic competition are typically sold at higher selling prices. As competition from other generic products increases, selling prices for all participants typically decline. Consequently, the maintenance of profitable operations in generic pharmaceuticals depends, in part, on

Endo's ability to select, develop and launch new generic products in a timely and cost efficient manner and to maintain efficient, high quality manufacturing relationships. New drugs and future developments in improved and/or advanced drug delivery technologies or other therapeutic techniques may provide therapeutic or cost advantages to competing products.

AMS

Competition in the medical device industry is intense and characterized by extensive research efforts and rapid technological progress. The primary competitive factors include clinical outcomes, distribution capabilities, and price relative to (1) competitive technologies and (2) reimbursements to physicians and hospitals for their services. With certain of Endo's products, Endo's competitors may have greater resources with which to develop and market products, broader distribution resources, and economies of scale which Endo does not have.

The competitive advantage of Endo's AMS segment is driven by its focus on the pelvic health market and Endo's ability to develop new products and innovative procedures, obtain regulatory clearance, maintain regulatory compliance, protect its intellectual property, protect the proprietary technology of its products and manufacturing processes and maintain and develop preference for its products among physicians and patients. All of these abilities require recruiting, retaining, and developing skilled and dedicated employees, training physicians and maintaining and developing excellent relationships with physicians and suppliers.

HealthTronics

The lithotripsy services market is highly fragmented and competitive. Endo competes with other companies, private facilities and medical centers that offer lithotripsy machines and services, including smaller regional and local lithotripsy service providers. Additionally, while Endo believes that lithotripsy has emerged as the superior treatment for kidney stone disease, Endo also competes with hospitals, clinics and individual medical practitioners that offer alternative treatments for kidney stones.

The prostate treatment services market is also highly fragmented and competitive. Endo competes with other companies, private facilities and medical centers that offer prostate treatment equipment and services, including smaller regional and local service providers.

Competition in Endo's lab business is also intense. Endo competes with national, regional and local anatomical pathology labs. Certain of Endo's lab competitors have significantly greater resources than Endo and some have nationally-recognized reputations. In addition, regional and local labs may have regionally-recognized reputations, pre-established long-term relationships with physicians and practice groups whereby the physicians and practice groups are comfortable with the level of expertise of the labs and therefore place a high value on the relationships.

Seasonality

Although Endo's business is affected by the purchasing patterns and concentration of its customers, Endo's business is not materially impacted by seasonality.

Major Customers

Endo primarily sells its branded pharmaceuticals and generics directly to a limited number of large pharmacy chains and through a limited number of wholesale drug distributors who, in turn, supply products to pharmacies, hospitals, governmental agencies and physicians. Total revenues from customers that accounted for 10% or more of Endo's total consolidated revenues during the years ended December 31 are as follows:

	2012	2011	2010
Cardinal Health, Inc.	23%	25%	33%
McKesson Corporation	25%	24%	28%
AmerisourceBergen Corporation	11%	13%	15%

Revenues from these customers are included within Endo's Endo Pharmaceuticals and Qualitest segments.

As a result of consolidation among wholesale distributors as well as rapid growth of large retail drug store chains, a small number of large wholesale distributors control a significant share of the market, and the number of independent drug stores and small drug store chains has decreased. Some wholesale distributors have demanded that pharmaceutical manufacturers, including Endo, enter into what are referred to as distribution service agreements pursuant to which the wholesale distributors provide the pharmaceutical manufacturers with specific services, including the provision of periodic retail demand information and current inventory levels and other information. To date Endo has entered into six such agreements.

None of Endo's AMS or HealthTronics customers or distributors accounted for 10% or more of its total revenues during 2012, 2011 and 2010.

Patents, Trademarks, Licenses and Proprietary Property

As of February 20, 2013, Endo held approximately: 435 U.S. issued patents, 384 U.S. patent applications pending, 814 foreign issued patents, and 599 foreign patent applications pending. In addition, as of February 20, 2013, Endo has licenses for approximately 52 U.S. issued patents, 16 U.S. patent applications pending, 179 foreign issued patents and 115 foreign patent applications pending. The following table sets forth information as of February 20, 2013 regarding each of Endo's currently held material patents:

<u>Patent No.</u>	<u>Patent Expiration*</u>	<u>Relevant Product</u>	<u>Ownership</u>	<u>Jurisdiction Where Granted</u>
5,464,864	November 7, 2015	Frova [®]	Exclusive License	USA
5,616,603	April 1, 2014	Frova [®]	Exclusive License	USA
5,637,611	June 10, 2014	Frova [®]	Exclusive License	USA
5,827,871	October 27, 2015	Frova [®]	Exclusive License	USA
5,962,501	December 16, 2013	Frova [®]	Exclusive License	USA
5,827,529	October 27, 2015	Lidoderm [®]	Exclusive License	USA
5,741,510	March 30, 2014	Lidoderm [®]	Exclusive License	USA
5,662,933	September 9, 2013	Opana [®] ER	Owned	USA
5,958,456	September 9, 2013	Opana [®] ER	Owned	USA
7,276,250	February 4, 2023	Opana [®] ER	Owned	USA
7,851,482	July 10, 2029	Opana [®] ER	Exclusive License	USA
8,075,872	November 20, 2023	Opana [®] ER	Exclusive License	USA
8,114,383	August 5, 2024	Opana [®] ER	Exclusive License	USA
8,309,060	November 20, 2023	Opana [®] ER	Exclusive License	USA
8,309,122	February 4, 2023	Opana [®] ER	Owned	USA
8,329,216	February 4, 2023	Opana [®] ER	Owned	USA
2131647	September 8, 2014	Opana [®] ER	Owned	Canada
2208230	November 4, 2016	Opana [®] ER	Owned	Canada
2251816	April 18, 2017	Opana [®] ER	Owned	Canada
8,062,652	June 16, 2026	Supprelin [®] LA	Owned	USA
8,062,209	December 2, 2023	AMS 700 [®]	Owned	USA
7,946,975	February 21, 2030	AMS 700 [®]	Owned	USA
6,554,824	July 24, 2021	GreenLight [™] Laser	Owned	USA
6,986,764	July 24, 2021	GreenLight [™] Laser	Owned	USA
7,070,556	November 9, 2023	Monarc [®]	Owned	USA
7,347,812	March 17, 2026	Monarc [®]	Owned	USA
7,988,615	November 9, 2023	Monarc [®]	Owned	USA
7,357,773	January 5, 2026	Monarc [®]	Owned	USA
6,911,003	January 23, 2023	Monarc [®]	Owned	USA

* Endo's exclusive license agreements extend to or beyond the patent expiration dates.

The effect of these issued patents is that they provide Endo with patent protection for the claims covered by the patents. The coverage claimed in a patent application can be significantly reduced before the patent is issued. Accordingly, Endo does not know whether any of the applications Endo acquires or licenses will result in the issuance of patents, or, if any patents are issued, whether they will provide significant proprietary protection or will be challenged, circumvented or invalidated. Because unissued U.S. patent applications are maintained in secrecy for a period of eighteen months and U.S. patent applications filed prior to November 29, 2000 are not disclosed until such patents are issued, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, Endo cannot be certain of the priority of inventions covered by pending patent applications. Moreover, Endo may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, or in opposition proceedings in a foreign patent office, either of which could result in substantial cost to Endo, even if the eventual outcome is favourable to Endo. There can be no assurance that the patents, if issued, would be held valid by a court of competent jurisdiction. An adverse outcome could subject Endo to significant liabilities to third parties, require disputed rights to be licensed from third parties or require Endo to cease using such technology.

Endo believes that its patents, the protection of discoveries in connection with its development activities, its proprietary products, technologies, processes and know-how and all of its intellectual property are important to its business. All of Endo's brand products and certain generic products, such as Endocet® and Endodan®, are sold under trademarks. To achieve a competitive position, Endo relies on trade secrets, non-patented proprietary know-how and continuing technological innovation, where patent protection is not believed to be appropriate or attainable. In addition, as outlined above, Endo has a number of patent licenses from third parties, some of which may be important to its business. See "Note 7. License and Collaboration Agreements" in the Audited Financial Statements of Endo, included in Appendix "G" to this Circular. There can be no assurance that any of Endo's patents, licenses or other intellectual property rights will afford Endo any protection from competition.

Endo relies on confidentiality agreements with its employees, consultants and other parties to protect, among other things, trade secrets and other proprietary technology. There can be no assurance that these agreements will not be breached, that Endo will have adequate remedies for any breach, that others will not independently develop equivalent proprietary information or that other third parties will not otherwise gain access to Endo's trade secrets and other intellectual property.

Endo may find it necessary to initiate litigation to enforce Endo's patent rights, to protect Endo's intellectual property or to determine the scope and validity of the proprietary rights of others. Litigation is costly and time-consuming, and there can be no assurance that Endo's litigation expenses will not be significant in the future or that Endo will prevail in any such litigation. See "Note 15. Commitments and Contingencies" in the Consolidated Financial Statements, included in the Audited Financial Statements of Endo, attached in Appendix "G" to this Circular.

Consolidated Capitalization of Endo and New Endo

The following table sets forth the consolidated unaudited capitalization and indebtedness of Endo and New Endo, prepared under U.S. GAAP, as of September 30, 2013 before and after giving effect to the Merger and Arrangement and should be read in conjunction with the section entitled “*Unaudited Pro Forma Condensed Combined Financial Information*” beginning on page 153 and the other financial information contained elsewhere in this Circular, including the New Endo Financial Statement attached as Appendix “M” hereto.

	Endo as of September 30, 2013 (in thousands US\$)	New Endo as of September 30, 2013 ⁽¹⁾ (in thousands US\$)
Total current debt		
Unguaranteed/Unsecured	342,319	347,361
Total non-current debt (excluding current portion of long-term debt)		
Unguaranteed/Unsecured	3,517	25,017
Shareholders' equity		
Share capital	1,337,364	3,720,869

Note:

(1) Giving effect to the Merger and Arrangement

The financial information for Endo as of September 30, 2013 was extracted without material adjustment from the unaudited condensed consolidated financial statements of Endo for the nine months ended September 30, 2013 prepared in accordance with U.S. GAAP. The financial information for Paladin as of September 30, 2013 was extracted without material adjustment from the unaudited interim financial information of Paladin for the nine months ended September 30, 2013, prepared in accordance with U.S. GAAP. An exchange rate of \$0.9718 has been used to convert the Paladin financial information into US dollars.

Pro forma adjustments

Upon completion of the Arrangement, each issued and outstanding Paladin Share will be converted into the right to receive \$1.16 in cash, 1.6331 newly issued New Endo Shares and one Knight Share. Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time and has a positive In-the-Money Amount per Share will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date.

For the purposes of calculating the preliminary estimated acquisition consideration, the effective date of the Merger and Arrangement is assumed to be November 29, 2013, on which date the share price was US\$67.19 per share.

SELECTED HISTORICAL FINANCIAL DATA OF ENDO

The following selected consolidated financial information of Endo as of December 31, 2011 and 2012 and for the years ended December 31, 2012, 2011 and 2010, has been derived from the Endo Annual Financial Statements. The Endo Annual Financial Statements are included in Appendix “G” to this Circular. The selected financial data and selected balance sheet data set out below as of and for the nine months ended September 30, 2013 and 2012 are derived from the Endo 2013 Third Quarter Financial Statements, which are included in Appendix “I” to this Circular. The information set forth below is a summary that should be read together with the Endo Financial Statements and the related notes thereto as well as the Endo MD&A Discussion which are

included in Appendix “H” and Appendix “J” to this Circular. The information in this section should also be read in conjunction with the unaudited pro forma condensed financial statements as of September 30, 2013 and for the nine months ended September 30, 2013, included in the section entitled “*Unaudited Pro Forma Condensed Combined Financial Information*” beginning on page 153 of this Circular. Historical results are not necessarily indicative of any results to be expected in the future. For more information, see the section entitled “*Additional Information*” beginning on page 216 of this Circular.

	Nine Months Ended September 30,		Years Ended December 31,		
	2013	2012	2012	2011	2010
(in thousands of USD, except per share data)					
Consolidated Statement of Operations Information					
Total revenues	\$2,189,982	\$2,226,303	\$3,027,363	\$2,730,121	\$1,716,229
Operating income (loss)	291,486	152,591	(551,727)	508,366	465,366
Income (loss) before income tax	202,108	6,492	(741,583)	351,691	420,698
Consolidated net income (loss)	129,329	15,755	(688,021)	242,065	287,020
Less: Net income attributable to noncontrolling interests	38,758	39,826	52,316	54,452	28,014
Net income (loss) attributable to Endo Health Solutions Inc.	\$ 90,571	\$ (24,071)	\$ (740,337)	\$ 187,613	\$ 259,006

Basic and Diluted Net Income (Loss) Per Share Attributable to Endo Health Solutions Inc.

Basic	\$ 0.80	\$ (0.21)	\$ (6.40)	\$ 1.61	\$ 2.23
Diluted	\$ 0.77	\$ (0.21)	\$ (6.40)	\$ 1.55	\$ 2.20
Shares used to compute basic net income (loss) per share attributable to Endo Health Solutions Inc.	112,691	116,688	115,719	116,706	116,164
Shares used to compute diluted net income (loss) per share attributable to Endo Health Solutions Inc.	116,890	116,688	115,719	121,178	117,951
Cash dividends declared per share	\$ —	\$ —	\$ —	\$ —	\$ —

	As of and for the period ended September 30,		As of and for the Year Ended December 31,	
	2013	2012	2011	2010
(in thousands of USD)				
Consolidated Balance Sheet Information				
Cash and cash equivalents	\$ 594,085	\$ 547,916	\$ 547,620	\$ 466,214
Total assets	6,455,256	6,568,559	7,292,583	3,912,389
Long-term debt, less current portion, net	2,644,628	3,037,947	3,424,329	1,045,801
Other long-term obligations, including capitalized leases	797,717	669,386	706,885	327,431
Total Endo Health Solutions Inc. shareholders' equity	1,276,878	1,072,856	1,977,690	1,741,591
Noncontrolling interests	60,486	60,350	61,901	61,738
Total shareholders' equity	\$1,337,364	\$1,133,206	\$ 2,039,591	\$1,803,329

Other Financial Data:

Net cash provided by operating activities	\$ 272,472	\$ 733,879	\$ 702,115	\$ 453,646
Net cash (used in) provided by investing activities	\$ (126,989)	\$ (88,467)	\$ (2,374,092)	\$ (896,323)
Net cash (used in) provided by financing activities	\$ (100,473)	\$ (645,547)	\$ 1,752,681	\$ 200,429

The comparability of the forgoing information is impacted by certain charges for asset impairments and certain litigation-related and other matters during 2012, and a number of significant acquisitions that have occurred since 2010, along with the debt incurred to finance these acquisitions. These business combinations have had a significant impact on Endo's financial statements in their respective years of acquisition and in subsequent years. This impact results from the consideration transferred by Endo for the acquisition, the initial and subsequent purchase accounting for the underlying acquisition and the post-acquisition consolidation of the acquired entity's assets, liabilities and results of operations. For further information regarding the comparability of the financial data presented in the tables above and factors that may impact comparability of future results, refer to the Endo Financial Statements, which are included in Appendix "G" to this Circular and the Endo MD&A Discussion, which is included in Appendix "H" and Appendix "J" to this Circular.

SELECTED HISTORICAL FINANCIAL DATA OF PALADIN

The following historical consolidated financial information is provided to assist you in your analysis of the financial aspects of the Arrangement and the Merger. Paladin derived (i) the financial information as of and for the fiscal years ended December 31, 2010 through December 31, 2012 from the Paladin Audited Annual Consolidated Financial Statements and (ii) the financial information as of September 30, 2013 and for the nine months ended September 30, 2013 and 2012 from the Paladin Condensed Interim Consolidated Financial Statements, which include in the opinion of Paladin's management, all normal and recurring adjustments that are considered necessary for the fair statement of the results for such interim periods and dates. The information set forth below is only a summary that you should read together with the Paladin Audited Annual Consolidated Financial Statements and the Paladin Condensed Interim Consolidated Financial Statements incorporated by reference in this Circular and previously filed with SEDAR at www.sedar.com. Historical results are not necessarily indicative of any results to be expected in the future. For more information, see the sections entitled "*Documents Incorporated by Reference*" and "*Additional Information*" beginning on pages 14 and 216 of this Circular, respectively.

	(Unaudited) Nine Months Ended September 30,		Years Ended December 31,		
	2013 ⁽¹⁾	2012 ⁽¹⁾⁽²⁾	2012 ⁽¹⁾	2011 ⁽¹⁾	2010 ⁽¹⁾
(in thousands of Canadian dollars, except per share amounts)					
Consolidated Income Statement Data					
Revenues	\$207,169	\$142,592	\$210,200	\$141,466	\$127,989
Gross income	122,928	94,170	133,390	102,172	93,862
Adjusted EBITDA ⁽³⁾	72,882	58,021	82,043	67,712	56,441
Income before income taxes	51,943	60,877	76,255	64,265	41,374
Net income	<u>38,596</u>	<u>46,935</u>	<u>58,355</u>	<u>50,151</u>	<u>29,856</u>
Net income attributable to shareholders of					
Paladin	<u>\$ 38,043</u>	<u>\$ 47,138</u>	<u>\$ 59,906</u>	<u>\$ 50,151</u>	<u>\$ 29,856</u>
Earnings per common share					
Basic	1.85	2.32	2.94	2.51	1.60
Diluted	<u>1.80</u>	<u>2.25</u>	<u>2.86</u>	<u>2.43</u>	<u>1.54</u>

	As of September 30,	As of December 31,		
	2013 ⁽¹⁾	2012 ⁽¹⁾	2011 ⁽¹⁾	2010 ⁽¹⁾
	(in thousands of Canadian Dollars)			
Consolidated Balance Sheet Data				
Cash and cash equivalents and marketable securities net of bank overdraft	\$230,727	\$257,958	\$239,009	\$139,389
Current assets	362,521	348,170	274,738	179,912
Total assets	605,698	604,517	397,913	280,623
Current portion of long-term liabilities and finance lease liability	5,916	6,600	984	—
Total long-term liabilities	50,140	61,319	7,844	539
Equity attributable to shareholders	409,615	383,706	322,726	228,845

The comparability of the forgoing information is impacted by a number of acquisitions that have occurred since 2010. These business combinations have had a significant impact on Paladin's financial statements in their respective years of acquisition and in subsequent years. This impact results from the consideration transferred by Paladin for the acquisition, the initial and subsequent purchase accounting for the underlying acquisition and the post-acquisition consolidation of the acquired entity's assets, liabilities and results of operations. For further information regarding the comparability of the financial data presented in the tables above and factors that may impact comparability of future results, refer to the Paladin Audited Annual Consolidated Financial Statements incorporated by reference in this Circular and previously filed on SEDAR at www.sedar.com.

Notes:

- (1) Paladin adopted IFRS as issued by the International Accounting Standards Board effective January 1, 2010 and as a result, financial information for the periods ended September 30, 2013 and 2012 as well as for the years ended December 31, 2012, 2011 and 2010 were prepared and are presented in accordance with IFRS. Certain comparative figures have been reclassified to conform with the presentation of the financial statements of Paladin for the year ended December 31, 2012.
- (2) On July 2, 2012, Paladin acquired a controlling interest in Litha and consolidated Litha's results and financial condition effective the same date.
- (3) The term Adjusted EBITDA does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Adjusted EBITDA is calculated and presented consistently from period to period and agrees, on a consolidated basis, with the amount disclosed as "Earnings before under-noted items" on the consolidated statements of income. Paladin believes Adjusted EBITDA to be an important measurement that allows it to assess the operating performance of its ongoing business on a consistent basis without the impact of amortization expenses. Paladin excludes amortization expenses because their level depends substantially on non-operating factors such as the historical cost of intangible assets. Paladin's method for calculating Adjusted EBITDA may differ from that used by other issuers and, accordingly, this measure may not be comparable to Adjusted EBITDA used by other issuers.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information has been prepared in accordance with U.S. GAAP and the regulations of the SEC, is expressed in U.S. dollars and is presented to illustrate the estimated effects of the pending acquisition of Paladin by Endo and the related refinancing transaction. The following unaudited pro forma condensed combined balance sheet as of September 30, 2013 and unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2013 are based upon and derived from and should be read in conjunction with the Endo 2013 Third Quarter Financial Statements (which are included as Appendix “I” to this Circular) and the Paladin Condensed Interim Consolidated Financial Statements (which are incorporated by reference in this Circular). The following unaudited pro forma condensed combined statement of operations for the year ended December 31, 2012 are based upon, derived from and should be read in conjunction with the Endo Annual Financial Statements (which are included as Appendix “G” in this Circular) and the Paladin Audited Annual Consolidated Financial Statements (which are incorporated by reference in this Circular). Please see the section entitled “*Documents Incorporated by Reference*” beginning on page 14. The acquisition of Paladin will be accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805. After giving effect to the Arrangement, New Endo will be an SEC registrant and Canadian securities laws will therefore permit New Endo’s financial statements to be prepared in accordance with U.S. GAAP and expressed in U.S. dollars. Similarly, Irish company law will permit New Endo’s annual financial statements to be prepared in accordance with U.S. GAAP and expressed in U.S. dollars. The unaudited pro forma condensed combined financial information set forth below give effect to the following:

- the consummation of the pending acquisition of Paladin;
- the incurrence of US\$2,225.0 million in debt by New Endo and the repayment of Endo’s existing credit facilities; and
- certain IFRS to U.S. GAAP adjustments necessary to reflect legacy Paladin under the same accounting principles as Endo as further described in Note 2.

The pro forma adjustments are preliminary and are based upon available information and certain assumptions described in the accompanying notes to the unaudited pro forma condensed combined financial information that Endo’s management believes are reasonable under the circumstances. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information. Under ASC 805, assets acquired and liabilities assumed are recorded at fair value. The fair value of Paladin’s identifiable tangible and intangible assets acquired and liabilities assumed are based on a preliminary estimate of fair value as of September 30, 2013. Any excess of the purchase price over the fair value of identified assets acquired and liabilities assumed will be recognized as goodwill. The establishment of the fair value of consideration for acquisitions requires the extensive use of significant estimates and management’s judgment. Significant judgment is required in determining the estimated fair values of IPR&D, identifiable intangible assets, certain tangible assets and certain liabilities assumed. Such a valuation requires estimates and assumptions including, but not limited to, determining the timing and estimated costs to complete each in-process project, projecting the timing of regulatory approvals, estimating future cash flows and direct costs in addition to developing the appropriate discount rates and current market profit margins. Since the Paladin acquisition has not been consummated, Endo’s access to information to make such estimates is limited and therefore, certain market based assumptions were used when data was not available. However, Endo’s management believes the fair values recognized for the assets to be acquired and liabilities to be assumed are based on reasonable estimates and assumptions based on information currently available. Preliminary fair value estimates may change as additional information becomes available and such changes could be material.

The unaudited pro forma condensed combined statements of operations for the fiscal year ended December 31, 2012 and the nine months ended September 30, 2013 assume the completion of the Transactions occurred on January 1, 2012. The unaudited pro forma condensed combined balance sheet as of September 30, 2013 assumes the Transactions occurred on September 30, 2013. The unaudited pro forma condensed combined

financial information has been prepared by Endo's management in accordance with the regulations of the SEC and is not necessarily indicative of the condensed combined financial position or results of operations that would have been realized had the acquisition occurred as of the dates indicated, nor is it meant to be indicative of any anticipated condensed combined financial position or future results of operations that New Endo will experience after the acquisition. In addition, the accompanying unaudited pro forma condensed combined statements of operations do not include any expected cost savings or restructuring actions which may be achievable subsequent to the acquisition or the impact of any non-recurring activity and one-time transaction related costs or certain pro forma adjustments which are considered significant. Certain financial information of Paladin as presented in their respective consolidated financial statements has been reclassified to conform to the historical presentation in Endo's consolidated financial statements for purposes of preparation of the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined financial information gives effect to the reorganization of Endo and Paladin into New Endo, which includes Endo's acquisition of Paladin. The aforementioned reorganization is considered to be a transaction between entities under common control. Therefore, there are no pro forma adjustments necessary to reflect this reorganization.

Endo International Limited
Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2013
(In thousands of USD)

	<u>Endo Historical</u>	<u>Paladin Adjusted Historical (Note 2)</u>	<u>Paladin Acquisition Adjustments</u>	<u>Endo Debt Refinancing</u>	<u>Pro Forma</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 594,085	\$ 67,976	\$ (122,416)(5a)	\$753,021(5a)	\$1,292,666
Accounts receivable, net	672,001	44,342	—	—	716,343
Inventories, net	416,512	46,259	23,741(5b)	—	486,512
Prepaid expenses and other current assets	97,094	193,756	—	—	290,850
Income taxes receivable	17,193	263	—	3,763(5c)	21,219
Deferred income taxes	245,458	13,564	—	—	259,022
Total current assets	<u>\$2,042,343</u>	<u>\$366,160</u>	<u>\$ (98,675)</u>	<u>\$756,784</u>	<u>\$3,066,612</u>
Marketable securities	2,433	—	—	—	2,433
Property and equipment, net	373,990	7,864	—	—	381,854
Goodwill	1,980,887	64,220	1,691,435(5d)	—	3,736,542
Other intangibles, net	1,966,645	108,597	466,403(5e)	—	2,541,645
Other assets	88,958	76,102	—	32,897(5i)	197,957
Total assets	<u>\$6,455,256</u>	<u>\$622,943</u>	<u>\$2,059,163</u>	<u>\$789,681</u>	<u>\$9,927,043</u>
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	\$ 267,851	\$ 61,198	\$ —	\$ —	\$ 329,049
Accrued expenses	994,771	33,271	—	—	1,028,042
Current portion of long-term debt	411,694	5,042	—	(23,875)(5f)	392,861
Acquisition-related contingent consideration	1,231	—	—	—	1,231
Total current liabilities	<u>\$1,675,547</u>	<u>\$ 99,511</u>	<u>\$ —</u>	<u>\$ (23,875)</u>	<u>\$1,751,183</u>
Deferred income taxes	461,899	20,992	132,339(5g)	(5,466)(5h)	609,764
Acquisition-related contingent consideration	2,856	—	—	—	2,856
Long-term debt, less current portion, net	2,644,628	21,500	—	835,513(5i)	3,501,641
Other liabilities	332,962	7,768	—	—	340,730
Commitments and contingencies					
Stockholders' equity:					
Preferred Stock	—	—	—	—	—
Common Stock	1,439	174,626	(174,579)(5j)	—	1,486
Additional paid-in capital	1,143,546	6,583	1,607,824(5j)	—	2,757,953
Retained earnings	902,144	238,732	(312,802)(5j)	(16,491)(5j)	811,583
Accumulated other comprehensive loss	(5,939)	(15,462)	15,462(5j)	—	(5,939)
Treasury stock	(764,312)	—	764,312(5j)	—	—
Total Endo International Limited stockholders' equity	<u>\$1,276,878</u>	<u>\$404,479</u>	<u>\$1,900,217(5j)</u>	<u>\$ (16,491)</u>	<u>\$3,565,083</u>
Noncontrolling interests	60,486	68,693	\$ 26,607(5k)	—	155,786
Total stockholders' equity	<u>\$1,337,364</u>	<u>\$473,172</u>	<u>\$1,926,824</u>	<u>\$ (16,491)</u>	<u>\$3,720,869</u>
Total liabilities and stockholders' equity	<u>\$6,455,256</u>	<u>\$622,943</u>	<u>\$2,059,163</u>	<u>\$789,681</u>	<u>\$9,927,043</u>

Note:

Certain Paladin amounts have been reclassified to conform to Endo's presentation. The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

Endo International Limited
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2013
(In thousands of USD, except per share data)

	<u>Endo Historical</u>	<u>Paladin Adjusted Historical (Note 2)</u>	<u>Paladin Acquisition Adjustments</u>	<u>Endo Debt Refinancing</u>	<u>Pro Forma</u>
Revenues:					
Net pharmaceutical product sales	\$1,639,890	\$202,446	\$ —	\$ —	\$1,842,336
Devices revenues	359,867	—	—	—	359,867
Service and other revenues	190,225	—	—	—	190,225
Total revenues	\$2,189,982	\$202,446	\$ —	\$ —	\$2,392,428
Costs & expenses:					
Cost of revenues	883,063	97,454	17,445(51)	—	997,962
Selling, general and administrative	689,436	48,650	—	—	738,086
Research and development	113,740	7,168	—	—	120,908
Patent litigation settlement, net	—	—	—	—	—
Litigation-related and other contingencies	159,098	—	—	—	159,098
Asset impairment charges	46,994	—	—	—	46,994
Acquisition-related and integration items, net	6,165	—	—	—	6,165
Operating income (loss)	\$ 291,486	\$ 49,174	\$(17,445)	\$ —	\$ 323,215
Interest expense (income), net	129,939	(3,266)	—	32,234(5m)	158,907
Net loss on extinguishment of debt	11,312	—	—	—	11,312
Other (income) expense, net	(51,873)	1,681	—	—	(50,192)
Income (loss) before income tax	\$ 202,108	\$ 50,759	\$(17,445)	\$(32,234)	\$ 203,188
Income tax	72,779	13,082	(4,710)(5n)	(11,566)(5n)	69,585
Consolidated net income (loss)	\$ 129,329	\$ 37,677	\$(12,735)	\$(20,668)	\$ 133,603
Less: Net income attributable to noncontrolling interests	38,758	540	—	—	39,298
Net income (loss) attributable to Endo International Limited	\$ 90,571	\$ 37,137	\$(12,735)	\$(20,668)	\$ 94,305
Net income per share attributable to Endo International Limited					
Basic	\$ 0.80				\$ 0.64
Diluted	\$ 0.77				\$ 0.62
Weighted average shares attributable to Endo International Limited					
Basic	112,691			(5o)	146,512
Diluted	116,890			(5o)	152,293

Note:

Certain Paladin amounts have been reclassified to conform to Endo's presentation. The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

Endo International Limited
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2012
(In thousands of USD, except per share data)

	<u>Endo Historical</u>	<u>Paladin Adjusted Historical (Note 2)</u>	<u>Paladin Acquisition Adjustments</u>	<u>Endo Debt Refinancing</u>	<u>Total Pro Forma</u>
Revenues:					
Net pharmaceutical product sales	\$2,297,685	\$210,242	\$ —	\$ —	\$2,507,927
Devices revenues	504,487	—	—	—	504,487
Service and other revenues	225,191	—	—	—	225,191
Total revenues	<u>\$3,027,363</u>	<u>\$210,242</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$3,237,605</u>
Costs & expenses:					
Cost of revenues	1,261,093	92,961	27,303(51)	—	1,381,357
Selling, general and administrative	898,847	49,726	—	—	948,573
Research and development	226,120	7,796	—	—	233,916
Patent litigation settlement, net	85,123	—	—	—	85,123
Litigation-related and other contingencies	316,425	—	—	—	316,425
Asset impairment charges	768,467	—	—	—	768,467
Acquisition-related and integration items, net	23,015	—	—	—	23,015
Operating (loss) income	<u>\$ (551,727)</u>	<u>\$ 59,759</u>	<u>\$(27,303)</u>	<u>\$ —</u>	<u>\$ (519,271)</u>
Interest expense, (income) net	182,834	(3,280)	—	34,684(5m)	214,238
Net loss on extinguishment of debt	7,215	—	—	—	7,215
Other (income) expense, net	(193)	(13,231)	—	—	(13,424)
Income (loss) before income tax	<u>\$ (741,583)</u>	<u>\$ 76,270</u>	<u>\$(27,303)</u>	<u>\$(34,684)</u>	<u>\$ (727,300)</u>
Income tax	(53,562)	17,646	(7,372)(5n)	(12,179)(5n)	(55,467)
Consolidated net (loss) income	<u>\$ (688,021)</u>	<u>\$ 58,624</u>	<u>\$(19,931)</u>	<u>\$(22,505)</u>	<u>\$ (671,833)</u>
Less: Net income (loss) attributable to noncontrolling interests	52,316	(1,551)	—	—	50,765
Net (loss) income attributable to Endo International Limited	<u>\$ (740,337)</u>	<u>\$ 60,175</u>	<u>\$(19,931)</u>	<u>\$(22,505)</u>	<u>\$ (722,598)</u>
Net (loss) per share attributable to Endo International Limited					
Basic	<u>\$ (6.40)</u>				<u>\$ (4.83)</u>
Diluted	<u>\$ (6.40)</u>				<u>\$ (4.83)</u>
Weighted average shares attributable to Endo International Limited					
Basic	115,719			(5o)	149,540
Diluted	115,719			(5o)	149,540

Note:

Certain Paladin amounts have been reclassified to conform to Endo's presentation. The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

Endo International Limited
Notes to Unaudited Pro Forma Condensed Combined Financial Statements
(In thousands of USD, except share and per share amounts)

Note 1. Description of transaction

On November 5, 2013, Endo entered into the Arrangement Agreement. Under the terms of the Arrangement Agreement, (a) New Endo will cause CanCo 1 to acquire Paladin pursuant to the Plan of Arrangement and (b) Merger Sub will merge with and into Endo, with Endo as the Surviving Corporation in the Merger. As a result of the Transactions, both Endo and Paladin will become indirect wholly-owned subsidiaries of New Endo.

As consideration for the Arrangement, Paladin Shareholders will receive the Arrangement Consideration in exchange for each Paladin Share held by such shareholders. Knight Therapeutics is a newly formed Canadian corporation and will hold (or one of its affiliates will hold) Impavido, Paladin's product for the treatment of leishmaniasis. The Arrangement Cash Consideration to be received by Paladin Shareholders will be increased if Endo's volume weighted average share price during an agreed reference period declines more than 7% relative to a reference price of US\$44.4642 per share. The maximum amount by which the aggregate Arrangement Cash Consideration to be received by Paladin Shareholders would be increased by this price protection mechanism is approximately US\$233 million.

As consideration for the Merger, each Endo common share then issued and outstanding will be cancelled and automatically converted into the right to receive one New Endo Share. As a result, based on the number of outstanding common shares of Endo and Paladin and Paladin Options as of November 5, 2013, the date the Arrangement Agreement was signed, upon consummation of the Merger and Arrangement, the former shareholders of Endo are expected to own approximately 77.4% of the capitalization of New Endo on a fully-diluted basis, and the Former Paladin Shareholders and Former Paladin Optionholders are expected to own approximately 22.6% of the capitalization of New Endo on a fully-diluted basis. It is uncertain whether the Transactions, as structured, will be taxable to U.S. shareholders of Endo. The ultimate tax treatment of the Transactions depends on the application of new and complex provisions of U.S. federal income tax law as well as certain facts that are subject to change and that could be affected by actions taken by Endo and other events beyond Endo's control. More specifically, U.S. holders of Endo Shares will be required to recognize gain on the Endo share exchange if the U.S. shareholders gain amount exceeds the New Endo income amount. The U.S. shareholders gain amount has been and will continue to be affected by changes in Endo's stock price, trading activity in Endo Shares, and the tax basis of U.S. holders of Endo Shares on the Closing Date. As a result, the U.S. shareholders gain amount cannot be known until after the Closing. In this regard, Endo notes that there has been a substantial increase in Endo's stock price during the period from the signing of the Arrangement Agreement to the date of this Circular. The New Endo income amount will depend, in part, on the earnings and profits of Endo U.S. for the taxable year that includes the closing date (which Endo expects will be 2014). Such earnings and profits, if any, will depend on overall business conditions and the overall tax position of Endo U.S. for such taxable year and will take into account, among other things, taxable operating income and loss as well as taxable non-operating income and loss (including dispositions outside the ordinary course of business and extra-ordinary items), subject to certain adjustments, and cannot be determined until the end of the year in which the Merger is completed.

New Endo has applied to list the New Endo Shares to be issued or made issuable pursuant to the Arrangement and the Merger on NASDAQ and TSX. Listing will be subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX.

The acquisition is subject to customary conditions, including clearance by the FTC under the provisions of the HSR Act, as well as by regulatory authorities outside of the U.S. Pending these clearances, Endo anticipates closing the Transactions in the first quarter of 2014.

In connection with the Paladin acquisition, Endo plans to refinance its existing secured senior credit facilities, which are referred to in this Circular as the "existing term loan credit facility" at Closing through a new

secured senior credit facility, which will allow for total borrowings of up to US\$1,525.0 million, which is referred to in this Circular as the “new term loan credit facility”, and the New Senior Notes. As of September 30, 2013, term loans under Endo’s existing secured senior credit facilities amounted to US\$1,413.4 million.

The New Senior Notes were issued by Endo Finance. Upon issuance of the New Senior Notes, 100% of the gross proceeds were deposited with an escrow agent to be held until (i) consummation of the Transactions or (ii) the earlier of the July 1, 2014 or the date that Endo has determined to terminate or abandon the Transactions. If the Transactions are consummated, (i) Endo Finance will merge with and into New Endo Finance, with New Endo Finance surviving and assuming all of Endo Finance’s obligations under the New Senior Notes; (ii) an indirect wholly-owned subsidiary of New Endo will become a co-obligor of the New Senior Notes; (iii) the escrowed funds will be released from escrow simultaneously with the consummation of the Transactions; and (iv) the net proceeds of the offering of New Senior Notes will be used, together with borrowings under the new term loan credit facility, to refinance certain existing indebtedness of Endo, to pay related fees and expenses and for general corporate purposes, which may include strategic acquisitions. If the Transactions are not consummated, upon the earlier of July 1, 2014 or the date that Endo has determined to terminate or abandon the Transactions, (i) Endo Finance will merge with and into Endo, with Endo surviving and assuming all of Endo Finance’s obligations under the New Senior Notes; (ii) the escrowed funds will be released; and (iii) the net proceeds of the offering of New Senior Notes will be used for general corporate purposes, which may include strategic acquisitions.

The interest rates under the new term loan credit facility are expected to be LIBOR plus the applicable margin. For the purposes of these unaudited pro forma condensed combined financial statements, it was assumed that new term loans will be borrowed under the new term loan credit facility at a LIBOR rate of 0.25%, plus a weighted average interest rate of 2.52% for the nine months ended September 30, 2013 and 2.53% for the year ended December 31, 2012. For the purposes of these unaudited pro forma condensed combined financial statements, we used the stated interest rate on the New Senior Notes. The interest rates used for purposes of preparing the accompanying unaudited pro forma condensed combined financial statements may be considerably different than the actual interest rates incurred based on market conditions at the time of refinancing.

Note 2. Basis of presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical financial information of Endo and Paladin. This unaudited pro forma condensed combined financial information does not give effect to immaterial probable transactions, such as the separation of Knight Therapeutics by Paladin, the acquisition of Boca Pharmacal LLC by Endo and the potential divestiture of the HealthTronics business by Endo.

The acquisition method of accounting, based on ASC 805, uses the fair value concepts defined in ASC 820. The historical consolidated financial information has been adjusted in the accompanying unaudited pro forma condensed combined financial information to give effect to pro forma events that are (i) directly attributable to the acquisition, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the consolidated results.

ASC 820 defines fair value, establishes the framework for measuring fair value for any asset acquired or liability assumed under U.S. GAAP, expands disclosures about fair value measurements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined in ASC 820 as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. This is an exit price concept for the valuation of an asset or liability. Market participants are assumed to be buyers or sellers in the most advantageous market for the asset or liability. Fair value measurement for an asset assumes the highest and best use by these market participants, and as a result, assets may be required to be recorded which are not intended to be used or sold and/or to value assets at a fair value measurement that do not reflect management’s intended use for those assets. Fair

value measurements can be highly subjective and it is possible the application of reasonable judgment could develop different assumptions resulting in a range of alternative estimates using the same facts and circumstances.

ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business combination be recognized at fair value as of the acquisition date and that the fair value of acquired IPR&D be recorded on the balance sheet. As of the date of this Circular, Endo has not completed the detailed valuation work necessary to arrive at the required estimates of the fair value of the Paladin assets to be acquired and the liabilities to be assumed and the related allocation of purchase price. A final determination of the fair value of Paladin's assets and liabilities will be based on the actual net tangible and intangible assets and liabilities of Paladin that exist as of the date of completion of the Arrangement and the Merger and, therefore, cannot be made prior to that date. Additionally, a significant portion of the Merger consideration to be paid by Endo to complete the Arrangement and the Merger will be determined based on the trading price of the Endo Shares at the time of the completion of the Arrangement and the Merger. Accordingly, the accompanying unaudited pro forma purchase price allocation is preliminary and is subject to further adjustments as additional information becomes available and as additional analyses are performed.

The historical financial statements of Paladin (which are available in the Paladin Condensed Interim Financial Statements for the quarter ended September 30, 2013) and the historical audited financial statements of Paladin (which are available in Paladin's Annual Report filed on SEDAR at www.sedar.com for the year ended December 31, 2012) were prepared in accordance with IFRS using the Canadian dollar which is Paladin's functional and presentation currency. Endo's functional and presentation currency is U.S. dollars. Certain IFRS to U.S. GAAP adjustments have been made to the historical financial statements of Paladin.

Although we believe these adjustments represent the known material adjustments necessary to present Paladin's financial statements in conformity with U.S. GAAP, the accompanying unaudited pro forma IFRS to U.S. GAAP adjustments are preliminary and are subject to further adjustments as additional information becomes available and as additional analyses are performed. In addition, we may not have identified all adjustments necessary to conform Paladin's accounting policies to Endo's accounting policies.

Following the acquisition, Endo will conduct a review of Paladin's accounting policies in an effort to determine if differences in accounting policies require adjustment or reclassification of Paladin's results of operations or reclassification of assets or liabilities to conform to Endo's accounting policies and classifications. As a result of that review, Endo may identify differences between the accounting policies of the two companies that, when conformed, are not expected to have a material impact on these unaudited pro forma condensed combined financial statements. During the preparation of these unaudited pro forma condensed combined financial statements, Endo was not aware of any material differences between accounting policies of the two companies, except for certain reclassifications necessary to conform to Endo's financial presentation, and accordingly, this unaudited pro forma condensed combined financial information does not assume any material differences in accounting policies between the two companies.

The historical unaudited financial statements of Paladin were prepared in accordance with IFRS, using the Canadian dollar as the reporting currency. For purposes of the unaudited financial information, the Canadian dollar denominated IFRS financial statements have been converted to the U.S. dollar, using the exchange rate of \$0.9718 as of September 30, 2013, and the average exchange rate of \$0.9772 and \$1.0002 during the nine months ended September 30, 2013 and the year ended December 31, 2012, respectively.

Financial information presented in the “Paladin Adjusted Historical IFRS” column in the unaudited adjusted historical balance sheet and statement of operations has been reclassified to conform to the historical presentation in Endo’s consolidated financial statements as follows:

Reclassification included in the unaudited adjusted historical balance sheet (in thousands of USD):

	As of September 30, 2013		
	Before Reclassification	Reclassification	After Reclassification
Marketable securities	\$161,050	\$(161,050)	\$ —
Financial assets—current	\$ 30,866	\$ (30,866)	\$ —
Prepaid expenses and other current assets	\$ 1,541	\$ 191,916	\$193,457
Investment in associates	\$ 644	\$ (644)	\$ —
Interest in a joint venture	\$ 25,437	\$ (25,437)	\$ —
Loans receivable from a joint venture	\$ 10,526	\$ (10,526)	\$ —
Financial assets—long term	\$ 12,532	\$ (12,532)	\$ —
Investment tax credits recoverable	\$ 22,058	\$ (22,058)	\$ —
Deferred income tax assets	\$ 17,581	\$ (17,581)	\$ —
Other assets	\$ —	\$ 88,778	\$ 88,778
Bank overdraft	\$ 4,806	\$ (4,806)	\$ —
Current portion of finance lease liability	\$ 707	\$ (707)	\$ —
Deferred revenue	\$ 2,069	\$ (2,069)	\$ —
Income tax payable	\$ 24,596	\$ (24,596)	\$ —
Other balances payable	\$ 1,093	\$ (1,093)	\$ —
Accrued expenses	\$ —	\$ 33,271	\$ 33,271
Finance lease liability	\$ 5,782	\$ (5,782)	\$ —
Deferred revenue	\$ 1,414	\$ (1,414)	\$ —
Other balances payable	\$ 572	\$ (572)	\$ —
Other liabilities	\$ —	\$ 7,768	\$ 7,768

Reclassification included in the unaudited adjusted historical statement of operations (in thousands of USD):

	For the Nine Months Ended September 30, 2013		
	Before Reclassification	Reclassification	After Reclassification
Amortization of intangible assets	\$15,134	\$(15,134)	\$ —
Cost of revenues	\$82,320	\$ 15,134	\$97,454
Depreciation of property, plant and equipment	\$ 946	\$ (946)	\$ —
Selling, general and administrative	\$47,704	\$ 946	\$48,650
Other finance expense (income)	\$ 1,222	\$ (1,222)	\$ —
Foreign exchange loss	\$ 565	\$ (565)	\$ —
Share of net (income) loss from a joint venture	\$ 510	\$ (510)	\$ —
Share of net loss (income) from associates	\$ (67)	\$ 67	\$ —
Other (income) expense, net	\$ (549)	\$ 2,230	\$ 1,681
Interest income	\$ (5,967)	\$ 5,967	\$ —
Interest expense, net	\$ 2,701	\$ (5,967)	\$ (3,266)

	For the Year Ended December 31, 2012		
	Before Reclassification	Reclassification	After Reclassification
Amortization of intangible assets	\$ 16,135	\$(16,135)	\$ —
Cost of revenues	\$ 76,826	\$ 16,135	\$ 92,961
Depreciation of property, plant and equipment	\$ 703	\$ (703)	\$ —
Selling, general and administrative	\$ 49,023	\$ 703	\$ 49,726
Other finance expense (income)	\$ 1,164	\$ (1,164)	\$ —
Foreign exchange loss	\$ 1,211	\$ (1,211)	\$ —
Share of net (income) loss from a joint venture	\$ 725	\$ (725)	\$ —
Share of net loss (income) from associates	\$ (999)	\$ 999	\$ —
Gain on revaluation of equity investment	\$(12,296)	\$ 12,296	\$ —
Other (income) expense, net	\$ (3,036)	\$(10,195)	\$(13,231)
Interest income	\$ (5,461)	\$ 5,461	\$ —
Interest expense, net	\$ 2,181	\$ (5,461)	\$ (3,280)

Below is unaudited financial information showing adjustments to conform Paladin's historical IFRS statements to U.S. GAAP.

Paladin Labs Inc.
Unaudited Adjusted Historical Balance Sheet
As of September 30, 2013
(In thousands of USD)

	Paladin Adjusted Historical IFRS	U.S. GAAP Adjustments	Paladin Adjusted Historical U.S. GAAP
Assets			
Current assets:			
Cash and cash equivalents	\$ 67,976	\$ —	\$ 67,976
Accounts receivable, net	44,342	—	44,342
Inventories, net	46,259	—	46,259
Prepaid expenses and other current assets	193,457	299(a)	193,756
Income taxes receivable	263	—	263
Deferred income taxes	—	13,564(b)	13,564
Total current assets	<u>\$352,297</u>	<u>\$ 13,863</u>	<u>\$366,160</u>
Property and equipment, net	7,864	—	7,864
Goodwill	31,080	33,140(c)	64,220
Other intangibles, net	108,597	—	108,597
Other assets	88,778	(12,676)(b)	76,102
Total assets	<u>\$588,616</u>	<u>\$ 34,327</u>	<u>\$622,943</u>
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 61,198	\$ —	\$ 61,198
Accrued expenses	33,271	—	33,271
Current portion of long-term debt	5,042	—	5,042
Total current liabilities	<u>\$ 99,511</u>	<u>\$ —</u>	<u>\$ 99,511</u>
Deferred income taxes	19,456	1,536(b)	20,992
Long-term debt, less current portion, net	21,500	—	21,500
Other liabilities	7,768	—	7,768
Commitments and contingencies			
Stockholders' equity:			
Common Stock	174,626	—	174,626
Additional paid-in capital	6,583	—	6,583
Retained earnings	229,236	9,496(d)	238,732
Accumulated other comprehensive loss	(12,381)	(3,081)(c)	(15,462)
Total shareholder stockholders' equity	<u>\$398,064</u>	<u>\$ 6,415</u>	<u>\$404,479</u>
Noncontrolling interests	42,317	26,376(c)	68,693
Total stockholders' equity	<u>\$440,381</u>	<u>\$ 32,791</u>	<u>\$473,172</u>
Total liabilities and stockholders' equity	<u>\$588,616</u>	<u>\$ 34,327</u>	<u>\$622,943</u>

Paladin Labs Inc.
Unaudited Adjusted Historical Statement of Operations
For the Nine Months Ended September 30, 2013
(In thousands of USD)

	<u>Paladin Adjusted Historical IFRS</u>	<u>U.S. GAAP Adjustments</u>	<u>Paladin Adjusted Historical U.S. GAAP</u>
Revenues:			
Net pharmaceutical product sales	\$202,446	\$—	\$202,446
Total revenues	\$202,446	\$—	\$202,446
Costs & expenses:			
Cost of revenues	97,454	—	97,454
Selling, general and administrative	48,650	—	48,650
Research and development	7,168	—	7,168
Operating income	<u>\$ 49,174</u>	<u>\$—</u>	<u>\$ 49,174</u>
Interest income, net	(3,266)	—	(3,266)
Other (-income), net	1,681	—	1,681
Income before income tax	<u>\$ 50,759</u>	<u>\$—</u>	<u>\$ 50,759</u>
Income tax	13,043	39(e)	13,082
Consolidated net income (loss)	<u>\$ 37,716</u>	<u>\$ (39)</u>	<u>\$ 37,677</u>
Less: Net income attributable to noncontrolling interests	540	—	540
Net income (loss) attributable to Paladin Labs Inc.	<u><u>\$ 37,176</u></u>	<u><u>\$ (39)</u></u>	<u><u>\$ 37,137</u></u>

Paladin Labs Inc.
Unaudited Adjusted Historical Statement of Operations
For the Year Ended December 31, 2012
(In thousands of USD)

	Paladin Adjusted Historical IFRS	U.S. GAAP Adjustments	Paladin Adjusted Historical U.S. GAAP
Revenues:			
Net pharmaceutical product sales	\$210,242	\$ —	\$210,242
Total revenues	\$210,242	\$ —	\$210,242
Costs & expenses:			
Cost of revenues	92,961	—	92,961
Selling, general and administrative	49,726	—	49,726
Research and development	7,796	—	7,796
Operating income	\$ 59,759	\$ —	\$ 59,759
Interest income, net	(3,280)	—	(3,280)
Other expense, net	(13,231)	—	(13,231)
Income before income tax	\$ 76,270	\$ —	\$ 76,270
Income tax	17,904	(258)(e)	17,646
Consolidated net income	\$ 58,366	\$ 258	\$ 58,624
Less: Net income attributable to noncontrolling interests	(1,551)	—	(1,551)
Net income attributable to Paladin Labs Inc.	\$ 59,917	\$ 258	\$ 60,175

Adjustments included in the column “GAAP Adjustments” are for the following:

- a. Represents certain differences regarding the tax effects of intercompany transfer of assets under IFRS to conform to U.S. GAAP. Under IFRS taxes paid on intercompany transfers of assets are recognized as tax expense is incurred. Additionally, IFRS requires the recognition of deferred taxes on temporary differences between the tax basis of assets transferred. Under U.S. GAAP taxes paid on intercompany transfers are deferred as a prepaid asset until the underlying asset is consumed or is sold to an unrelated party at which point it is recognized as tax expense.
- b. Represents certain tax classification differences under IFRS to conform to U.S. GAAP. Under IFRS deferred income tax assets and liabilities are presented as non-current whereas under U.S. GAAP a split between current and non-current is required.
- c. To conform certain noncontrolling interest transactions to U.S. GAAP. Under IFRS, for business combination transactions, noncontrolling interests can be measured at fair value, including goodwill, or alternatively at their share of the fair value of the acquiree’s net identifiable assets whereas under U.S. GAAP noncontrolling interests are measured at fair value including goodwill.
- d. Reflects the cumulative income statement effect of the IFRS to U.S. GAAP adjustments.
- e. Reflects the period income tax effect of the IFRS to U.S. GAAP adjustments noted above.

U.S. Federal Withholding Tax Consequences of the Merger to New Endo

If certain conditions are met, New Endo should be treated as receiving a Deemed Distribution from Endo U.S. prior to the Merger. Such Deemed Distribution should be treated as a taxable dividend to the extent of Endo U.S.’s current and accumulated earnings and profits for the year of the Deemed Distribution and should be subject to U.S. withholding tax in accordance with the Ireland-U.S. Tax Treaty. This amount will not be known

at the time of Closing. As such, it is not possible to know the exact amount of the withholding tax for purposes of the unaudited pro forma condensed combined financial information. However, we currently do not expect that such withholding tax would be material to our condensed combined statements of operations or cash flows. Notwithstanding the foregoing, if the requisite conditions are not satisfied, the Deemed Distribution and U.S. withholding tax rules would not apply. In such a case, the gain realized by Endo's U.S. shareholders would be subject to U.S. federal income tax and the excise tax of Section 4985 would apply with respect to certain officers and directors of Endo.

Note 3. Preliminary estimated acquisition consideration for Paladin

Upon completion of the Arrangement, each issued and outstanding Paladin Share will be exchanged for the Arrangement Consideration. Each right to acquire one Paladin Share pursuant to a Paladin Option that is outstanding at the Effective Time will fully vest and will be settled in exchange for one Knight Share plus an amount of New Endo Shares equal to 1.6331 multiplied by a factor determined by dividing (y) the sum of the Arrangement Cash Consideration plus the In-the-Money Amount per Share, by (z) the closing price of a Paladin Share on TSX on the trading day immediately preceding the Effective Date.

For the purposes of calculating the preliminary estimated acquisition consideration in the pro forma financial statements, the Effective Date of the Merger is assumed to be November 29, 2013, on which date the share price was US\$67.19 per share. The US\$67.19 share price is used for pro forma purposes only. The consideration transferred will ultimately be based on the share price of the Endo Shares on the Merger Effective Date, and could be materially different than the share price utilized in the pro forma financial statements. On January 21, 2014, the closing price of Endo Shares was US\$68.83 per share. The change in the price of Endo Shares from November 29, 2013 is not material, and therefore no update has been made to the estimated acquisition considerations used in these pro forma financial statements.

Based on Paladin's Shares and equity awards outstanding per the Arrangement Agreement and assuming that all equity awards remain outstanding as of the Closing Date of the Merger, the preliminary estimated acquisition consideration, excluding the value of one Knight Share per Paladin Share, is as follows (in thousands of USD, except for per share amounts):

Preliminary Estimated Acquisition Consideration

Number of Paladin Shares to be paid through the delivery of New Endo Shares per Arrangement Agreement	20,710	
Exchange ratio	1.6331	
Number of New Endo Shares —as exchanged	33,821	
Endo Share price on November 29, 2013	<u>\$ 67.19</u>	
Estimated fair value of 33.8 million common shares of New Endo issued to Paladin Shareholders		\$2,272,449
Number of Paladin Shares to be paid in cash per Arrangement Agreement	20,710	
Per share cash consideration for Paladin Shares ⁽¹⁾	<u>\$ 1.13</u>	
Estimated cash distribution to Paladin Shareholders		23,346
Fair value of the vested portion of Paladin Options outstanding—1.3 million at November 29, 2013 ⁽²⁾		<u>106,317</u>
Total preliminary estimated acquisition consideration		<u>\$2,402,112</u>

Notes:

- (1) Represents the Arrangement Cash Consideration per the Arrangement Agreement of \$1.16 per Paladin Share translated into USD utilizing a September 30, 2013 exchange rate of \$0.9718.
- (2) Under ASC 805, the fair value of vested stock option awards attributed to pre-combination services is accounted for as purchase price consideration. There were a total of 1.3 million vested Paladin Options outstanding as of November 29, 2013 with an estimated fair value of US\$106.3 million, which is accounted for as purchase price consideration under ASC 805.

The sensitivity table below shows a range of estimated purchase consideration amounts based on hypothetical Endo closing share prices on the Merger Effective Date. The total purchase consideration figures below are calculated according to the terms of the Arrangement Agreement (in USD) (see Note 1).

Closing stock price per share of

Endo Shares on Merger date	\$ 61.00	\$ 64.00	\$ 67.19	\$ 70.00	\$ 73.00
Total purchase consideration	\$2.19 billion	\$2.29 billion	\$2.40 billion	\$2.50 billion	\$2.60 billion

Note 4. Preliminary estimated purchase price allocation

Since the Paladin acquisition has not been consummated, Endo's access to information to make such estimates of a purchase price allocation is limited and therefore, certain market based assumptions were used when data was not available. However, Endo's management believes the fair values recognized for the assets to be acquired and liabilities to be assumed are based on reasonable estimates and assumptions based on information currently available. The pro forma adjustments to allocate the acquisition consideration will remain preliminary until Endo's management determines the final acquisition consideration and the fair values of assets acquired, net of liabilities assumed. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after the Closing. The final amounts allocated to assets acquired and liabilities assumed could differ materially from the amounts presented in the unaudited pro forma combined financial statements.

The preliminary allocation of the estimated purchase price to the fair value of Paladin's assets and liabilities assumed as if the acquisition date was September 30, 2013 is presented as follows (in millions of USD):

Preliminary estimated acquisition consideration (see Note 3)		\$2,402.1
Recognized amounts of identifiable assets acquired and liabilities assumed		
Book value of Paladin's net assets	4a	404.4
Less net transaction costs expected to be incurred by Paladin	4a	(25.0)
Less historical Paladin goodwill and other intangible assets	4b	(172.8)
Net assets to be acquired		\$ 206.6
Fair value adjustments of net assets acquired		
Inventory	4c	23.7
Identifiable intangible assets		
Product Rights and other intangibles	4d	485.0
IPR&D	4d	90.0
Non-controlling interests	4e	(26.6)
Deferred tax liabilities	4f	(132.3)
Goodwill	4g	<u>\$1,755.7</u>

Adjustments included in the table above are for the following:

- Reflects the acquisition of the historical book value of net assets of Paladin as of September 30, 2013 and US\$25.0 million of estimated transaction costs expected to be incurred by Paladin which will reduce net assets to be acquired.
- After giving effect to IFRS to U.S. GAAP adjustments, Paladin's historical balance sheet includes US\$172.8 million of goodwill and other intangible assets, which are not recorded under the acquisition method of accounting.
- Represents the estimated adjustment to step-up inventory to fair value. This estimated step-up in inventory is preliminary and is subject to change based upon management's final determination of the fair values of finished goods and work-in-process inventories. New Endo will reflect the fair value of Paladin's inventory as the acquired inventory is sold, which for purposes of these unaudited pro forma condensed combined

financial statements is assumed to occur within the first year after acquisition. As there is no continuing impact of the inventory step-up on New Endo's results, the amortization expense on the increased inventory value is not included in the unaudited pro forma condensed combined statements of operations.

- d. Of the total estimated consideration, approximately US\$485.0 million relates to definite-lived intangible assets which are expected to be amortized over a weighted average useful life of eleven years. Amortization related to the value of the definite-lived intangible assets is reflected as a pro forma adjustment to the unaudited pro forma condensed combined statements of operations. IPR&D of US\$90.0 million will be capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion of the projects and launch of the products, Endo will make a separate determination of useful life of the IPR&D intangibles and amortization will be recorded as an expense. As IPR&D intangibles are not currently marketed, no amortization of these items is reflected in the unaudited pro forma condensed combined statements of operations.

The fair value estimate for definite-lived intangible assets and IPR&D assets is preliminary and is determined based on the assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). This preliminary fair value estimate could include assets that are not intended to be used, may be sold or are intended to be used in a manner other than their best use. For purposes of the accompanying unaudited pro forma condensed combined financial information, it is assumed that all assets will be used in a manner that represents their highest and best use. The final fair value determination for definite-lived intangible assets and IPR&D assets, may differ from this preliminary determination.

The fair value of definite-lived intangible assets is determined primarily using the "income approach", which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. Some of the more significant assumptions inherent in the development of the definite-lived intangible assets valuations, from the perspective of a market participant, include the estimated net cash flows for each year for each project or product (including net revenues, cost of sales, research and development costs, selling and marketing costs and working capital/asset contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, competitive trends impacting the asset and each cash flow stream as well as other factors. The major risks and uncertainties associated with the timely and successful completion of the IPR&D projects include legal risk and regulatory risk. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change or the timely completion of each project to commercial success will occur. For these and other reasons, actual results may vary significantly from estimated results.

- e. Represents the fair value adjustment for non-controlling interest. The minority interest for Litha Healthcare Group Limited, estimated at US\$71.2 million, is based on a current share price of Litha translated into USD, or approximately US\$0.27 multiplied by the number of outstanding shares of Litha currently not owned by Paladin, which is approximately 266.5 million shares. The estimated fair value of non-controlling interest of Paladin Mexico was estimated to be approximately US\$24.1 million. To estimate the fair value of Paladin Mexico's non-controlling interest, Endo utilized an "income approach", which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. The implied fair value of Paladin Mexico was then multiplied by the current non-controlling interest percentage to arrive at the estimated fair value of Paladin Mexico's non-controlling interest. The final fair value determination for non-controlling interests may differ from this preliminary determination.
- f. Reflects a deferred income tax liability primarily resulting from fair value adjustments for the identifiable intangible assets and inventory. This estimate of deferred tax liabilities was determined based on the excess book basis over the tax basis of the fair value step-ups attributable to identifiable intangible assets and

inventory acquired at an estimated 27% blended statutory tax rate. This estimate of deferred income tax liabilities is preliminary and is subject to change based upon management's final determination of the fair values of tangible and identifiable intangible assets acquired and liabilities assumed by jurisdiction.

- g. Goodwill, currently estimated at US\$1,755.7 million, represents the excess of the preliminary estimated acquisition consideration expected to be transferred over the preliminary values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed. In accordance with ASC 350, "Intangibles—Goodwill and Other", goodwill is not amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment.

Note 5. Pro forma adjustments

- a. The adjustment to cash and cash equivalents reflects the following (in thousands of USD):

Debt proceeds (1)	\$ 2,225,000
Repayment of Endo's existing debt (1)	(1,413,362)
Debt issuance costs (2)	(58,617)
Endo's debt refinancing costs	<u>\$ 753,021</u>
Cash transaction costs (3)	\$ (99,070)
Total estimated purchase price to be paid in cash (4)	<u>(23,346)</u>
Paladin acquisition adjustments	<u>\$ (122,416)</u>

Notes:

- (1) The issuance of US\$2,225.0 million in additional debt, which will be used for the repayment of US\$1,413.4 million under the Endo existing term loan credit facility and other general corporate purposes;
 - (2) the estimated debt issuance costs of US\$58.6 million related to the issuance of additional debt;
 - (3) the incurrence of US\$74.1 million and US\$25.0 million of estimated direct transaction costs of Endo and Paladin, respectively, associated with the Paladin Acquisition; and
 - (4) the estimated payment of US\$23.3 million in cash consideration to sellers for Paladin Shares (see Note 3).
- b. Represents the estimated fair value adjustment to step-up inventory to fair value. This estimated step-up in inventory is preliminary and is subject to change based upon management's final determination of the fair values of finished goods and work-in-process inventories. New Endo will reflect the fair value of Paladin's inventory as the acquired inventory is sold, which for purposes of these unaudited pro forma condensed combined financial statements is assumed to occur within the first year after acquisition. As there is no continuing impact of the inventory step-up on New Endo's results, the amortization expense on the increased inventory value is not included in the unaudited pro forma condensed combined statement of operations.
 - c. Represents the adjustment to income taxes receivable resulting from the Endo debt refinancing.
 - d. Represents the adjustment to reflect US\$1,755.7 million of goodwill, which is the excess of the preliminary estimated acquisition consideration expected to be transferred over the preliminary values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed.
 - e. The adjustments reflect the incremental amount necessary to record the fair value of the Paladin intangible assets acquired of US\$575.0 million. Approximately US\$485.0 million relates to definite-lived intangible assets which are expected to be amortized over a weighted average useful life of eleven years. Amortization related to the value of the definite-lived intangible assets is reflected as a pro forma adjustment to the unaudited pro forma condensed combined statements of operations. IPR&D of US\$90.0 million will be capitalized and accounted for as indefinite-lived intangible assets and will be subject to impairment testing

until completion or abandonment of the projects. Upon successful completion of the projects and launch of the products, Endo will make a separate determination of useful life of the IPR&D intangibles and amortization will be recorded as an expense. As IPR&D intangibles are not currently marketed, no amortization of these items is reflected in the unaudited pro forma condensed combined statements of operations.

- f. Represents the current portion of new indebtedness from the new term loan credit facility, offset by the portion of the existing term loan credit facility.
- g. Reflects a deferred income tax liability primarily resulting from fair value adjustments for the identifiable intangible assets and inventory. This estimate of deferred tax liabilities was determined based on the excess book basis over the tax basis of the fair value step-ups attributable to identifiable intangible assets and inventory acquired at an estimated 27% blended statutory tax rate. This estimate of deferred income tax liabilities is preliminary and is subject to change based upon management's final determination of the fair values of tangible and identifiable intangible assets acquired and liabilities assumed by jurisdiction.
- h. Represents the elimination of deferred taxes associated with the existing term loan credit facility.
- i. The adjustment to long-term debt, less current portion, net consists of the following components (in thousands of USD):

Endo's borrowing related to the Paladin acquisition and related financing:	
Term Loan A	\$ 1,100,000
Term Loan B	425,000
Senior Notes	700,000
Endo debt repayment, net of US\$69 million current portion	(1,343,987)
Net change	<u>\$ 881,013</u>
Less current portion of long-term debt	<u>(45,500)</u>
Total net change	<u><u>\$ 835,513</u></u>

In connection with the retirement of the existing term loan credit facility, Endo eliminated approximately US\$25.7 million of unamortized debt issuance costs that had been capitalized and recorded in other assets. The elimination of the unamortized debt issuance costs was accounted for as an extinguishment of the existing term loan credit facility. Additionally, Endo estimates it will incur approximately US\$58.6 million in fees in connection with borrowings under the new term loan credit facility and the New Senior Notes. Accordingly, such fees are capitalized and included in other assets in the unaudited pro forma condensed combined balance sheet resulting in additional pro forma expense of US\$5.7 million and US\$14.0 million for the nine months ended September 30, 2013 and the year ended December 31, 2012. Deferred debt issuance costs will be amortized using an effective-interest method over the life of the related debt instrument, which ranges from 1 to 8 years. For purposes of the unaudited pro forma condensed combined statements of operations, amortization of deferred debt issuance costs is reflected using a straight line methodology, which is assumed to approximate the effective-interest method.

- j. The adjustments to equity consist of the following components (in thousands of USD):

Additional paid-in capital and common stock related to the issuance of New Endo	
Shares to Paladin Shareholders as Merger consideration	\$2,378,766
The elimination of Paladin's historical shareholder's equity	(404,479)
Estimated direct transaction costs of Endo	<u>(74,070)</u>
Paladin acquisition adjustments	<u><u>\$1,900,217</u></u>
The elimination of unamortized debt issuance costs on the existing term loan credit facility	
	\$ (25,720)
Adjustments to income taxes receivable and deferred taxes as a result of the expected retirement of the existing term loan credit facility	<u>9,229</u>
Endo debt refinancing costs	<u><u>\$ (16,491)</u></u>

In addition, Endo Treasury stock in the amounts of US\$764,021 and US\$291 were reclassified into “Additional paid-in capital” and “Common stock”, respectively.

- k. Represents the fair value adjustment for non-controlling interest. The minority interest for Litha Healthcare Group Limited, estimated at US\$71.2 million, is based on a current share price of Litha translated into USD, or approximately US\$0.27 multiplied by the number of outstanding shares of Litha currently not owned by Paladin, which is approximately 266.5 million shares. The estimated fair value of non-controlling interest of Paladin Mexico was estimated to be approximately US\$24.1 million. To estimate the fair value of Paladin Mexico’s non-controlling interest we utilized an “income approach”, which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. The implied fair value of Paladin Mexico was then multiplied by the current non-controlling interest percentage to arrive at the estimated fair value of Paladin Mexico’s non-controlling interest. The final fair value determination for non-controlling interests may differ from this preliminary determination.
- l. Reflects a net increase in amortization expense on the definite-lived intangible assets of Paladin, which were revalued upon acquisition. These assets have a weighted average useful life of 11 years.
- m. The net adjustments for the nine months ended September 30, 2013 and the year ended December 31, 2012 consist of the following components, assuming new financing consisting of (i) US\$1,100.0 million aggregate principal amount of Term Loan A, (ii) US\$425.0 million aggregate principal amount of Term Loan B and (iii) US\$700.0 million of Senior Notes (in thousands of USD):

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Estimated interest expense (including the amortization of debt issuance costs) on new indebtedness	\$ 63,556	\$ 92,455
Interest expense (including commitment fees associated with the revolving credit facility and the amortization of debt issuance costs) associated with the Existing Term Loan Credit Facility	(31,322)	(57,771)
Total interest expense adjustment	<u>\$ 32,234</u>	<u>\$ 34,684</u>

On an as adjusted basis, after giving effect to the application of the proceeds from the new term loan credit facility and new senior notes and the consummation of the Transactions, as of September 30, 2013, Endo’s aggregate principal debt outstanding would have consisted of US\$1,552.0 million of floating rate debt and US\$2,385.7 million of fixed-rate debt. Based on the pro forma amount of floating-rate debt outstanding at September 30, 2013, a ¼% rise in interest rates would result in approximately US\$3.9 million incremental interest expense.

- n. Estimated income tax rates of approximately 36% and 27% for Endo and Paladin, respectively, have been used for the pro forma adjustments for the nine months ended September 30, 2013 and 35% and 27% for Endo and Paladin, respectively, for the year ended December 31, 2012. The estimated income tax rates are based on the applicable enacted statutory tax rates for the periods referenced above and appropriately reflect certain basis differences of Endo and Paladin that will not result in taxable or deductible amounts in future years when the related financial reporting asset or liability will be recovered or settled. These rates are estimates and do not take into account future income tax strategies that may be applied to the combined entity.

- o. Represents the adjustment to weighted average shares outstanding to account for the conversion of each Paladin outstanding share to 1.6331 newly issued New Endo Shares and the diluted effect of the Paladin Options, assuming exercise and conversion to 1.6331 newly issued New Endo Shares (shares in thousands):

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Basic		
Endo weighted average shares outstanding to be replaced by shares of		
New Endo used for basic EPS	112,691	115,719
New Endo Shares to be issued in replacement of the Paladin Shares	<u>33,821</u>	<u>33,821</u>
Pro forma weighted average shares outstanding of New Endo used for		
pro forma basic EPS	<u>146,512</u>	<u>149,540</u>
Diluted		
Endo weighted average shares outstanding to be replaced by shares of		
New Endo used for diluted EPS	116,890	115,719
New Endo Shares to be issued in replacement of the Paladin Shares	33,821	33,821
Estimated New Endo Shares to be issued for the outstanding Paladin		
Options	<u>1,582</u>	<u>—</u>
Pro forma weighted average shares outstanding of New Endo used for		
pro forma diluted EPS	<u>152,293</u>	<u>149,540</u>

COMPARATIVE PER SHARE DATA

The following tables set forth certain historical, pro forma and pro forma equivalent per share financial information for shares of Endo Shares and Paladin Shares. The unaudited pro forma and pro forma equivalent per share financial information gives effect to the acquisition of Paladin by Endo as if the Transactions had occurred on January 1, 2012.

Presented below are Endo's and Paladin's historical per share data for the nine months ended September 30, 2013 and the year ended December 31, 2012 and unaudited condensed combined pro forma per share data for the nine months ended September 30, 2013 and the year ended December 31, 2012. The historical book value per share is computed by dividing total stockholders' equity (deficit) by the number of shares of common stock outstanding at the end of the period. New Endo was incorporated in Ireland on October 31, 2013 for the purpose of facilitating the Transactions and does not maintain any material balances nor has it had any material activity since formation. The pro forma earnings per share of the combined company is computed by dividing the pro forma net income by the pro forma weighted average number of shares outstanding. The pro forma book value per share of the combined company is computed by dividing total pro forma stockholders' equity by the pro forma number of shares of common stock outstanding at the end of the period. The Paladin pro forma equivalent data per common share financial information is calculated by multiplying the pro forma data per common share amounts by the exchange ratio (1.6331 of a New Endo Share for each Paladin Share). The exchange ratio does not include the Arrangement Cash Consideration or the Knight Therapeutics Arrangement Consideration to be paid to Paladin Shareholders in the Arrangement. The pro forma information described below includes certain adjustments and assumptions regarding the combined company after giving effect to the Transactions.

The following information should be read in conjunction (i) with the Endo Annual Financial Statements, which are included in Appendix "G" of this Circular, (ii) Paladin's Annual Report for the year ended December 31, 2012 previously filed with SEDAR, and (iii) the financial information contained in the "*Unaudited Pro Forma Condensed Combined Financial Information*", "*Selected Historical Financial Data of Paladin*" and "*Selected Historical Financial Data of Endo*" sections of this Circular, beginning on pages 153, 151 and 149, respectively. The unaudited pro forma information below is presented for informational purposes only and is not

necessarily indicative of the operating results or financial position that would have occurred if the Transactions had been completed as of the periods presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. In addition, the unaudited pro forma information does not purport to indicate balance sheet data or results of operations data as of any future date or for any future period.

Endo Historical Data Per Paladin Share	As of and for the Nine Months Ended September 30, 2013	As of and for the Fiscal Year Ended December 31, 2012
Net income (loss)	US\$90,571	US\$(740,337)
Net income per common share		
Basic	US\$ 0.80	US\$ (6.40)
Diluted	US\$ 0.77	US\$ (6.40)
Book value per common share	US\$ 11.65	US\$ 10.23
Paladin Historical Data Per Paladin Share	As of and for the Nine Months Ended September 30, 2013	As of and for the Fiscal Year Ended December 31, 2012
Net income	\$38,043	\$59,906
Net income per common share		
Basic	\$ 1.85	\$ 2.94
Diluted	\$ 1.80	\$ 2.86
Cash dividends declared per common share	N/A	N/A
Book value per common share	\$ 21.89	\$ 22.08
Combined Unaudited Pro Forma Data Per Paladin Share	As of and for the Nine Months Ended September 30, 2013	As of and for the Fiscal Year Ended December 31, 2012
Net income (loss)	US\$109,848	US\$(726,173)
Net income per common share		
Basic	US\$ 0.75	US\$ 4.86
Diluted	US\$ 0.72	US\$ 4.82
Cash dividends declared per common share	N/A	N/A
Book value per common share	US\$ 24.91	N/A
Paladin Unaudited Pro Forma Equivalent Data Per Paladin Share	As of and for the Nine Months Ended September 30, 2013	As of and for the Fiscal Year Ended December 31, 2012
Net income	\$38,043	\$59,906
Net income per common share		
Basic	\$ 3.02	\$ 4.64
Diluted	\$ 2.94	\$ 4.67
Book value per common share	\$ 35.75	\$ 36.06

COMPARATIVE PER SHARE MARKET PRICE DATA AND DIVIDEND INFORMATION

The Endo Shares are listed and traded on NASDAQ under the symbol “ENDP”. Paladin Shares are listed and traded on TSX under symbol “PLB”. The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of the Endo Shares, as reported on NASDAQ, and of Paladin Shares, as reported on TSX. In addition, the table also sets forth the cash dividends per share declared by Endo with respect to the Endo Shares and by Paladin with respect to the Paladin Shares. On January 21, 2014 there were 115,478,811 Endo Shares outstanding. On January 21, 2014 the record date for the Meeting, there were 20,765,385 Paladin Shares outstanding. Neither Endo nor Paladin has declared or paid any cash dividends on the Endo Shares and the Paladin Shares, respectively.

	Endo		Paladin	
	High	Low	High	Low
<i>For the quarterly period ended:</i>				
2011				
First Quarter	US\$38.51	US\$32.14	\$ 35.95	\$30.80
Second Quarter	US\$44.53	US\$36.65	\$ 45.08	\$35.00
Third Quarter	US\$42.09	US\$26.76	\$ 45.60	\$32.41
Fourth Quarter	US\$36.41	US\$26.02	\$ 44.28	\$33.01
2012				
First Quarter	US\$39.29	US\$32.82	\$ 45.88	\$39.16
Second Quarter	US\$38.96	US\$28.83	\$ 49.07	\$36.76
Third Quarter	US\$33.86	US\$28.89	\$ 51.89	\$40.60
Fourth Quarter	US\$33.03	US\$25.49	\$ 45.56	\$39.01
2013				
First Quarter	US\$33.32	US\$25.01	\$ 50.00	\$41.82
Second Quarter	US\$39.82	US\$30.39	\$ 54.00	\$46.84
Third Quarter	US\$46.09	US\$36.17	\$ 62.96	\$53.53
Fourth Quarter	US\$67.63	US\$43.12	\$118.99	\$62.00

MANAGEMENT AND OTHER INFORMATION OF NEW ENDO

Directors of New Endo

Immediately after the Effective Time, the directors and officers of New Endo, as a group, will beneficially own, directly or indirectly, or exercise control over, approximately 1.5 million New Endo Shares, representing approximately 1.0% of the New Endo Shares outstanding.

Term and Residence of New Endo Directors

Name	State and Country of Residence	Term
Roger H. Kimmel	Connecticut, USA	One year
Rajiv De Silva	New Jersey, USA	One year
John J. Delucca	New Jersey, USA	One year
Arthur J. Higgins	Illinois, USA	One year
Nancy J. Hutson, Ph.D.	Florida, USA	One year
Michael Hyatt	New York, USA	One year
William P. Montague	New York, USA	One year
David B. Nash, M.D., M.B.A.	Pennsylvania, USA	One year
Jill D. Smith	Massachusetts, USA	One year
William F. Spengler	Florida, USA	One year

Roger H. Kimmel

Roger H. Kimmel is currently Chairman of the Board of Endo and is Chairman of Endo's Nominating & Governance Committee and a member of Endo's Audit Committee and Transactions Committee. Mr. Kimmel became Chairman of the Board of Endo upon the retirement of founder Carol A. Ammon on May 30, 2007. Mr. Kimmel had been a Director of Algos Pharmaceutical Corporation since July 1996 and became a Director of Endo following its merger with Algos in July 2000. Mr. Kimmel has been Vice Chairman of Rothschild Inc., an investment banking firm, since January 2001. Previously, Mr. Kimmel was a partner of the law firm Latham & Watkins for more than five years. Mr. Kimmel is also a director of PG&E Corporation. Mr. Kimmel has been Chairman of the Board of Trustees of the University of Virginia Law School Foundation (not-for-profit) since January 2009. He has been a public speaker on corporate governance issues and private equity transactions.

Rajiv De Silva

Rajiv De Silva is President, Chief Executive Officer and a Director of Endo. Prior to joining Endo in March 2013, Mr. De Silva served as the President of Valeant Pharmaceuticals International, Inc. from October 2010 to January 2013 and served as its Chief Operating Officer, Specialty Pharmaceuticals from January 2009 until January 2013. He was responsible for all specialty pharmaceutical operations, including sales and marketing, research and development, manufacturing and business development. He has broad international experience, having managed businesses in the United States, Europe, Canada, Latin America, Asia, South Africa and Australia/New Zealand. Prior to joining Valeant, Mr. De Silva held various leadership positions with Novartis. He served as President of Novartis Vaccines USA and Head, Vaccines of the Americas at Novartis. During this time, he played a key leadership role at Novartis' Vaccines & Diagnostics Division. Mr. De Silva also served as President of Novartis Pharmaceuticals Canada. He originally joined Novartis as Global Head of Strategic Planning for Novartis Pharma AG in Basel, Switzerland. Prior to his time at Novartis, Mr. De Silva was a Principal at McKinsey & Company and served as a member of the leadership group of its Pharmaceuticals and Medical Products Practice. Mr. De Silva has been a Director of AMAG Pharmaceuticals, Inc. since February 2012. He holds a Bachelor of Science in Engineering, Honors from Princeton University, a Master of Science from Stanford University and a Master of Business Administration with Distinction from the Wharton School at the University of Pennsylvania.

John J. Delucca

John J. Delucca has been a member of the Endo board of directors since 2006 and is the Chairman of Endo's Audit Committee and is a member of Endo's Compensation Committee. Mr. Delucca was Executive Vice President and Chief Financial Officer of the REL Consultancy Group, a business consulting firm, until his retirement in 2004. Prior to that, he served as Chief Financial Officer and Executive Vice President, Finance & Administration, of Coty, Inc., a fragrance and beauty products company, from 1999 to 2002. From 1993 to 1999, he was Senior Vice President and Treasurer of RJR Nabisco, Inc. During his career, he also served in executive positions for Hascoe Associates, Inc., The Lexington Group, the Trump Group, International Controls Corp., and Textron, Inc. Mr. Delucca is currently a Non-Executive Director and chairs the Audit Committees of The Elliot Company, an industrial manufacturer. He previously served as a Non-Executive Director and member of the Audit Committee and Governance and Nominating Committee of Tier Technologies, Inc., a publicly traded payment solutions company. Mr. Delucca had also served as a Non-Executive Director and chair of the Audit Committee and a member of the Compensation Committee of Germany-based Elster Group.

Arthur J. Higgins

Arthur J. Higgins was appointed to the Endo board of directors in December 2013 and is a member of Endo's Compensation Committee and Transactions Committee. He is currently a Senior Advisor to Blackstone Healthcare Partners, the dedicated healthcare team of The Blackstone Group, where he focuses on product-based healthcare acquisitions. Mr. Higgins was Chairman of the Board of Management of Bayer HealthCare AG, and Chairman of the Bayer HealthCare Executive Committee. Prior to joining Bayer HealthCare in 2004,

Mr. Higgins served as Chairman, President and CEO of Enzon Pharmaceuticals, Inc. from 2001 to 2004. Prior to joining Enzon Pharmaceuticals, Mr. Higgins spent 14 years with Abbott Laboratories, including serving as President of the Pharmaceutical Products Division from 1998 to 2001. Mr. Higgins currently serves on the boards of Ecolab, Inc. Resverlogix Corp. and Zimmer Holdings, Inc. He is a past member of the board of directors of the Pharmaceutical Research and Manufacturers of America (PhRMA), of the Council of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) and President of the European Federation of Pharmaceutical Industries and Associations (EFPIA).

Nancy J. Hutson, Ph.D.

Nancy J. Hutson, Ph.D. has been a member of the Endo board of directors since 2009 and is Chairman of Endo's Research & Development Committee and a member of Endo's Compensation Committee, Nominating & Governance Committee and Transactions Committee. Dr. Hutson retired from Pfizer, Inc. in 2006 after spending 25 years in various research and leadership positions, most recently serving as Senior Vice President, Pfizer Global Research and Development and Director of Pfizer's pharmaceutical R&D site, known as Groton/New London Laboratories, the largest R&D site of any pharmaceutical company. At Pfizer, she led 4,500 colleagues (primarily scientists) and managed a budget in excess of \$1 billion. She currently is a director of Cubist Pharmaceuticals, Inc. and BioCryst Pharmaceuticals, Inc., and serves on the board of Planned Parenthood of Connecticut. Dr. Hutson owns and operates Standing Stones Farm in Ledyard, CT, which is dedicated to supporting the equestrian sport of dressage.

Michael Hyatt

Michael Hyatt is currently a Director of Endo and is Chairman of Endo's Transactions Committee and a member of Endo's Nominating & Governance Committee. Mr. Hyatt had been a director of Algos Pharmaceutical Corporation since November 1996 and became a director of Endo following its merger with Algos in July 2000. Mr. Hyatt is currently a senior advisor to Irving Place Capital, a leading institutional private equity firm focused on making equity investments in middle-market companies. Until 2008, Mr. Hyatt was a Senior Managing Director of Bear Stearns & Co., Inc. In June 2012, Mr. Hyatt was appointed a director of RGI-Informatics LLC, a business offering the Healthcare Analytics Solution® software as a service to the users and providers of healthcare information.

William P. Montague

William P. Montague has been a member of the Endo board of directors since 2009 and is a member of Endo's Audit Committee, Nominating & Governance Committee and Transactions Committee. Mr. Montague was Chief Executive Officer and Director of Mark IV Industries, Inc., a leading global diversified manufacturer of highly engineered systems and components for transportation infrastructure, vehicles and equipment, from November 2004 until his retirement on July 31, 2008 and as Director from March 1996. He joined Mark IV Industries in April 1972 as Treasurer/Controller, serving as Vice President of Finance from May 1974 to February 1986, then Executive Vice President and Chief Financial Officer from February 1986 to March 1996 and then as President from March 1996 to November 2004. Mr. Montague is also a director of Gibraltar Industries, Inc., a publicly traded manufacturer and distributor of products for the building and industrial markets and a director of International Imaging Materials, Inc., a privately held company that manufactures and sells a variety of thermal transfer ribbons and certain inks. In February 2013, Mr. Montague became a director of Allied Motion Technologies Inc., a publicly traded company focused exclusively on serving the motion control market.

David B. Nash, M.D., M.B.A.

David B. Nash, M.D., M.B.A. was appointed to the Board of Endo in March 2011 and is a member of Endo's Compensation Committee and Research & Development Committee. He is the founding dean of the Jefferson School of Population Health, located on the campus of Thomas Jefferson University in Philadelphia, Pennsylvania, having taken that position in 2008. Previously, Dr. Nash was the Chairman of the Department of

Health Policy of the Jefferson Medical College from 2003 to 2008. Dr. Nash is internationally recognized for his work in outcomes management, medical staff development and quality-of-care improvement; his publications have appeared in more than 100 articles in major journals. Dr. Nash serves on the Paladin Board of Directors of Humana Inc., one of the nation's largest publicly traded health and supplemental benefits companies in the United States. Dr. Nash also has served as a member of the Board of Trustees of Catholic Healthcare Partners in Cincinnati, Ohio. The Board of New Endo believes that Dr. Nash brings a set of attributes that enhance New Endo's ability to help people achieve lifelong well-being. Dr. Nash is a widely recognized innovator in an emerging medical discipline that unites population health, health policy, and individual health.

Jill D. Smith

Jill D. Smith was appointed to the Board of Endo in September 2012 and is a member of Endo's Audit Committee and Nominating & Governance Committee. Ms. Smith has been an international business leader for more than 25 years, including 16 years as a Chief Executive Officer of private and public companies in the technology and information services markets and was most recently Chairman, Chief Executive Officer and President of DigitalGlobe Inc., a leading provider of satellite imagery products and services to governments and companies worldwide. Ms. Smith currently serves on the Board of SoundBite Communications, Inc., a leading provider of cloud-based customer communications and J.M. Huber, a leader in engineered materials and has served on the corporate boards of Germany-based Elster Group, Smith & Hawken and DigitalGlobe (prior to her appointment as Chairman and Chief Executive Officer). In addition, Ms. Smith is a member of the Board of Crittenton Women's Union, among other past professional and trade association board positions.

William F. Spengler

William F. Spengler has been a member of the Board of Endo since 2008 and is a member of Endo's Audit Committee, Compensation Committee and Research & Development Committee. From November 2010 until February 2012, Mr. Spengler was President of ChromaDex Corporation, a publicly traded company. From July 2008 until November 2010, Mr. Spengler served as Executive Vice President and Chief Financial Officer of Smith & Wesson Holding Corporation, a global leader in safety, security, protection and sport. Until March 2008, he was Executive Senior Vice President and Chief Financial Officer at MGI Pharmaceuticals Inc., an oncology- and acute care- focused biopharmaceutical company, where he had worked since 2005. Prior to joining MGI Pharma, Mr. Spengler was Executive Vice President and Chief Financial Officer at Guilford Pharmaceuticals Inc., a bioscience company, from July 2004 to October 2005. From 2002 to 2004, Mr. Spengler served as President, Chief Operating Officer and Director of Osteoimplant Technology, Inc., an orthopedic products company. Mr. Spengler was previously a Vice President of Finance at Black & Decker, and prior to that spent 14 years in various finance, planning and business development positions at Bristol Myers Squibb.

Director Independence

As required under NASDAQ listing standards a majority of the members of a listed company's board of directors must qualify as "independent" as affirmatively determined by the board of directors. The Endo board of directors consults with internal counsel so that the board's determinations are consistent with relevant securities and other laws and regulations regarding the definition of "independent" including those set forth in pertinent NASDAQ listing standards, as in effect from time to time. Consistent with these considerations, after review of all relevant transactions or relationships between each director of Endo who is expected to become a director of New Endo, or any of his or her family members, and Endo, its senior management and its independent registered public accounting firm, the Endo board of directors has affirmatively determined that each director of Endo who is expected to become a director of New Endo is an independent director within the meaning of the applicable NASDAQ listing standards.

Compensation of New Endo's Executive Officers

New Endo did not have any employees during the year ended December 31, 2012 and, accordingly, has not included any compensation and other benefits information with respect to that or prior periods.

Information concerning the historical compensation paid by Endo to its named executive officers for the year ended December 31, 2012 and Endo's compensation policies is contained in Appendix "L" of this Circular.

Following the Transactions, it is expected that a compensation committee of New Endo will be formed, and pursuant to the responsibilities outlined in its charter, the committee will oversee and determine the compensation of the chief executive officer and other executive officers of New Endo and will evaluate and determine the appropriate executive compensation philosophy and objectives for New Endo in the normal course of business.

This New Endo compensation committee is expected to review its compensation policies with respect to the executive officers of New Endo after the transactions and in the normal course of business, consistent with its charter, the New Endo compensation committee will also evaluate and determine the appropriate design of the New Endo executive compensation program and the appropriate process for establishing executive compensation consistent with past practices. The compensation policies of New Endo after Closing are expected to be the same as those of Endo prior to Closing. See Appendix "L" of this Circular for details on Endo's compensation policies. Assuming that the Transactions are completed, New Endo's management proxy circular in respect of its next annual meeting of shareholders will include executive compensation disclosure in respect of Endo's 2013 fiscal year, prepared in accordance with U.S. securities laws requirements.

Compensation of New Endo's Directors

Information concerning the historical compensation paid by Endo to its non-employee directors, all of whom are expected to be non-employee directors of New Endo, and information on Endo's compensation policies for the year ended December 31, 2012, are contained in Appendix "L" of this Circular. Following the Transactions, New Endo's compensation committee will review director compensation in the normal course of business as a result of the merger and pursuant to the responsibilities outlined in the compensation committee's charter. New Endo may delay granting equity awards to Covered Individuals should the excise tax discussed in the section entitled "*The Arrangement and the Merger—Endo Golden Parachute Compensation*" beginning on page 77 apply. New Endo will not maintain a directors deferred compensation plan in order to comply with Irish tax law.

Senior Management of New Endo

The New Endo executive officers after the Transactions are expected to be the same as the executive officers of Endo prior to the Effective Time.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Endo, as at the date of the Circular, no proposed director or executive officer of New Endo is, or within the ten years prior to the date of the Circular has been, a director, chief executive officer or chief financial officer of any company (including Endo, as applicable), that while that person was acting in that capacity:

- a. was subject to:
 - i. a cease trade order (including any management cease trade order which applied to directors or executive officers of a company, whether or not the person is named in the order), or
 - ii. an order similar to a cease trade order, or
 - iii. an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an "**Order**"); or
- b. was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of Endo, as at the date of the Circular, except as described below, no proposed director, executive officer, or expected shareholder holding a sufficient number of securities of New Endo to affect materially the control of New Endo immediately following completion of the Arrangement is, or within the ten years prior to the date of the Circular has:

- a. been a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- b. become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

William P. Montague was an officer and director of Mark IV Industries, Inc. (“**Mark IV**”) prior to its filing for bankruptcy protection under Chapter 11 of the United States Code in April 2009. Mr. Montague retired from Mark IV on July 31, 2008.

To the knowledge of Endo, as at the date of the Circular, no proposed director, executive officer, or expected shareholder holding a sufficient number of securities of New Endo to affect materially the control of New Endo immediately following completion of the Arrangement has been subject to:

- a. any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- b. any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

As at the date of the Circular, Endo is not aware of any existing or potential material conflicts of interest between New Endo and any proposed director or officer of New Endo, except that certain of its directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to New Endo and their duties as a director or officer of such other companies.

DESCRIPTION OF NEW ENDO SHARES

The following description of New Endo’s share capital is a summary. This summary does not purport to be complete and is qualified in its entirety by reference to the Companies Acts and the complete text of the New Endo Memorandum and Articles of Association. You should read those laws and documents carefully.

There are differences between the Paladin charter documents and the New Endo Memorandum and Articles of Association as they will be in effect after the Closing, especially as they relate to changes (i) that are required by Irish law or (ii) that are necessary in order to preserve the current rights of shareholders and powers of the board of directors of New Endo following the completion of the Transactions. Certain provisions of the Paladin charter documents will not be replicated in the New Endo Memorandum and Articles of Association because Irish law would not permit such replication, and certain provisions will be included in the New Endo Memorandum and Articles of Association although they were not in the Paladin charter documents because Irish law requires such provisions to be included in the memorandum and articles of association of an Irish public limited company. See “*Comparison of the Rights of Holders of Paladin Shares and New Endo Shares*” beginning on page 193. Except where otherwise indicated, the description below reflects the New Endo Memorandum and Articles of Association. The statements in this section are qualified in their entirety by reference to, and are subject to, the detailed provisions of the New Endo Memorandum and Articles of Association as they will be in effect from and after the Effective Time.

Capital Structure

Authorized Share Capital

Immediately prior to the consummation of the Transactions, the authorized share capital of New Endo will be €40,000 and US\$100,000 divided into 4,000,000 euro deferred shares of €0.01 each and 1,000,000,000 New Endo Shares of US\$0.0001 each.

New Endo may issue shares subject to the maximum authorized share capital contained in the New Endo Memorandum and Articles of Association. The authorized share capital may be increased or reduced by a resolution approved by a simple majority of the votes cast at a general meeting of New Endo's shareholders (referred to under Irish law as an "ordinary resolution"). The shares comprising the authorized share capital of New Endo may be divided into shares of such nominal value as the resolution shall prescribe. As a matter of Irish company law, the directors of a company may issue new ordinary or preferred shares without shareholder approval once authorized to do so by the Memorandum and articles of association or by an ordinary resolution adopted by the shareholders at a general meeting. The authorization may be granted for a maximum period of five years, at which point it must be renewed by the shareholders by an ordinary resolution. The articles of association of New Endo authorize the board of directors of New Endo to issue new ordinary or preferred shares without shareholder approval for a period of five years from the date of adoption of such articles of association, which is expected to be effective before the completion of the Transactions.

The rights and restrictions to which the New Endo Shares will be subject will be prescribed in the New Endo Memorandum and Articles of Association. The New Endo Memorandum and Articles of Association permit its board of directors, without shareholder approval, to determine certain terms of the preferred shares issued by New Endo, including the number of shares, designations, dividend rights, liquidation and other rights and redemption, repurchase or exchange rights.

The New Endo board of directors will be authorized, without obtaining any vote or consent of the holders of any class or series of shares, unless expressly provided by the terms of that class or series of shares, to provide from time to time for the issuance of other classes or series of shares and to establish the characteristics of each class or series, including the number of shares, designations, relative voting rights, dividend rights, liquidation and other rights, redemption, repurchase or exchange rights and any other preferences and relative, participating, optional or other rights and limitations not inconsistent with applicable law.

Irish law does not recognize fractional shares held of record. Accordingly, the New Endo Memorandum and Articles of Association do not provide for the issuance of fractional shares of New Endo, and the official Irish register of New Endo will not reflect any fractional shares.

Whenever an alteration or reorganization of the share capital of New Endo would result in any New Endo Shareholder becoming entitled to fractions of a share, the New Endo board of directors may, on behalf of those shareholders that would become entitled to fractions of a share, arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale in due proportion among the shareholders who would have been entitled to the fractions. For the purpose of any such sale the board may authorize any person to transfer the shares representing fractions to the purchaser, who shall not be bound to see to the application of the purchase money, nor shall the purchaser's title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

Issued Share Capital

In connection with the completion of the Transactions, New Endo is expected to (i) issue approximately 35.4 million New Endo Shares with a nominal value of US\$0.0001 each to the Former Paladin Shareholders based on the number of Paladin Shares outstanding as of the record date and (ii) deliver to Endo Shareholders a number of New Endo Shares with a nominal value of US\$0.0001 each equal to the number of Endo Shares outstanding as of the Closing Date. All New Endo Shares issued upon consummation of the Transactions will be issued as fully paid-up and non-assessable.

Preemption Rights and Share Options

Under Irish law, certain statutory pre-emption rights apply automatically in favour of shareholders where shares are to be issued for cash. However, New Endo has opted out of these pre-emption rights in its articles of association as permitted under Irish company law. Because Irish law requires this opt-out to be renewed every five years by a resolution approved by not less than 75% of the votes of the shareholders of New Endo cast at a general meeting (referred to under Irish law as a “special resolution”), this opt-out must be so renewed in accordance with Irish statutory requirements. If the opt-out is not renewed, shares issued for cash must be offered to existing shareholders of New Endo on a pro rata basis to their existing shareholding before the shares can be issued to any new shareholders. The statutory pre-emption rights do not apply where shares are issued for non-cash consideration (such as in a share-for-share acquisition) and do not apply to the issue of non-equity shares (that is, shares that have the right to participate only up to a specified amount in any income or capital distribution) or where shares are issued pursuant to an employee option or similar equity plan.

The New Endo Memorandum and Articles of Association provide that, subject to any shareholder approval requirement under any laws, regulations or the rules of any stock exchange to which New Endo is subject, the board is authorized, from time to time, in its discretion, to grant such persons, for such periods and upon such terms as the board deems advisable, options to purchase such number of shares of any class or classes or of any series of any class as the board may deem advisable, and to cause warrants or other appropriate instruments evidencing such options to be issued. The Companies Acts provide that directors may issue share warrants or options without shareholder approval once authorized to do so by the articles of association or an ordinary resolution of shareholders. New Endo will be subject to the rules of NASDAQ, TSX and the Code that require shareholder approval of certain equity plan and share issuances. New Endo’s board of directors may issue shares upon exercise of warrants or options without shareholder approval or authorization (up to the relevant authorized share capital limit). In connection with the completion of the Transactions, New Endo will assume Endo’s existing obligations to deliver shares under its equity incentive plans, pursuant to the terms thereof.

Dividends

Under Irish law, dividends and distributions may only be made from distributable reserves. Distributable reserves generally means accumulated realized profits less accumulated realized losses and includes reserves created by way of capital reduction. In addition, no distribution or dividend may be made unless the net assets of New Endo are equal to, or in excess of, the aggregate of New Endo’s called up share capital plus undistributable reserves and the distribution does not reduce New Endo’s net assets below such aggregate. Undistributable reserves include the share premium account, the capital redemption reserve fund and the amount by which New Endo’s accumulated unrealized profits, so far as not previously utilized by any capitalization, exceed New Endo’s accumulated unrealized losses, so far as not previously written off in a reduction or reorganization of capital. The determination as to whether or not New Endo has sufficient distributable reserves to fund a dividend must be made by reference to the “relevant accounts” of New Endo. The “relevant accounts” will be either the last set of unconsolidated annual audited financial statements or other financial statements properly prepared in accordance with the Companies Acts (not in accordance with U.S. GAAP), which give a “true and fair view” of New Endo’s unconsolidated financial position and accord with accepted accounting practice. The relevant accounts must be filed in the Companies Registration Office. New Endo and Paladin will be taking steps to create distributable reserves, on which Endo and Paladin Shareholders will vote at special meetings. See “*Creation of Distributable Reserves of New Endo*” beginning on page 137.

New Endo’s Memorandum and Articles of Association authorize the directors to declare dividends without shareholder approval to the extent they appear justified by profits. The New Endo board of directors may also recommend a dividend to be approved and declared by the shareholders at a general meeting and may direct that the payment be made by distribution of assets, shares or cash. No dividend issued may exceed the amount recommended by the directors.

Dividends may be declared and paid in the form of cash or non-cash assets and may be paid in dollars or any other currency. The New Endo board of directors may deduct from any dividend payable to any shareholder any amounts payable by such shareholder to New Endo in relation to the shares of New Endo. See “*Creation of Distributable Reserves of New Endo*” beginning on page 137.

For information about the Irish tax issues relating to dividend payments, please see the section entitled “*Certain Irish Tax Consequences of the Arrangement and the Merger—Withholding Tax on Dividends*” beginning on page 107.

Share Repurchases, Redemptions and Conversions

Overview

New Endo’s Memorandum and Articles of Association provide that any New Endo Share that New Endo has agreed to acquire shall be deemed to be a redeemable share, unless the board of New Endo resolves otherwise. Accordingly, for Irish company law purposes, the repurchase of New Endo Shares by New Endo will technically be effected as a redemption of those shares as described below under “—*Repurchases and Redemptions by New Endo*” beginning on page 182. If the New Endo memorandum and articles of association did not contain such provision, all repurchases by New Endo would be subject to many of the same rules that apply to purchases of New Endo Shares by subsidiaries described below under “—*Purchases by Subsidiaries of New Endo*”, including the shareholder approval requirements described below, and the requirement that any purchases on market be effected on a “recognized stock exchange”, which, for purposes of the Companies Acts, includes NASDAQ but does not include TSX.

Except where otherwise noted, references elsewhere in this Circular to repurchasing or buying back New Endo Shares refer to the redemption of New Endo Shares by New Endo or the purchase of New Endo Shares by a subsidiary of New Endo, in each case in accordance with the New Endo Memorandum and Articles of Association and Irish law as described below.

Repurchases and Redemptions by New Endo

Under Irish law, a company may issue redeemable shares and redeem them out of distributable reserves or the proceeds of a new issue of shares for that purpose. As described in “*Creation of Distributable Reserves of New Endo*”, New Endo will not have any or sufficient distributable reserves immediately following the Effective Time; however, it will take steps to create such distributable reserves. See “—*Dividends*” beginning on page 181 and “*Risk Factors*” beginning on page 40. New Endo may only issue redeemable shares if the nominal value of the issued share capital that is not redeemable is not less than 10% of the nominal value of the total issued share capital of New Endo. All redeemable shares must also be fully-paid and the terms of redemption of the shares must provide for payment on redemption. Redeemable shares may, upon redemption, be cancelled or held in treasury. Based on the provision of the New Endo memorandum and articles of association described above, shareholder approval will not be required to redeem New Endo Shares.

New Endo may also be given an additional general authority to purchase its own shares on market, which would take effect on the same terms and be subject to the same conditions as applicable to purchases by New Endo subsidiaries as described below.

The New Endo board of directors may also issue preferred shares, which may be redeemed at the option of either New Endo or the shareholder, depending on the terms of such preferred shares. See “*Capital Structure—Authorized Share Capital*” beginning on page 180.

Repurchased and redeemed shares may be cancelled or held as treasury shares. The nominal value of treasury shares held by New Endo at any time must not exceed 10% of the nominal value of the issued share

capital of New Endo. New Endo may not exercise any voting rights in respect of any shares held as treasury shares. Treasury shares may be cancelled by New Endo or re-issued subject to certain conditions.

Purchases by Subsidiaries of New Endo

Under Irish law, an Irish or non-Irish subsidiary may purchase shares of New Endo either on market or off market. For a subsidiary of New Endo to make purchases on market of New Endo Shares, the New Endo Shareholders must provide general authorization for such purchase by way of ordinary resolution. However, as long as this general authority has been granted, no specific shareholder authority for a particular on-market purchase by a subsidiary of New Endo Shares is required. For a purchase by a subsidiary of New Endo off-market, the proposed purchase contract must be authorized by special resolution of the shareholders before the contract is entered into. The person whose shares are to be bought back cannot vote in favour of the special resolution and, for at least 21 days prior to the special resolution being passed, the purchase contract must be on display or must be available for inspection by New Endo Shareholders at the registered office of New Endo.

In order for a subsidiary of New Endo to make an on-market purchase of New Endo's shares, such shares must be purchased on a "recognized stock exchange". NASDAQ is specified as a recognized stock exchange for this purpose by Irish company law. TSX is not specified as a recognized stock exchange for the purpose of Irish company law.

The number of shares held by the subsidiaries of New Endo at any time will count as treasury shares and will be included in any calculation of the permitted treasury share threshold of 10% of the nominal value of the issued share capital of New Endo. While a subsidiary holds shares of New Endo, it cannot exercise any voting rights in respect of those shares. The acquisition of New Endo Shares by a subsidiary must be funded out of distributable reserves of the subsidiary.

Lien on Shares, Calls on Shares and Forfeiture of Shares

The New Endo Memorandum and Articles of Association provide that New Endo will have a first and paramount lien on every share that is not a fully paid up share for all amounts payable at a fixed time or called in respect of that share. Subject to the terms of their allotment, directors may call for any unpaid amounts in respect of any shares to be paid, and if payment is not made, the shares may be forfeited. These provisions are standard inclusions in the memorandum and articles of association of an Irish public company limited by shares such as New Endo and will only be applicable to shares of New Endo that have not been fully paid up.

Consolidation and Division; Subdivision

Under its articles of association, New Endo may, by ordinary resolution, consolidate and divide all or any of its share capital into shares of larger nominal value than its existing shares or subdivide its shares into smaller amounts than is fixed by its memorandum of association.

Reduction of Share Capital

New Endo may, by ordinary resolution, reduce its authorized share capital in any way. New Endo also may, by special resolution (approval by not less than 75% of the votes cast at a general meeting of New Endo's shareholders) and subject to confirmation by the Irish High Court, reduce or cancel its issued share capital in any way permitted by the Companies Acts.

Annual Meetings of Shareholders

New Endo will be required to hold an annual general meeting at intervals of no more than 15 months from the previous annual general meeting, provided that an annual general meeting is held in each calendar year

following the first annual general meeting. Each general meeting shall be held at such time and place as designated by the New Endo board of directors and as specified in the notice of meeting. Subject to section 140 of the Irish Companies Act 1963, all general meetings may be held outside of Ireland.

The only matters that must, as a matter of Irish law, be transacted at an annual general meeting are the presentation of the annual accounts, balance sheet and reports of the directors and auditors, the appointment of new auditors and the fixing of the auditor's remuneration (or delegation of same).

If no resolution is made in respect of the reappointment of an existing auditor at an annual general meeting, the existing auditor will be deemed to have continued in office.

The provisions of the memorandum and articles of association of New Endo relating to general meetings shall apply to every such general meeting of the holders of any class of shares except that the necessary quorum shall be one person holding or representing by proxy at least one-half of the issued shares of such class.

The memorandum and articles of association of New Endo provide that a resolution may only be put to vote at a general meeting of New Endo or of the holders of any class of shares if (i) it is specified in the notice of the meeting; (ii) it is proposed by or at the direction of the board of directors; (iii) it is proposed at the direction of a court of competent jurisdiction; (iv) it is proposed on the requisition in writing of the holder of the share as is prescribed by, and is made in accordance with, section 132 of the Irish Companies Act 1963; (v) the chairman of the meeting in his or her absolute discretion decides that the resolution may properly be regarded as within the scope of the meeting; or (vi) it is proposed in accordance with the procedures and requirements set out in the articles with respect to nomination of directors.

Extraordinary General Meetings of Shareholders

Extraordinary general meetings are generally held for the purpose of approving shareholder resolutions as may be required from time to time. At any extraordinary general meeting, only such business shall be conducted as is set forth in the notice thereof.

In the case of an extraordinary general meeting convened by the New Endo Shareholders, the purpose of the meeting must be set out in the requisition notice. Upon receipt of any such valid requisition notice, the New Endo board of directors has 21 days to convene a meeting of New Endo Shareholders to vote on the matters set out in the requisition notice. This meeting must be held within two months of the receipt of the requisition notice. If the New Endo board of directors does not convene the meeting within such 21-day period, the requisitioning shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, which meeting must be held within three months of New Endo's receipt of the requisition notice.

If the New Endo board of directors becomes aware that the net assets of New Endo are not greater than half of the amount of New Endo's called-up share capital, it must convene an extraordinary general meeting of New Endo's shareholders not later than 28 days from the date that the directors learn of this fact to consider how to address the situation.

Quorum for General Meetings

The New Endo Memorandum and Articles of Association provide that no business shall be transacted at any general meeting unless a quorum is present. One or more New Endo Shareholders present in person or by proxy holding not less than a majority of the issued and outstanding shares of New Endo entitled to vote at the meeting in question constitute a quorum.

Voting

Each New Endo Shareholder is entitled to one vote for each New Endo Share that he or she holds as of the record date for the meeting.

Irish law requires approval of certain matters by “special resolution” of the shareholders at a general meeting. A special resolution requires the approval of not less than 75% of the votes of New Endo’s shareholders cast at a general meeting at which a quorum is present. Ordinary resolutions, by contrast, require a simple majority of the votes of New Endo cast at a general meeting at which a quorum is present.

Irish law also distinguishes between “ordinary business” and “special business” at a general meeting. Most matters are deemed “special”, with the exception of declaring a dividend, the consideration of the accounts, balance sheets and the reports of the directors and auditors, the election of directors, the reappointment of the retiring auditors and the fixing of the remuneration of the auditors, all of which are deemed to be “ordinary business”.

Irish law requires special resolutions of the New Endo Shareholders at a general meeting to approve certain matters. Examples of matters requiring special resolutions include:

- amending the objects or memorandum of association of New Endo;
- amending the articles of association of New Endo;
- approving a change of name of New Endo;
- authorizing the entering into of a guarantee or provision of security in connection with a loan, quasi-loan or credit transaction to a director or connected person;
- opting out of pre-emption rights on the issuance of new shares;
- re-registration of New Endo from a public limited company to a private company;
- variation of class rights attaching to classes of shares (where the articles of association do not provide otherwise);
- purchase of New Endo Shares off market;
- reduction of issued share capital;
- resolving that New Endo be wound up by the Irish courts;
- resolving in favour of a shareholders’ voluntary winding-up;
- re-designation of shares into different share classes; and
- setting the re-issue price of treasury shares.

Variation of Rights Attaching to a Class or Series of Shares

Neither Irish law nor any constitutional document of New Endo places limitations on the right of non-resident or foreign owners to vote or hold New Endo Shares.

Under the New Endo articles of association and the Companies Acts, any variation of class rights attaching to the issued shares of New Endo must be approved by a special resolution of the shareholders of the affected class or with the consent in writing of the holders of three-quarters of all the votes of that class of shares.

The provisions of the articles of association of New Endo relating to general meetings apply to general meetings of the holders of any class of shares except that the necessary quorum is determined in reference to the shares of the holders of the class. Accordingly, for general meetings of holders of a particular class of shares, a quorum consists of one or more persons holding or representing by proxy at least one-half of the issued shares of the class.

Inspection of Books and Records

Under Irish law, shareholders have the right to: (i) receive a copy of the New Endo Memorandum and Articles of Association and any act of the Irish government which alters the memorandum of New Endo;

(ii) inspect and obtain copies of the minutes of general meetings and resolutions of New Endo; (iii) inspect and receive a copy of the register of shareholders, register of directors and secretaries, register of directors' interests and other statutory registers maintained by New Endo; (iv) receive copies of balance sheets and directors' and auditors' reports which have previously been sent to shareholders prior to an annual general meeting; and (v) receive balance sheets of any subsidiary of New Endo which have previously been sent to shareholders prior to an annual general meeting for the preceding ten years. The auditors of New Endo will also have the right to inspect all books, records and vouchers of New Endo. The auditors' report must be circulated to the shareholders with New Endo's financial statements prepared in accordance with Irish law 21 days before the annual general meeting and must be read to the shareholders at New Endo's annual general meeting.

Acquisitions

An Irish public limited company may be acquired in a number of ways, including:

- a court-approved scheme of arrangement under the Companies Acts. A scheme of arrangement requires a court order from the Irish High Court and the approval of a majority in number representing 75% in value of the shareholders present and voting in person or by proxy at a meeting called to approve the scheme;
- through a tender or takeover offer by a third party for all of the shares of New Endo. Where the holders of 80% or more of the New Endo Shares have accepted an offer for their New Endo Shares, the remaining shareholders may also be statutorily required to transfer their shares. If the bidder does not exercise its "squeeze out" right, then the non-accepting shareholders also have a statutory right to require the bidder to acquire their shares on the same terms. If shares of New Endo were to be listed on the Irish Stock Exchange or another regulated stock exchange in the European Union, this threshold would be increased to 90%; and
- it is also possible for New Endo to be acquired by way of a transaction with a European Union-incorporated company under the European Union Cross-Border Mergers Directive 2005/56/EC. Such a transaction must be approved by a special resolution and by the Irish courts. If New Endo is being merged with another European Union company under the European Union Cross-Border Mergers Directive 2005/56/EC and the consideration payable to New Endo Shareholders is not all in the form of cash, New Endo Shareholders may be entitled to require their shares to be acquired at fair value.

Appraisal Rights

Generally, under Irish law, shareholders of an Irish company do not have dissenters' or appraisal rights. Under the European Communities (Cross-Border Mergers) Regulations 2008 governing the merger of an Irish company limited by shares such as New Endo and a company incorporated in the European Economic Area (the European Economic Area includes all member states of the European Union and Norway, Switzerland, Turkey, Iceland and Liechtenstein), a shareholder (i) who voted against the special resolution approving the transaction or (ii) of a company in which 90% of the shares are held by the other party to the transaction has the right to request that the company acquire its shares for cash at a price determined in accordance with the share exchange ratio set out in the merger agreement.

Disclosure of Interests in Shares

Under the Companies Acts, New Endo Shareholders must notify New Endo if, as a result of a transaction, the shareholder will become interested in 5% or more of the shares of New Endo; or if as a result of a transaction a shareholder who was interested in more than 5% of the shares of New Endo ceases to be so interested. Where a shareholder is interested in more than 5% of the shares of New Endo, the shareholder must notify New Endo of any alteration of his or her interest that brings his or her total holding through the nearest whole percentage number, whether an increase or a reduction. The relevant percentage figure is calculated by reference to the aggregate nominal value of the shares in which the shareholder is interested as a proportion of the entire nominal

value of the issued share capital of New Endo (or any such class of share capital in issue). Where the percentage level of the shareholder's interest does not amount to a whole percentage this figure may be rounded down to the next whole number. New Endo must be notified within five business days of the transactions or alteration of the shareholder's interests that gave rise to the notification requirement.

If a shareholder fails to comply with these notification requirements, the shareholder's rights in respect of any New Endo Shares it holds will not be enforceable, either directly or indirectly. However, such person may apply to the court to have the rights attaching to such shares reinstated.

In addition to these disclosure requirements, New Endo, under the Companies Acts, may, by notice in writing, require a person whom New Endo knows or has reasonable cause to believe to be, or at any time during the three years immediately preceding the date on which such notice is issued to have been, interested in shares comprised in New Endo's relevant share capital to: (i) indicate whether or not it is the case; and (ii) where such person holds or has during that time held an interest in the shares of New Endo, to provide additional information, including the person's own past or present interests in shares of New Endo. If the recipient of the notice fails to respond within the reasonable time period specified in the notice, New Endo may apply to court for an order directing that the affected shares be subject to certain restrictions, as prescribed by the Companies Acts, as follows:

- any transfer of those shares, or, in the case of unissued shares any transfer of the right to be issued with shares and any issue of shares, shall be void;
- no voting rights shall be exercisable in respect of those shares;
- no further shares shall be issued in right of those shares or in pursuance of any offer made to the holder of those shares; and
- no payment shall be made of any sums due from New Endo on those shares, whether in respect of capital or otherwise.

The court may also order that shares subject to any of these restrictions be sold with the restrictions terminating upon the completion of the sale.

In the event New Endo is in an offer period pursuant to the Irish Takeover Rules 2007, as amended (the "**Irish Takeover Rules**" or the "**Takeover Rules**") accelerated disclosure provisions apply for persons holding an interest in New Endo securities of 1% or more.

Anti-Takeover Provisions

Irish Takeover Rules and Substantial Acquisition Rules

A transaction in which a third party seeks to acquire 30% or more of the voting rights of New Endo will be governed by the Irish Takeover Panel Act 1997 and the Irish Takeover Rules made thereunder and will be regulated by the Panel. The "General Principles" of the Irish Takeover Rules and certain important aspects of the Irish Takeover Rules are described below.

General Principles

The Takeover Rules are built on the following General Principles which will apply to any transaction regulated by the Panel:

- in the event of an offer, all holders of security of the target company should be afforded equivalent treatment and, if a person acquires control of a company, the other holders of securities must be protected;
- the holders of the securities in the target company must have sufficient time and information to enable them to reach a properly informed decision on the offer; where it advises the holders of securities, the board of the target company must give its views on the effects of implementation of the offer on employment, conditions of employment and the locations of the target company's places of business;

- the board of the target company must act in the interests of the company as a whole and must not deny the holders of securities the opportunity to decide on the merits of the offer;
- false markets must not be created in the securities of the target company, the bidder or of any other company concerned by the offer in such a way that the rise or fall of the prices of the securities becomes artificial and the normal functioning of the markets is distorted;
- a bidder must announce an offer only after ensuring that he or she can fulfill in full, any cash consideration, if such is offered, and after taking all reasonable measures to secure the implementation of any other type of consideration;
- a target company must not be hindered in the conduct of its affairs for longer than is reasonable by an offer for its securities; and
- a substantial acquisition of securities (whether such acquisition is to be effected by one transactions or a series of transaction) shall take place only at an acceptable speed and shall be subject to adequate and timely disclosure.

Mandatory Bid

Under certain circumstances, a person who acquires shares or other voting rights in New Endo may be required under the Takeover Rules to make a mandatory cash offer for the remaining outstanding shares in New Endo at a price not less than the highest price paid for the shares by the acquirer (or any parties acting in concert with the acquirer) during the previous 12 months. This mandatory bid requirement is triggered if an acquisition of shares would increase the aggregate holding of an acquirer (including the holdings of any parties acting in concert with the acquirer) to shares representing 30% or more of the voting rights in New Endo, unless the Panel otherwise consents. An acquisition of shares by a person holding (together with its concert parties) shares representing between 30% and 50% of the voting rights in New Endo would also trigger the mandatory bid requirement if, after giving effect to the acquisition, the percentage of the voting rights held by that person (together with its concert parties) would increase by 0.05% within a 12-month period. Any person (excluding any parties acting in concert with the holder) holding shares representing more than 50% of the voting rights of a company is not subject to these mandatory offer requirements in purchasing additional securities.

Voluntary Bid; Requirements to Make a Cash Offer and Minimum Price Requirements

If a person makes a voluntary offer to acquire outstanding New Endo Shares, the offer price must be no less than the highest price paid for New Endo Shares by the bidder or its concert parties during the three-month period prior to the commencement of the offer period. The Panel has the power to extend the “look back” period to 12 months if the Panel, taking into account the General Principles, believes it is appropriate to do so.

If the bidder or any of its concert parties has acquired New Endo Shares (i) during the period of 12 months prior to the commencement of the offer period which represent more than 10% of the total New Endo Shares or (ii) at any time after the commencement of the offer period, the offer must be in cash (or accompanied by a full cash alternative) and the price per New Endo Share must not be less than the highest price paid by the bidder or its concert parties during, in the case of (i), the 12-month period prior to the commencement of the offer period and, in the case of (ii), the offer period. The Panel may apply this rule to a bidder who, together with its concert parties, has acquired less than 10% of the total New Endo Shares in the 12-month period prior to the commencement of the offer period if the Panel, taking into account the General Principles, considers it just and proper to do so. An offer period will generally commence from the date of the first announcement of the offer or proposed offer.

Substantial Acquisition Rules

The Irish Takeover Rules also contain rules governing substantial acquisitions of shares which restrict the speed at which a person may increase his or her holding of shares and rights over shares to an aggregate of

between 15% and 30% of the voting rights of New Endo. Except in certain circumstances, an acquisition or series of acquisitions of shares or rights over shares representing 10% or more of the voting rights of New Endo is prohibited, if such acquisition(s), when aggregated with shares or rights already held, would result in the acquirer holding 15% or more but less than 30% of the voting rights of New Endo and such acquisitions are made within a period of seven days. These rules also require accelerated disclosure of acquisitions of shares or rights over shares relating to such holdings.

Frustrating Action

Under the Takeover Rules, the New Endo board of directors is not permitted to take any action which might frustrate an offer for the shares of New Endo once the board of directors has received an approach which may lead to an offer or has reason to believe an offer is imminent, subject to certain exceptions.

Potentially frustrating actions such as (i) the issue of shares, options or convertible securities, (ii) material acquisitions or disposals, (iii) entering into contracts other than in the ordinary course of business or (iv) any action, other than seeking alternative offers, which may result in frustration of an offer, are prohibited during the course of an offer or at any time during which the board has reason to believe an offer is imminent. Exceptions to this prohibition are available where:

- the action is approved by New Endo's shareholders at a general meeting; or
- the Panel has given its consent, where:
 - it is satisfied the action would not constitute frustrating action;
 - New Endo Shareholders that hold 50% of the voting rights state in writing that they approve the proposed action and would vote in favour of it at a general meeting;
 - the action is taken in accordance with a contract entered into prior to the announcement of the offer; or
 - the decision to take such action was made before the announcement of the offer and either has been at least partially implemented or is in the ordinary course of business.

Certain other provisions of Irish law or the New Endo memorandum and articles of association may be considered to have anti-takeover effects, including those described in the following sections of this Circular: "*Description of New Endo Shares—Capital Structure—Authorized Share Capital*" (regarding issuance of preferred shares), "*Description of New Endo Shares—Capital Structure—Preemption Rights and Share Options*", "*Description of New Endo Shares—Disclosure of Interests in Shares*", "*Comparison of the Rights of Holders of Paladin Shares and New Endo Shares—Removal of Directors; Terms of Directors*" and "*Comparison of the Rights of Holders of Paladin Shares and New Endo Shares—Special Meetings of Shareholders*".

Corporate Governance

Governance, Compensation and Nominating Committees

Under National Instrument 58-101 (Canada)—Disclosure of Corporate Governance Practices, New Endo is required to disclose information relating to its corporate governance practices.

New Endo is a new issuer, but its board of directors will be comprised of the same individuals as the current board of directors of Endo and the mandates of the committees of its board of directors are expected to be substantially the same as the current mandates of the committees of the board of directors of Endo. Therefore, New Endo anticipates that its corporate governance practices will be substantially the same as the current corporate governance practices of Endo and the following disclosure assumes that this will be the case.

The corporate governance standards under Canadian best practices guidelines and related disclosure requirements are very similar to the U.S. standards, including the rules of NASDAQ stock market, described

above. See “*The Arrangement and the Merger—Applicable Canadian Securities Laws Matters—Ongoing Canadian Reporting Obligations of New Endo*” beginning on page 88 for a description of New Endo’s cross-border compliance with U.S. and Canadian securities laws, including corporate governance requirements, following the Plan of Arrangement.

Below are summaries of the purpose of each proposed committee of New Endo’s board of directors.

Audit Committee

The purpose of the New Endo audit committee shall be to provide assistance to New Endo’s board of directors in fulfilling its (1) legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of New Endo and its subsidiaries and (2) oversight responsibility relating to: (i) the integrity of New Endo’s financial statements; (ii) the effectiveness of New Endo’s internal control over financial reporting; (iii) the effectiveness of New Endo’s disclosure controls and procedures; (iv) New Endo’s efforts at compliance with legal and regulatory requirements; (v) the independent registered public accounting firm’s qualifications and independence; and (vi) the performance of New Endo’s internal audit function and independent registered public accounting firm. Each member of the audit committee is financially literate and at least one has been determined to be a financial expert. The chairman of the New Endo audit committee is anticipated to be John J. Delucca, and the members of the New Endo audit committee are anticipated to be Roger H. Kimmel, William P. Montague, and William F. Spengler.

Compensation Committee

The purpose of the New Endo compensation committee shall be to review, approve or, if appropriate, make recommendations to the New Endo board of directors regarding:

- the annual incentive compensation aggregate award and approval of awards of incentive compensation to New Endo executive officers;
- the granting of compensation increases to New Endo executive officers;
- the aggregate value of long-term incentives (stock options, restricted stock, etc.) to employees and individual awards of such to New Endo executive officers;
- material changes to New Endo benefit plans;
- the granting of or changes, extensions or renewals to any employment contracts;
- material changes in employment policies; and
- the appointment of new executive officers of New Endo.

The members of the New Endo compensation committee are anticipated to be John J. Delucca, Arthur J. Higgins, Nancy J. Hutson, David B. Nash, Jill D. Smith and William F. Spengler.

Nominating and Governance Committee

The purpose of the New Endo nominating and governance committee is to identify and to recommend to the New Endo board of directors individuals qualified to serve as directors of New Endo and to advise the New Endo board of directors with respect to the board of directors composition, governance practices and procedures

The chairman of the New Endo nominating and governance committee is anticipated to be Roger H. Kimmel, and the members of the New Endo marketing and governance committee are anticipated to be Nancy J. Hutson, Michael Hyatt and William P. Montague.

Research and Development Committee

The purpose of the New Endo research and development committee shall be, among other things, to provide advice and counsel to New Endo's management and the transactions committee in connection with decisions regarding the allocation, deployment, utilization of, and investment in New Endo's scientific assets.

The chairman of the New Endo research and development committee is anticipated to be Nancy J. Hutson, and the members of the New Endo research and development committee are anticipated to be David B. Nash and William F. Spengler.

Transactions Committee

The purpose of the New Endo transactions committee shall be to provide advice and guidance to New Endo's management in connection with the exploration of strategic acquisition and licensing opportunities as well as any overture for merger with New Endo, or sale of New Endo or other like event.

The chairman of the New Endo transaction committee is anticipated to be Michael Hyatt, and the members of the New Endo transactions committee are anticipated to be Roger H. Kimmel, Arthur J. Higgins, Nancy J. Hutson and William P. Montague.

Legal Name; Formation; Fiscal Year; Registered Office

The current legal and commercial name of New Endo is Endo International Limited. New Endo was incorporated in Ireland on October 31, 2013 as a private limited company, under the name Sportwell Limited (registration number 534814). New Endo will be re-registering to a public limited company. New Endo's fiscal year ends on December 31 and New Endo's registered office is at 25/28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland. See "*The Companies*" beginning on page 111.

Duration; Dissolution; Rights upon Liquidation

New Endo's duration will be unlimited. New Endo may be dissolved and wound up at any time by way of a shareholders' voluntary winding up or a creditors' winding up. In the case of a shareholders' voluntary winding-up, a special resolution of shareholders is required. New Endo may also be dissolved by way of court order on the application of a creditor, or by the Companies Registration Office as an enforcement measure where New Endo has failed to file certain returns.

The rights of the shareholders to a return of New Endo's assets on dissolution or winding up, following the settlement of all claims of creditors are prescribed in New Endo's articles of association and may be further prescribed in the terms of any preferred shares issued by the directors of New Endo from time to time.

Uncertificated Shares

Unless otherwise provided for by the New Endo board of directors or the rights attaching to or by the terms of issue of any particular shares in the capital of New Endo, or to the extent required by any stock exchange, depository, or any operator of any clearance or settlement system, no person whose name is entered as a member in New Endo's register of members will be entitled to receive a share certificate for any or all shares of each class held by him or her (nor on transferring a part of a holding to a certificate for the balance).

Stock Exchange Listing

It is a mutual condition to the completion of the Arrangement that the New Endo Shares will be approved for listing on NASDAQ and conditionally approved for listing on TSX. New Endo has applied to list the New Endo Shares to be issued or made issuable pursuant to the Arrangement and the Merger on NASDAQ and TSX. Listing will be subject to New Endo fulfilling all the listing requirements of NASDAQ and TSX. The New Endo Shares are not currently intended to be listed on the Irish Stock Exchange or any other exchange.

No Sinking Fund

The New Endo Shares have no sinking fund provisions.

No Liability for Further Calls or Assessments

The New Endo Shares to be issued pursuant to the transactions will be duly and validly issued and fully-paid.

Transfer and Registration of Shares

The transfer agent for New Endo (provided it maintains an office in Ireland) will maintain the share register, registration in which will be determinative of membership in New Endo. A shareholder of New Endo who holds shares beneficially will not be the holder of record of such shares. Instead, the depository or other nominee will be the holder of record of those shares. Accordingly, a transfer of shares from a person who holds such shares beneficially to a person who also holds such shares beneficially through a depository or other nominee will not be registered in New Endo's official share register, as the depository or other nominee will remain the record holder of any such shares.

A written instrument of transfer is required under Irish law in order to register on New Endo's official share register any transfer of shares (i) from a person who holds such shares directly to any other person, (ii) from a person who holds such shares beneficially to a person who holds such shares directly or (iii) from a person who holds such shares beneficially to another person who holds such shares beneficially where the transfer involves a change in the depository or other nominee that is the record owner of the transferred shares.

An instrument of transfer is also required for a shareholder who directly holds shares to transfer those shares into his or her own broker account (or vice versa). Such instruments of transfer may give rise to Irish stamp duty, which must be paid prior to registration of the transfer on New Endo's official Irish share register. However, a shareholder who directly holds shares may transfer those shares into his or her own broker account (or vice versa) without giving rise to Irish stamp duty, provided there is no change in the ultimate beneficial ownership of the shares as a result of the transfer and the transfer is not made in contemplation of a sale of the shares.

Any transfer of New Endo Shares that is subject to Irish stamp duty will not be registered in the name of the buyer unless an instrument of transfer is duly stamped and provided to the transfer agent. New Endo's articles of association allow New Endo, in its absolute discretion, to create an instrument of transfer and pay (or procure the payment of) any stamp duty, which is the legal obligation of a buyer. In the event of any such payment, New Endo is (on behalf of itself or its affiliates) entitled to (i) seek reimbursement from the buyer or seller (at its discretion), (ii) set-off the amount of the stamp duty against future dividends payable to the buyer or seller (at its discretion) and (iii) claim a lien against the New Endo Shares on which it has paid stamp duty. Parties to a share transfer may assume that any stamp duty arising in respect of a transaction in New Endo Shares has been paid unless one or both of such parties is otherwise notified by New Endo.

New Endo's Memorandum and Articles of Association, as they will be in effect as of the Effective Time of the acquisition, delegate to New Endo's secretary (or duly appointed nominee) the authority to execute an instrument of transfer on behalf of a transferring party.

In order to help ensure that the official share register is regularly updated to reflect trading of New Endo Shares occurring through normal electronic systems, New Endo intends to regularly produce any required instruments of transfer in connection with any transactions for which it pays stamp duty (subject to the reimbursement and set-off rights described above). In the event that New Endo notifies one or both of the parties to a share transfer that it believes stamp duty is required to be paid in connection with the transfer and that it will not pay the stamp duty, the parties may either themselves arrange for the execution of the required instrument of transfer (and may request a form of instrument of transfer from New Endo for this purpose) or request that New Endo execute an instrument of transfer on behalf of the transferring party in a form determined by New Endo. In either event, if the parties to the share transfer have the instrument of transfer duly stamped (to the extent required) and then provide it to New Endo's transfer agent, the buyer will be registered as the legal owner of the relevant shares on New Endo's official Irish share register (subject to the matters described below). The directors may suspend registration of transfers from time to time, not exceeding 30 days in aggregate each year.

COMPARISON OF THE RIGHTS OF HOLDERS OF PALADIN SHARES AND NEW ENDO SHARES

The rights of Paladin Shareholders and the relative powers of the Paladin Board of Directors are governed by the CBCA, and the articles of amalgamation and bylaws of Paladin. As a result of the Arrangement, each Paladin Share will be exchanged for (a) \$1.16 in cash, subject to adjustment, (b) 1.6331 newly issued New Endo Shares, and (c) one Knight Share. Because New Endo will be, at the Effective Time, a public limited liability company incorporated in Ireland, the rights of the shareholders of New Endo will be governed by applicable Irish law, including the Companies Acts, and by the New Endo memorandum and articles of association.

The following is a summary comparison of certain of the material differences between the rights of Paladin Shareholders under the CBCA and the articles of amalgamation and bylaws of Paladin and the rights that Paladin Shareholders will have as shareholders of New Endo under the Companies Acts and New Endo's memorandum and articles of association effective following the Arrangement. The discussion in this section does not include a description of rights or obligations under the rules of TSX that may apply to Paladin or New Endo in connection with the Arrangement. This discussion does not include a description of the rights or obligations under Canadian securities laws or the requirements of TSX that will apply to New Endo following the Arrangement. See *"The Arrangement and the Merger—Applicable Canadian Securities Laws Matters—Application of MI 61-101"* beginning on page 86.

The statements in this section are qualified in their entirety by reference to, and are subject to, the detailed provisions of the CBCA, the Companies Acts, the articles of amalgamation and bylaws of Paladin and the memorandum and articles of association of New Endo as they will be in effect from and after the Effective Time. Effective as of the Effective Time, the New Endo Memorandum and Articles of Association will be substantially in the form set forth in Appendix "K" to this Circular. The Paladin articles and bylaws may be obtained on SEDAR at www.sedar.com. See *"Additional Information"* beginning on page 216.

	Paladin	New Endo
Authorized Share Capital	Paladin is authorized under its articles of amalgamation to issue 100,000,000 shares of one class designated as common shares without par value.	Immediately prior to the consummation of the Transactions, the authorized share capital of New Endo will be €40,000 and US\$100,000 divided into 4,000,000 euro deferred shares of €0.01 each and 1,000,000,000 New Endo Shares of US\$0.0001 each. Under Irish law, the directors of a company may issue New Endo Shares or preferred shares without shareholder approval once authorized to do so by the Memorandum and Articles of Association or by an ordinary resolution adopted by the shareholders at a general meeting. The authorization may be granted for a maximum period of five years, at which point it must be renewed by the shareholders by an ordinary resolution (approval by a simple majority of the votes cast at a general meeting of New Endo's shareholders). The New Endo Memorandum and Articles of Association authorizes the New Endo

	Paladin	New Endo
		board of directors to issue New Endo Shares or preferred shares without shareholder approval for a period of five years from the date of adoption of the articles of association.
Voting Rights	Unless a ballot is directed by the chair of a meeting of the shareholders or demanded by a shareholder with the right to vote, motions are voted on by a show of hands with each person having one vote (regardless of the number of shares such person is entitled to vote). If voting is conducted by ballot, each person is entitled to one vote (or such other number as may be provided in the articles) for each share such person is entitled to vote.	Each New Endo shareholder is entitled to one vote for each New Endo Share that he or she holds as of the record date for the meeting. Irish law requires approval of certain matters by “special resolution” of the shareholders at a general meeting. A special resolution requires the approval of not less than 75% of the votes of New Endo’s shareholders cast at a general meeting at which a quorum is present. Ordinary resolutions, by contrast, require a simple majority of the votes of New Endo cast at a general meeting at which a quorum is present. Irish law also distinguishes between “ordinary business” and “special business” at a general meeting. Most matters are deemed “special” with the exception of declaring a dividend, the consideration of the accounts, balance sheets and the reports of the directors and auditors, the election of directors, the reappointment of the retiring auditors and the fixing of the remuneration of the auditors, all of which are deemed to be “ordinary business”.
Shareholder Approval of Business Combinations; Fundamental Changes	Certain fundamental changes such as amendments to articles, certain bylaw amendments, certain amalgamations (other than with certain affiliated corporations), continuances to another jurisdiction and sales, leases or exchanges of all or substantially all of the property of a corporation (other than in the ordinary course of business) and other extraordinary corporate actions such as liquidations, dissolutions and arrangements (if ordered by a court) are required to be approved by special resolution. A special resolution is a resolution (i)	Certain fundamental changes such as amendments to the Memorandum and Articles of Association and other extraordinary corporate actions such as liquidations, reductions of share capital, conversions of corporate status to public, private, unlimited, etc. status, are required to be approved by special resolution of the shareholders. A special resolution is a resolution (i) that requires the approval of not less than 75% of the votes of New Endo’s shareholders cast at a general meeting at which a quorum is present; or (ii) that is

	Paladin	New Endo
	passed by not less than two-thirds of the votes cast by the shareholders who voted in respect of the resolution at a meeting duly called and held for that purpose or (ii) signed by all shareholders entitled to vote on the resolution. In certain cases, a special resolution to approve an extraordinary corporate action is also required to be approved separately by the holders of a class or series of shares, including in certain cases a class or series of shares not otherwise carrying voting rights (unless in certain cases the share provisions with respect to such class or series of shares provides otherwise). In addition, the CBCA provides that, where it is not practicable for a corporation (that is not an insolvent corporation) to effect such a fundamental change under any other provision contemplated under the CBCA, the corporation may apply to a court for an order approving an arrangement. In general, a plan of arrangement is approved by a corporation's board of directors and then is submitted to a court for approval. It is not unusual for a corporation in such circumstances to apply to a court initially for an interim order governing various procedural matters prior to calling any security holder meeting to consider the proposed arrangement. The court determines to whom notice shall be given and whether, and in what manner, approval of any person is to be obtained and also determines whether any shareholders may dissent from the proposed arrangement and receive payment of the fair value of their shares. Following compliance with the procedural steps contemplated in any such interim order (including as to obtaining security holder approval), the court would conduct a final hearing and approve or reject the proposed arrangement.	signed by all shareholders entitled to vote on the resolution. Shareholder approval in connection with a business combination involving New Endo would be required under the following circumstances: • in connection with a takeover by scheme of arrangement, both a court order from the Irish High Court and the approval of a majority in number representing 75% in value of the shareholders present and voting in person or by proxy at a meeting called to approve such a scheme; • in connection with a general takeover offer, for all of the shares of New Endo, the holders of 80% or more of New Endo's shares would have to accept the offer for their shares in order for the remaining shareholders to be statutorily required to transfer their shares; and • in connection with an acquisition of New Endo by way of a merger with a European Union company under the European Union Cross-Border Mergers Directive 2005/56/EC by a special resolution of the shareholders. Irish law does not generally require shareholder approval for a sale, lease or exchange of all or substantially all of a company's property and assets. A bid for a publicly listed company in Ireland may be implemented by means of a general offer, a merger under the European Communities (Cross-Border Mergers) Regulations 2008, or under a scheme of arrangement. A scheme of arrangement is a statutory procedure under the Irish Companies Acts that enables a company to make a compromise or arrangement with its shareholders. Although schemes of arrangement can

	Paladin	New Endo
	Subject to approval by the persons entitled to notice and to issuance of the final order, articles of arrangement are executed and filed by the corporation. The articles of arrangement must contain details of the plan of arrangement, the applicable court's approval and the manner in which the plan of arrangement was approved, if so required by the final order. Finally, the articles of arrangement are filed with Industry Canada, which after such filing issues a certificate of arrangement. The arrangement becomes effective on the date shown in the certificate of arrangement.	be used for a variety of purposes, they are frequently used as a means of implementing a takeover of a public listed company. In the context of a takeover, under a scheme of arrangement the shareholders in the target company agree to the cancellation of the entire issued share capital of the company. Using the resulting capital reserves, new shares are issued to the buyer, in exchange for payment of cash, or shares in the acquiring company (or both). A scheme of arrangement must be approved by the Irish High Court and a majority of shareholders representing 75% in value of the shareholders present and voting in person or by proxy at a meeting called to approve such a scheme. Once sanctioned in this way, all of the shares in the target company are cancelled, regardless of whether the individual shareholder voted in favour of the scheme.
Appraisal Rights; Rights to Dissent	The CBCA provides that shareholders of a corporation are entitled to exercise dissent rights in respect of certain matters and to be paid the fair value of their shares in connection therewith. Such matters include: (i) an amalgamation with another corporation (other than with certain affiliated corporations); (ii) an amendment to the corporation's articles to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of the class in respect of which a shareholder is dissenting; (iii) an amendment to the corporation's articles to add, change or remove any restriction on the business or businesses that the corporation may carry on; (iv) a continuance under the laws of another jurisdiction; (v) a sale, lease or exchange of all or substantially all of the property of the corporation other than in the ordinary course of business; (vi) a court order	Generally, under Irish law, shareholders of an Irish company do not have dissenters' or appraisal rights. Under the European Communities (Cross-Border Mergers) Regulations 2008 governing the merger of an Irish public limited company such as New Endo and a company incorporated in the European Economic Area (the European Economic Area includes all member states of the European Union and Norway, Switzerland, Turkey, Iceland and Liechtenstein), a shareholder (i) who voted against the special resolution approving the merger or (ii) of a company in which 90% of the shares are held by the other party to the merger, has the right to request that the company acquire his or her shares for cash at a price determined in accordance with the share exchange ratio set out in the merger agreement.

	Paladin	New Endo
	permitting a shareholder to dissent in connection with an application to the court for an order approving an arrangement proposed by the corporation; (vii) the carrying out of a going-private transaction or a squeeze-out transaction; and (viii) certain amendments to the articles of a corporation which require a separate class or series vote by a holder of shares of any class or series entitled to vote on such matters, including in certain cases a class or series of shares not otherwise carrying voting rights; provided that a shareholder is not entitled to dissent if any amendment to the articles is effected by a court order (a) approving a reorganization or (b) made in connection with an action for an oppression remedy. The CBCA's oppression remedy enables a court to make any order, both interim and final, to rectify the matters complained of if the court is satisfied upon application by a complainant (as defined below) that: (i) any act or omission of the corporation or an affiliate effects a result; (ii) the business or affairs of the corporation or an affiliate are or have been carried on or conducted in a manner; or (iii) the powers of the directors of the corporation or an affiliate are or have been exercised in a manner, that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of any security holder, creditor, director or officer of the corporation. A "complainant" means: (i) a present or former registered holder or beneficial owner of securities of a corporation or any of its affiliates; (ii) a present or former officer or director of the corporation or any of its affiliates; (iii) the "Director" appointed by the Minister under the CBCA; and (iv) any other person who in the discretion of the court is a proper person to make such	

	Paladin	New Endo
	application. The oppression remedy provides the court with extremely broad and flexible jurisdiction to intervene in corporate affairs to protect shareholders and other complainants. While conduct that is in breach of a director's fiduciary duty owed to the corporation or that is contrary to the legal right of a complainant will normally trigger the court's jurisdiction under the oppression remedy, the exercise of that jurisdiction does not depend on a finding of a breach of such legal and equitable rights. Furthermore, the court may order a corporation to pay the interim expenses of a complainant seeking an oppression remedy, but the complainant may be held accountable for such interim costs on final disposition of the complaint (as in the case of a derivative action). The complainant is not required to give security for costs in an oppression action.	
Oppression Remedy	The CBCA provides an oppression remedy that enables a court to make any order, whether interim or final, to rectify matters that are oppressive or unfairly prejudicial to, or that unfairly disregard the interests of, any securityholder, director or officer of the corporation if an application is made to a court by a "complainant," which includes: • a present or former registered holder or beneficial owner of securities of the corporation or any of its affiliates; • a present or former officer or director of the corporation or any of its affiliates; • the director appointed under the CBCA; and • any other person who in the discretion of the court is a proper person to make such application. The oppression remedy provides the court with very broad and flexible	Section 205 of the Irish Companies Act 1963 provides a company's shareholders with a remedy against the company and its directors in cases of oppression. The objective of the provision is to provide shareholders with relief where the affairs of the company are being conducted, or the powers of the directors are being exercised in a manner oppressive to them or in disregard of their interests. Where it is shown to the court's satisfaction that section 205 relief is available, the court has wide powers to make such orders as it sees fit. These include: • that the oppressor buy the petitioner's shares; • that the petitioner buy the oppressor's shares; • that the company buy either party's shares; • that the company's memorandum and/or articles of association are

	Paladin	New Endo
	powers to intervene in corporate affairs to protect shareholders and other complainants. While conduct that is in breach of fiduciary duties of directors or that is contrary to the legal right of a complainant will normally trigger the court's jurisdiction under the oppression remedy, the exercise of that jurisdiction does not depend on a finding of a breach of those legal and equitable rights. Furthermore, the court may order a corporation to pay the interim expenses of a complainant seeking an oppression remedy, but the complainant may be held accountable for interim costs on final disposition of the complaint (as in the case of a derivative action).	amended to provide as the court directs; or that the company be wound up.
Compulsory Acquisition	The CBCA provides that if, within 120 days after the date of a take-over bid made to shareholders of a corporation, the bid is accepted by the holders of not less than 90% of the shares (other than the shares held by the offeror or an affiliate of the offeror) of any class of shares to which the bid relates, the offeror is entitled to acquire (on the same terms on which the offeror acquired shares under the take-over bid) the shares held by those holders of shares of that class who did not accept the takeover bid. If a shareholder who did not accept the take-over bid (a "dissenting offeree") does not receive an offeror's notice, with respect to a compulsory acquisition (as described in the preceding sentence), that shareholder may require the offeror to acquire those shares on the same terms under which the offeror acquired (or will acquire) the shares owned by the shareholders who accepted the takeover bid.	The Companies Acts provide that if, not later than 4 months after the date of a take-over bid made to shareholders of a company, the bid is accepted by the holders of not less than 80% (other than the shares held by the offeror or an affiliate of the offeror) of any class of shares to which the bid relates, the offeror is entitled to acquire (on the same terms on which the offeror acquired shares under the take-over bid) the shares held by those holders of shares of that class who did not accept the takeover bid. If a takeover by scheme of arrangement of an Irish company is approved by the Irish High Court, and a majority in number representing 75% in value of the shareholders present and voting in person or by proxy at a meeting called to approve the scheme, the scheme will be effective so that the bidder company will compulsorily acquire the entire share capital of the target company, including the shares of dissenting and non-voting shareholders.

	Paladin	New Endo
Shareholder Consent to Action Without a Meeting	Under the CBCA, shareholder action without a meeting may be taken by written resolution signed by all shareholders who would be entitled to vote on the relevant issue at a meeting (other than where a written statement is submitted by a director or auditor giving reasons for resigning or for opposing any proposed action or resolution, in accordance with the CBCA).	The Companies Acts provide that shareholders may approve a resolution without a meeting if (i) all shareholders sign the written resolution and (ii) the New Endo Memorandum and Articles of Association permit written resolutions of shareholders. The New Endo Articles of Association permit written resolutions of the shareholders where such resolutions are unanimous.
Special Meetings of Shareholders	Under the CBCA, the holders of not less than 5% of the issued shares of a corporation that carry the right to vote at the meeting sought to be held may require that the directors call a meeting of shareholders. Upon meeting the technical requirements set out in the CBCA for making such a request, the directors of the corporation must call a meeting of shareholders. If they do not call such meeting within 21 days after receiving the request, any shareholder who signed the request may call the meeting.	Extraordinary general meetings are generally held for the purpose of approving shareholder resolutions as may be required from time to time. At any extraordinary general meeting only such business shall be conducted as is set forth in the notice thereof. In the case of an extraordinary general meeting convened by the New Endo shareholders, the purpose of the meeting must be set out in the requisition notice. Upon receipt of any such valid requisition notice, the New Endo board of directors has 21 days to convene a meeting of New Endo shareholders to vote on the matters set out in the requisition notice. This meeting must be held within two months of the receipt of the requisition notice. If the New Endo board of directors does not convene the meeting within such 21-day period, the requisitioning shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, which meeting must be held within three months of New Endo's receipt of the requisition notice. If the New Endo board of directors becomes aware that the net assets of New Endo are not greater than half of the amount of New Endo's called-up share capital, it must convene an extraordinary general meeting of New Endo's shareholders not later than 28

	Paladin	New Endo
		days from the date that the directors learn of this fact to consider how to address the situation.
Distributions and Dividends; Repurchases and Redemptions	Under the CBCA, a corporation may pay a dividend by issuing fully paid shares of the corporation. A corporation may also pay a dividend in money or property unless there are reasonable grounds for believing that: (i) the corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes. Under the CBCA, the purchase or other acquisition by a corporation of its shares is generally subject to solvency tests similar to those applicable to the payment of dividends, as set out above. The CBCA provides that no rights, privileges, restrictions or conditions attached to a series of shares shall confer on a series a priority in respect of dividends or return of capital over any other series of shares of the same class that are then outstanding.	<i>Dividends and Distributions by New Endo</i> Under Irish law, dividends and distributions may only be made from distributable reserves. Distributable reserves generally means accumulated realized profits less accumulated realized losses and includes reserves created by way of capital reduction. In addition, no distribution or dividend may be made unless the net assets of New Endo are equal to, or in excess of, the aggregate of New Endo's called up share capital plus undistributable reserves and the distribution does not reduce New Endo's net assets below such aggregate. Undistributable reserves include the share premium account, the capital redemption reserve fund and the amount by which New Endo's accumulated unrealized profits, so far as not previously utilized by any capitalization, exceed New Endo's accumulated unrealized losses, so far as not previously written off in a reduction or reorganization of capital. The determination as to whether or not New Endo has sufficient distributable reserves to fund a dividend must be made by reference to the "relevant accounts" of New Endo. The "relevant accounts" will be either the last set of unconsolidated annual audited financial statements or other financial statements properly prepared in accordance with the Companies Acts (not in accordance with U.S. GAAP), which give a "true and fair view" of New Endo's unconsolidated financial position and accord with accepted accounting practice. The relevant accounts must be filed in the Companies Registration Office. New Endo and Paladin will be taking steps to create distributable

	Paladin	New Endo
		reserves, on which Endo and Paladin shareholders will vote at special meetings. The New Endo Memorandum and Articles of Association authorize the directors to declare dividends without shareholder approval to the extent they appear justified by profits. The New Endo board of directors may also recommend a dividend to be approved and declared by the shareholders at a general meeting and may direct that the payment be made by distribution of assets, shares or cash. No dividend issued may exceed the amount recommended by the directors. Dividends may be declared and paid in the form of cash or non-cash assets and may be paid in dollars or any other currency. The New Endo board of directors may deduct from any dividend payable to any shareholder any amounts payable by such shareholder to New Endo in relation to the shares of New Endo. <i>Share Repurchases and Redemptions by New Endo</i> The New Endo Memorandum and Articles of Association provide that any New Endo Share that New Endo has agreed to acquire shall be deemed to be a redeemable share. Accordingly, for purposes of Irish law, the repurchase of New Endo Shares by New Endo may technically be effected as a redemption. Under Irish law, New Endo may issue redeemable shares and redeem them out of distributable reserves or the proceeds of a new issue of shares for that purpose. New Endo may only issue redeemable shares if the nominal value of the issued share capital that is not redeemable is not less than 10% of the nominal value of the total issued share capital of New Endo. All redeemable shares must also be fully-

	Paladin	New Endo
		paid and the terms of redemption of the shares must provide for payment on redemption. New Endo may also be given authority to purchase its own shares on market by its shareholders at a general meeting, which would take effect on the same terms and be subject to the same conditions as applicable to purchases by New Endo's subsidiaries. New Endo may also issue preferred shares, which may be redeemed at the option of either New Endo or the shareholder, depending on the terms of such preferred shares. Repurchased and redeemed shares may be cancelled or held as treasury shares. The nominal value of treasury shares held by New Endo at any time must not exceed 10% of the nominal value of the issued share capital of New Endo. New Endo may not exercise any voting rights in respect of any shares held as treasury shares. Treasury shares may be cancelled by New Endo or re-issued subject to certain conditions. <i>Purchases by Subsidiaries of New Endo</i> Under Irish law, New Endo's subsidiaries may purchase shares of New Endo either "on market" on a recognized stock exchange such as NASDAQ, or "off market". NASDAQ, on which the shares of New Endo are expected to be listed following the closing, is specified as a recognized stock exchange for this purpose by Irish company law. TSX is not specified as a recognized stock exchange for the purpose of Irish company law. For a subsidiary of New Endo to make on market purchases of New Endo Shares, the shareholders of New Endo must provide general authorization for

	Paladin	New Endo
		such purchase by way of ordinary resolution. However, as long as this general authority has been granted, no specific shareholder authority for a particular on market purchase by a subsidiary of New Endo Shares is required. For a purchase by a subsidiary of shares of New Endo off market, the proposed purchase contract must be authorized by special resolution of New Endo shareholders before the contract is entered into. The person whose New Endo Shares are to be bought back cannot vote in favour of the special resolution and, for at least 21 days prior to the special resolution being passed, the purchase contract must be on display or must be available for inspection by New Endo shareholders at the registered office of New Endo. The number of shares held by the subsidiaries of New Endo at any time will count as treasury shares and will be included in any calculation of the permitted treasury share threshold of 10% of the nominal value of the issued share capital of New Endo. While a subsidiary holds shares of New Endo, such subsidiary cannot exercise any voting rights in respect of those shares. The acquisition of New Endo Shares by a subsidiary must be funded out of distributable reserves of the subsidiary. Under the New Endo Memorandum and Articles of Association, upon recommendation of the New Endo board of directors, the shareholders by ordinary resolution may authorize the board of directors to capitalize any amount for the time being standing to the credit of any of New Endo's reserves (including any capital redemption reserve fund or share premium account) or to the credit of profit and loss account for issuance and distribution to shareholders as fully paid up bonus shares on the same basis of entitlement as would apply in respect of a dividend distribution.

	Paladin	New Endo
Number of Directors; Vacancies on the Board of Directors	The CBCA provides that a corporation shall have one or more directors, but a corporation whose shares are publicly traded shall have not fewer than three directors, at least two of whom are not officers or employees of the corporation or its affiliates. Paladin's articles of amalgamation provide that it may have a minimum of one and a maximum of nine directors. Under the CBCA, a vacancy among the directors created by the removal of a director may be filled at a meeting of shareholders at which the director is removed. The CBCA also allows a vacancy on the board of directors to be filled by a quorum of directors, except when the vacancy results from an increase in the number or minimum or maximum number of directors or from a failure to elect the number or minimum number of directors required by the articles.	The Companies Acts provide for a minimum of two directors on the board of an Irish company. The New Endo Memorandum and Articles of Association provide that unless otherwise determined by New Endo by ordinary resolution, the number of directors on the board shall be not less than five nor more than twelve. The exact number of directors shall be fixed from time to time by resolution of the board of directors. At the effective time, assuming each current director of Endo becomes a director of New Endo, the New Endo board will consist of ten members. At each annual general meeting of New Endo, all the directors shall retire from office and be re-eligible for re-election. Upon the resignation or termination of office of any director, if a new director shall be appointed to the board, he will be designated to fill the vacancy arising. Each director shall hold office until the next annual meeting and until his or her successor is duly elected and qualified, or until his or her earlier resignation or removal. The directors of New Endo may appoint a person who is willing to act to be a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed the number fixed by or in accordance with New Endo's articles as the maximum number of directors. A director who is so appointed will hold office only until the next following annual general meeting. If not reappointed at such annual general meeting, such director will vacate office at the conclusion thereof.
Constitution and Residency of Directors	The CBCA provides that at least 25% of the directors (or if a corporation has less than four directors, at least one director) must be resident Canadians.	At least one of the directors for the time being of an Irish company is required to be resident in a member

	Paladin	New Endo
	Except as permitted by the CBCA, no business may be transacted by the board of directors except at a meeting of directors at which a quorum is present and at least 25% of the directors present are resident Canadians or, if the corporation has less than four directors, at least one director present is a resident Canadian.	State of the European Economic Area (EEA) or a bond must be put in place. The European Economic Area member States are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, The Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.
Removal of Directors; Terms of Directors	Under the CBCA, provided that the articles of a corporation do not provide for cumulative voting, shareholders of the corporation may, by ordinary resolution passed at a special meeting, remove any director or directors from office. Paladin's articles do not provide for cumulative voting. If holders of a class or series of shares have the exclusive right to elect one or more directors, a director elected by them may only be removed by an ordinary resolution at a meeting of the shareholders of that class or series. The CBCA provides a director not elected for an expressly stated term ceases to hold office at the close of the first annual meeting of shareholders following the director's election. Paladin's articles and bylaws do not specify a term for which directors shall hold office.	Under the Companies Acts and notwithstanding anything contained in the New Endo Memorandum and Articles of Association or in any agreement between New Endo and a director, the shareholders may, by an ordinary resolution, remove a director from office before the expiration of his or her term at a meeting held on no less than 28 days' notice and at which the director is entitled to be heard. The power of removal is without prejudice to any claim for damages for breach of contract (e.g., employment contract) that the director may have against New Endo in respect of his removal. The New Endo Memorandum and Articles of Association provide that the board of directors may fill any vacancy occurring on the board of directors. If the New Endo board of directors fills a vacancy, the director's term expires at the next annual general meeting. A vacancy on the board of directors created by the removal of a director may be filled by the shareholders at the meeting at which such director is removed.
Indemnification of Directors and Officers	Under the CBCA, a corporation may indemnify a director or officer, a former director or officer or a person who acts or acted at the corporation's request as a director or officer, or an individual acting in a similar capacity, of another entity (an "indemnifiable person") against all costs, charges and	Pursuant to the New Endo Memorandum and Articles of Association, its directors and secretary are indemnified to the extent permitted by the Companies Acts. New Endo may indemnify the directors or secretary only if the indemnified party receives a

	Paladin	New Endo
	expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him or her in respect of any civil, criminal, administrative, investigative or other proceeding in which he or she is involved because of that association with the corporation or other entity, if: (i) the individual acted honestly and in good faith with a view to the best interests of such corporation or the other entity, as the case may be; and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct was lawful. An indemnifiable person may require the corporation to indemnify the individual in respect of all costs, charges and expenses reasonably incurred by the individual in connection with the defence of any civil, criminal, administrative, investigative or other proceeding to which the individual is subject because of the individual's association with the corporation or other entity, as the case may be, if the individual was not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done, and the individual fulfills the conditions set out in (i) and (ii) above. A corporation may, with the approval of a court, also indemnify an indemnifiable person against all costs, charges and expenses in respect of an action by or on behalf of the corporation or other entity to procure a judgment in its favour, to which such person is made a party by reason of being or having been a director or an officer of the corporation or other entity, if he or she fulfills the conditions set forth in (i) and (ii) above. As permitted by the CBCA, Paladin's bylaws require Paladin to indemnify	favourable judgment in respect of the liability, or where an Irish court determines that the director or the secretary acted honestly and reasonably and ought fairly to be excused, or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on the part of the director or secretary, or in which he/she is acquitted. This restriction in the Companies Acts does not apply to executives who are not directors or the secretary of New Endo. Any provision for indemnification to a greater extent is void under Irish law, whether contained in a Memorandum and Articles of Association or any contract between the director and the Irish company. The New Endo Memorandum and Articles of Association also contain indemnification and expense advancement provisions for current or former executives who are not directors or the secretary of New Endo, except no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for fraud or dishonesty in the performance of her or her duty to the company. The directors of New Endo may, on a case-by-case basis, decide at their discretion that it is in the best interests of New Endo to indemnify an individual director from any liability arising from his or her position as a director of New Endo. However, this discretion must be exercised bona fide in the best interests of New Endo as a whole. In addition, due to more restrictive provisions of Irish law in relation to the indemnification of directors and the secretary, in connection with the merger, it is expected that New Endo will indemnify its directors and certain

	Paladin	New Endo
	directors or officers of Paladin against: (i) the acts, receipts, neglects or defaults of any other person, or joining in any receipt or act for conformity; (ii) any loss, damage or expense happening to Paladin through the insufficiency or deficiency of title to any property acquired by, for, or on behalf of Paladin; (iii) the insufficiency or deficiency of any security in or upon which any moneys of Paladin are invested; (iv) any loss or damage arising from the bankruptcy, insolvency or wrongful act of any person with whom any money, security or other property of Paladin is lodged or deposited; or (v) any other loss, damage, or misfortune whatever which may arise out of the execution of the duties of his office or in relation thereto. The indemnity provisions of Paladin's bylaws are in addition to and not in substitution for or limitation of any rights, immunities and protections to which a person is otherwise entitled.	officers, as well as individuals serving as directors or officers of its subsidiaries, pursuant to indemnification agreements existing or to be entered into by Endo as a subsidiary of New Endo. It is expected that the indemnification and expense advancement to be provided to the directors and certain officers of New Endo under the indemnification agreements will, to the extent permitted by Irish law, be the same or substantially similar to that afforded in the current indemnification agreements between Endo and its officers and directors.
Limited Liability of Directors	The CBCA does not permit any limitation of a director's liability other than in connection with the adoption of a unanimous shareholder agreement which restricts certain powers of the directors. If such a unanimous shareholder agreement were adopted, the parties who are given the power to manage or supervise the management of the business and affairs of the corporation under such agreement assume all of the liabilities of a director under the CBCA.	Under Irish law, a company may not exempt its directors from liability for negligence or a breach of duty. However, where a breach of duty has been established, directors may be statutorily exempted by an Irish court from personal liability for negligence or breach of duty if, among other things, the court determines that they have acted honestly and reasonably, and that they may fairly be excused as a result. Under Irish law, shareholders may not agree to exempt a director or officer from any claim or right of action a shareholder may have, whether individually or in the right of a company, on account of any action taken or the failure to take any action in the performance of such director's or officer's duties to the company.
Derivative Actions	Under the CBCA, a Paladin shareholder, or other complainant recognized under the CBCA, may	In certain limited circumstances, a shareholder may be entitled to bring a derivative action on behalf of New

	Paladin	New Endo
	apply to the court for leave to bring an action in the name of and on behalf of Paladin or any subsidiary, or to intervene in an existing action to which Paladin or a subsidiary is a party, for the purpose of prosecuting, defending or discontinuing the action on behalf of Paladin or its subsidiary. Under the CBCA, no action may be brought and no intervention in an action may be made unless a court is satisfied that: (i) the complainant has given the requisite notice to the directors of the corporation or its subsidiary of the complainant's intention to apply to the court if the directors do not bring, diligently prosecute or defend or discontinue the action; (ii) the complainant is acting in good faith; and (iii) it appears to be in the interests of the corporation or its subsidiary that the action be brought, prosecuted, defended or discontinued. Under the CBCA, the court in a derivative action may make any order it determines to be appropriate. In addition, under the CBCA, a court may order a corporation or its subsidiary to pay the complainant's interim costs, including reasonable legal fees and disbursements. Although the complainant may be held accountable for the interim costs on final disposition of the complaint, he or she is not required to give security for costs in a derivative action.	Endo if a wrong committed against New Endo would otherwise go unredressed. The principal case law in Ireland indicates that to bring a derivative action a person must first establish a prima facie case (i) that the company is entitled to the relief claimed and (ii) that the action falls within one of the five exceptions derived from case law, as follows: • where an ultra vires or illegal act is perpetrated; • where more than a bare majority is required to ratify the "wrong" complained of; • where the shareholders' personal rights are infringed; • where a fraud has been perpetrated upon a minority by those in control; or • where the justice of the case requires a minority to be permitted to institute proceedings. Irish law also permits shareholders of New Endo to bring proceedings against New Endo where the affairs of New Endo are being conducted, or the powers of the directors are being exercised, in a manner oppressive to the shareholders or in disregard of their interests. The court can grant any relief it sees fit and the usual remedy is the purchase or transfer of the shares of any shareholder.
Advance Notification Requirements for Proposals of Shareholders	Under the CBCA, proposals with respect to the nomination of candidates for election to the board of directors may be made by certain registered or beneficial holders of shares entitled to be voted at an annual meeting of shareholders. To be eligible to submit such a proposal, a shareholder must be the registered or beneficial holder of, or have the support of the registered or beneficial holders of, (i) at least 1% of the total	The Companies Acts provide that shareholders holding not less than 10% of the total voting rights may call an extraordinary general meeting for the purpose of considering director nominations or other proposals, as described under "<i>Extraordinary General Meetings of Shareholders</i>". The New Endo Memorandum and Articles of Association provide that shareholder nominations of persons to be elected to the board of directors at

	Paladin	New Endo
	number of outstanding voting shares of the corporation; or (ii) voting shares whose fair market value is at least \$2,000, and such registered or beneficial holder(s) must have held such shares for at least six months immediately prior to the day upon which the shareholder submits the proposal. In order for a proposal to include nominations of directors, it must be signed by one or more holders of shares representing not less than 5% of the shares (or shares of a class) entitled to vote at the meeting. A proposal under the CBCA must include the name and address of the person submitting the proposal, the names and addresses of the person's supporters (if applicable), the number of shares of the corporation owned by such person(s) and the date upon which such shares were acquired. If the proposal is submitted at least 90 days before the anniversary date of the notice of meeting sent to shareholders in connection with the previous annual meeting and the proposal meets other specified requirements, then the corporation shall either set out the proposal in the proxy circular of the corporation or attach the proposal thereto. In addition, if so requested by the person submitting the proposal, the corporation shall include in or attach to the proxy circular a statement in support of the proposal by the person and the name and address of such person. If a corporation refuses to include a proposal in a management proxy circular, the corporation shall notify the person making such proposal in writing within 21 days after its receipt of the proposal (or proof of the person's ownership of securities) of its intention to omit the proposal and the reasons therefor. In any such event, the person submitting the proposal may make application to a court and a court may restrain the holding of the meeting and make any	an annual general meeting must be made following written notice to the secretary of New Endo executed by a shareholder accompanied by certain background and other information specified in the memorandum and articles of association. Such written notice and information must be received by the secretary of New Endo not less than 60 days nor more than 90 days before the first anniversary of the date of New Endo's proxy statement for the prior year's annual general meeting.

	Paladin	New Endo
	further order it sees fit. In addition, a corporation may apply to a court for an order permitting the corporation to omit the proposal from the management proxy circular and the court may make such order as it determines appropriate.	
Inspection of Books and Records	Under the CBCA, shareholders, creditors and their representatives, after giving the required notice, may examine certain of the records of a corporation during usual business hours and take copies of extracts free of charge.	Under Irish law, shareholders have the right to: (i) receive a copy of the New Endo Memorandum and Articles of Association and any act of the Irish government that alters the New Endo Memorandum and Articles of Association; (ii) inspect and obtain copies of the minutes of general meetings and resolutions of New Endo; (iii) inspect and receive a copy of the register of shareholders, register of directors and secretaries, register of directors' interests and other statutory registers maintained by New Endo; (iv) receive copies of balance sheets and directors' and auditors' reports that have previously been sent to shareholders prior to an annual general meeting; and (v) receive balance sheets of any subsidiary of New Endo that have previously been sent to shareholders prior to an annual general meeting for the preceding ten years.
Amendment of Governing Documents	Under the CBCA, any amendment to a corporation's articles generally requires shareholder approval by special resolution. The Paladin board of directors may repeal any bylaws by passing a bylaw that contains a provision to that effect. Where the directors make, amend or repeal a bylaw, they are required under the CBCA to submit the bylaw, amendment or repeal to the shareholders at the next meeting of shareholders and the shareholders may confirm, reject or amend the by-law, amendment or repeal by an ordinary resolution, which is a resolution passed by a majority of the votes cast by shareholders who voted in respect of the resolution. If a bylaw,	Irish companies may only alter their memorandum and articles of association by the passing of a special resolution of shareholders.

	Paladin	New Endo
	amendment or repeal is rejected by the shareholders, or the directors of a corporation do not submit a bylaw, an amendment or a repeal to the shareholders at the next meeting of shareholders, then such bylaw, amendment or repeal will cease to be effective and no subsequent resolution of the directors to make, amend or repeal a bylaw having substantially the same purpose or effect is effective until it is confirmed or confirmed as amended by the shareholders.	
Enforcement of Judgment Rendered by Canadian Court	A judgment for the payment of money rendered by a court in one province in Canada based on civil liability generally would be enforceable elsewhere in Canada.	A judgment for the payment of money rendered by a court in one province in Canada based on civil liability would not be automatically enforceable in Ireland. There is no treaty between Ireland and Canada providing for the reciprocal enforcement of foreign judgments. The following requirements must be met before the foreign judgment will be deemed to be enforceable by an Irish Court in Ireland: • the judgment must be for a definite sum; • the judgment must be final and conclusive; and • the judgment must be provided by a court of competent jurisdiction. An Irish court will also exercise its right to refuse judgment if the foreign judgment was obtained by fraud, if the judgment violated Irish public policy, if the judgment is in breach of natural justice or if it is irreconcilable with an earlier foreign judgment.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

As at the date of this Circular, no directors, executive officers or employees of Paladin or any subsidiary thereof, or any associates of the foregoing, and no former directors, executive officers or employees of Paladin or any subsidiary thereof, were indebted to Paladin or any of its subsidiaries.

NORMAL COURSE ISSUER BID

On February 28, 2013 Paladin announced that TSX had accepted a notice of its intention to proceed with a NCIB on the facilities of TSX. Pursuant to the NCIB, Paladin may purchase for cancellation up to a maximum of 906,669 Paladin Shares. The maximum number of shares that may be purchased pursuant to the NCIB represents approximately 10% of the “public float” of the Paladin Shares outstanding as of the date of the commencement of the NCIB. The NCIB commenced on March 4, 2013 and will terminate on March 3, 2014, or on such earlier date as Paladin may complete its purchases under the NCIB. The price which Paladin will pay for any Paladin Shares purchased by it will be the prevailing market price of such shares on TSX at the time of acquisition. As of the Record Date, Paladin has not purchased any Paladin Shares under the NCIB. A copy of the notice Paladin provided to TSX may be obtained without charge by contacting Paladin at the address provided under “Additional Information” below.

MATERIAL CONTRACTS

The only material contract which Paladin or its subsidiaries have entered into, or will enter into prior to the Closing Date, other than in the ordinary course of business, is the Arrangement Agreement. For a complete description of the Arrangement Agreement, please see “*The Arrangement Agreement*” beginning on page 114.

Endo is required to file agreements and other documents with the SEC that are considered “material contracts” under applicable U.S. securities laws. Copies of the documents filed by Endo pursuant to those requirements are available at www.sec.gov. After the Effective Time, New Endo will be required to comply with the material contract disclosure requirements of U.S. securities laws and will generally be exempt from the corresponding continuous disclosure requirements under Canadian securities laws.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than the interests of the directors and executive officers of Paladin and of the Principal Paladin Shareholders in the Arrangement described in this Circular (see “*Management Solicitation—Share Ownership by and Voting Rights of Paladin’s Directors and Executive Officers*”, “*The Arrangement and the Merger—Interests of Certain Persons in the Arrangement*” and “*The Voting Agreements*”), none of the directors or executive officers of Paladin or the Principal Paladin Shareholders, nor any associate or affiliate of any of them, has or had a direct or indirect material interest in any transaction within the three years prior to the date of this Circular or proposed transaction which has materially affected or will materially affect Paladin, except as otherwise as described below.

Joddes

Joddes and the other Principal Paladin Shareholders own in aggregate approximately 34% of the outstanding Paladin Shares. See “*Management Solicitation—Share Ownership by and Voting Rights of Paladin’s Directors and Executive Officers*”, “*The Arrangement and the Merger—Interests of Certain Persons in the Arrangement*” and “*The Voting Agreements*”. The business address for Joddes is 6111 Royalmount Avenue, Suite 100, Montréal, Québec, H4P 2T4.

Paladin engages a wholly-owned subsidiary of Joddes to provide logistics services including: customer service, warehousing, shipping, invoicing, collection services and certain manufacturing and selling services on behalf of Paladin. The logistics services agreement is for a period of 5 years ending in 2018 with options to renew extending the term to 2020 and beyond. This variable rate logistic services agreement invoices costs per product line depending on product-specific characteristics and contains no fixed minimum components. Either party may terminate this agreement with a twelve month notice period. Paladin also engages this affiliate to perform certain research and development and selling services on a contractual pay-for-use basis.

Paladin has also entered into contractual royalty agreements with a wholly-owned subsidiary of Joddes for certain legacy and over-the-counter products. The terms of these arrangements vary whereby Paladin may earn a royalty fee based on certain established terms relating to the performance of the respective products such as through a percentage of net sales, certain guaranteed minimum annual payments, or as a percentage of a defined product contribution.

The table below reflects all transactions and services with Joddes carried in the normal course of operations, which include those referred to in the agreements described above, as well as revenues from a wholly-owned subsidiary of Joddes:

	2012 (\$)	2011 (\$)
Revenues	617,000	2,651,000
Purchases	11,069,000	11,114,000
Selling, general and administrative	7,881,000	8,552,000
Research and development	671,000	730,000

Pharmaplan

At July 1, 2012, Paladin owned a 44.99% interest in the common shares of Pharmaplan and considered this investment a related party. On July 2, 2012, Paladin acquired the 55.01% interest in Pharmaplan which it did not own for a cash consideration of \$38,150,000 and the issuance of 88,948 Paladin Shares at \$44.97 per share. In conjunction with the acquisition of the remaining 55.01% interest in Pharmaplan, Paladin, in accordance with IFRS, revalued its investment in Pharmaplan at \$30,774,000 and recorded a gain of \$12,294,000 under “Gain on revaluation of equity investment” in the audited consolidated statements of income. During the year ended December 31, 2012, Pharmaplan declared and paid dividends of ZAR60,000,000, Paladin’s share of which was ZAR26,994,000 or \$3,319,000. During the year ended December 31, 2011, Pharmaplan declared and paid dividends of ZAR45,000,000, Paladin’s share of which was ZAR20,246,000 or \$2,620,000.

On March 1, 2011, Paladin had entered into an agreement with Pharmaplan to accelerate the purchase of Pharmaplan shares leading to an acquisition of a total of 10% ownership interest in Pharmaplan. Paladin paid \$5,975,000 which included the settlement of a previous investment in a non-interest bearing loan in Pharmaplan of \$2,879,000.

The business address for Pharmaplan is No. 106, 16th Road, Midrand, 1685, Gauteng, South Africa.

Litha Related Entities

On July 2, 2012, Paladin acquired a 44.54% interest in Litha and in conjunction with certain shareholder agreements representing 13.42% of Litha outstanding common shares, obtained control over more than half of the voting rights of Litha and as such has included Litha within its consolidated financial statements as of July 2, 2012, the effective date of acquisition. During the six months ended December 31, 2012, Litha invoiced Biologicals and Vaccines Institute of Southern Africa (Pty) Limited, a related joint venture, logistics fees of \$2,006,000 (ZAR17,115,000) which are included in the consolidated statement of income under revenues and the corresponding costs under share of net loss from a joint venture. In addition, during the same period, Litha has paid rental fees of \$344,000 (ZAR2,937,000) to an associate. In addition, Litha paid underwriting fees of \$586,000 (ZAR5,000,000) to one of its significant shareholders. During the year ended December 31, 2013, Paladin acquired an additional 22.97% in Litha. As at January 10, 2014, Paladin holds a 67.8% interest in Litha. The business address for Litha is No. 106, 16th Road, Midrand, 1686, Gauteng, South Africa.

All transactions with related parties, except for the Pharmaplan and Litha strategic partnership transactions described above and the Voting Agreement entered into between Joddes and Endo in respect of the Transactions as more further described in this Circular, were carried out in the normal course of operations. The accounts payable to related parties are on normal commercial terms and conditions and are non-interest bearing.

LEGAL MATTERS

Certain legal matters in connection with the Transactions will be passed upon by Davies on behalf of Paladin, by Skadden and by Torys (regarding Canadian matters) on behalf of Endo, and by A&L Goodbody (regarding Irish matters), on behalf of New Endo. As of the date of this Circular, the respective partners and associates of each of Davies, Skadden, Torys and A&L Goodbody own beneficially, directly or indirectly, less than 1% of any outstanding securities of any class of Paladin and Endo or any associate or affiliate of Paladin and Endo.

INTERESTS OF EXPERTS

The Paladin Annual Audited Consolidated Financial Statements incorporated by reference in this Circular of Paladin have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon, incorporated by reference herein, and are included in reliance upon such reports given upon the authority of said firm as experts in accounting and auditing.

The audited annual consolidated financial statements of Litha together with the accompanying report of the independent auditors, as at December 31, 2011 and for the year ended December 31, 2011, have been audited by Mazars, independent auditors, as set forth in their reports thereon, incorporated by reference herein, and are included in reliance upon such reports given upon the authority of said firm as experts in accounting and auditing.

Deloitte & Touche LLP, independent registered public accounting firm, reports that they are independent of Endo and New Endo and subsidiaries in accordance with the applicable rules and regulations of the SEC and the Public Company Accounting Oversight Board (United States).

In connection with the Transactions, Credit Suisse delivered a fairness opinion to the Paladin Board of Directors dated November 5, 2013 which is included as Appendix “E” to this Circular.

As of the date of this Circular, the respective partners and associates of Credit Suisse own beneficially, directly or indirectly, less than one 1% of any outstanding securities of any class of Paladin and Endo or any associate or affiliate of Paladin and Endo.

LEGAL PROCEEDINGS

Paladin is not subject to any legal proceedings material to Paladin to which Paladin or any of its subsidiaries is a party or of which any of Paladin’s properties is the subject matter and no such proceedings are known to Paladin to be contemplated, except for the legal proceedings with the Québec Court in respect of the Arrangement. See *“The Arrangement Agreement—Closing of the Arrangement and the Merger”* beginning on page 115.

Endo and certain of its subsidiaries are involved in various claims, legal proceedings and governmental investigations that arise from time to time in the ordinary course of Endo’s business, including relating to product liability, intellectual property, regulatory compliance and commercial matters. For more information, please see the Endo Financial Statements, which are included as Appendix “G” to this Circular.

Other than as described above, it is not expected that New Endo will be subject to any legal proceedings material to New Endo to which New Endo or any of its subsidiaries is a party or of which any of New Endo’s properties is the subject matter at the Effective Time.

REGULATORY ACTIONS

New Endo has not had since its incorporation any penalties or sanctions imposed on it by, or entered into any settlement agreements with, a court or a securities regulator relating to securities laws. In the past three years, neither Paladin or Endo have had any penalties or sanctions imposed on them by, or entered into any settlement agreements with, a court or a securities regulator relating to securities laws.

AUDITORS, TRANSFER AGENTS AND REGISTRARS

The auditors of Paladin are Ernst & Young LLP, at their principal office in Montréal which is located at 800 René-Lévesque Blvd. W., Suite 1900, Montréal, Québec, H3B 1X9. The auditors are independent of Paladin within the meaning of the Code of Ethics of the Ordre des comptables professionnels agréés du Québec. The transfer agent and registrar for the Paladin Shares is Computershare Investor Services Inc. through its principal offices in (i) Montréal, which is located at 1500 University Street, Suite 700, Montréal, Québec, H3A 3S8, and (ii) Toronto, which is located at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1.

The auditors of New Endo and subsidiaries are Deloitte & Touche LLP, at their principal office in Pennsylvania, which is located at 1700 Market Street, Philadelphia, Pennsylvania, 19103, USA. The auditors are independent of New Endo and subsidiaries in accordance with the applicable rules and regulations of the SEC and the Public Accounting Overnight Board (United States). It is expected that the transfer agent and registrar for the New Endo Shares will be Computershare Investor Services Inc. at its principal office in Montréal, Québec, Canada, Computershare Trust Company N.A. at its principal office in Canton, Massachusetts, USA, and Computershare Investor Services (Ireland) at its principal office in Dublin, Ireland.

ADDITIONAL INFORMATION

Copies of this Circular and of the Paladin Annual Information Form, the Paladin Audited Annual Consolidated Financial Statements and the Paladin Condensed Interim Consolidated Financial Statements (including the management's discussion and analyses in respect thereof) may be obtained on SEDAR at www.sedar.com or on request without charge to the Secretary of Paladin at 100 Alexis-Nihon Blvd., Suite 600, Saint-Laurent Québec, H4M 2P2 (telephone: 514-340-1112). Financial information relating to Paladin is included in the Paladin Audited Annual Consolidated Financial Statements incorporated by reference in this Circular and the Management's Discussion & Analysis related thereto contained in the Annual Report of Paladin for the twelve-month period ended December 31, 2012. Additional information relating to Paladin may be found on SEDAR at www.sedar.com.

Endo files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document that Endo files at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including Endo. The SEC's Internet site can be found at www.sec.gov.

APPROVAL BY DIRECTORS

The contents of this Circular and the sending thereof to the Paladin Shareholders have been approved by the Paladin Board of Directors.

January 21, 2014

(signed) Jonathan Ross Goodman
JONATHAN ROSS GOODMAN, B.A., LL.B., M.B.A.
Chairman of the Board of Directors

(signed) Mark A. Beaudet
MARK A. BEAUDET
Interim President and Chief Executive Officer

CONSENT OF FINANCIAL ADVISOR

To: The Board of Directors of Paladin Labs Inc.

We hereby consent to the inclusion of our opinion letter, dated November 5, 2013, to the Board of Directors of Paladin as Appendix E to the Circular as of the date hereof and the references to our firm and our opinion in the Circular under the headings “*SUMMARY – Opinion of Paladin’s Financial Advisor*,” “*THE ARRANGEMENT AND THE MERGER – Background of the Transactions*,” “*THE ARRANGEMENT AND THE MERGER – Recommendations of the Paladin Board of Directors; Paladin’s Reasons for the Arrangement*,” “*THE ARRANGEMENT AND THE MERGER – Endo and Paladin Unaudited Prospective Financial Information*,” “*THE ARRANGEMENT AND THE MERGER – Opinion of Paladin’s Financial Advisor*” and “*INTERESTS OF EXPERTS*.” The foregoing consent applies only to the Circular to be filed with the securities commission or similar authority in each of the provinces of Canada as of the date hereof and not to any amendments or supplements thereto, and our opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose, nor is it to be filed with, included in or referred to in whole or in part in any other registration statement (including any subsequent amendments to the above-mentioned Circular), proxy statement or any other document, except in accordance with our prior written consent.

In giving our consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the U.S. Securities Act of 1933, as amended, or the rules and regulations of the U.S. Securities and Exchange Commission thereunder, nor do we admit that we are experts with respect to any part of such Registration Statement within the meaning of the term “experts” as used in the Securities Act of 1933, as amended, or the rules and regulations of the U.S. Securities and Exchange Commission thereunder.

(signed) CREDIT SUISSE SECURITIES (USA) LLC

New York, New York

January 21, 2014

APPENDIX “A”

PLAN OF ARRANGEMENT

FORM OF PLAN OF ARRANGEMENT UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions.

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the meanings hereinafter set forth:

“**Amalco**” means [●] Inc., a corporation amalgamated under the laws of Canada;

“**Amalco Common Shares**” means the common shares without par value in the capital of Amalco;

“**Arrangement**” means the arrangement of the Company under section 192 of the CBCA on the terms and subject to the conditions set forth in this Plan of Arrangement, subject to any amendments or variations thereto made in accordance with the Arrangement Agreement and Section 5.1 hereof or made at the discretion of the Court in the Final Order (with the consent of the Company and Parent, each acting reasonably);

“**Arrangement Agreement**” means the Arrangement Agreement dated as of November 5, 2013, among Parent, IrishCo, Interco, Endo U.S. Inc. (formerly named ULU Acquisition Corp.), RDS Merger Sub, LLC, CanCo 1 and the Company (including the Schedules attached thereto) as it may be amended, supplemented, restated or otherwise modified from time to time in accordance with its terms;

“**Arrangement Cash Consideration**” means, in respect of each Company Common Share subject to the Arrangement, \$1.16 in cash, plus an amount equal to the Company Exchange Ratio multiplied by the following amount (with the result converted into Canadian dollars at the Currency Exchange Rate), as applicable:

- (a) If the Endo VWAP Ratio is greater than or equal to 93%, nil; or
- (b) If the Endo VWAP Ratio is greater than or equal to 80% but less than 93%, then an amount equal to (x) the Endo Announcement Date VWAP multiplied by (y) the percentage obtained by subtracting the Endo VWAP Ratio from 93%; or
- (c) If the Endo VWAP Ratio is less than 80% but greater than or equal to 76%, then the aggregate of:
 - (i) an amount equal to (v) the Endo Announcement Date VWAP, multiplied by (w) 13%; plus
 - (ii) an amount equal to (x) the Endo Announcement Date VWAP, multiplied by (y) 50% multiplied by (z) the percentage obtained by subtracting the Endo VWAP Ratio from 80%; or
- (d) If the Endo VWAP Ratio is less than 76%, then the aggregate of:
 - (i) an amount equal to (v) the Endo Announcement Date VWAP multiplied by (w) 13%; plus
 - (ii) an amount equal to (x) the Endo Announcement Date VWAP multiplied by (y) 2%.

“**Arrangement Exchange Agent**” means Computershare Trust Company of Canada at its offices set out in the Letter of Transmittal;

“**Arrangement Resolution**” means the special resolution of the Company to be considered and, if thought fit, passed by the Company Shareholders at the Company Meeting to approve the Arrangement, to be substantially in the form and content of Schedule B to the Arrangement Agreement;

“Arrangement Stock Consideration” means, in respect of each Company Common Share subject to the Arrangement, 1.6331 IrishCo Shares;

“Arrangement Therapeutics Consideration” means, in respect of each Company Common Share subject to the Arrangement, one Therapeutics Common Share;

“Articles of Arrangement” means the articles of arrangement of the Company in respect of the Arrangement to be filed with the Director after the Final Order is made, which shall be in form and substance satisfactory to Parent and the Company, each acting reasonably;

“Business Day” means a day other than a Saturday, a Sunday or any other day on which major commercial banking institutions in Montreal, Québec, New York, New York or Dublin, Ireland are closed for business;

“Calculation Agent” means a nationally recognized independent investment banking firm jointly selected by Parent and the Company for the purpose of calculating the Endo Reference VWAP;

“CanCo 1” means 8312214 Canada Inc., a corporation incorporated under the laws of Canada;

“CanCo 1 Common Shares” means the common shares without par value in the capital of CanCo 1;

“CBCA” means the *Canada Business Corporations Act*;

“Certificate of Arrangement” means the certificate of arrangement certifying that the Arrangement has been effected, issued pursuant to subsection 192(7) of the CBCA after the Articles of Arrangement have been filed;

“Company” means Paladin Labs Inc., a corporation continued under the laws of Canada;

“Company Board of Directors” means the board of directors of the Company;

“Company Common Shares” means the common shares without par value in the capital of the Company;

“Company Common Share Closing Price” means the closing price of a Company Common Share on the TSX on the trading day immediately preceding the Effective Date;

“Company Exchange Ratio” means 1.6331 IrishCo Shares;

“Company Meeting” means the special meeting of the Company Shareholders, including any adjournment or postponement thereof, to be called and held in accordance with the Arrangement Agreement and the Interim Order for the purpose of considering and, if thought fit, approving the Arrangement Resolution;

“Company Shareholder” means a holder of one or more Company Common Shares;

“Company Share Purchase Plan” means the Employee Share Purchase Plan adopted by the Company Board of Directors on May 10, 2000, as amended from time to time;

“Court” means the Superior Court of Québec;

“CSPP Participant” means a participant under the Company Share Purchase Plan;

“Currency Exchange Rate” means the noon rate quoted by the Bank of Canada on the fourth Business Day prior to the Company Meeting for the conversion of United States dollars into Canadian dollars;

“Director” means the Director appointed pursuant to section 260 of the CBCA;

“Effective Date” means the date upon which all of the conditions to the completion of the Arrangement as set out in Article 8 of the Arrangement Agreement have been satisfied or waived (subject to applicable Laws) in accordance with the provisions of the Arrangement Agreement and all documents agreed to be delivered thereunder have been delivered to the satisfaction of the recipient, acting reasonably, and the Arrangement becomes effective in accordance with the CBCA and the Final Order;

“Effective Time” means 7:00 a.m. (Montreal Time) on the Effective Date, or such other time as the parties may agree to in writing before the Effective Date;

“Endo Announcement Date VWAP” means US\$44.4642;

“Endo Reference VWAP” means the volume weighted average price per share of the common stock of Parent for the regular trading session of NASDAQ as displayed under the heading “Bloomberg VWAP” on Bloomberg Page ENDP <equity> AQR for the ten trading days ending on the third trading day prior to the date of the Company Meeting (the **“Reference Valuation Period”**) in respect of the period from 9:30 a.m. to 4:00 p.m. (New York City time) for such Reference Valuation Period; or if such volume weighted average price is not available, as determined by the Calculation Agent, using a reasonable, good faith estimate of such price for such Reference Valuation Period;

“Endo VWAP Ratio” means (x) the Endo Reference VWAP divided by (y) the Endo Announcement Date VWAP, expressed as a percentage;

“Euro Purchaser” means the Person identified in writing by Parent to the Company prior to the Effective Time as the “Euro Purchaser”;

“Final Order” means the order of the Court in a form acceptable to the Company and Parent, each acting reasonably, approving the Arrangement under section 192(4) of the CBCA, as such order may be affirmed, amended, modified, supplemented or varied by the Court (with the consent of both the Company and Parent, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn, abandoned or denied, as affirmed or amended (provided that any such amendment is acceptable to both the Company and Parent, each acting reasonably) on appeal;

“Former Company Common Shareholders” means, at and following the Effective Time, the holders of Company Common Shares (other than Qualifying Holdcos), in each case immediately prior to the Effective Time;

“Former Optionholders” means, at and following the Effective Time, the Optionholders, in each case immediately prior to the Effective Time;

“Former Qualifying Holdco Shareholders” means, at and following the Effective Time, the holders of Qualifying Holdco Shares, in each case immediately prior to the Effective Time;

“Former Shareholders” means the Former Company Common Shareholders and the Former Qualifying Holdco Shareholders;

“Governmental Authority” means any international, multinational, federal, provincial, territorial, state, regional, municipal, local or other government or governmental body and any ministry, department, division, bureau, agent, official, agency, commission, board or authority of any government, governmental body, quasi-governmental or private body (including the TSX, the NASDAQ, or any other stock exchange), domestic or foreign, exercising any statutory, regulatory, expropriation or taxing authority under the authority of any of the foregoing and any domestic, foreign or international judicial, quasi-judicial or administrative court, tribunal, commission, board, panel, arbitrator or arbitral body acting under the authority of any of the foregoing;

“Holdco Agreements” means the share purchase agreement and other ancillary documentation containing such representations and warranties and covenants acceptable to Parent, acting reasonably, to be entered into by each Qualifying Holdco Shareholder, in a form consistent with Section 2.6 of the Arrangement Agreement;

“Holdco Alternative” means the alternative for a Qualifying Holdco Shareholder to elect to sell its Company Common Shares through its Qualifying Holdco in accordance with the terms and conditions of Section 2.6 of the Arrangement Agreement;

“Interco” means Endo Limited (formerly named Sportwell II Limited), a company incorporated in Ireland (Registered Number 534651) with registered address 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland;

“Interco 2” means a private limited company to be incorporated in Ireland prior to the Effective Time as a direct wholly-owned subsidiary of Interco;

“Interim Order” means the interim order of the Court in a form acceptable to the Company and Parent, each acting reasonably, to be issued following the application therefor contemplated by Section 2.1(d) of the Arrangement Agreement providing for, among other things, the calling and holding of the Company Meeting, as such order may be amended, modified, supplemented or varied by the Court with the consent of both the Company and Parent, each acting reasonably;

“In-the-Money Amount per Share” means, in respect of each Option, the amount by which (A) the Company Common Share Closing Price exceeds (B) the exercise price for each Common Share subject to the Option;

“IrishCo” means Endo International Limited (formerly named Sportwell Limited), a company incorporated in Ireland (Registered Number 534814), which will be renamed Endo International plc on or prior to the Effective Time, with registered address 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland;

“IrishCo CanCo 1 Common Share” has the meaning ascribed thereto in Section 3.1(f);

“IrishCo Euro Share” means an ordinary share, par value €1.00 per share, in the share capital of IrishCo;

“IrishCo Share” means an ordinary share, par value US\$0.0001 per share, in the share capital of IrishCo;

“Laws” means any and all laws, statutes, codes, ordinances (including zoning), approvals, decrees, rules, regulations, by-laws, notices, policies, protocols, guidelines, treaties or other requirements of any Governmental Authority having the force of law and any legal requirements arising under the common law or principles of law or equity;

“Letter of Transmittal” means the letter of transmittal for use by Company Shareholders or Optionholders or Qualifying Holdco Shareholders with respect to the Arrangement;

“NASDAQ” means the NASDAQ Global Select Market;

“Optionholder” means a holder of one or more Options;

“Options” means, at any time, rights to acquire Company Common Shares granted pursuant to the Stock Option Plan which are, at such time, outstanding and unexercised, whether or not vested;

“Option Consideration” means, in respect of each right to acquire one Company Common Share pursuant to an Option, the aggregate of:

- (a) one Therapeutics Common Share; plus
- (b) the Company Exchange Ratio multiplied by the quotient obtained by dividing:
 - (i) the In-the-Money Amount per Share in respect of that Option plus the Arrangement Cash Consideration; by
 - (ii) the Company Common Share Closing Price;

provided that if the In-the-Money Amount per Share is equal to or less than zero, the Option Consideration shall be nil;

“Parent” means Endo Health Solutions Inc., a corporation incorporated under the laws of Delaware;

“Person” includes an individual, sole proprietorship, corporation, body corporate, incorporated or unincorporated association, syndicate or organization, partnership, limited partnership, limited liability company, unlimited liability company, joint venture, joint stock company, trust, natural Person in his or her capacity as trustee, executor, administrator or other legal representative, a government or Governmental Authority or other entity, whether or not having legal status;

“Plan of Arrangement”, **“hereof”**, **“herein”**, **“hereto”** and like references mean and refer to this plan of arrangement;

“Qualifying Holdco” means a corporation that meets the conditions described in Section 2.6 of the Arrangement Agreement;

“Qualifying Holdco Cash Consideration” means, in respect of each Qualifying Holdco, an amount equal to the Arrangement Cash Consideration multiplied by the number of Company Common Shares held by such Qualifying Holdco;

“Qualifying Holdco Shareholder” means any Person that is a registered owner of Company Common Shares before the 10th Business Day prior to the Effective Time and is not a non-resident of Canada within the meaning of the Tax Act and that has validly elected the Holdco Alternative in accordance with Section 2.6 of the Arrangement Agreement;

“Qualifying Holdco Shares” means shares in the capital of a Qualifying Holdco;

“Qualifying Holdco Stock Consideration” means, in respect of each Qualifying Holdco, an amount equal to the Arrangement Stock Consideration multiplied by the number of Company Common Shares held by such Qualifying Holdco;

“Qualifying Holdco Therapeutics Consideration” means, in respect of each Qualifying Holdco, an amount equal to the Arrangement Therapeutics Consideration multiplied by the number of Company Common Shares held by such Qualifying Holdco;

“Selling Shareholders” means the Company Shareholders (other than Qualifying Holdcos) and the Qualifying Holdco Shareholders;

“Stock Option Plan” means the Company Stock Option Plan adopted by the Company Board of Directors on May 10, 2000, as amended from time to time;

“Tax Act” means the *Income Tax Act* (Canada);

“Therapeutics” means Knight Therapeutics Inc., a corporation organized under the laws of Canada;

“Therapeutics Common Shares” means the common shares without par value in the capital of Therapeutics;

“Total Company Common Share Consideration” means (i) the total fair market value of the Arrangement Stock Consideration and the Qualifying Holdco Stock Consideration delivered directly to the Selling Shareholders by IrishCo pursuant to Section 3.1(d) and Section 3.1(e); plus (ii) the total of the Arrangement Cash Consideration and Qualifying Holdco Cash Consideration paid directly to the Selling Shareholders by IrishCo pursuant to Section 3.1(d) and Section 3.1(e); plus (iii) the total fair market value of the Option Consideration that is comprised of IrishCo Shares and delivered directly to the Optionholders by IrishCo pursuant to Section 3.1(a); and

“TSX” means the Toronto Stock Exchange.

Words and phrases used herein that are defined in the Arrangement Agreement and not defined herein shall have the same meaning herein as in the Arrangement Agreement, unless the context otherwise requires. Words and phrases used herein that are defined in the CBCA and not defined herein or in the Arrangement Agreement shall have the same meaning herein as in the CBCA, unless the context otherwise requires.

1.2 Interpretation Not Affected By Headings, etc.

The division of this Plan of Arrangement into Articles, Sections and subsections and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan of Arrangement.

1.3 Article References

Unless the contrary intention appears, references in this Plan of Arrangement to an Article, Section or subsection by number or letter or both refer to the Article, Section or subsection respectively, bearing that designation in this Plan of Arrangement.

1.4 Number and Gender

In this Plan of Arrangement, unless the contrary intention appears, words importing the singular include the plural and vice versa, and words importing gender shall include all genders.

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the parties is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.

1.6 Statutory References

Unless otherwise indicated, references in this Plan of Arrangement to any statute include all regulations made pursuant to such statute and the provisions of any statute or regulation which amends, supplements or supersedes any such statute or regulation.

1.7 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

ARTICLE 2 ARRANGEMENT AGREEMENT

2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to, and is subject to the provisions of, the Arrangement Agreement. This Plan of Arrangement shall become effective at, and be binding at and after, the Effective Time on:

- a) Parent;
- b) the Company;
- c) IrishCo;
- d) Interco;
- e) Interco 2;
- f) CanCo 1;
- g) each Qualifying Holdco;

- h) Therapeutics;
- i) all persons who were immediately prior to the Effective Time holders or beneficial owners of Company Common Shares or Qualifying Holdco Shares;
- j) all persons who were immediately prior to the Effective Time holders or beneficial owners of Options; and
- k) all holders of any rights or entitlements under the Company Share Purchase Plan.

ARTICLE 3 ARRANGEMENT

3.1 Arrangement

Commencing at the Effective Time, the following events or transactions shall occur and shall be deemed to occur in the following sequence without any further act or formality:

- (a) notwithstanding any vesting or exercise provisions to which an Option might otherwise be subject (whether by contract, the conditions of a grant, applicable Laws or the terms of the Stock Option Plan):
 - (i) each right to acquire a Company Common Share pursuant to an Option that is issued and outstanding at the Effective Time shall, without any further action by or on behalf of any holder of such Option, be deemed to be fully vested and transferred and disposed of by the holder thereof to CanCo 1 (free and clear of all liens, claims and encumbrances) and cancelled in exchange for, subject to Section 3.4, (A) the delivery by Amalco (as successor to CanCo 1's obligations and liabilities) of the portion of the Option Consideration in respect of that right consisting of Therapeutics Common Shares pursuant to Section 3.1(l)(iii), and (B) the payment by IrishCo on behalf of CanCo 1 of the portion of the Option Consideration in respect of that right consisting of IrishCo Shares; and
 - (ii) with respect to each such Option, the holder thereof will cease to be the holder of such Option, will cease to have any rights as a holder in respect of such Option or under the Stock Option Plan, such holder's name will be removed from the register of Options, and all option agreements, grants and similar instruments relating thereto will be cancelled;
- (b) Notwithstanding any provisions of the Company Share Purchase Plan:
 - (i) all rights of each CSPP Participant under the Company Share Purchase Plan to contributions by the Company and to the acquisition of Company Common Shares under the Company Share Purchase Plan shall, without any further action by or on behalf of the CSPP Participant, be cancelled in exchange for a cash amount equal to 25% of the aggregate number of shares purchased on behalf of that CSPP Participant under the Company Share Purchase Plan with the CSPP Participant's contributions in respect of each of the 8 fiscal quarters ending immediately prior to the Effective Time (but excluding any Company Common Shares purchased with CSPP Participant's contributions after November 5, 2013 that exceeded his or her rate of contribution before that date), multiplied by the Company Common Share Closing Price; and
 - (ii) each CSPP Participant shall be entitled to the return of any contributions he or she made under the Company Share Purchase Plan after the fiscal quarter ending immediately before the Effective Time, without interest;
- (c) the Stock Option Plan and the Company Share Purchase Plan shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect;
- (d) each outstanding Company Common Share (other than those held by a Qualifying Holdco) shall be transferred and assigned to CanCo 1 in exchange for, subject to Section 3.4, (A) the payment by

IrishCo on behalf of CanCo 1 of the Arrangement Cash Consideration; (B) the delivery by IrishCo on behalf of CanCo 1 of the Arrangement Stock Consideration; and (C) the delivery by Amalco (as successor to CanCo 1's obligations and liabilities) of the Arrangement Therapeutics Consideration pursuant to Section 3.1(l)(i), and in respect of each Company Common Share so transferred and assigned,

- (i) the registered holder thereof shall cease to be the registered holder of such Company Common Share and the name of such registered holder shall be removed from the register of Company Shareholders as of the Effective Time; and
 - (ii) CanCo 1 shall be recorded as the registered holder of such Company Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (e) all of the outstanding Qualifying Holdco Shares of each Qualifying Holdco shall be transferred and assigned to CanCo 1 in exchange for, subject to Section 3.4, (A) the payment by IrishCo on behalf of CanCo 1 of the Qualifying Holdco Cash Consideration in respect of each such Qualifying Holdco; (B) the delivery by IrishCo on behalf of CanCo 1 of the Qualifying Holdco Stock Consideration in respect of each such Qualifying Holdco, and (C) the delivery by Amalco (as successor to CanCo 1's obligations and liabilities) of the Qualifying Holdco Therapeutics Consideration pursuant to Section 3.1(l)(ii), in respect of each such Qualifying Holdco, and in respect of each Qualifying Holdco Share so transferred and assigned,
 - (i) the registered holder thereof shall cease to be the registered holder of such Qualifying Holdco Share and the name of such registered holder shall be removed from the register of Qualifying Holdco Shareholders as of the Effective Time; and
 - (ii) CanCo 1 shall be recorded as the registered holder of such Qualifying Holdco Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (f) in consideration for (A) IrishCo delivering, on behalf of CanCo 1, the Arrangement Stock Consideration and the Qualifying Holdco Stock Consideration directly to the Selling Shareholders pursuant to Section 3.1(d) and Section 3.1(e), (B) IrishCo delivering on behalf of CanCo 1 the Option Consideration consisting of IrishCo Shares directly to the Optionholders pursuant to Section 3.1(a), and (C) IrishCo paying, on behalf of CanCo 1, the Arrangement Cash Consideration and the Qualifying Holdco Cash Consideration to the Selling Shareholders pursuant to Section 3.1(d) and Section 3.1(e), 35,000,000 CanCo 1 Common Shares (the "**IrishCo CanCo 1 Common Shares**") shall be issued to IrishCo, and, in respect thereof, there shall be added to the stated capital account maintained by CanCo 1 for CanCo 1 Common Shares an amount equal to the Total Company Common Share Consideration;
- (g) each IrishCo CanCo 1 Common Share acquired pursuant to Section 3.1(f) shall be contributed by IrishCo to the capital of Interco and, in respect of each IrishCo CanCo 1 Common Share so contributed, IrishCo shall cease to be the registered holder thereof and IrishCo's name shall be removed from the register of shareholders of CanCo 1, and Interco shall be recorded as the registered holder of such IrishCo CanCo 1 Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (h) each IrishCo CanCo 1 Common Share acquired pursuant to Section 3.1(g) shall be contributed by Interco to the capital of Interco 2 and, in respect of each IrishCo CanCo 1 Common Share so contributed, Interco shall cease to be the registered holder thereof and Interco's name shall be removed from the register of shareholders of CanCo 1, and Interco 2 shall be recorded as the registered holder of such IrishCo CanCo 1 Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);

- (i) the Company shall transfer one IrishCo Euro Share to Euro Purchaser, in exchange for €1, and in respect of such IrishCo Euro Share so delivered, the Company shall cease to be the registered holder thereof and the Company's name shall be removed from the register of shareholders of IrishCo, and the name of Euro Purchaser shall be recorded as the registered holder of such IrishCo Euro Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (j) CanCo 1 and each Qualifying Holdco shall amalgamate to form Amalco, as more fully described in Section 3.2;
- (k) all of the outstanding Therapeutics Common Shares shall be transferred and assigned to Amalco in exchange for the issuance by Amalco of a promissory note in the principal amount equal to the total fair market value of all of the outstanding Therapeutics Common Shares as determined in accordance with the Arrangement Agreement, and in respect of each Therapeutics Common Share so transferred and assigned, the Company shall cease to be the registered holder thereof and the Company's name shall be removed from the register of shareholders of Therapeutics, and Amalco shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others); and
- (l) concurrently:
 - (i) Amalco (as successor to CanCo 1's obligations and liabilities) shall deliver and each Former Company Common Shareholder shall acquire the Arrangement Therapeutics Consideration, and in respect of each Therapeutics Common Share so delivered, Amalco shall cease to be the registered holder thereof and Amalco's name shall be removed from the register of shareholders of Therapeutics, and the name of such Former Company Common Shareholder shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
 - (ii) Amalco (as successor to CanCo 1's obligations and liabilities) shall deliver and each Former Qualifying Holdco Shareholder shall acquire the Qualifying Holdco Therapeutics Consideration, and in respect of each Therapeutics Common Share so delivered, Amalco shall cease to be the registered holder thereof and Amalco's name shall be removed from the register of shareholders of Therapeutics, and the name of such Former Qualifying Holdco Shareholder shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
 - (iii) Amalco (as successor to CanCo 1's obligations and liabilities) shall deliver and each Former Optionholder shall acquire the portion of the Option Consideration consisting of Therapeutics Common Shares, and in respect of each Therapeutics Common Share so delivered, Amalco shall cease to be the registered holder thereof and Amalco's name shall be removed from the register of shareholders of Therapeutics, and the name of each Former Optionholder shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others); and
 - (iv) unless Therapeutics determines otherwise, Therapeutics shall file an election with the Canada Revenue Agency to be a public corporation for the purposes of the Tax Act, such election to be effective concurrently with the acquisition of the Therapeutics Common Shares pursuant to this Section 3.1(l).

3.2 Amalgamation of CanCo 1 and each Qualifying Holdco

- (a) Pursuant to Section 3.1(j), CanCo 1 and each Qualifying Holdco shall amalgamate to form Amalco under the CBCA, with the effect described below, and, unless and until otherwise determined in the manner required by Law, the following shall apply:

- (i) **Name.** The name of Amalco shall be [●] Inc.
- (ii) **Registered Office.** The registered office of Amalco shall be located in Saint-Laurent in the Province of Québec. The address of the registered office shall be 100 Alexis-Nihon Blvd., Suite 600, Saint-Laurent, Québec, H4M 2P2.
- (iii) **Business and Powers.** There shall be no restrictions on the business that Amalco may carry on or on the powers it may exercise.
- (iv) **Authorized Share Capital.** Amalco shall be authorized to issue an unlimited number of common shares designated as “Common Shares”.
- (v) **Share Provisions.** The Amalco Common Shares shall have the same terms as the CanCo 1 Common Shares.
- (vi) **Shares.** Each CanCo 1 Common Share shall be converted into one fully paid and non-assessable Amalco Common Share and the shares so converted shall be added to the register of shareholders of Amalco. Each Qualifying Holdco Share shall be cancelled without any repayment of capital.
- (vii) **Restrictions on Transfer.** The transfer of Amalco Common Shares shall be restricted and no holder of Amalco Common Shares shall transfer any such share without either: (i) the approval of the directors of Amalco passed at a meeting of the board of directors or by an instrument or instruments in writing signed by a majority of the directors; or (ii) the approval of the holders of at least a majority of the shares of Amalco entitling the holders thereof to vote in all circumstances (other than holders of shares who are entitled to vote separately as a class) for the time being outstanding, expressed by a resolution passed at a meeting of the holders of such shares or by an instrument or instruments in writing signed by the holders of a majority of such shares.
- (viii) **Number of Directors.** The number of directors of Amalco shall not be less than 1 and not more than 3, and otherwise as the shareholders of Amalco may from time to time determine by special resolution.
- (ix) **Initial Directors.** The initial directors of Amalco shall be:

Name	Address	Canadian Resident
Suketu Upadhyay	1400 Atwater Drive, Malvern, Pennsylvania, 19355, USA	No
Robert Cobuzzi	1400 Atwater Drive, Malvern, Pennsylvania, 19355, USA	No
Mark A. Beaudet	100 Alexis-Nihon Blvd., Suite 600, Saint-Laurent, Québec H4M 2P2, Canada	Yes

- (x) **By-laws.** The by-laws of Amalco shall be the same as the by-laws of CanCo 1.
- (xi) **First Annual General Meeting.** The first annual general meeting of Amalco shall be held within 18 months from the Effective Date.

- (xii) **Stated Capital.** The aggregate of the stated capital of the issued and outstanding Amalco Common Shares shall be equal to the aggregate of the stated capital of the issued and outstanding CanCo 1 Common Shares immediately before the amalgamation described in Section 3.1(j).
- (xiii) **Effect of Amalgamation.** Upon the amalgamation of CanCo 1 and each Qualifying Holdco to form Amalco becoming effective pursuant to Section 3.1(j):
 - (A) the property of each of CanCo 1 and each Qualifying Holdco, including, for greater certainty, any and all of the Therapeutics Common Shares, shall continue to be the property of Amalco;
 - (B) Amalco shall continue to be liable for the obligations of CanCo 1 and each Qualifying Holdco;
 - (C) all existing causes of action, claims or liabilities to prosecution with respect of CanCo 1 and each Qualifying Holdco shall be unaffected;
 - (D) all civil, criminal or administrative actions or proceedings pending by or against CanCo 1 and each Qualifying Holdco may be continued to be prosecuted by or against Amalco;
 - (E) all convictions against, or rulings, orders or judgments in favour of or against CanCo 1 and each Qualifying Holdco may be enforced by or against Amalco; and
 - (F) the Articles of Arrangement shall be deemed to be the articles of incorporation of Amalco and the Certificate of Arrangement shall be deemed to be the certificate of incorporation of Amalco.

3.3 Post-Effective Time Procedures

At or prior to the Effective Time, IrishCo shall (i) deposit or cause to be deposited with the Arrangement Exchange Agent, for the benefit of and to be held on behalf of the Selling Shareholders, the aggregate amount of cash that such Selling Shareholders are entitled to receive under the Arrangement; (ii) deposit or cause to be deposited with the Arrangement Exchange Agent, for the benefit of and to be held on behalf of the Selling Shareholders and the Optionholders, certificates representing the IrishCo Shares that such Selling Shareholders and such Optionholders are entitled to receive under the Arrangement; and (iii) deposit or cause to be deposited with the Arrangement Exchange Agent, for the benefit of and to be held on behalf of the Selling Shareholders and the Optionholders, certificates representing the Therapeutics Common Shares that such Selling Shareholders and such Optionholders are entitled to receive under the Arrangement, which certificates and cash shall be held by the Arrangement Exchange Agent as agent and nominee for the Former Shareholders and the Former Optionholders for delivery to the Former Shareholders and the Former Optionholders in accordance with the provisions of Article 4 hereof.

3.4 Fractional IrishCo Shares and Rounding of Cash Consideration

- (a) No certificates representing fractional IrishCo Shares shall be issued to the Former Shareholders or the Former Optionholders upon the surrender for exchange of certificates pursuant to Section 4.1 or Section 4.2 and no dividend, stock split or other change in the capital structure of IrishCo shall relate to any such fractional security and such fractional interests shall not entitle the holder thereof to exercise any rights as a security holder of IrishCo. In lieu of any such fractional shares, each Former Shareholder and each Former Optionholder otherwise entitled to a fractional interest in an IrishCo Share will receive a cash payment equal to such Former Shareholder's or such Former Optionholder's pro rata portion of the net proceeds after expenses received by the Arrangement Exchange Agent upon the sale of whole shares representing an accumulation of all fractional interests in IrishCo Shares to

which all such Former Shareholders and Former Optionholders would otherwise be entitled. The Arrangement Exchange Agent will sell such IrishCo Shares by private sale (including by way of sale through the facilities of any stock exchange upon which the IrishCo Shares are then listed) as soon as reasonably practicable following the Effective Date. The aggregate net proceeds after expenses of such sale will be distributed by the Arrangement Exchange Agent, pro rata in relation to the respective fractions, among the Former Shareholders and the Former Optionholders otherwise entitled to receive fractional interests in IrishCo Shares.

- (b) If the aggregate cash amount which a Selling Shareholder is entitled to receive pursuant to Section 3.1(d) or Section 3.1(e) would otherwise include a fraction of \$0.01, then the aggregate cash amount to which such Selling Shareholder shall be entitled to receive shall be rounded up to the nearest whole \$0.01.

ARTICLE 4

DELIVERY OF CONSIDERATION

4.1 Delivery of Share Consideration and Cash Consideration

- (a) Upon surrender to the Arrangement Exchange Agent for cancellation of a certificate which immediately prior to the Effective Time represented one or more outstanding Company Common Shares, Qualifying Holdco Shares or Options, together with a duly completed and executed Letter of Transmittal, and such additional documents and instruments as the Arrangement Exchange Agent may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and the Arrangement Exchange Agent shall deliver to such holder following the Effective Time (in each case, less any amounts withheld pursuant to Section 4.4 hereof), (i) the number of IrishCo Shares to which such holder is entitled to receive under the Arrangement, in the form (electronic or certificate) and issued in the name set forth in the duly completed and executed Letter of Transmittal; (ii) a cheque for the cash consideration to which such holder is entitled to under the Arrangement; and (iii) the number of Therapeutics Common Shares to which such holder is entitled to receive under the Arrangement, in the form (electronic or certificate) and issued in the name set forth in the duly completed and executed Letter of Transmittal. Notwithstanding the foregoing, failure to deliver the certificate representing one or more outstanding Company Common Shares, Qualifying Holdco Shares or Options, together with the duly completed and executed Letter of Transmittal, and such additional documents and instruments as the Arrangement Exchange Agent may reasonably require, by 5:00 p.m. (Montréal time) on February 24, 2014 will result in the Arrangement Exchange Agent delivering to such holder following the Effective Time, but subject to delivery of the certificate representing one or more outstanding Company Common Shares, Qualifying Holdco Shares or Options, together with the duly completed and executed Letter of Transmittal, and such additional documents and instruments as the Arrangement Exchange Agent may reasonably require, within the time period set forth in Section 4.5 (in each case, less any amounts withheld pursuant to Section 4.4 hereof), (i) a certificate representing the number of IrishCo Shares to which such holder is entitled to receive under the Arrangement; (ii) a cheque for the cash consideration to which such holder is entitled to under the Arrangement; and (iii) a certificate representing the number of Therapeutics Common Shares to which such holder is entitled to receive under the Arrangement with each such certificate being registered in the same name as the Company Common Shares, the Qualifying Holdco Shares or Options being exchanged.
- (b) After the Effective Time and until surrendered for cancellation as contemplated by Section 4.1(a) hereof, each certificate which immediately prior to the Effective Time represented one or more Company Common Shares, Qualifying Holdco Shares or Options shall be deemed at all times to represent only the right to receive in exchange therefor the entitlements which the holder of such certificate is entitled to receive in accordance with Section 4.1(a) hereof.

- (c) Notwithstanding anything to the contrary herein, the only property delivered to or acquired by a Former Shareholder or a Former Optionholder herein is that which is stipulated to have been delivered to or acquired by such person in Section 3.1.

4.2 Lost Certificates

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Company Common Shares that were exchanged pursuant to Section 3.1(d) or that were held by a Qualifying Holdco, the Qualifying Holdco Shares of which were exchanged pursuant to Section 3.1(e), shall have been lost, stolen or destroyed, then upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Arrangement Exchange Agent will deliver in exchange for such lost, stolen or destroyed certificate, the cash amount and the IrishCo Shares that such Person is entitled to receive pursuant to Section 3.1(d) or Section 3.1(e) (and any dividends or distributions with respect thereto pursuant to Section 4.3) and the Therapeutics Common Shares that such Person is entitled to receive pursuant to Section 3.1(l)(i) or Section 3.1(l)(ii) (and any dividends or distributions with respect thereto pursuant to Section 4.3), in accordance with such holder's Letter of Transmittal. When authorizing the delivery of such consideration in exchange for any lost, stolen or destroyed certificate, the Person to whom the consideration is being delivered shall, as a condition precedent to the delivery of such consideration, give a bond satisfactory to IrishCo and the Arrangement Exchange Agent in such sum as IrishCo and the Arrangement Exchange Agent may direct or otherwise indemnify IrishCo, Amalco and the Arrangement Exchange Agent in a manner satisfactory to IrishCo and the Arrangement Exchange Agent against any claim that may be made against IrishCo, Amalco or the Arrangement Exchange Agent with respect to the certificate alleged to have been lost, stolen or destroyed.

4.3 Distributions with Respect to Unsurrendered Certificates

No dividend or other distribution declared or made after the Effective Time with respect to IrishCo Shares or Therapeutics Common Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered certificate which, immediately prior to the Effective Time, represented outstanding Company Common Shares or Qualifying Holdco Shares or Options unless and until the holder of such certificate shall have complied with the provisions of Section 4.1 or Section 4.2 hereof. Subject to applicable law and to Section 4.4 hereof, at the time of such compliance, a Former Shareholder or a Former Optionholder entitled to receive IrishCo Shares or Therapeutics Common Shares shall receive, in addition to the delivery of a certificate representing the IrishCo Shares or Therapeutics Common Shares, a cheque for the amount of the dividend or other distribution, if any, with a record date after the Effective Time, without interest, paid with respect to such IrishCo Shares or Therapeutics Common Shares, respectively, prior to such delivery.

4.4 Withholding Rights

IrishCo, CanCo 1, Amalco, the Company and the Arrangement Exchange Agent shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Company Common Shares, Qualifying Holdco Shares or Options or any CSPP Participant, such amounts as IrishCo, CanCo 1, Amalco, the Company or the Arrangement Exchange Agent are required to deduct and withhold with respect to such payment under the Tax Act, the United States *Internal Revenue Code of 1986* or any provision of provincial, state, local or foreign tax law, in each case as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Company Common Shares, Qualifying Holdco Shares or Options or such CSPP Participant in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to such holder or a CSPP Participant exceeds the cash component of the consideration otherwise payable to the holder or such CSPP Participant, IrishCo, CanCo 1, Amalco, the Company and the Arrangement Exchange Agent are hereby authorized to sell or otherwise dispose of such portion of the consideration otherwise payable to the holder or such CSPP Participant as is necessary to provide sufficient funds to IrishCo, CanCo 1, Amalco, the Company or

the Arrangement Exchange Agent, as the case may be, to enable it to comply with such deduction or withholding requirement and IrishCo, CanCo 1, Amalco, the Company or the Arrangement Exchange Agent shall notify the holder or such CSPP Participant and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority, and shall remit to such holder or such CSPP Participant any unapplied balance of the proceeds of such sale.

4.5 Extinction of Rights

Any certificate which immediately prior to the Effective Time represented outstanding Company Common Shares that are exchanged pursuant to Section 3.1(d), outstanding Qualifying Holdco Shares that are exchanged pursuant to Section 3.1(e) or outstanding Options that are exchanged pursuant to Section 3.1(a) and not deposited with all other instruments required by Section 4.1(a) or Section 4.2 on or prior to the second anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature as a shareholder of IrishCo or Therapeutics. On such date, the cash, IrishCo Shares (or cash in lieu of fractional interests therein) and Therapeutics Common Shares to which the former registered holder of the certificate referred to in the preceding sentence was ultimately entitled shall be deemed to have been surrendered to IrishCo in accordance with applicable Laws, together with all entitlements to dividends, distributions and interest thereon held for such former registered holder.

4.6 No Liens

Any exchange or transfer of securities pursuant to this Plan of Arrangement shall be free and clear of any liens, charges, security interests, encumbrances, mortgages, hypothecs, restrictions, adverse claims or other claims of third parties of any kind.

4.7 Paramourty

From and after the Effective Time: (i) this Plan of Arrangement shall take precedence and priority over any and all Company Common Shares, Qualifying Holdco Shares and Options issued prior to the Effective Time; (ii) the rights and obligations of the registered holders of Company Common Shares and Qualifying Holdco Shares, the Optionholders, the Company, IrishCo, Interco, Interco 2, Parent, Therapeutics, CanCo 1, each Qualifying Holdco, Amalco, the Arrangement Exchange Agent and any transfer agent or other depository therefor in relation thereto, shall be solely as provided for in this Plan of Arrangement; and (iii) all actions, causes of action, claims or proceedings (actual or contingent and whether or not previously asserted) based on or in any way relating to any Company Common Shares, Qualifying Holdco Shares or Options shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

4.8 Illegality of Delivery of IrishCo Shares or Therapeutics Common Shares

Notwithstanding the foregoing, if it appears to Amalco or IrishCo that it would be contrary to applicable Laws to deliver, or cause to be delivered, IrishCo Shares or Therapeutics Common Shares pursuant to the Arrangement to a Selling Shareholder or Optionholder that is not a resident of Canada, the IrishCo Shares and the Therapeutics Common Shares that otherwise would be issued to that Person will be issued to the Arrangement Exchange Agent for sale by Arrangement Exchange Agent on behalf of that Person. The IrishCo Shares and the Therapeutics Common Shares so issued to the Arrangement Exchange Agent will be pooled and sold as soon as practicable after the Effective Date, on such dates and at such prices as the Arrangement Exchange Agent determines in its sole discretion. The Arrangement Exchange Agent shall not be obligated to seek or obtain a minimum price for any of the IrishCo Shares and the Therapeutics Common Shares sold by it. Each such Person will receive a pro rata share of the cash proceeds from the sale of the IrishCo Shares or Therapeutics Common Shares sold by the Arrangement Exchange Agent (less commissions, other reasonable expenses incurred in connection with the sale of the IrishCo Shares and the Therapeutics Common Shares and any amount withheld in respect of taxes) in lieu of the IrishCo Shares and the Therapeutics Common Shares themselves. The net

proceeds will be remitted in the same manner as other payments pursuant to this Article 4. None of IrishCo, Amalco or the Arrangement Exchange Agent will be liable for any loss arising out of any such sales.

ARTICLE 5 AMENDMENTS

5.1 Amendments to Plan of Arrangement

- (a) Parent and the Company may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment, modification and/or supplement must: (i) be set out in writing; (ii) be approved by Parent and the Company; (iii) be filed with the Court and, if made following the Company Meeting, approved by the Court; and (iv) be communicated to Company Shareholders if and as required by the Court.
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Company at any time prior to the Company Meeting (provided that Parent shall have consented thereto in writing) with or without any other prior notice or communication, and if so proposed and accepted by the Persons voting at the Company Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement that is approved or directed by the Court following the Company Meeting shall be effective only if: (i) it is consented to in writing by each of Parent and the Company (in each case, acting reasonably); and (ii) if required by the Court, it is consented to by holders of the Company Common Shares, voting in the manner directed by the Court.
- (d) Any amendment, modification or supplement to this Plan of Arrangement may be made following the Effective Date unilaterally by Amalco, provided that it concerns a matter which, in the reasonable opinion of Amalco, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the economic interest of any Former Shareholder or any Former Optionholder and such amendments, modifications or supplements to this Plan Arrangement need not be filed with Court or communicated to Selling Shareholders or any Former Optionholder.
- (e) CanCo 1 may amend, modify and/or supplement Article 3 of this Plan of Arrangement at any time and from time to time prior to the Effective Date, including to give effect to any amendments to the Holdco Alternative and Section 2.6 of the Arrangement Agreement, provided that each such amendment, modification and/or supplement does not and will not have an adverse impact on any holder of Company Common Shares or Options.

ARTICLE 6 FURTHER ASSURANCES

6.1 Further Assurances

Notwithstanding that the transactions and events set out herein shall occur and shall be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by either of them in order to further document or evidence any of the transactions or events set out herein.

APPENDIX “B”

ARRANGEMENT RESOLUTION

“BE IT RESOLVED THAT:

1. The arrangement (the “**Arrangement**”) under section 192 of the Canada Business Corporations Act (the “**CBCA**”) of Paladin Labs Inc. (the “**Company**”), as more particularly described and set forth in the management proxy circular (the “**Circular**”) dated January 21, 2014 of the Company accompanying the notice of this meeting and as it may be amended, modified or supplemented in accordance with the arrangement agreement dated November 5, 2013 between the Company, Endo Health Solutions, Inc., Sportwell Limited, plc, Sportwell II Limited, plc, ULU Acquisition Corp., RDS Merger Sub, LLC and 8312214 Canada Inc. (as it may be amended, modified or supplemented, the “**Arrangement Agreement**”), is hereby authorized, approved and adopted.
2. The plan of arrangement of the Company, as it may be amended, modified or supplemented in accordance with its terms and the Arrangement Agreement (the “**Plan of Arrangement**”), the full text of which is set out in Appendix A to the Circular, is hereby authorized, approved and adopted.
3. The (i) Arrangement Agreement and transactions contemplated thereby, (ii) actions of the directors of the Company in approving the Arrangement Agreement, and (iii) actions of the directors and officers of the Company in executing and delivering the Arrangement Agreement, and any amendments, modifications or supplements thereto, are hereby ratified, confirmed, authorized and approved.
4. The Company is hereby authorized to apply for a final order from the Superior Court of Québec (the “**Court**”) to approve the Arrangement on the terms set forth in the Arrangement Agreement and the Plan of Arrangement.
5. Notwithstanding that this resolution has been passed by the holders of common shares of the Company (the “**Shareholders**”) or that the Arrangement has been approved by the Court, the directors of the Company are hereby authorized and empowered to, without notice to or approval of the Shareholders: (i) amend, modify or supplement the Arrangement Agreement or the Plan of Arrangement, to the extent permitted thereby; and (ii) subject to the terms of the Arrangement Agreement, not proceed with the Arrangement and related transactions.
6. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute, under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered, for filing with the Director under the CBCA articles of arrangement and such other documents as are necessary or desirable to give effect to the Arrangement and the Plan of Arrangement and transactions contemplated thereby in accordance with the Arrangement Agreement, such determination to be conclusively evidenced by the execution and delivery of such articles of arrangement and any such other documents.
7. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute or cause to be executed, under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered all such other documents and instruments and to perform or cause to be performed all such other acts and things as such person determines may be necessary or desirable to give full effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or instrument or the doing of any such act or thing.”

APPENDIX “C”
ARRANGEMENT AGREEMENT

ARRANGEMENT AGREEMENT

AMONG

ENDO HEALTH SOLUTIONS INC.,

SPORTWELL LIMITED,

SPORTWELL II LIMITED,

ULU ACQUISITION CORP.,

RDS MERGER SUB, LLC,

8312214 CANADA INC.

AND

PALADIN LABS INC.

November 5, 2013

TABLE OF CONTENTS

ARTICLE 1 INTERPRETATION.....	6
1.1 Definitions.....	6
1.2 Currency.....	25
1.3 Interpretation Not Affected by Headings.....	25
1.4 Knowledge and Disclosure	26
1.5 Extended Meanings, Etc.	26
1.6 Date of any Action	26
1.7 Schedules	26
ARTICLE 2 THE ARRANGEMENT AND MERGER.....	27
2.1 The Arrangement	27
2.2 The Merger.....	30
2.3 The Closing.....	37
2.4 Preparation of Joint Proxy Statement/Circular and Form S-4	37
2.5 Shareholder Meetings.	39
2.6 Holdco Alternative.....	41
ARTICLE 3 REPRESENTATIONS AND WARRANTIES.....	44
3.1 Representations and Warranties of the Company	44
3.2 Representations and Warranties of Parent	71
3.3 Representations and Warranties of IrishCo	78
3.4 Representations and Warranties of Interco	79
3.5 Survival of Representations and Warranties.....	79
ARTICLE 4 COVENANTS REGARDING THE CONDUCT OF BUSINESS.....	80
4.1 Covenants of the Company.....	80
4.2 Covenants of Parent	84
ARTICLE 5 ADDITIONAL COVENANTS	85
5.1 Access to Information	85
5.2 Consents and Approvals	85
5.3 Covenants of the Company Regarding the Arrangement and the Merger.....	88
5.4 Covenants of the Parent Regarding the Arrangement and the Merger	88
5.5 Parent Guarantee.....	89
5.6 Employee Matters	89
5.7 Indemnification and Insurance.....	90
5.8 Rule 16b-3 Actions	91
5.9 Stock Exchange Listings.....	92
5.10 Takeover Statutes.....	92
5.11 Creation of Distributable Reserves.	92

5.12	IrishCo and InterCo Resolutions.....	94
5.13	Financing Cooperation.....	94
5.14	Board of Directors.....	96
5.15	Separation.	96
5.16	IrishCo Euro Shares	97
5.17	Whitewash Requirements	97
ARTICLE 6 ACQUISITION PROPOSALS.....		97
6.1	Company Non-Solicitation	97
6.2	Parent Right to Match	99
6.3	Parent Non-Solicitation.....	102
6.4	Parent Third Party Proposals	103
ARTICLE 7 TERMINATION.....		105
7.1	Termination.....	105
7.2	Termination Fee	107
7.3	Void upon Termination.....	108
ARTICLE 8 CONDITIONS PRECEDENT		109
8.1	Mutual Conditions Precedent.....	109
8.2	Additional Conditions Precedent to the Obligations of the Company.....	110
8.3	Additional Conditions Precedent to the Obligations of Parent	110
8.4	Conditions Precedent to the Merger	111
ARTICLE 9 GENERAL		111
9.1	Notices	111
9.2	Expenses	113
9.3	No Assignment.....	113
9.4	Benefit of Agreement.....	113
9.5	Public Announcements	113
9.6	Governing Law; Attornment; Service of Process; Waiver of Jury Trial	114
9.7	Entire Agreement	115
9.8	Third Party Beneficiaries	115
9.9	Amendment.....	115
9.10	Waiver and Modifications.....	116
9.11	Severability	116
9.12	Further Assurances.....	116
9.13	Injunctive Relief.....	116
9.14	No Recourse.....	117
9.15	Counterparts.....	117
SCHEDULE A FORM OF PLAN OF ARRANGEMENT		A-1
SCHEDULE B ARRANGEMENT RESOLUTION		B-1
SCHEDULE C REQUIRED REGULATORY APPROVALS		C-1

SCHEDULE D FORM OF VOTING AGREEMENT	D-1
SCHEDULE E BUSINESS SEPARATION TERM SHEET	E-1

ARRANGEMENT AGREEMENT

THIS AGREEMENT is made as of November 5, 2013

AMONG

ENDO HEALTH SOLUTIONS INC., a corporation incorporated under the laws of Delaware, (“**Parent**”)

-and-

SPORTWELL LIMITED, a company incorporated in Ireland (Registered Number 534814) with registered address 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland, (“**IrishCo**”)

-and-

SPORTWELL II LIMITED, a company incorporated in Ireland (Registered Number 534651) with registered address 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland, (“**Interco**”)

-and-

ULU ACQUISITION CORP., a corporation incorporated under the laws of Delaware (“**DE INC.**”)

-and-

RDS MERGER SUB, LLC, a limited liability company organized under the laws of Delaware (“**Merger Sub**”)

-and-

8312214 CANADA INC., a corporation organized under the laws of Canada (“**CanCo 1**” and, together with Parent, IrishCo, Interco, DE INC. and Merger Sub, the “**Parent Parties**”)

-and-

PALADIN LABS INC., a corporation continued under the laws of Canada (the “**Company**”)

WHEREAS, IrishCo proposes, upon the terms and subject to the conditions set forth in this Agreement, to cause CanCo 1 to offer to and to acquire and CanCo 1 hereby offers to acquire all of the outstanding shares of the Company pursuant to and in the manner provided for by the Arrangement and Parent proposes, upon the terms and subject to the conditions set forth in this Agreement, to cause Merger Sub to merge with and into Parent, with Parent being the surviving corporation (the “**Merger**”);

WHEREAS, the Company Board of Directors has unanimously determined that the Arrangement is fair, from a financial point of view, to the Company Shareholders and that it is in

the best interests of the Company to enter into this Agreement and has unanimously resolved, subject to the terms of this Agreement, to recommend that the Company Shareholders vote in favour of the Arrangement Resolution;

WHEREAS, further to CanCo 1's offer, the Parent Board of Directors has unanimously (i) approved and declared advisable this Agreement and the transactions contemplated by this Agreement, including the Merger, upon the terms and subject to the conditions set forth in this Agreement, (ii) determined that this Agreement and such transactions are fair to, and in the best interests of, Parent and the Parent Shareholders and (iii) resolved to recommend that the Parent Shareholders adopt this Agreement; and

WHEREAS, further to CanCo 1's offer, Parent, CanCo 1 and certain Company Shareholders (the "**Specified Shareholders**") intend to enter into Voting Agreements, in the form set forth on Schedule D, concurrently with the execution of this Agreement, providing that, among other things, the Specified Shareholders will support the Arrangement and the other transactions contemplated by this Agreement, including by voting in favour of the Arrangement Resolution (each, a "**Voting Agreement**").

NOW THEREFORE in consideration of the premises and the covenants and agreements contained herein, the Parties agree as follows:

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Agreement, unless otherwise defined or expressly stated herein or something in the subject matter or the context is clearly inconsistent therewith:

"**1933 Securities Act**" means the United States Securities Act of 1933;

"**1934 Exchange Act**" means the United States Securities Exchange Act of 1934;

"**Advance Ruling Certificate**" means an advance ruling certificate issued by the Commissioner pursuant to section 102 of the Competition Act in respect of the transactions contemplated by this Agreement;

"**Affiliate**" shall have the meanings ascribed to it under the 1933 Securities Act;

"**Agreement**" means this Arrangement Agreement (including the Schedules attached hereto) as the same may be amended, supplemented, restated or otherwise modified from time to time in accordance with the terms hereof;

"**Amalco**" shall have the meaning ascribed to it in the Plan of Arrangement;

"**Arrangement**" means an arrangement of the Company under section 192 of the CBCA on the terms and subject to the conditions set forth in the Plan of Arrangement as the same may

be amended, supplemented, restated or otherwise modified from time to time in accordance with its terms and the terms of this Agreement;

“Arrangement Cash Consideration” shall have the meaning ascribed to it in the Plan of Arrangement;

“Arrangement Exchange Agent” means the bank or trust company, reasonably acceptable to the Company, appointed by Parent, prior to the Effective Time, to act as exchange agent for the payment and delivery of the Arrangement Cash Consideration and the Arrangement Stock Consideration;

“Arrangement Stock Consideration” means, in respect of each Company Common Share subject to the Arrangement, 1.6331 IrishCo Shares to be issued to the applicable Company Shareholder in accordance with the Plan of Arrangement;

“Arrangement Therapeutics Consideration” means, in respect of each Company Common Share subject to the Arrangement, one Therapeutics Common Share, to be issued to the applicable Company Shareholder in accordance with the Plan of Arrangement;

“Arrangement Resolution” means the special resolution of the Company to be considered and, if thought fit, passed by the Company Shareholders at the Company Meeting to approve the Arrangement, to be substantially in the form and content of Schedule B hereto;

“Articles of Arrangement” means the articles of arrangement of the Company in respect of the Arrangement to be filed with the Director after the Final Order is made, which shall be in form and substance satisfactory to Parent and the Company, each acting reasonably;

“Business Day” means a day other than a Saturday, a Sunday or any other day on which major commercial banking institutions in Montreal, Québec, New York, New York or Dublin, Ireland are closed for business;

“Canadian Securities Laws” means the Securities Act and all other applicable Canadian provincial securities Laws and, in each case, the rules, regulations and published policies made thereunder;

“CBCA” means the *Canada Business Corporations Act* and all regulations made thereunder;

“Certificate” shall have the meaning ascribed to it in Section 2.2(e)(iii);

“Certificate of Merger” shall have the meaning ascribed to it in Section 2.2(b)(i);

“CFDA” shall have the meaning ascribed to it in Section 3.1(u)(i);

“Chancery Court” shall have the meaning ascribed to it in Section 9.6(a);

“Circular” means the notice of meeting and accompanying information circular (including all schedules, appendices and exhibits thereto) to be sent to the Company

Shareholders in connection with the Company Meeting, including any amendments or supplements thereto;

“Closing” shall have the meaning ascribed to it in Section 2.3(a);

“Closing Date” shall have the meaning ascribed to it in Section 2.3(a);

“Code” means the United States Internal Revenue Code of 1986;

“Commissioner” means the Commissioner of Competition appointed under subsection 7(1) of the Competition Act and includes any person designated by the Commissioner to act on his behalf;

“Company Acquisition Agreement” shall have the meaning ascribed to it in Section 6.1(a)(iv);

“Company Acquisition Proposal” means, at any time, whether or not in writing, any proposal, offer, inquiry or indication of interest (including any modification or proposed modification thereto), whether or not in writing, with respect to (a) any acquisition by any Person or group of Persons of the Company’s voting equity securities (or securities convertible into or exchangeable or exercisable for the Company’s voting equity securities) representing 20% or more of the Company’s voting equity securities then outstanding (assuming, if applicable, the conversion, exchange or exercise of such securities convertible into or exchangeable or exercisable for such voting equity securities) or (b) any acquisition by any Person or group of Persons of any assets of the Company and/or one or more of its Subsidiaries (including equity interests of any Subsidiary of the Company) individually or in the aggregate contributing 20% or more of the consolidated revenue or representing 20% or more of the assets of the Company and its Subsidiaries taken as a whole (in each case based on the consolidated financial statements of the Company most recently filed prior to such time as part of the Company Public Disclosure Record) (or any lease, license, royalty, long-term supply agreement or other arrangement having a similar economic effect), whether in a single transaction or a series of related transactions, in each case, whether by plan of arrangement, amalgamation, merger, consolidation, recapitalization, liquidation, dissolution or other business combination, sale of assets, joint venture, take-over bid, tender offer, share exchange, exchange offer or otherwise, in each case excluding the Arrangement and the other transactions contemplated by this Agreement and any transaction between only the Company and/or one or more of its wholly-owned Subsidiaries;

“Company Annual Financial Statements” means the audited consolidated financial statements of the Company for the years ending December 31, 2012 and 2011, together with the notes thereto;

“Company Board of Directors” means the board of directors of the Company;

“Company Change of Recommendation” means any of the following: (A) the Company Board of Directors fails to publicly make the Company Recommendation or withholds, withdraws, modifies, changes or qualifies in a manner adverse to Parent its approval of the Arrangement or the Company Recommendation (it being understood that publicly taking a neutral position or no position with respect to any Company Acquisition Proposal shall be

considered a modification, in a manner adverse to Parent, of the Company Recommendation), (B) Parent requests in writing that the Company Board of Directors reaffirm the Company Recommendation or publicly reject any Company Acquisition Proposal and the Company Board of Directors, in each case, shall not have done so within three Business Days following receipt of such request, (C) the Company Board of Directors accepts, approves, endorses or recommends any Company Acquisition Proposal, (D) the Company enters into a Company Acquisition Agreement related to, or that is intended to or is reasonably expected to lead to, any Company Acquisition Proposal or (E) the Company or the Company Board of Directors publicly proposes or announces its intention to do any of the foregoing;

“Company Common Shares” means the common shares without par value in the capital of the Company;

“Company Data Room” means the Company’s electronic data room posted on <https://datasite.merrillcorp.com> as it existed at 11:59 pm on November 4, 2013;

“Company Disclosure Letter” means the disclosure letter dated the date hereof regarding this Agreement that has been executed by the Company and delivered to Parent concurrently with the execution of this Agreement;

“Company Distributable Reserves Resolution” shall have the meaning ascribed to it in Section 5.11(a)(ii);

“Company Employees” shall have the meaning ascribed to it in Section 5.6(a);

“Company Fairness Opinion” means the opinion of the Company Financial Advisor to the effect that, as of the date of such opinion and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth therein, the consideration to be received by the Company Shareholders under the Arrangement is fair, from a financial point of view, to such Company Shareholders, excluding the Specified Shareholders;

“Company Financial Advisor” means Credit Suisse Securities (USA) LLC;

“Company Financial Statements” means the Company Annual Financial Statements and the Company Interim Financial Statements;

“Company Interim Financial Statements” means the unaudited interim consolidated financial statements of the Company for the six months ended June 30, 2013, together with the notes thereto;

“Company Indemnified Party” shall have the meaning ascribed to it in Section 5.7(a);

“Company Material Contract” shall have the meaning ascribed to it in Section 3.1(s);

“Company Material Properties” means, collectively, each of the properties identified in Sections 3.1(o) and 3.1(p) of the Company Disclosure Letter;

“Company Meeting” means the special meeting of the Company Shareholders, including any adjournment or postponement thereof, to be called and held in accordance with this Agreement and the Interim Order for the purpose of considering and, if thought fit, approving the Arrangement Resolution;

“Company Owned Real Property” shall have the meaning ascribed to it in Section 3.1(o);

“Company Plan” shall have the meaning ascribed to it in Section 3.1(v)(i);

“Company Public Disclosure Record” means all documents filed by or on behalf of the Company on SEDAR since December 31, 2011;

“Company Recommendation” means the unanimous recommendation of the Company Board of Directors that the Company Shareholders vote in favour of the Arrangement Resolution;

“Company Senior Management” means the individuals set forth in Section 1.4 of the Company Disclosure Letter;

“Company Share Purchase Plan” means the Employee Share Purchase Plan adopted by the Company Board of Directors on May 10, 2000, as amended from time to time;

“Company Shareholder” means a holder of one or more Company Common Shares;

“Company Shareholder Approval” means the affirmative vote of at least $66\frac{2}{3}\%$ of the votes cast on the Arrangement Resolution by the Company Shareholders present in Person or represented by proxy at the Company Meeting;

“Company Superior Proposal” means an unsolicited *bona fide* written Company Acquisition Proposal (provided, however, that, for the purposes of this definition, all references to “20%” in the definition of “Company Acquisition Proposal” as it relates to securities of the Company shall be changed to “100%” and references to “20%”, as regards the assets of the Company, shall be changed to “all or substantially all”) made by a third party or third parties acting jointly (other than Parent, IrishCo, and any of their respective Affiliates, including CanCo 1) and which, or in respect of which:

- (a) the Company Board of Directors has determined in good faith, after consultation with its financial advisors and outside legal counsel:
 - (i) would, taking into account all of the terms and conditions of such Company Acquisition Proposal, and if consummated in accordance with its terms (but not assuming away any risk of non-completion), result in a transaction which is more favourable to the Company Shareholders from a financial point of view than the Arrangement and the Merger (including any adjustment to the terms and conditions of the Arrangement and the Merger proposed by Parent pursuant to Section 6.2);

- (ii) is reasonably capable of being completed in accordance with its terms, without undue delay, taking into account all legal, financial, regulatory and other aspects of such Company Acquisition Proposal and the Person or Persons making such Company Acquisition Proposal;
- (b) is not subject to any financing condition and in respect of which any required financing to complete such Company Acquisition Proposal has been demonstrated to be available to the satisfaction of the Company Board of Directors, acting in good faith after consultation with its financial advisors and outside legal counsel; and
- (c) is made available to all of the Company Shareholders on the same terms and conditions;

“Company Superior Proposal Notice” means a written notice provided by the Company to the Parent delivered promptly (and in any event, within twenty-four (24) hours) after the determination by the Company Board of Directors that a Company Superior Proposal exists, advising the Parent that the Company has received a Company Superior Proposal and specifying the information with respect thereto required by the definition of Company Superior Proposal and including written notice of the determination of the Company Board of Directors that the Company Acquisition Proposal constitutes a Company Superior Proposal;

“Company Termination Fee Event” shall have the meaning ascribed to it in Section 7.2(b);

“Competition Act” means the *Competition Act* (Canada), as amended, and includes the regulations promulgated thereunder;

“Competition Act Approval” means:

- (a) the issuance of an Advance Ruling Certificate and such Advance Ruling Certificate has not been modified or withdrawn prior to Closing; or
- (b) IrishCo and the Company have given the notice required under section 114 of the Competition Act with respect to the transactions contemplated by this Agreement and the applicable waiting periods under section 123 of the Competition Act have expired or have been terminated in accordance with the Competition Act; or
- (c) the obligation to give the requisite notice has been waived pursuant to paragraph 113(c) of the Competition Act,

and, in the case of either (b) or (c), IrishCo has been advised in writing by the Commissioner that the Commissioner does not, at that time, intend to make an application under section 92 of the Competition Act in respect of the transactions contemplated by this Agreement (a “no-action letter”), and any terms and conditions attached to any such no-action letter are acceptable to Parent acting reasonably, and such no-action letter has not been modified or withdrawn prior to Closing;

“Contract” means any legally binding contract, agreement, indenture, note, instrument, license, franchise, lease, arrangement, commitment, understanding or other right or obligation (whether written or oral) to which the Company or any of its Subsidiaries, on the one hand, or Parent or any Parent Material Subsidiary, on the other hand, is a party or by which the Company or any of its Subsidiaries, on the one hand, or Parent or any Parent Material Subsidiary, on the other hand, is bound or affected or to which any of their respective properties or assets is subject;

“Court” means the Superior Court of Québec;

“CSPP Participant” has the meaning ascribed to it in the Plan of Arrangement;

“Debt Financing” shall have the meaning ascribed to it in Section 5.13;

“DGCL” shall have the meaning ascribed to it in Section 2.2(a);

“Director” means the Director appointed pursuant to section 260 of the CBCA;

“Disclosing Party” shall have the meaning ascribed to it in Section 5.2(c);

“Effective Date” means the date upon which all of the conditions to the completion of the Arrangement as set out in Article 8 have been satisfied or waived (subject to applicable Laws) in accordance with the provisions of this Agreement and all documents agreed to be delivered thereunder have been delivered to the satisfaction of the recipient, acting reasonably, and the Arrangement becomes effective in accordance with the CBCA and the Final Order;

“Effective Time” shall have the meaning ascribed to it in Section 1.1 of the Plan of Arrangement;

“Environment” means the natural or man-made environment (including soil, land surface or subsurface strata, surface water, groundwater, sediment, ambient air (including all layers of the atmosphere), organic and inorganic matter, living organisms, and any other environmental-related medium or resource, natural or otherwise);

“Environmental Approvals” means all Permits or other authorizations or requirements issued or required by any Governmental Authority pursuant to any Environmental Law;

“Environmental Claims” means any claim, action, cause of action, suit, proceeding, investigation, order, demand or notice (written or oral) by any person or entity alleging actual or potential liability (including, without limitation, actual or potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, attorneys’ fees or penalties) arising out of, based on, resulting from or relating to (a) the presence, or release into the Environment, of, or exposure to, any Hazardous Substances at any location, whether or not owned or operated by the Company or any of its Subsidiaries, now or in the past, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law;

“Environmental Laws” means Laws governing or relating to pollution or protection of human health or safety or the Environment, including, without limitation, Laws relating to (i)

emissions, discharges, releases or threatened releases of, or exposure to, Hazardous Substances, (ii) the manufacture, processing, distribution, use, treatment, generation, control, storage, containment (whether above ground or underground), disposal, transport or handling of Hazardous Substances, (iii) recordkeeping, notification, disclosure and reporting requirements regarding Hazardous Substances, (iv) endangered or threatened species of fish, wildlife and plant and the management or use of natural resources, (v) reclamation or restoration of property, or the preservation of the environment or mitigation of adverse effects on or to human health or the Environment, or (vi) emissions or control of greenhouse gases;

“Equity Exchange Ratio” means, as of the time of calculation, the ratio of Parent Common Shares to IrishCo Shares;

“ESPP” shall have the meaning ascribed to it in Section 2.2(h);

“ESPP Option” shall have the meaning ascribed to it in Section 2.2(h);

“Exchange Agent” shall have the meaning ascribed to it in Section 2.2(f)(i);

“Exchange Fund” shall have the meaning ascribed to it in Section 2.2(f)(i);

“FDA” means the United States Food and Drug Administration or any successor entity;

“FDCA” shall have the meaning ascribed to it in Section 3.1(u);

“Final Order” means the order of the Court in a form acceptable to the Company and Parent, each acting reasonably, approving the Arrangement under section 192(4) of the CBCA, as such order may be affirmed, amended, modified, supplemented or varied by the Court (with the consent of both the Company and Parent, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn, abandoned or denied, as affirmed or amended (provided that any such amendment is acceptable to both the Company and Parent, each acting reasonably) on appeal;

“Financing Sources” shall mean the Persons (other than the Company or any of its Subsidiaries) that have committed to provide or arrange or have otherwise entered into agreements to provide or arrange any financing in connection with the transactions contemplated hereby, including their respective, current or future general or limited partners, managers, members, Affiliates, officers, directors, employees, agents, representatives, successors and assigns and any current or future general or limited partner, manager, member, Affiliate, officer, director, employee, agent, representative, successor or assign of any of the foregoing;

“Form S-4” shall have the meaning ascribed to it in Section 2.4(a);

“Governmental Authority” means any international, multinational, federal, provincial, territorial, state, regional, municipal, local or other government or governmental body and any ministry, department, division, bureau, agent, official, agency, commission, board or authority of any government, governmental body, quasi-governmental or private body (including the TSX, the NASDAQ, or any other stock exchange), domestic or foreign, exercising any statutory, regulatory, expropriation or taxing authority under the authority of any of the foregoing and any

domestic, foreign or international judicial, quasi-judicial or administrative court, tribunal, commission, board, panel, arbitrator or arbitral body acting under the authority of any of the foregoing;

“Hazardous Substances” means any chemicals, pollutants, contaminants, wastes, toxic or hazardous substances, materials or wastes, petroleum and petroleum derivatives or products, or synthetic or alternate substitutes therefor, greenhouse gases, asbestos or asbestos-containing materials or products, polychlorinated biphenyls, hydrogen sulfide, arsenic, cadmium, mercury, lead or lead-based paints or materials, radon, fungus, mold, mycotoxins, urea-formaldehyde, or other substances that may have an adverse effect on human health or the environment, and including any other substance that is prohibited, listed, defined, designated or classified as dangerous, hazardous, radioactive, corrosive, explosive, infectious, carcinogenic, mutation or toxic or a pollutant or a contaminant under or pursuant to, or that could result in liability under, any Environmental Laws or may impair the Environment, the health of any Person, property, or plant or animal life;

“Holdco Agreements” has the meaning specified in Section 2.6(a)(x);

“Holdco Alternative” has the meaning specified in Section 2.6(a);

“Holdco Election Date” has the meaning specified in Section 2.6(a);

“HSR Act” means the United States *Hart-Scott-Rodino Antitrust Improvements Act of 1976* or any successor act;

“IFRS” means International Financial Reporting Standards as in effect as of the date of this Agreement (unless otherwise expressly provided herein);

“Indemnified Party” and **“Indemnified Parties”** have the meanings ascribed thereto in Section 5.7(a);

“Intellectual Property” means all intellectual property and industrial property rights and rights in confidential information of every kind and description throughout the world, including all United States, Canadian and foreign (i) patents, patent applications, invention disclosures, and all related continuations, continuations-in-part, divisionals, reissues, re-examinations, substitutions, and extensions thereof (**“Patents”**), (ii) registered or unregistered trademarks, service marks, names, corporate names, trade names, domain names, logos, slogans, trade dress, design rights, and other similar designations of source or origin, together with the goodwill symbolized by any of the foregoing (**“Trademarks”**), (iii) copyrights and copyrightable subject matter (**“Copyrights”**), (iv) rights in computer programs (whether in source code, object code, or other form), algorithms, databases, compilations and data, technology supporting the foregoing, and all documentation, including user manuals and training materials, related to any of the foregoing (**“Software”**), (v) trade secrets and all other confidential information, ideas, know-how, inventions, proprietary processes, formulae, models, and methodologies (**“Trade Secrets”**), (vi) rights of publicity, privacy, and rights to personal information, (vii) moral rights and rights of attribution and integrity, (viii) all rights in the foregoing and in other similar intangible assets and (ix) all applications and registrations for the foregoing;

“Interim Order” means the interim order of the Court in a form acceptable to the Company and Parent, each acting reasonably, to be issued following the application therefor contemplated by Section 2.1(d) providing for, among other things, the calling and holding of the Company Meeting, as such order may be amended, modified, supplemented or varied by the Court with the consent of both the Company and Parent, each acting reasonably;

“Investment Canada Act” means the *Investment Canada Act* (Canada);

“Investment Canada Act Approval” means that IrishCo shall have received written evidence from the responsible Minister or Ministers under the *Investment Canada Act* that the Minister(s) are satisfied or deemed to be satisfied that the transactions contemplated by this Agreement are likely to be of net benefit to Canada pursuant to the *Investment Canada Act* and such approval has not been modified or withdrawn;

“Irish High Court Application” shall have the meaning ascribed to it in Section 5.11(c)(i);

“IrishCo Distributable Reserves Proposals” shall have the meaning ascribed to it in Section 5.11(a)(ii);

“IrishCo Euro Share” means an ordinary share, par value €1.00 per share, in the share capital of IrishCo;

“IrishCo Share” means an ordinary share, par value US \$0.0001 per share, in the share capital of IrishCo;

“Irish Subsidiary” shall mean a “subsidiary” within the meaning of section 155 of the Companies Act of Ireland;

“Joint Proxy Statement/Circular” shall have the meaning ascribed to it in Section 2.4(a);

“Joint Venture” means a joint venture, partnership or other similar arrangement, whether in corporate, partnership, contractual or other legal form, in which the Company or any of its subsidiaries holds voting shares, equity interests or other rights of participation but which is not a Subsidiary of the Company, and any Subsidiary or downstream Affiliate of any such entity;

“Laws” means any and all laws, statutes, codes, ordinances (including zoning), approvals, decrees, rules, regulations, by-laws, notices, policies, protocols, guidelines, treaties or other requirements of any Governmental Authority having the force of law and any legal requirements arising under the common law or principles of law or equity;

“Lease” shall have the meaning ascribed to it in Section 3.1(p);

“Letter of Transmittal” shall have the meaning ascribed to it in Section 2.2(f)(ii);

“Liens” means any pledge, claim, lien, charge, option, hypothec, mortgage, security interest, restriction, adverse right, prior assignment, lease, sublease, license, sublicense, right to

possession or any other encumbrance, right or restriction of any kind or nature whatsoever, whether contingent or absolute, or any agreement, option, right or privilege (whether by Law, contract or otherwise) capable of becoming any of the foregoing;

"Litha" means Litha Healthcare Group Limited, a company incorporated in South Africa.

"Litha Public Disclosure Record" means all documents filed by or on behalf of Litha on the Johannesburg Stock Exchange News Service (SENS) since December 31, 2011 or available on the public website of Litha located at www.lithahealthcare.co.za/ on the date hereof;

"Material Adverse Effect" means any result, fact, change, effect, event, circumstance, occurrence or development that, taken together with all other results, facts, changes, effects, events, circumstances, occurrences or developments has, or would reasonably be expected to have, a material and adverse effect on the business, operations, results of operations or condition (whether financial or otherwise) of the Company and its Subsidiaries, taken as a whole; provided, however, that any result, fact, change, effect, event, circumstance, occurrence or development shall not be deemed to constitute, and shall not be taken into account in determining whether there has been, a Material Adverse Effect to the extent that such result, fact, change, effect, event, circumstance, occurrence or development arises out of or results from:

- (a) changes, developments or conditions in or relating to general international, political, economic or financial or capital market conditions, or political, economic or financial or capital market conditions in any jurisdiction in which the Company or any of its Subsidiaries operate or carry on business;
- (b) changes, developments or conditions resulting from any act of sabotage or terrorism or any outbreak of hostilities or declared or undeclared war, or any escalation or worsening of such acts of sabotage, terrorism, hostilities or war;
- (c) any earthquake, hurricane, tornado or other similar natural disaster;
- (d) changes or developments in or relating to currency exchange or interest rates;
- (e) changes or developments generally affecting the pharmaceutical industry;
- (f) any change in IFRS or U.S. GAAP;
- (g) any actions taken (or omitted to be taken) by the Company upon the express written request of Parent; or
- (h) any failure by the Company to meet projections of revenue, earnings or other financial measures in and of itself (provided that the underlying cause of such failure may be taken into account in determining whether a Material Adverse Effect has occurred unless otherwise excluded under this definition);

provided, however, that the effect of the changes or developments described in clauses (a) through (f) above shall not be excluded to the extent that any of the changes or developments referred to therein disproportionately adversely affect the Company and its Subsidiaries, taken as

a whole, in comparison to other Persons who operate in the same industry as the Company and its Subsidiaries;

“Merger” shall have the meaning ascribed to it in Section 2.2(a);

“Merger Consideration” shall have the meaning ascribed to it in Section 2.2(e)(iii);

“Merger Effective Time” shall have the meaning ascribed to it in Section 2.2(b)(i);

“NASDAQ” means the NASDAQ Global Select Market;

“New Plans” shall have the meaning ascribed to it in Section 5.6(b);

“Non-Disclosure Agreement” means the non-disclosure agreement dated as of September 10, 2013 between the Company and the Parent, as it may be amended, restated, supplemented or otherwise modified from time to time;

“Old Plans” shall have the meaning ascribed to it in Section 5.6(b);

“Option Consideration” shall have the meaning ascribed to it in the Plan of Arrangement;

“Optionholder” means a holder of one or more Options;

“Options” means, at any time, rights to acquire Company Common Shares granted pursuant to the Stock Option Plan which are, at such time, outstanding and unexercised, whether or not vested;

“Order” means all judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, injunctions, orders, decisions, rulings, determinations, awards, decrees or similar actions taken by, or applied by, any Governmental Authority (in each case, whether temporary, preliminary or permanent);

“ordinary course of business”, or any similar reference, means, with respect to an action taken or to be taken by any Person, that such action is consistent with the past practices of such Person (including with respect to amount and frequency) and is taken in the ordinary course of the normal day-to-day business and operations of such Person;

“Other Parent Share-Based Awards” shall have the meaning ascribed to it in Section 2.2(g)(i)C;

“Outside Date” means the date that is six months after the date of this Agreement or such later date as may be agreed to in writing by the Parties;

“Parent Acquisition Agreement” means any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, transaction agreement, implementation agreement, option agreement, joint venture agreement, alliance

agreement, partnership agreement or other agreement, arrangement or undertaking constituting or related to, or that would reasonably be expected to lead to, a Parent Acquisition Proposal;

“Parent Acquisition Proposal” means, at any time, whether or not in writing, any proposal, offer, inquiry or indication of interest (including any modification or proposed modification thereto) with respect to (a) any acquisition by any Person or group of Persons of Parent’s voting equity securities (or securities convertible into or exchangeable or exercisable for Parent’s voting equity securities) representing 20% or more of the Parent’s voting equity securities then outstanding (assuming, if applicable, the conversion, exchange or exercise of such securities convertible into or exchangeable or exercisable for such equity securities) or (b) any acquisition by any Person or group of Persons of any assets of Parent and/or one or more of Parent’s Subsidiaries (including equity interests of any of Parent’s Subsidiaries) individually or in the aggregate contributing 20% or more of the consolidated revenue or representing 20% or more of the assets of Parent and its Subsidiaries taken as a whole (in each case based on the consolidated financial statements of Parent most recently filed prior to such time as part of the Parent Public Disclosure Record) (or any lease, license, royalty, long-term supply agreement or other arrangement having a similar economic effect), whether in a single transaction or a series of related transactions, in each case, whether by plan of arrangement, amalgamation, merger, consolidation, recapitalization, liquidation, dissolution or other business combination, sale of assets, joint venture, take-over bid, tender offer, share exchange, exchange offer or otherwise, including any single or multistep transaction or series of transactions, directly or indirectly involving Parent or any Parent’s Subsidiaries, and in each case excluding the Merger and the other transactions contemplated by this Agreement and any transaction between only the Parent and/or one or more of its wholly-owned Subsidiaries;

“Parent Board of Directors” means the board of directors of the Parent;

“Parent Change of Recommendation” means any of the following: (A) the Parent Board of Directors fails to publicly make the Parent Recommendation or withholds, withdraws, modifies, changes or qualifies in a manner adverse to the Company its approval of this Agreement or the Parent Recommendation (it being understood that publicly taking a neutral position or no position with respect to any Parent Acquisition Proposal shall be considered a modification, in a manner adverse to the Company, of the Parent Recommendation), (B) the Company requests in writing that the Parent Board of Directors reaffirm the Parent Recommendation or publicly reject any Parent Acquisition Proposal and the Parent Board of Directors, in each case, shall not have done so within three Business Days following receipt of such request, (C) the Parent Board of Directors accepts, approves, endorses or recommends any Parent Acquisition Proposal, (D) Parent enters into a Parent Acquisition Agreement related to, or that is intended to or is reasonably expected to lead to, any Parent Acquisition Proposal or (E) Parent or the Parent Board of Directors publicly proposes or announces its intention to do any of the foregoing;

“Parent Common Share” means a share of common stock, par value \$0.01, of Parent;

“Parent Disclosure Letter” means the disclosure letter dated the date hereof regarding this Agreement that has been executed by the Parent and delivered to the Company prior to the execution of this Agreement;

“Parent Distributable Reserves Resolution” shall have the meaning ascribed to it in Section 5.11(a)(ii);

“Parent Financial Statements” has the meaning ascribed to it in Section 3.2(g)(ii);

“Parent Indemnified Party” has the meaning ascribed to it in Section 5.7(a);

“Parent Material Adverse Effect” means any result, fact, change, effect, event, circumstance, occurrence or development that, taken together with all other results, facts, changes, effects, events, circumstances, occurrences or developments, has, or would reasonably be expected to have, a material and adverse effect on the business, operations, results of operations or condition (whether financial or otherwise) of Parent and its Subsidiaries, taken as a whole; provided, however, that any result, fact, change, effect, event, circumstance, occurrence or development shall not be deemed to constitute, and shall not be taken into account in determining whether there has been, a Material Adverse Effect to the extent that such result, fact, change, effect, event, circumstance, occurrence or development arises out of or results from:

- (a) changes, developments or conditions in or relating to general international, political, economic or financial or capital market conditions, or political, economic or financial or capital market conditions in any jurisdiction in which Parent or any of its Subsidiaries operate or carry on business;
- (b) changes, developments or conditions resulting from any act of sabotage or terrorism or any outbreak of hostilities or declared or undeclared war, or any escalation or worsening of such acts of sabotage, terrorism, hostilities or war;
- (c) any earthquake, hurricane, tornado or other similar natural disaster;
- (d) changes or developments in or relating to currency exchange or interest rates;
- (e) changes or developments generally affecting the pharmaceutical or medical device industries;
- (f) any change in IFRS or U.S. GAAP;
- (g) any actions taken (or omitted to be taken) by Parent upon the express written request of the Company; or
- (h) any failure by Parent to meet projections of revenue, earnings or other financial measures in and of itself (provided that the underlying cause of such failure may be taken into account in determining whether a Material Adverse Effect has occurred unless otherwise excluded under this definition);

provided, however, that the effect of the changes or developments described in clauses (a) through (f) above shall not be excluded to the extent that any of the changes or developments referred to therein disproportionately adversely affect Parent and its Subsidiaries, taken as a whole, in comparison to other Persons who operate in the same industry as Parent and its Subsidiaries;

“Parent Material Contract” has the meaning ascribed to that term in Section 3.2(l)(i);

“Parent Material Subsidiaries” means Endo Pharmaceuticals Inc., American Medical Systems Holdings, Inc., Generics International (US), Inc. (d/b/a Qualitest);

“Parent Public Disclosure Record” means all documents filed by or on behalf of the Parent on the Electronic, Data-Gathering, Analysis and Retrieval (EDGAR) system since December 31, 2011;

“Parent Recommendation” means the unanimous recommendation of the Parent Board of Directors that the Parent Shareholders vote to adopt this Agreement;

“Parent Senior Management” means the individuals set forth in Section 1.4 of the Parent Disclosure Letter;

“Parent Share Awards” shall have the meaning ascribed to it in Section 2.2(g);

“Parent Share Option” shall have the meaning ascribed to it in Section 2.2(g)(i)A;

“Parent Share Plans” means the Endo Assumed Stock Incentive Plan, the Endo 2010 Stock Incentive Plan, the Endo Amended and Restated 2007 Stock Incentive Plan, the Endo 2004 Stock Incentive Plan and the Endo 2000 Stock Incentive Plan;

“Parent Shareholder” means a holder of one or more Parent Common Shares;

“Parent Shareholder Approval” shall have the meaning ascribed to it in Section 2.5(a);

“Parent Shareholders Meeting” shall have the meaning ascribed to it in Section 2.5(a);

“Parent Superior Proposal” means an unsolicited *bona fide* written Parent Acquisition Proposal (provided, however, that, for the purposes of this definition, all references to “20%” in the definition of “Parent Acquisition Proposal” shall be changed to “50% or more”) made by a third party or third parties acting jointly and which, or in respect of which:

- (a) the Parent Board of Directors has determined in good faith, after consultation with its financial advisors and outside legal counsel:
 - (i) would, taking into account all of the terms and conditions of such Parent Acquisition Proposal, and if consummated in accordance with its terms (but not assuming away any risk of non-completion), result in a transaction which is more favourable to the Parent shareholders from a financial point of view than the Arrangement and the Merger;
 - (ii) is reasonably capable of being completed in accordance with its terms, without undue delay, taking into account all legal, financial, regulatory and other aspects of such Parent Acquisition Proposal and the Person or Persons making such Parent Acquisition Proposal;

- (b) is not subject to any financing condition and in respect of which any required financing to complete such Parent Acquisition Proposal has been demonstrated to be available to the satisfaction of the Parent Board of Directors, acting in good faith after consultation with its financial advisors and outside legal counsel; and
- (c) is made available to all of Parent Shareholders on the same terms and conditions;

“Parent Superior Proposal Notice” means a written notice provided by Parent to the Company, delivered promptly (and in any event, within twenty-four (24) hours) after the determination by the Parent Board of Directors that a Parent Superior Proposal exists, advising the Company that Parent has received a Parent Superior Proposal and specifying the information with respect thereto required by the definition of Parent Superior Proposal and including written notice of the determination of the Parent Board of Directors that the Parent Acquisition Proposal constitutes a Parent Superior Proposal;

“Parent Termination Fee Event” shall have the meaning ascribed to it in Section 7.2(c);

“Parties” means the parties to this Agreement and **“Party”** means any one of them;

“Permit” means any lease, license, permit, certificate, consent, order, grant, approval, classification, registration or other authorization of or from any Governmental Authority;

“Permitted Liens” means, for the Company or any of its Subsidiaries, or Parent or any of its Subsidiaries, as the context requires: (i) any Liens for Taxes not yet due and payable or which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in conformity with U.S. GAAP or IFRS, as applicable; (ii) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s or other similar Liens; (iii) pledges or deposits in connection with workers’ compensation, unemployment insurance, and other social security legislation; (iv) easements, rights-of-way, covenants, restrictions and other encumbrances incurred in the ordinary course of business that, in the aggregate, are not material in amount and that do not, in any case, materially detract from the value or the use of the property subject thereto; (v) gaps in the chain of title evident from the records of the applicable Governmental Authority maintaining such records, easements, rights-of-way, covenants, restrictions and other encumbrances of record as of the date hereof; (vi) statutory landlords’ Liens and Liens granted to landlords under any lease, (vii) licenses of non-material Intellectual Property in the ordinary course of business; (viii) any purchase money security interests, equipment leases or similar financing arrangements; (ix) any Liens which are disclosed on the most recent consolidated balance sheet of the Company or Parent, as applicable, or the notes thereto; and (x) any Liens that are not material to the Company, its Subsidiaries or their businesses, taken as a whole or Parent, its Subsidiaries or their businesses, taken as a whole, as applicable;

“Person” includes an individual, sole proprietorship, corporation, body corporate, incorporated or unincorporated association, syndicate or organization, partnership, limited partnership, limited liability company, unlimited liability company, joint venture, joint stock company, trust, natural Person in his or her capacity as trustee, executor, administrator or other

legal representative, a government or Governmental Authority or other entity, whether or not having legal status;

“Plan of Arrangement” means the plan of arrangement substantially in the form and content set out in Schedule A hereto, as the same may be amended, supplemented or varied from time to time in accordance with Article 5 of the Plan of Arrangement or at the direction of the Court in the Final Order with the prior written consent of the Company and Parent, each acting reasonably;

“PMPRB” shall have the meaning ascribed to it in Section 3.1(u)(i);

“Proceedings” shall have the meaning ascribed to it in Section 3.1(n);

“Product” shall have the meaning ascribed to it in Section 3.1(u)(viii);

“Product Candidate” shall have the meaning ascribed to it in Section 3.1(u)(viii);

“Product Regulatory Communication” shall have the meaning ascribed to it in Section 4.1(c)(xxvii);

“Qualifying Holdco” shall have the meaning ascribed to it in Section 2.6(a);

“Qualifying Holdco Shareholder” shall have the meaning ascribed to it in Section 2.6(a);

“Qualifying Holdco Stock Consideration” shall have the meaning ascribed to it in the Plan of Arrangement;

“Qualifying Holdco Therapeutics Consideration” shall have the meaning ascribed to it in the Plan of Arrangement;

“Receiving Party” shall have the meaning ascribed to it in Section 5.2(c);

“Regulatory Authority” means Health Canada, the FDA and any other federal, state, provincial, local or foreign Governmental Authority that is concerned with the marketing, sale, pricing, distribution, use, handling and control, safety, efficacy, reliability, or manufacturing of pharmaceutical products;

“Regulatory Authorization” means any registration, authorization, approval, clearance, license, permit, certificate or exemption issued by any Regulatory Authority or Governmental Authority (including New Drug Applications, New Drug Submissions, Investigational New Drug Applications, Clinical Trial Applications, manufacturing approvals and authorizations, pricing and reimbursement approvals, labeling approvals, registration notifications or their foreign equivalent) that are required for the research, development, manufacture, distribution, marketing, storage, transportation, use and sale of the products of the Company and the Company’s Subsidiaries;

“Regulatory Guidelines” means applicable rules, protocols, codes, guidelines, treaties, policies, notices, directions, decrees, judgments, awards or requirements, in each case of any Regulatory Authority to the extent that the foregoing do not have the force of law;

“Release” means any release, spill, leak, pumping, addition, pouring, emission, emptying, discharge, migration, injection, escape, leaching, disposal, dumping, deposit, spraying, burial, abandonment, seepage, placement or introduction of a Hazardous Substance, whether accidental or intentional, or sudden, intermittent, inadvertent or gradual, into, onto, through, above or under the Environment;

“Relevant Laws” shall have the meaning ascribed to it in Section 5.2(b);

“Representatives” means, collectively, with respect to a Person, any officers, directors, employees, consultants, advisors, agents or other representatives (including, solicitors, accountants, investment bankers and financial advisors) of that Person or any Subsidiary of that Person;

“Required Regulatory Approvals” means those sanctions, rulings, consents, orders, exemptions, permits, waivers, early termination authorizations, clearances, written confirmations of no intention to initiate legal proceedings and other approvals (including the lapse, without objection, of a prescribed time under a statute or regulation that states that a transaction may be implemented if a prescribed time lapses following the giving of notice without an objection being made) of Governmental Authorities as set forth in Schedule C hereto;

“Restraint” shall have the meaning ascribed to it in Section 5.2(e);

“Restricted Parent Share” shall have the meaning ascribed to it in Section 2.2(g)(i)B;

“Returns” means all reports, forms, elections, designations, schedules, statements, estimates, declarations of estimated tax, information statements and returns relating to, or required to be filed with any Governmental Authority in connection with, any Taxes and including any other filings relating to Taxes, including all returns in respect of Taxes and other material reports and information under the Tax Act, the income tax or corporation capital tax legislation of any province of Canada or any foreign country or political subdivision thereof in which the relevant Person carries on business or to a jurisdiction of which it is otherwise subject, any sales or excise tax legislation of a province of Canada or any foreign country, or political subdivision thereof or legislation affecting any other Taxes, applicable to such Person pursuant to which it is liable or required to pay or remit Taxes;

“Right to Match Period” shall have the meaning ascribed to it in Section 6.2(b)(iv);

“SEC” means the United States Securities and Exchange Commission or any successor entity;

“SEC Reports” shall have the meaning ascribed to it in Section 3.2(g);

“Securities Act” means the *Securities Act* (Ontario) and the rules, regulations and policies made thereunder or any successor act;

“SEDAR” means the System for Electronic Document Analysis Retrieval;

“Specified Shareholders” shall have the meaning ascribed to it in the Recitals;

“Stock Option Plan” means the Company Stock Option Plan adopted by the Company Board of Directors on May 10, 2000, as amended from time to time;

“Subscription Agreement” means the agreement to be entered into between IrishCo and DE INC. prior to Closing, pursuant to which DE INC. will subscribe for IrishCo Shares;

“Subsidiary” means, with respect to a specified entity, any:

- (a) corporation of which issued and outstanding voting securities of such corporation to which are attached more than 50% of the votes that may be cast to elect directors of the corporation (whether or not shares of any other class or classes will or might be entitled to vote upon the happening of any event or contingency) are at all times owned by such specified entity;
- (b) partnership, unlimited liability company, joint venture or other similar entity in which such specified entity has more than 50% of the equity interests and the power to direct the policies, management and affairs thereof; and
- (c) a Subsidiary (as defined in clauses (a) and (b) above) of any Subsidiary (as so defined) of such specified entity;

provided, however, that for all purposes of this Agreement and each Voting Agreement, (i) each of Litha and Altiva Pharma S.A., and each of their respective Subsidiaries and Joint Ventures, shall be deemed to be a Subsidiary of the Company, (ii) CanCo 1 shall be deemed to be a Subsidiary of Parent, (iii) a Qualifying Holdco shall be deemed to not be a Subsidiary and (iv) InterCo and each of its Subsidiaries and Joint Ventures, shall each be deemed to be a Subsidiary of IrishCo;

“Surviving Company” shall have the meaning ascribed to it in Section 2.2(a);

“Tax” or **“Taxes”** means all taxes, dues, duties, rates, imposts, fees, levies, other assessments, tariffs, charges or obligations of the same or similar nature, however denominated, imposed, assessed or collected by any Governmental Authority, including (i) all income taxes, including any tax on or based on net income, gross income, income as specifically defined, earnings, gross receipts, capital, capital gains, profits, business royalty or selected items of income, earnings or profits, and specifically including any federal, provincial, state, territorial, county, municipal, local or foreign taxes, state profit share taxes, windfall or excess profit taxes, capital taxes, royalty taxes, production taxes, payroll taxes, health taxes, employment taxes, withholding taxes (including all withholdings on amounts paid to or by the relevant Person), sales taxes, use taxes, goods and services taxes, custom duties, value added taxes, ad valorem taxes, excise taxes, alternative or add-on minimum taxes, franchise taxes, gross receipts taxes, licence taxes, occupation taxes, real and personal property taxes, land transfer taxes, severance taxes, capital stock taxes, stamp taxes, anti-dumping taxes, countervailing taxes, occupation taxes, environment taxes, transfer taxes, and employment or unemployment insurance premiums,

social insurance premiums and worker's compensation premiums and pension (including Canada Pension Plan) payments, and other taxes, fees, imposts, assessments or charges of any kind whatsoever together with any interest, penalties, additional taxes, fines and other charges and additions that may become payable in respect thereof, (ii) any tax imposed, assessed, collected or payable pursuant to any tax-sharing agreement or any other contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency or fee, and (iii) any liability for any of the foregoing of a transferee, successor, guarantor or by contract or by operation of law;

"Tax Act" means the *Income Tax Act* (Canada) or any successor act;

"Technology" shall have the meaning ascribed to it in Section 3.1(w)(xii);

"Termination Fee" shall have the meaning ascribed to it in Section 7.2(a);

"Therapeutics" means Knight Therapeutics, a corporation to be organized under the laws of Canada;

"Therapeutics Assets" shall have the meaning ascribed to it in Schedule E;

"Therapeutics Common Shares" means the common shares without par value in the capital of Therapeutics;

"TSX" means the Toronto Stock Exchange;

"TSXV" means the TSX Venture Exchange;

"U.S. GAAP" means accounting principles generally accepted in the United States, consistently applied;

"U.S. Securities Laws" means the 1933 Securities Act, the 1934 Exchange Act and all other state and federal securities Laws and the rules, regulations and published policies made thereunder; and

"Whitewash Requirements" means the requirements of section 60 of the Companies Act 1963 of Ireland with respect to the provision of financial assistance.

1.2 Currency

Except where otherwise specified, all references to currency herein are to lawful money of Canada and "\$" refers to Canadian dollars.

1.3 Interpretation Not Affected by Headings

The division of this Agreement into Articles, sections, paragraphs and subparagraphs and the insertion of a table of contents and headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement, including the

Schedules hereto, and not to any particular Article, section or other portion hereof. Unless something in the subject matter or context is clearly inconsistent therewith, references herein to an Article, section, subsection, paragraph, clause, subclause or schedule by number or letter or both are to that Article, section, subsection, paragraph, clause, subclause or schedule in this Agreement.

1.4 Knowledge and Disclosure

Any reference in this Agreement to the “knowledge” or the “awareness” of the Company means to the best of the actual knowledge, information and belief of Company Senior Management, in their capacities as officers of the Company and not in their personal capacities or in any other capacity, as of the date of this Agreement after making reasonable inquiry regarding the relevant matter, and does not include any knowledge or awareness of any other individual and with respect to Litha, Company Senior Management shall be deemed to have made reasonable inquiry by verifying documents in the possession of the Company by virtue solely of it being a shareholder of Litha. Any reference in this Agreement to the “knowledge” or the “awareness” of Parent means to the best of the actual knowledge, information and belief of Parent Senior Management, in their capacities as officers of Parent and not in their personal capacities or in any other capacity, as of the date of this Agreement after making reasonable inquiry regarding the relevant matter, and does not include any knowledge or awareness of any other individual.

1.5 Extended Meanings, Etc.

Unless the context otherwise requires, words implying only the singular number also include the plural and vice versa; words importing any gender include all genders. The terms “including” or “includes” and similar terms of inclusion, unless expressly modified by the words “only” or “solely”, mean “including without limiting the generality of the foregoing” and “includes without limiting the generality of the foregoing”. Any Contract, instrument, Law or Order defined or referred to herein means such Contract, instrument, Law or Order as from time to time amended, restated, supplemented or otherwise modified, including, in the case of Contracts or instruments, by waiver or consent and, in the case of Laws, by succession of comparable successor Laws, and all attachments thereto and instruments incorporated therein and, in the case of statutory Laws, all rules and regulations made thereunder.

1.6 Date of any Action

If the date on which any action is required to be taken hereunder by any of the Parties is not a Business Day, then such action will be required to be taken on the next succeeding day which is a Business Day.

1.7 Schedules

The following are the Schedules to this Agreement:

Schedule A - Form of Plan of Arrangement

Schedule B - Arrangement Resolution

Schedule C - Required Regulatory Approvals

Schedule D - Form of Voting Agreement

Schedule E - Business Separation Term Sheet

ARTICLE 2

THE ARRANGEMENT AND MERGER

2.1 The Arrangement

(a) The Arrangement. The Company, CanCo 1 and Parent agree that the Arrangement will be implemented in accordance with and subject to the terms and conditions contained in this Agreement and the Plan of Arrangement.

(b) Implementation Steps by the Company. The Company covenants in favour of Parent that upon the terms and subject to the conditions of this Agreement, the Company shall:

(i) as soon as reasonably practicable after the execution of this Agreement, apply to the Court for the Interim Order in a manner and form acceptable to Parent, acting reasonably, and thereafter proceed with such application and diligently pursue obtaining the Interim Order;

(ii) subject to obtaining such approvals as are required by the Interim Order, as soon as reasonably practicable after the Company Meeting and, in any event, not later than one Business Day thereafter, apply to the Court pursuant to section 192(4) of the CBCA for the Final Order in a manner and form reasonably acceptable to Parent and thereafter proceed with such application and diligently pursue obtaining the Final Order; and

(iii) subject to obtaining the Final Order and to the satisfaction or waiver (subject to applicable Laws) of each of the conditions set forth in Article 8 (excluding conditions that by their terms cannot be satisfied until the Effective Date, but subject to the satisfaction or, when permitted, waiver of those conditions as of the Effective Date), as soon as reasonably practicable thereafter, take all steps and actions including, if applicable, making all filings with Governmental Authorities (including the TSX) necessary to give effect to the Arrangement and the Merger and carry out the terms of the Plan of Arrangement applicable to it prior to the Outside Date.

(c) Implementation Steps by the Parent. Subject to the terms of this Agreement, Parent and its Subsidiaries will cooperate with, assist and consent to the Company seeking the Interim Order and the Final Order and, subject to the Company obtaining the Final Order and to the satisfaction or waiver (subject to applicable Laws) of each of the conditions set forth in Article 8 (excluding conditions that by their terms cannot be satisfied until the Effective Date, but subject to the satisfaction or, when permitted, waiver of those conditions as of the Effective Date), as soon as reasonably practicable thereafter, take all steps and

actions including, if applicable, making all filings with Governmental Authorities (including NASDAQ and the TSX) necessary to give effect to the Arrangement and the Merger and carry out the terms of the Plan of Arrangement applicable to each of them prior to the Outside Date.

(d) Interim Order. The application referred to in Section 2.1(b)(i) shall, unless the Company and Parent otherwise agree, include a request that the Interim Order provide, among other things:

(i) for the class of Persons to whom notice is to be provided in respect of the Arrangement and the Company Meeting and for the manner in which such notice is to be provided;

(ii) for the record date for the purposes of determining the Company Shareholders entitled to receive notice of and to vote at the Company Meeting;

(iii) that the Company Meeting may be adjourned or postponed from time to time by the Company in accordance with this Agreement without the need for any additional approval by the Court;

(iv) that the record date for the Company Shareholders entitled to receive notice of and to vote at the Company Meeting will not change in respect of or as a consequence of any adjournment or postponement of the Company Meeting;

(v) that the requisite and sole approval of the Arrangement Resolution will be the Company Shareholder Approval;

(vi) for the notice requirements with respect to the presentation of the application to the Court for the Final Order;

(vii) that proxies in respect of the Arrangement Resolution may be delivered to the Company up to 5:00 p.m. (Montreal time) on the Business Day immediately prior to the date of the Company Meeting; and

(viii) that, in all other respects, the terms, restrictions and conditions of the constating documents of the Company, including quorum requirements and all other matters, shall apply in respect of the Company Meeting;

and, subject to the consent of the Company (such consent not to be unreasonably withheld or delayed), shall also include a request that the Interim Order provide for such other matters as Parent may reasonably require.

(e) Court Proceedings. The Company will provide legal counsel to Parent with a reasonable opportunity to review and comment upon drafts of all materials to be filed with the Court in connection with the Arrangement prior to the service and filing of such materials and will include in such materials all comments reasonably and promptly proposed by Parent or its legal counsel. The Company will ensure that all materials filed with the Court in connection with the Arrangement are consistent in all material respects with the terms of

this Agreement and the Plan of Arrangement. Subject to applicable Laws, the Company will not file any material with the Court in connection with the Arrangement or serve any such material, and will not agree to modify or amend materials so filed or served, except as contemplated by this Section 2.1 or with Parent's prior written consent, such consent not to be unreasonably withheld, conditioned or delayed, provided, however, that nothing herein shall require Parent to agree or consent to any increase in the consideration payable under the terms of the Plan of Arrangement or any modification or amendment to such filed or served materials that expands or increases the obligations of Parent and its Subsidiaries set forth in any such filed or served materials or under this Agreement, the Merger or the Arrangement. In addition, the Company will not object to legal counsel to Parent making such submissions on the hearing of the application for the Interim Order and the application for the Final Order as such counsel considers appropriate, acting reasonably, provided that the Company or its legal counsel is advised of the nature of any submissions prior to the hearing and such submissions are consistent with this Agreement and the Plan of Arrangement. The Company will also provide legal counsel to Parent on a timely basis with copies of any notice of appearance and evidence or other documents served on the Company or its legal counsel in respect of the application for the Interim Order or the Final Order or any appeal therefrom and of any notice, whether or not in writing, received by the Company or its legal counsel indicating any intention to oppose the granting of the Interim Order or the Final Order or to appeal the Interim Order or the Final Order. The Company will also oppose any proposal from any party that the Final Order contain any provision inconsistent with this Agreement.

(f) Articles of Arrangement. The Articles of Arrangement shall, with such other matters as are necessary to effect the Arrangement and subject to the provisions of the Plan of Arrangement, consummate the Plan of Arrangement. On the Effective Date, the Articles of Arrangement shall be filed with the Director. The Articles of Arrangement shall be in form satisfactory to Parent and the Company, each acting reasonably.

(g) List of Securityholders. Upon the reasonable request from time to time of Parent, the Company will provide Parent with lists (in both written and electronic form) of the registered Company Shareholders, together with their addresses and respective holdings of Company Common Shares, lists of the names and addresses and holdings of all Persons having rights issued or granted by the Company to acquire or otherwise related to Company Common Shares (including Optionholders) and lists of non-objecting beneficial owners of Company Common Shares and participants in book-based nominee registers (such as CDS & Co. and CEDE and Co.), together with their addresses and respective holdings of Company Common Shares. The Company will from time to time require that its registrar and transfer agent furnish Parent with such additional information, including updated or additional lists of Company Shareholders, information regarding beneficial ownership of Company Common Shares and lists of holdings and other assistance as Parent may reasonably request.

(h) Treatment of Company Share Awards. The Options and the Stock Option Plan shall be treated as contemplated by, and in the manner set forth in, the Plan of Arrangement.

(i) Employee Share Purchase Program. The Company Share Purchase Plan and the rights of participants under such plan shall be treated as contemplated by, and in the manner set forth in, the Plan of Arrangement.

(j) Securityholder Communications. The Company and Parent agree to cooperate in the preparation of presentations, if any, to Company Shareholders or other securityholders regarding the Arrangement, and the Company agrees to consult with Parent in connection with any communication or meeting with Company Shareholders or other securityholders that it may have, provided, however, that the foregoing shall be subject to the Company's overriding obligations to make any disclosure or filing required by applicable Laws or stock exchange rules and, if the Company is required to make any such disclosure, it shall use its commercially reasonable efforts to give Parent a reasonable opportunity to review and comment thereon prior to its dissemination.

(k) Withholding Taxes. Each of the Company, Parent, IrishCo, CanCo 1, Amalco and the Arrangement Exchange Agent (without duplication) shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Company Common Shares, Qualifying Holdco shares or Options or any CSPP Participant, such amounts as the Company, Parent, IrishCo, CanCo 1, Amalco or the Arrangement Exchange Agent are required to deduct and withhold with respect to such payment under applicable Tax Law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereunder as having been paid to the holder of the Company Common Shares, Qualifying Holdco shares or Options or such CSPP Participant in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to a holder or a CSPP Participant exceeds the cash component of the consideration otherwise payable to the holder or such CSPP Participant, the Company, Parent, IrishCo, CanCo 1, Amalco and the Arrangement Exchange Agent are hereby authorized to sell or otherwise dispose of such portion of the consideration otherwise payable to the holder or such CSPP Participant as is necessary to provide sufficient funds to the Company, Parent, IrishCo, CanCo 1, Amalco or the Arrangement Exchange Agent, as the case may be, to enable it to comply with such deduction or withholding requirement and the Company, Parent, IrishCo, CanCo 1, Amalco or the Arrangement Exchange Agent shall notify the holder thereof or such CSPP Participant and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority, and shall remit to such holder or such CSPP Participant any unapplied balance of the proceeds of such sale.

2.2 The Merger

(a) The Merger. On the terms and subject to the conditions set forth in this Agreement, and in accordance with the General Corporation Law of the State of Delaware (the “**DGCL**”), on the Closing Date, Merger Sub shall be merged with and into Parent. At the Merger Effective Time, the separate corporate existence of Merger Sub shall cease and Parent shall continue as the surviving company in the Merger (the “**Surviving Company**”). The Merger shall be conditioned only upon the consummation of the Arrangement.

(b) Merger Effective Time.

(i) Subject to the provisions of this Agreement, as soon as practicable on the Closing Date, the parties shall file with the Secretary of State of the State of Delaware the certificate of merger relating to the Merger (the “**Certificate of Merger**”), executed and acknowledged in accordance with the relevant provisions of the DGCL, and, as soon as practicable on or after the Closing Date, shall make all other filings required under the DGCL or by the Secretary of State of the State of Delaware in connection with the Merger. The Merger shall become effective at the time that the Certificate of Merger has been duly filed with the Secretary of State of the State of Delaware, or at such later time as the Company and Parent shall agree and specify in the Certificate of Merger; provided that the Merger shall become effective immediately following the effectiveness of the Arrangement, to the extent possible (the time the Merger becomes effective being the “**Merger Effective Time**”).

(ii) At and immediately after the Merger Effective Time, the Merger will have the effects set forth in the Certificate of Merger and the DGCL.

(c) Certificate of Incorporation and By-Laws. The certificate of incorporation of Merger Sub, as in effect immediately prior to the Merger Effective Time, shall be the certificate of incorporation of the Surviving Company until thereafter changed or amended as provided therein or by applicable Law. The by-laws of Merger Sub, as in effect immediately prior to the Merger Effective Time, shall be the by-laws of the Surviving Company until thereafter changed or amended as provided therein or by applicable Law, except that references to the name of Merger Sub shall be replaced by references to the name of the Surviving Company.

(d) Directors and Officers of Surviving Company. The directors of Merger Sub immediately prior to the Merger Effective Time shall be the directors of the Surviving Company until the earlier of their resignation or removal or until their respective successors are duly appointed, elected and qualified, as the case may be. The officers of Merger Sub immediately prior to the Merger Effective Time shall be the officers of the Surviving Company until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

(e) Effect on Capital Stock. At the Merger Effective Time, by virtue of the Merger and without any action on the part of the Parties or any of their respective shareholders:

(i) Conversion of Merger Sub Common Stock. At the Merger Effective Time, by virtue of the Merger and without any action on the part of the Parties or any of their respective shareholders, each share of common stock of Merger Sub issued and outstanding immediately prior to the Merger Effective Time, and all rights in respect thereof, shall forthwith be cancelled and cease to exist and be converted into one fully paid and nonassessable share of common stock of the Surviving Company, which shall constitute the only outstanding shares of capital stock of the Surviving Company and which shall be indirectly held by IrishCo.

(ii) Cancellation of Parent-Owned Stock. Each Parent Common Share that is owned by Parent as treasury stock and each Parent Common Share that is owned directly by Parent immediately prior to the Merger Effective Time shall no longer be outstanding and shall automatically be cancelled and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(iii) Conversion of Parent Common Shares. Subject to Section 2.2(f), each Parent Common Share issued and outstanding immediately prior to the Merger Effective Time (other than shares to be cancelled or converted into shares of the Surviving Company in accordance with Section 2.2(c)(ii)) shall be converted into the right to receive one IrishCo Share, without interest (the “**Merger Consideration**”) from IrishCo or DE INC. All such Parent Common Shares, when so converted, shall no longer be outstanding and shall automatically be cancelled and shall cease to exist, and each holder of a certificate (or evidence of shares in book-entry form) that immediately prior to the Merger Effective Time represented any such Parent Common Share (each, a “**Certificate**”) shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration, without interest. Notwithstanding the foregoing, if between the date of this Agreement and the Merger Effective Time the outstanding IrishCo Shares or Parent Common Shares shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, or any similar event shall have occurred, then any number or amount contained herein which is based upon the number of IrishCo Shares or Parent Common Shares, as the case may be, will be appropriately adjusted to provide to Parent and the holders of Parent Common Shares the same economic effect as contemplated by this Agreement prior to such event. The right of any holder of a Certificate to receive the Merger Consideration shall be subject to and reduced by the amount of any required withholding under applicable Tax Law.

(f) Exchange of Certificates.

(i) Exchange Agent. Prior to the Merger Effective Time, Parent shall appoint a bank or trust company reasonably acceptable to the Company to act as exchange agent (the “**Exchange Agent**”) for the payment and delivery of the Merger Consideration. At or prior to the Merger Effective Time, IrishCo shall deposit with the Exchange Agent, for the benefit of the holders of Certificates, for exchange in accordance with this Article 2 through the Exchange Agent, (i) on behalf of DE INC., if not otherwise delivered by DE INC. itself, certificates representing the number of IrishCo Shares subscribed for by DE INC. pursuant to the terms of the Subscription Agreement and (ii) on behalf of itself, certificates representing the remainder of the IrishCo Shares to be issued as Merger Consideration (or, if uncertificated IrishCo Shares will be issued, IrishCo shall make appropriate alternative arrangements). All such IrishCo Shares deposited with the Exchange Agent are hereinafter referred to as the “Exchange Fund.”

(ii) Letter of Transmittal. As promptly as reasonably practicable after the Merger Effective Time (and in any event within four Business Days after the Merger Effective Time), IrishCo shall cause the Exchange Agent to mail to each holder of record of Parent Common Shares a form of letter of transmittal (the “**Letter of**

Transmittal”) (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, shall be in such form and have such other provisions (including customary provisions with respect to delivery of an “agent’s message” with respect to shares held in book-entry form) as Parent may specify, and shall be prepared prior to the Closing), together with instructions thereto.

(iii) Merger Consideration Received in Connection with Exchange. Upon (i) in the case of Parent Common Shares represented by a Certificate, the surrender of such Certificate for cancellation to the Exchange Agent, or (ii) in the case of Parent Common Shares held in book-entry form, the receipt of an “agent’s message” by the Exchange Agent, in each case together with the Letter of Transmittal, duly, completely and validly executed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such shares shall be entitled to receive in exchange therefor the Merger Consideration into which such Parent Common Shares have been converted pursuant to Section 2.2(e). In the event of a transfer of ownership of Parent Common Shares that is not registered in the transfer records of Parent, the Merger Consideration may be issued to a transferee if the Certificate representing such Parent Common Share (or, if such Parent Common Share is held in book-entry form, proper evidence of such transfer) is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer Taxes have been paid. Until surrendered as contemplated by this Section 2.2(f), each Parent Common Share, and any Certificate with respect thereto, shall be deemed at any time from and after the Merger Effective Time to represent only the right to receive upon such surrender the Merger Consideration that the holders of Parent Common Shares are entitled to receive in respect of such shares pursuant to Section 2.2(e)(iii).

(iv) No Further Ownership Rights in Parent Common Stock. The IrishCo Shares issued and credited as fully paid in accordance with the terms of this Article 2 upon conversion of any Parent Common Shares shall be deemed to have been issued and paid in full satisfaction of all rights pertaining to such Parent Common Shares. From and after the Merger Effective Time, there shall be no further registration of transfers on the stock transfer books of the Surviving Company of Parent Common Shares that were outstanding immediately prior to the Merger Effective Time. If, after the Merger Effective Time, any Certificates formerly representing Parent Common Shares (or Parent Common Shares held in book-entry form) are presented to IrishCo or the Exchange Agent for any reason, they shall be cancelled and exchanged as provided in this Article 2.

(v) Termination of Exchange Fund. Any portion of the Exchange Fund (including any interest received with respect thereto) that remains undistributed to the holders of Parent Common Shares for one year after the Merger Effective Time shall be delivered to IrishCo or its designee, and any holder of Parent Common Shares who has not theretofore complied with this Article 2 shall thereafter look only to IrishCo for payment of its claim for Merger Consideration, without any interest thereon.

(vi) No Liability. None of Parent, Parent's Subsidiaries, the Company or the Exchange Agent or any of their respective Affiliates shall be liable to any Person in respect of any portion of the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

(vii) Investment of Exchange Fund. The Exchange Agent shall invest any cash in the Exchange Fund if and as directed by IrishCo. Any interest and other income resulting from such investments shall be paid to, and be the property of, IrishCo. No investment losses resulting from investment of the Exchange Fund shall diminish the rights of any stockholder of Parent to receive the Merger Consideration or any other payment as provided herein. To the extent there are losses with respect to such investments or the Exchange Fund diminishes for any other reason below the level required to make prompt cash payment of the aggregate funds required to be paid pursuant to the terms hereof, IrishCo shall reasonably promptly replace or restore the cash in the Exchange Fund so as to ensure that the Exchange Fund is at all times maintained at a level sufficient to make such cash payments.

(viii) Withholding Rights. Each of IrishCo and the Exchange Agent (without duplication) shall be entitled to deduct and withhold from the consideration otherwise payable to any holder of Parent Common Share pursuant to this Agreement such amounts as are required to be deducted and withheld with respect to the making of such payment under applicable Tax Law. Amounts so withheld and paid over to the appropriate taxing authority shall be treated as having been paid to the holder of Parent Common Share in respect of which such deduction or withholding was made.

(ix) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by IrishCo, the posting by such Person of a bond, in such reasonable and customary amount as IrishCo may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent shall, in exchange for such lost, stolen or destroyed Certificate, issue the Merger Consideration deliverable in respect thereof pursuant to this Agreement.

(g) Parent Share Awards.

(i) As soon as practicable following the date of this Agreement and, in any event, prior to the Closing Date, the Parent Board of Directors or an appropriate committee thereof shall adopt such resolutions or take such other actions (including obtaining any required consents and making any required amendments to the Parent Share Plans) as may be required to effect and/or procure the following:

A. Each option to acquire Parent Common Shares granted under any Parent Share Plan (a "**Parent Share Option**") that as of the Merger Effective Time is outstanding, shall cease to represent an option or other right to acquire Parent Common Shares and shall be converted on the same

terms and conditions as were applicable under the Parent Share Option (but taking into account any changes thereto provided for in the applicable Parent Share Plan, in any applicable award agreement, in such option or deemed necessary to comply with applicable Laws) as of the Merger Effective Time into a stock option to acquire a number of IrishCo Shares (rounded down to the nearest whole share) equal to the product of (i) the total number of Parent Common Shares subject to the Parent Share Option immediately prior to the Merger Effective Time multiplied by (ii) the Equity Exchange Ratio, at an exercise price per share (rounded up to the nearest whole cent) equal to (x) the exercise price per share applicable to such Parent Share Option immediately prior to the Merger Effective Time divided by (y) the Equity Exchange Ratio;

B. Each issued and outstanding Parent Common Share subject to vesting or other lapse restrictions pursuant to the Parent Share Plans immediately prior to the Merger Effective Time (a “**Restricted Parent Share**”) shall, as of the Merger Effective Time, cease to represent a right to acquire a Parent Common Share and shall be converted into the right to receive a IrishCo Share multiplied by the Equity Exchange Ratio, subject to the same terms and conditions (including vesting and other lapse restrictions (including vesting and payment in connection with the transaction contemplated herein)) as were applicable to the Restricted Parent Share in respect of which it was issued or deemed necessary to comply with applicable Laws; and

C. Each stock-based award, other than a Parent Share Option or Restricted Parent Share (“**Other Parent Share-Based Awards**” and together with Restricted Parent Shares, the “**Parent Share Awards**”), granted under any Parent Share Plan and outstanding immediately prior to the Merger Effective Time shall, as of the Merger Effective Time, cease to represent an award based on Parent Common Shares and shall be converted into an award based on a number of IrishCo Shares equal to the number of Parent Common Shares covered by such Other Parent Share-Based Award multiplied by the Equity Exchange Ratio, provided that such a converted stock-based right or award shall be subject to the same terms and conditions (including the vesting terms (including vesting and payment in connection with the transaction contemplated herein)) as were applicable to such Other Parent Share-Based Award in respect of which it was issued but taking into account any changes thereto provided for in the applicable Parent Share Plan, in any applicable award agreement or deemed necessary to comply with applicable Laws (including, without

limitation, appropriate adjustments to performance metrics, as applicable).

(h) Parent Employee Stock Purchase Program. As soon as practicable following the date of this Agreement, and in any event, prior to the Closing Date, the Parent Board of Directors or an appropriate committee thereof shall adopt such resolutions or take such other actions as may be required to effect the following: each option to acquire Parent Common Shares under the Parent Employee Stock Purchase Program (the “**ESPP**”) that is outstanding as of the Merger Effective Time (an “**ESPP Option**”) shall cease to represent an option to acquire Parent Common Shares and shall be converted on the same terms and conditions as were applicable under the ESPP as of the Merger Effective Time into an option to acquire a number of IrishCo Shares equal to the product of (i) the total number of Parent Common Shares subject to the ESPP Option immediately prior to the Merger Effective Time multiplied by (ii) the Equity Exchange Ratio (rounded down to the nearest whole share), at an Option Price (as such term is defined in the ESPP) equal to the (i) Option Price immediately prior to the Merger Effective Time divided by (ii) the Equity Exchange Ratio (rounded up to the nearest whole cent).

(i) Treatment of Parent Share Plan and ESPP.

(i) It is the intent of the Parties hereto that the treatment of Parent Share Awards, Parent Share Options and ESPP Options contemplated herein be in a manner that is consistent with the requirements of Section 409A of the Code, including all guidance and regulations issued thereunder.

(ii) IrishCo shall take all corporate action necessary to reserve for issuance a sufficient number of IrishCo Shares for delivery with respect to Parent Share Options, Parent Share Awards and ESPP Options assumed by it in accordance with Section 2.2(g) and Section 2.2(h). As of the Merger Effective Time, if requested by Parent prior to the Merger Effective Time, IrishCo shall file a registration statement on Form S-8 (or any successor or other appropriate form) with respect to the IrishCo Shares subject to such Parent equity awards and ESPP Options and shall maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Parent equity awards and ESPP Options remain outstanding. IrishCo and Parent shall take all such steps as may be required to cause the transactions contemplated by Section 2.2(g) and Section 2.2(h) and any other dispositions of equity securities of Parent (including derivative securities) or acquisitions of IrishCo equity securities (including derivative securities) in connection with this Agreement by each individual who is or will be subject to the reporting requirements under Section 16(a) of the 1934 Exchange Act to be exempt under Rule 16b-3 promulgated under the 1934 Exchange Act.

(iii) As of the Merger Effective Time, IrishCo will assume Parent Share Plans, the ESPP and any other equity plans that have been approved by the board of directors and stockholders of Parent prior to the Merger Effective Time. As of the Merger Effective Time, IrishCo will be able to grant stock awards and options to purchase IrishCo Shares under the ESPP, to the extent permissible by applicable Laws,

NASDAQ regulations and TSX regulations, under the terms of the Parent Share Plans and the ESPP and issue the reserved but unissued shares of Parent Common Shares (including shares subject to the unexercised or unissued portions of any Parent Share Option, Parent Share Award or ESPP Option that expire, terminate or are canceled and shares subject to any Parent Share Option, Parent Share Award or ESPP Option that are reacquired pursuant to the terms of the agreements under which such shares were issued that return to the Parent Share Plans or the ESPP pursuant to their terms), except that (i) shares of Parent Common Shares covered by such awards will be IrishCo Shares and (ii) all references to a number of Parent Common Shares will be (A) changed to reference IrishCo Shares and (B) converted to a number of IrishCo Shares equal to the number of shares of Parent Common Shares multiplied by the Equity Exchange Ratio, rounded down to the nearest whole number of IrishCo Shares. As soon as reasonably practicable following the date of this Agreement, and in any event prior to the Merger Effective Time, the board of directors of IrishCo (or, if appropriate, any committee administering Parent Share Plans) and IrishCo shall adopt such resolutions and take such other actions as may be reasonably required to assume the Parent Share Plans and the ESPP or to adopt share plans having terms substantially identical to the Parent Share Plans and the ESPP and covering the awards of IrishCo Shares resulting from Section 2.2(g) and options to purchase IrishCo Shares under the ESPP, subject to any adjustments that may be required by applicable Laws or by virtue of the fact that IrishCo will be an Irish public limited company.

2.3 The Closing

(a) The Closing Date. The closing (the “**Closing**”) of the Arrangement and the Merger shall take place at the offices of A&L Goodbody, IFSC, North Wall Quay, Dublin, Ireland at 10 a.m., Dublin time, on a date to be specified by the Company and Parent, which shall be no later than the first Business Day following the satisfaction or (to the extent permitted by Law) waiver by the party or parties entitled to the benefits thereof of the conditions set forth in Article 8 (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or (to the extent permitted by Law) waiver of those conditions), or at such other place, time and date as shall be agreed in writing between the Company and Parent. The date on which the Closing occurs is referred to in this Agreement as the “Closing Date.”

2.4 Preparation of Joint Proxy Statement/Circular and Form S-4.

(a) As promptly as reasonably practicable following the date hereof, each of the Parties shall cooperate in preparing and shall cause to be filed with the SEC (and, if applicable, any other Governmental Authority) (i) mutually acceptable proxy materials which shall constitute (A) the Circular, which shall also constitute the proxy statement relating to the matters to be submitted to the Company Shareholders at the Company Meeting, together with any other documents required by the CBCA or applicable Laws in connection with the Company Meeting and (B) the proxy statement relating to the matters to be submitted to the Parent Shareholders at the Parent Shareholders Meeting (such joint proxy statement, and any amendments or supplements thereto, the “**Joint Proxy Statement/Circular**”) and (ii) a registration statement on Form S-4 (of which the Joint Proxy Statement/Circular will form a

part) with respect to the issuance of IrishCo Shares in respect of the Arrangement and Merger (the “**Form S-4**”).

(b) Each Party will provide legal counsel to the other Party with a reasonable opportunity to review and comment on drafts of the Joint Proxy Statement/Circular, Form S-4 and other documents related to the Company Meeting or the Parent Shareholders Meeting, as applicable, prior to filing such documents with applicable Governmental Authorities and mailing such documents to the Company Shareholders or the Parent Shareholders, as applicable. Each Party will include in the Joint Proxy Statement/Circular, Form S-4 or such other documents all comments reasonably and promptly proposed by the other Party or its legal counsel, provided, however, that all information relating to the Parent Parties included in the Joint Proxy Statement/Circular shall be in form and content satisfactory to Parent, acting reasonably, and all information relating to the Company included in the Joint Proxy Statement/Circular shall be in form and content satisfactory to the Company, acting reasonably.

(c) Each of the Parties shall use all commercially reasonable efforts to have the Joint Proxy Statement/Circular cleared by the SEC (and, if applicable, any other Governmental Authority) and the Form S-4 to be declared effective by the SEC (and, if applicable, any other Governmental Authority), to keep the Form S-4 effective as long as is necessary to consummate the Arrangement and the Merger. As promptly as practicable after such clearance, the Company and Parent shall, unless otherwise agreed to by the Parties, cause the Joint Proxy Statement/Circular and other documentation required in connection with the Company Meeting and the Parent Shareholders Meeting to be sent contemporaneously to (x) in the case of the Company, each holder of Company Common Shares and each Optionholder and filed as required by the Interim Order and applicable Laws and (y) in the case of Parent, each holder of Parent Common Shares, as required by applicable Laws. Each of the Parties shall, as promptly as practicable after receipt thereof, provide the other with copies of any written comments and advise the other Party of any oral comments with respect to the Joint Proxy Statement/Circular or the Form S-4 received from the SEC.

(d) Each Party shall use its commercially reasonable efforts to ensure that the Joint Proxy Statement/Circular complies in all material respects with applicable Laws. Each Party shall cooperate and provide the other Party with a reasonable opportunity to review and comment on any amendment or supplement to the Joint Proxy Statement/Circular or the Form S-4 prior to filing such with the SEC, and each Party will provide the other Party with a copy of all such filings made with the SEC.

(e) Each Party shall use all commercially reasonable efforts to take any action required to be taken by it under any applicable Laws in connection with the Arrangement or the Merger, and each Party shall furnish all information concerning it and the holders of its capital stock and options as may be reasonably requested in connection with any such action. Each Party will advise the other Party, promptly after it receives notice thereof, of the time when the Form S-4 has become effective, the issuance of any stop order, the suspension of the qualification of the IrishCo Shares issuable in connection with the Arrangement and the Merger for offering or sale in any jurisdiction, or any request by the

SEC (or, if applicable, any other Governmental Authority) for amendment of the Joint Proxy Statement/Circular or the Form S-4.

(f) If, at any time prior to the Closing, any information relating to any of the Parties, or their respective Affiliates, officers or directors, should be discovered by any Party, and such information should be set forth in an amendment or supplement to the Joint Proxy Statement/Circular or the Form S-4 so that such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Party that discovers such information shall promptly notify the other Parties and, to the extent required by Law an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and Canadian securities regulators (or, if applicable, any other Governmental Authority) and, to the extent required by Law, disseminated to the Company Shareholders and the Parent Shareholders.

(g) The Joint Proxy Statement/Circular shall include:

(i) unless the Company shall have effected a Company Change of Recommendation in accordance with the terms of this Agreement, the Company Recommendation, the Company Fairness Opinion, the rationale for the Company Recommendation and a statement that, to the knowledge of the Company, each director and executive officer of the Company intends to vote all Company Common Shares held by him or her in favour of the Arrangement Resolution at the Company Meeting; and

(ii) unless Parent shall have effected a Parent Change of Recommendation in accordance with the terms of this Agreement, the Parent Recommendation, the fairness opinion of the financial advisor to Parent, the rationale for the Parent Recommendation and a statement that, to the knowledge of Parent, each director and executive officer of Parent intends to vote all Parent Common Shares held by him or her in favour of the adoption of this Agreement at the Parent Shareholders Meeting.

(h) Notwithstanding Sections 2.4(a) to 2.4(g), each of the Parent and the Company may, with the written consent of the other party, acting reasonably, prepare and submit separate circulars and proxy statements in respect of the Company Meeting and the Parent Shareholders Meeting, as applicable, and, in such event, the rights of the respective parties to review and comment on the other party's circular or proxy statement, as applicable, shall apply accordingly.

2.5 Shareholder Meetings.

(a) Parent shall duly take all lawful action to call, give notice of, convene and hold a meeting of the Parent Shareholders (the "**Parent Shareholders Meeting**") as promptly as practicable following the date upon which the Form S-4 becomes effective for the purpose of obtaining the adoption of this Agreement by the holders of Parent Common Shares as required by the DGCL (the "**Parent Shareholder Approval**").

(b) The Company shall duly take all lawful action to call, give notice of, convene and hold the Company Meeting in accordance with the Interim Order, as promptly as practicable following the date upon which the Form S-4 becomes effective for the purpose of obtaining the Company Shareholder Approval.

(c) Subject to the terms of this Agreement, unless Parent shall have effected a Parent Change of Recommendation in accordance with the terms of this Agreement, Parent shall use its commercially reasonable efforts to solicit from the Parent Shareholders proxies in favour of the approval of the adoption of this Agreement and the Merger and take all other actions reasonably requested by the Company that are reasonably necessary or desirable to obtain the approval of the adoption of this Agreement by the Parent Shareholders including, using the services of investment dealers and proxy solicitation agents, and cooperating with any Persons engaged by the Company, to solicit proxies in favour of the approval of the Merger and take all other actions reasonably requested by the Company that are reasonably necessary or desirable to obtain the approval of the Merger by the Parent Shareholders and permit the Company to assist, and consult with the Company and keep the Company apprised, with respect to such solicitation and other actions. Unless this Agreement has been terminated in accordance with Article 7, this Agreement shall be submitted to the Parent Shareholders at the Parent Shareholders Meeting for the purpose of obtaining the Parent Shareholder Approval, and nothing contained herein shall be deemed to relieve Parent of such obligation.

(d) Subject to the terms of this Agreement (including Section 6.2), the Company shall use its commercially reasonable efforts to solicit from the Company Shareholders proxies in favour of the approval of the Arrangement Resolution including, if reasonably requested by Parent, using the services of investment dealers and proxy solicitation agents, and cooperating with any Persons engaged by Parent, to solicit proxies in favour of the approval of the Arrangement Resolution and take all other actions reasonably requested by Parent that are reasonably necessary or desirable to obtain the approval of the Arrangement by the Company Shareholders and permit Parent to assist, and consult with Parent and keep Parent apprised, with respect to such solicitation and other actions. Unless this Agreement has been terminated in accordance with Article 7, this Agreement shall be submitted to the Company Shareholders at the Company Meeting for the purpose of obtaining the Company Shareholder Approval, and nothing contained herein shall be deemed to relieve the Company of such obligation.

(e) Unless there has been a Company Change of Recommendation in accordance with Section 6.2, neither the Company Board of Directors nor any committee thereof shall withdraw (or modify in any manner adverse to Parent), or propose publicly to withdraw (or modify in any manner adverse to Parent), the Company Recommendation.

(f) Unless there has been a Parent Change of Recommendation, neither the Parent Board nor any committee thereof shall withdraw (or modify in any manner adverse to the Company), or propose publicly to withdraw (or modify in any manner adverse to the Company), the Parent Recommendation.

(g) Parent shall, prior to the Parent Shareholders Meeting, keep the Company reasonably informed of the number of proxy votes received in respect of matters to be acted upon at the Parent Shareholders Meeting, and in any event shall provide such number promptly upon the request of the Company or its Representatives.

(h) The Company shall, prior to the Company Meeting, keep Parent reasonably informed of the number of proxy votes received in respect of matters to be acted upon at the Company Meeting, and in any event shall provide such number promptly upon the request of Parent or its Representatives.

(i) Subject to the terms of this Agreement, the Parties shall each use their respective commercially reasonable efforts to ensure that the Parent Shareholders Meeting will occur no more than two Business Days following the Company Meeting. Each of the Company and Parent shall not adjourn, postpone, delay or cancel (or propose for adjournment, postponement, delay or cancellation) the Company Meeting or Parent Shareholders Meeting, as applicable, without the other Party's prior written consent, in each case; provided, that:

(i) Parent shall be permitted to adjourn, delay or postpone convening the Parent Shareholders Meeting if in the good faith judgment of the Parent Board of Directors (after consultation with its outside legal advisors) the failure to adjourn, delay or postpone the Parent Shareholders Meeting could be reasonably likely to be inconsistent with the fiduciary duties of the Parent Board of Directors under applicable Law or not allow sufficient time under applicable Law for the distribution of any required or appropriate supplement or amendment to the Joint Proxy Statement/Circular or Form S-4; and

(ii) the Company shall be permitted to adjourn, delay or postpone convening the Company Meeting if in the good faith judgment of the Company Board of Directors (after consultation with its outside legal advisors) the failure to adjourn, delay or postpone the Company Meeting could be reasonably likely to be inconsistent with the fiduciary duties of the Company Board of Directors under applicable Law or not allow sufficient time under applicable Law for the distribution of any required or appropriate supplement or amendment to the Joint Proxy Statement/Circular or Form S-4.

2.6 Holdco Alternative

(a) CanCo 1 will permit any Person (a "**Qualifying Holdco Shareholder**") that is a registered owner of Company Common Shares before the 10th Business Day prior to the Effective Time and is not a non-resident of Canada within the meaning of the Tax Act, to elect in respect of such Company Common Shares, by notice in writing provided to CanCo 1 and Parent not later than 5:00 p.m. on the 10th Business Day prior to the Effective Date (the "**Holdco Election Date**"), to sell to CanCo 1 all of the issued shares of a corporation (a "**Qualifying Holdco**"), which shall not be comprised of more than one class of shares, that meets the conditions described below (collectively, the "**Holdco Alternative**");

(i) such Qualifying Holdco was incorporated under the laws of Canada not earlier than the date of this Agreement, unless written consent is obtained from Parent;

(ii) such Qualifying Holdco is a single purpose corporation that has not carried on any business, has no employees, has not held or does not hold any assets other than Company Common Shares and a nominal amount of cash, has never entered into any transaction other than those relating to and necessary for the ownership of Company Common Shares or, with Parent's prior written consent, such other transactions as are necessary to facilitate those transactions described in the Plan of Arrangement;

(iii) at the Effective Time, such Qualifying Holdco has no liabilities or obligations of any kind whatever (except to IrishCo, CanCo 1 or the Company under the terms of the Holdco Alternative);

(iv) at the Effective Time, such Qualifying Holdco will not have unpaid declared dividends and, prior to the Effective Time, such Qualifying Holdco shall not have paid any dividends or other distributions, other than an increase in stated capital, a share/stock dividend, a cash dividend financed with a daylight loan or a dividend paid through the issuance of a promissory note with a determined principal amount and any such promissory note issued in relation to the payment of any such dividend shall no longer be outstanding at the Effective Time;

(v) such Qualifying Holdco shall have no shares outstanding other than the shares being transferred to CanCo 1 by the Qualifying Holdco Shareholder, who shall be the sole beneficial owner of such shares free and clear of all encumbrances, and no other Person shall have any option, warrant or other right to acquire any securities of such Qualifying Holdco;

(vi) at all times such Qualifying Holdco shall be a resident of Canada for the purposes of the Tax Act and shall not be a resident of, and shall have no taxable presence in, any other country;

(vii) such Qualifying Holdco shall have not more than three directors and three officers;

(viii) the Qualifying Holdco Shareholder shall at its cost and in a timely manner prepare and file all income Returns of such Qualifying Holdco in respect of the taxation year of such Qualifying Holdco ending immediately prior to the acquisition of such Qualifying Holdco by CanCo 1, subject to IrishCo's right to approve all such Returns as to form and substance, such approval not to be unreasonably withheld or delayed;

(ix) the Qualifying Holdco Shareholder shall indemnify the Company and CanCo 1, and any successor thereof, for any and all liabilities of the Qualifying Holdco existing at or before the Effective Time in a form satisfactory to Parent acting reasonably;

(x) each Qualifying Holdco Shareholder will be required to enter into a share purchase agreement and other ancillary documentation (collectively, the “**Holdco Agreements**”) with CanCo 1 containing representations and warranties and covenants acceptable to Parent, acting reasonably;

(xi) the Qualifying Holdco Shareholder will provide the Company, Parent and CanCo 1 with copies of all documents necessary to effect the transactions contemplated herein on or before the 10th Business Day preceding the Effective Date, the completion of which will comply with applicable Laws (including Canadian Securities Laws) at or prior to the Effective Time;

(xii) the entering into or implementation of the Holdco Alternative will not result in any delay in completing any other transaction contemplated by this Agreement;

(xiii) access to the books and records of such Qualifying Holdco shall have been provided on or before the 10th Business Day prior to the Effective Date and Parent and its counsel shall have completed their due diligence regarding the business and affairs of such Qualifying Holdco; and

(xiv) the Qualifying Holdco Shareholder will be required to pay all reasonable out-of-pocket expenses incurred by Parent, CanCo 1 and the Company in connection with the Holdco Alternative, including any reasonable costs associated with any due diligence conducted by Parent, CanCo 1 or the Company and the computation of the Company’s safe income.

(b) Any Qualifying Holdco Shareholder who elects the Holdco Alternative will be required to make full disclosure to Parent and CanCo 1 of all transactions involved in such Holdco Alternative. In the event that the terms and conditions of or the transactions involved in such Holdco Alternative are not satisfactory to Parent, acting reasonably, no Holdco Alternative shall be offered and the other transactions contemplated by this Agreement shall be completed subject to the other terms and conditions hereof.

(c) Each Qualifying Holdco Shareholder that has elected the Holdco Alternative will be required to enter into the Holdco Agreements providing for the acquisition of all issued and outstanding shares of the Qualifying Holdco in a form consistent with the foregoing. Failure of any Qualifying Holdco Shareholder to properly elect the Holdco Alternative on or prior to the Holdco Election Date or failure of any Qualifying Holdco Shareholder to properly enter into the Holdco Agreements will disentitle such Qualifying Holdco Shareholder from the Holdco Alternative.

(d) Upon request by a Qualifying Holdco Shareholder, Parent may in its sole discretion agree to waive any of the requirements described in this Section 2.6.

(e) Notwithstanding the foregoing provisions of this Section 2.6 and Section 9.9, Parent may, in its sole discretion and upon providing written notice to the other Parties, amend the structure of the Holdco Alternative and the provisions of this Section 2.6, including to permit the Holdco Alternative to be effected as a “tuck under” transaction, so

long as any such amendments do not and will not have an adverse impact on any Person wishing to elect the Holdco Alternative. In addition, Parent may, in its sole discretion and upon providing written notice to the other Parties, amend the Plan of Arrangement pursuant to Section 5.1(e) of the Plan of Arrangement to give effect to any such amendments to the Holdco Alternative and this Section 2.6 so long as any such amendments to the Plan of Arrangement do not and will not have an adverse impact on any Person wishing to elect the Holdco Alternative.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company

For purposes of this Section 3.1, all representations and warranties and disclosures made in the Company Disclosure Letter as they relate to Litha are made to the knowledge of the Company. Except as disclosed in the Company Disclosure Letter or the Company Public Disclosure Record, or, with respect to Litha, on the Litha Public Disclosure Record (other than any disclosure contained under the captions “Risk Factors” or “Forward Looking Statements” or similar captions and any other disclosure contained therein that is predictive, cautionary or forward-looking in nature), the Company represents and warrants to and in favour of CanCo 1 and Parent as follows and acknowledges that CanCo 1 and Parent are relying upon such representations and warranties in entering into this Agreement:

(a) **Organization and Qualification.** The Company is a corporation and has been duly continued and validly exists and is in good standing under the CBCA and has the requisite corporate and legal power and capacity to own its assets as now owned and to carry on its business as it is now being carried on. Each of the Company’s Subsidiaries is a corporation or other entity duly organized, validly existing and in good standing under the Laws of its jurisdiction of incorporation, organization or formation and has the requisite corporate, legal or other power and authority to own its assets as now owned and to carry on its business as it is now being carried on. The Company and each of the Company’s Subsidiaries is duly qualified to carry on business in each jurisdiction in which the nature or character of the respective properties and assets, owned, leased or operated by it, or the nature of its business or activities, makes such qualification necessary, except where the failure to be so qualified would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. The Company has provided to Parent true, complete and correct copies of the constating documents of each of the Company and the Company’s Subsidiaries, in each case as amended. The Company has provided to Parent true, complete and correct copies of the minutes (or, in the case of draft minutes, the most recent drafts thereof) of all meetings of the Company Shareholders, the Board of Directors and each committee of the Board of Directors held since January 1, 2010 and of the shareholder, board of directors and each committee of the board of directors of each of the wholly-owned Subsidiaries held since January 1, 2010.

(b) **Authority Relative to this Agreement.** The Company has the requisite corporate power, authority and capacity to enter into this Agreement and (subject to

obtaining the approval of the Company Shareholders of the Arrangement Resolution and the Final Order as contemplated in this Agreement and the Required Regulatory Approvals) to perform its obligations hereunder and to complete the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the completion by the Company of the transactions contemplated by this Agreement have been duly authorized by the Company Board of Directors and no other corporate proceedings on the part of the Company are necessary to authorize the execution and delivery by it of this Agreement or, subject to obtaining the approval of the Company Shareholders of the Arrangement Resolution and the Final Order as contemplated in this Agreement, the completion by the Company of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other Laws relating to limitations of actions or affecting the availability of equitable remedies and the enforcement of creditors' rights generally and general principles of equity.

(c) Required Approvals. No authorization, license, Permit, certificate, registration, consent or approval of, or filing with, or notification to, any Governmental Authority is required to be obtained or made by the Company or any of the Company's Subsidiaries for the execution and delivery of this Agreement, the performance by the Company of its obligations hereunder, the completion by the Company of the Arrangement, other than:

(i) the Interim Order and any filings required in order to obtain, and approvals required under, the Interim Order;

(ii) the Final Order, and any filings required in order to obtain the Final Order;

(iii) such filings and other actions required under applicable Canadian Securities Laws and the securities Laws of the United States (including any state or provincial securities Laws) and the rules and policies of the TSX and NASDAQ, in each case, as are contemplated by this Agreement;

(iv) the Required Regulatory Approvals; and

(v) any other authorizations, licenses, Permits, certificates, registrations, consents, approvals and filings and notifications with respect to which the failure to obtain or make the same would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, or could not reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger.

(d) No Violation. Subject to obtaining the authorizations, consents and approvals and making the filings referred to in Section 3.1(c) and complying with applicable Laws and Orders, the execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder and the completion of the

Arrangement and the Merger do not and will not (nor will they with the giving of notice or the lapse of time or both):

(i) result in a contravention, breach, violation or default under any Law or Order applicable to the Company or any of the Company's Subsidiaries or any of its or their respective properties or assets;

(ii) result in a contravention, conflict, violation, breach or default under the constating documents of the Company or any of the Company's Subsidiaries;

(iii) result in a contravention, breach or default under or termination of, or acceleration or permit the acceleration of the performance required by, or loss of any benefit under, any Company Material Contract or material Permit to which it or any of the Company's Subsidiaries is a party or by which it or any of the Company's Subsidiaries is bound or to which any of its or any of the Company's Subsidiaries' properties or assets is subject or give to any Person any interest, benefit or right, including any right of purchase or sale, termination, payment, modification, reimbursement, penalty, cancellation or acceleration, under any such Contract or Permit; or

(iv) result in the suspension or alteration in the terms of any material Permit held by the Company or any of the Company's Subsidiaries or in the creation of any Lien upon any of their properties or assets;

except, in the case of each of clauses (i), (iii) and (iv) above, as would not reasonably be expected to be material and adverse to the Company and its Subsidiaries, taken as a whole, or would not reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger.

(e) Authorized Capital and Options. The authorized capital of the Company consists of 100,000,000 Company Common Shares and no preferred shares. As at the date of this Agreement, there are (i) 20,709,838 Company Common Shares issued and outstanding, all of which have been duly authorized and validly issued and are fully paid and non-assessable and no preferred shares outstanding, (ii) 1,326,528 Options outstanding under the Stock Option Plan providing for the issuance of 1,326,528 Company Common Shares upon the exercise thereof and (iii) 95,891 Company Common Shares reserved for issuance pursuant to the Company Share Purchase Plan under which approximately 1,400 Company Common Shares are to be purchased with outstanding payroll contributions assuming a purchase date of December 15, 2013 and a per share purchase price equal to \$77. None of such Company Common Shares or Options is owned by the Company or any Subsidiary of the Company. There is no outstanding contractual obligation of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Company Common Shares. Except for the Options and options to purchase Company Common Shares pursuant to the Company Share Purchase Plan, the Company has no outstanding agreement, subscription, warrant, option, conversion or exchange privilege right, arrangement or commitment (nor has it granted any right or privilege (contingent or otherwise) capable of becoming an agreement, subscription, warrant, option, conversion or exchange privilege, right, arrangement or

commitment) obligating it to issue or sell any Company Common Shares or other securities of the Company, including any security or obligation of any kind convertible into or exchangeable or exercisable for any Company Common Shares or other security of the Company. Except for the Options and options to purchase Company Common Shares pursuant to the Company Share Purchase Plan, neither the Company nor any of the Company's Subsidiaries has outstanding any stock appreciation right, phantom equity, restricted share unit, deferred share unit or similar right, agreement, arrangement or commitment based on the book value, Company Common Share price, income or any other attribute of or related to the Company or any of its Subsidiaries. The Company Common Shares are listed on the TSX and, except for such listings, no securities of the Company or any of the Company's Subsidiaries are listed on any other stock or securities exchange or market or registered under any securities Laws. There are no outstanding bonds, debentures or other evidences of indebtedness of the Company or any of the Company's Subsidiaries having the right to vote (or that are convertible into or exchangeable or exercisable for securities having the right to vote) with the holders of Company Common Shares on any matter. Section 3.1(e) of the Company Disclosure Letter sets out a true, complete and correct list of all Options, the names of the holders of Options, whether each such holder is a current director of the Company or current employee of the Company or any of its Subsidiaries and the grant date and the exercise price for such Options. A true, correct and complete copy of the Stock Option Plan has been provided to Parent.

(f) Company Subsidiaries. Section 3.1(f) of the Company Disclosure Letter sets forth a true, complete and correct list of each of the Company's Subsidiaries, its status and its jurisdiction and form of organization. All of the outstanding shares in the capital of or outstanding shares of capital stock or other ownership, equity or voting interests of the Company's Subsidiaries held by the Company, directly or indirectly, are validly issued, fully paid and non-assessable (to the extent such concepts are recognized in the applicable jurisdiction), free and clear of any Liens (other than Permitted Liens), and there is no outstanding option, right, entitlement, understanding or commitment (contingent or otherwise) regarding the right to acquire any such share or interest in any of the Company's Subsidiaries and no outstanding option, warrant, conversion or exchange privilege or other right, agreement, arrangement or commitment obligating any such entity to issue or sell any share or ownership, equity or voting interest of such entity or security or obligation of any kind convertible into or exchangeable or exercisable for any shares or ownership, equity or voting interests of any such entity. Neither the Company nor any of the Company's Subsidiaries own any interest or investment (whether equity or debt) in any other Person, other than a Subsidiary of the Company, which interest or investment is material to the Company and the Company's Subsidiaries, taken as a whole.

(g) Reporting Issuer Status and Securities Laws Matters. The Company is a "reporting issuer" within the meaning of applicable Canadian Securities Laws and not on the list of reporting issuers in default under applicable Canadian Securities Laws, and no securities commission or similar regulatory authority has issued any order preventing or suspending trading of any securities of the Company, and the Company is in compliance in all material respects with applicable Canadian Securities Laws. Trading in the Company Common Shares on the TSX is not currently halted or suspended. No delisting, suspension of trading or cease trading order with respect to any securities of the Company is pending or, to

the knowledge of the Company, threatened. To the knowledge of the Company, no inquiry, review or investigation (formal or informal) of the Company by any securities commission or similar regulatory authority under applicable Canadian Securities Laws or the TSX is in effect or ongoing or expected to be implemented or undertaken. Except as set forth above in this Section 3.1(g), neither the Company nor any of its Subsidiaries is subject to continuous disclosure or other public reporting requirements under any securities Laws. All documents and information filed by or on behalf of the Company on SEDAR since January 1, 2011, as at the respective dates they were filed, were in compliance in all material respects with applicable Canadian Securities Laws and, where applicable, the rules and policies of the TSX and did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Since January 1, 2011, the Company has timely filed all forms, reports, statements and documents, including financial statements and management's discussion and analysis, required to be filed by the Company under applicable Canadian Securities Laws and the rules and policies of the TSX. No Subsidiary of the Company is required under Canadian Securities Laws or the rules and policies of the TSX to file any form, statements and documents, including financial statements and management's discussion and analysis. The Company has not filed any confidential material change report that at the date hereof remains confidential.

(h) Financial Statements. The Company Financial Statements have been prepared in accordance with IFRS applied on a basis consistent with those of previous periods and in accordance with applicable Laws except (i) as otherwise stated in the notes to such statements or, in the case of the Company Annual Financial Statements, in the auditor's report thereon and (ii) except that the Company Interim Financial Statements are subject to normal period-end adjustments which are not material and may omit notes which are not material and are not required by applicable Canadian Securities Laws or IFRS. The Company Financial Statements, together with the related management's discussion and analysis, present fairly, in all material respects, the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of the Company and the Company's Subsidiaries on a consolidated basis as at the respective dates thereof and the revenues, earnings, results of operations, changes in shareholders' equity and cash flows of the Company and the Company's Subsidiaries on a consolidated basis for the periods covered thereby (subject, in the case of the Company Interim Financial Statements, to normal period-end adjustments which are not material and are consistent with past practice). There are no outstanding loans made by the Company or any of the Company's Subsidiaries to any director or officer of the Company.

(i) Internal Controls; Disclosure Controls.

(i) Disclosure Controls. The Company has designed such disclosure controls and procedures, or caused them to be designed under the supervision of its Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company and the Company's Subsidiaries, particularly during the period in which the annual or interim filings are being prepared.

(ii) Internal Controls. The Company has designed such internal controls over financial reporting, or caused them to be designed under the supervision of the Chief Executive Officer and Chief Financial Officer of the Company, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. To the knowledge of the Company, prior to the date of this Agreement: (i) there are no significant deficiencies in the design or operation of, or material weaknesses in, the internal controls over financial reporting of the Company that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, and (ii) there is and has been no fraud, whether or not material, involving management or any other employees who have a significant role in the internal control over financial reporting of the Company. The Company has received no (x) complaints from any source regarding accounting, internal accounting controls or auditing matters or (y) expressions of concern from employees of the Company regarding questionable accounting or auditing matters.

(j) No Undisclosed Liabilities. The Company and the Company's Subsidiaries have no material liability or obligation of any nature (whether accrued, absolute, contingent or otherwise) other than (i) liabilities and obligations disclosed in the Company Interim Financial Statements, (ii) liabilities and obligations incurred in the ordinary course of business since December 31, 2012 (other than those specifically disclosed in the Company Public Disclosure Record and the Litha Public Disclosure Record) that would not be material and adverse to the Company and its Subsidiaries, taken as a whole, and (iii) liabilities and obligations incurred as expressly permitted or specifically contemplated by or in connection with this Agreement and the transactions contemplated hereby. Without limiting the foregoing, the Company Interim Financial Statements reflect reasonable reserves in accordance with IFRS for contingent liabilities relating to pending litigation and other contingent obligations of the Company and the Company's Subsidiaries.

(k) Absence of Certain Changes. (i) From December 31, 2012 to the date of this Agreement, no result, fact, change, effect, event, circumstance, occurrence or development has occurred or arisen which has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, and (ii) since June 30, 2013, the Company and each of the Company's Subsidiaries has conducted its business in all material respects in the ordinary course of business consistent with past practice.

(l) Compliance with Laws. Since January 1, 2011, the business of the Company and of each of the Company's Subsidiaries has been and is currently being conducted in material compliance in with all applicable Laws, Orders and Regulatory Guidelines, and none of the Company or any of the Company's Subsidiaries has received any notice of any alleged material non-compliance or violation of any such Laws, Orders or Regulatory Guidelines, except where any failure to be compliant would not, and could not reasonably be expected to, be material and adverse to the Company and its Subsidiaries, taken as a whole. Without limiting the generality of the foregoing, all issued and outstanding Company Common Shares have been issued in compliance, in all material respects, with all applicable Canadian Securities Laws.

1(m) Permits. Each of the Company and the Company's Subsidiaries has obtained and is in compliance in all material respects with all material Permits required by applicable Laws necessary to conduct its current business and operations as they are now being conducted and each material Permit is valid, subsisting and in full force and effect. The business of the Company and the Company's Subsidiaries are not being conducted in violation of, and there are no actions, investigations or other Proceedings in progress, pending, or, to the knowledge of the Company, threatened against the Company or any of the Company's Subsidiaries that could reasonably be expected to result in the suspension, loss or revocation of, any such Permit. The transactions contemplated hereby will not adversely affect any such Permit or the availability of any such Permit for the Company or any of its Subsidiaries. Since January 1, 2010, the Company and each of its Subsidiaries has timely filed all regulatory reports, schedules, statements, documents, filings, forms, registrations and other documents, together with any amendments required to be made with respect thereto, and paid any fees with respect thereto, that each was required to file with any Governmental Authority, including state or provincial health and insurance Regulatory Authorities and any applicable Regulatory Authorities, except where the failure to file such regulatory reports, schedules, statements, documents, filings, forms, registrations and other documents, or pay the fees associated therewith, on a timely basis would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. Except as would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, all such regulatory reports, schedules, statements, documents, filings, forms, registrations and other documents complied with applicable Law and Regulatory Guidelines.

(n) Litigation. There is no court, administrative, regulatory or similar proceeding (whether civil, quasi-criminal or criminal), arbitration or other dispute settlement procedure, investigation or inquiry before or by any Governmental Authority, or any claim, action, suit, demand, arbitration, charge, indictment, hearing or other similar civil, quasi-criminal or criminal, administrative or investigative matter or proceeding (collectively, "**Proceedings**") against or involving the Company or any of the Company's Subsidiaries (whether in progress, pending or, to the knowledge of the Company, threatened) that, if adversely determined, would, in the aggregate, result in an obligation, award or damages payable by the Company or any of the Company's Subsidiaries in excess of \$500,000 or prevent or significantly impede or materially delay the completion of the Arrangement or the Merger and, to the knowledge of the Company, no event or circumstance has occurred which might reasonably be expected to give rise to any such Proceeding, including any Proceedings relating to any product manufactured, shipped, sold or delivered by or on behalf of the Company and the Company's Subsidiaries relating to or resulting from an alleged defect in materials or manufacture of any such product or any alleged failure to warn, or any alleged breach of implied warranties or representations of any such product. Neither the Company nor any of the Company's Subsidiaries nor any of their respective properties or assets is subject to any outstanding Order that involves or may involve, or restricts or may restrict, the right or ability of the Company or any of the Company's Subsidiaries to conduct its business in all material respects as it has been conducted prior to the date hereof or that would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole or would reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger.

(o) Real Property. The Company or one of the Company's Subsidiaries holds (A) good, valid and marketable beneficial and legal title to all real property ("**Company Owned Real Property**") identified in Section 3.1(o) of the Company Disclosure Letter as being owned by the Company or the relevant Subsidiary of the Company (which real property constitutes all of the real property owned as of the date hereof by the Company and the Company's Subsidiaries that relates to the Company Material Properties or is material to the Company) and (B) all registered encumbrances, material Permits and licenses necessary to permit the Company and each of the Company's wholly-owned Subsidiaries to carry out the operation of their respective businesses. There is no pending or, to the knowledge of the Company, threatened condemnation or expropriation Proceedings with respect to any Owned Real Property. There are no outstanding options or rights of first refusal to purchase any Owned Real Property (or any portion thereof or interest therein). There are no Liens other than Permitted Liens registered against any Company Owned Real Property and, except for Permitted Liens, there are no statutory rights of way, easements, covenants or restrictive covenants relating to any Company Owned Real Property (or any portion thereof or interest therein). There is no contract or agreement to which the Company or any of the Company's Subsidiaries is a party, affecting any of the Company Owned Real Property, except those which (i) are terminable on not more than sixty days' notice without premium or penalty or (ii) require payment of less than \$5,000 per month per location but will expire, or be able to be terminated without penalty, in either case within one year of the Effective Date. The properties identified in Section 3.1(o) of the Company Disclosure Letter as Company Material Properties are the only properties, whether owned or leased by the Company or any of the Company's Subsidiaries, that are material to the Company and its Subsidiaries, taken as a whole.

(p) Leased Property. With respect to the real property identified as being leased or subleased by the Company or any of the Company's Subsidiaries in Section 3.1(p) of the Company Disclosure Letter (which real property constitutes all of the real property leased or subleased as of the date hereof by the Company or any of the Company's wholly-owned Subsidiaries for leases having an outstanding term of 12 months or more), (i) each lease or sublease for such property (each, a "**Lease**"), true, correct and complete copies of which (including any amendments thereto) are contained in the Company Data Room, is a valid leasehold, sublease interest or comparable right, and constitutes a legal, valid and binding obligation of the Company or such Subsidiary of the Company, as the case may be, enforceable against the Company or such Subsidiary of the Company, as the case may be, in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other Laws relating to limitations of actions or affecting the availability of equitable remedies and the enforcement of creditors' rights generally and general principles of equity and public policy and to the qualification that equitable remedies such as specific performance and injunction may be granted only in the discretion of a court of competent jurisdiction, and is in full force and effect, unamended by oral or written agreement, (ii) neither the Company nor any of the Company's Subsidiaries, as the case may be, is in material breach of or default under any Lease and, to the knowledge of the Company, no event has occurred which, with the giving of notice or lapse of time, or both, would constitute a breach of or default under any Lease, (iii) to the knowledge of the Company, no third party has repudiated or has the right to terminate or repudiate any Lease except in accordance with its terms or with respect to the normal exercise of remedies in connection

with any defaults thereunder or in accordance with any termination rights set out therein, (iv) to the knowledge of the Company, no counterparty to any Lease is in material default thereunder, and (v) no consent by the landlord under any Lease is required in connection with the consummation of the transaction contemplated herein except for those identified in Section 3.1(p) of the Company Disclosure Letter.

(q) Assets. The Company and the Company's Subsidiaries own or otherwise hold good and valid legal title to, and, where their interests are registrable, are the sole record owners, or hold a valid leasehold interest in, all material assets and properties that are required to conduct the business and operations of the Company and the Company's Subsidiaries as presently conducted and there are no Liens on any such assets or properties that could, individually or in the aggregate, materially and adversely impact the normal use and operation thereof in the ordinary course of business of the Company and the Company's Subsidiaries.

(r) Taxes.

(i) The Company and each of its Subsidiaries has duly and timely made or prepared all Returns required to be made or prepared by it, has duly and timely filed all Returns required to be filed by it with the appropriate Governmental Authority and has completely and correctly reported all income and all other amounts or information required to be reported thereon. All Returns contained in the Company Data Room are true, complete and correct copies of such Returns.

(ii) The Company and each of its Subsidiaries has: (A) duly and timely paid all Taxes due and payable by it other than those that are being contested in good faith pursuant to applicable Laws and in respect of which adequate reserves have been established in accordance with IFRS in the Company Interim Financial Statements; (B) duly and timely withheld all Taxes and other amounts required by applicable Laws to be withheld by it and has duly and timely remitted to the appropriate Governmental Authority such Taxes and other amounts required by applicable Laws to be remitted by it; and (C) duly and timely collected all amounts on account of sales or transfer taxes, including goods and services, harmonized, sales, value added and federal, provincial, state or territorial sales taxes, required by applicable Laws to be collected by it and has duly and timely remitted to the appropriate Governmental Authority any such amounts required by applicable Laws to be remitted by it.

(iii) Except as provided in the Company Interim Financial Statements, no audit, action, investigation, deficiency, litigation, proposed adjustment or other Proceeding exists or has been asserted or, to the knowledge of the Company, threatened with respect to Taxes or Returns of the Company or any of its Subsidiaries, and neither the Company nor any of its Subsidiaries is a party to any Proceeding for assessment, reassessment, or collection of Taxes and no such Proceeding has been asserted or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries or any of their respective assets, and there are no matters of dispute or matters under discussion with any Governmental Authority relating to Taxes assessed by

any Governmental Authority against the Company or any of its Subsidiaries or relating to Returns or any other matters which could result in claims for Taxes or additional Taxes.

(iv) The charges, accruals, and reserves for Taxes reflected on the Company Interim Financial Statements (whether or not due and whether or not shown on any Return but excluding any provision for deferred income taxes) are adequate under IFRS to cover Taxes with respect to the Company and each of its Subsidiaries accruing through the date hereof.

(v) There are no currently effective or pending material elections, agreements, or waivers extending the statute of limitations or providing for an extension of time with respect to the assessment or reassessment of any Taxes, the filing of any Return, or the payment of any Taxes by the Company or any of its Subsidiaries.

(vi) Neither the Company nor any of its Subsidiaries has made, prepared and/or filed any elections, designations, or similar filings relating to Taxes or entered into any agreement or other arrangement in respect of Taxes or Returns that has effect for any period ending after the Closing Date.

(vii) There are no Liens for Taxes on the property or assets of the Company or any of its Subsidiaries, except for Permitted Liens.

(viii) Neither the Company nor any of its Subsidiaries has acquired property from a non-arm's length Person (within the meaning of the Tax Act) (i) for consideration the value of which is less than the fair market value of the property or (ii) as a contribution of capital for which no shares were issued by the acquirer of the property.

(ix) The Company is a taxable Canadian corporation as defined in the Tax Act. Each Subsidiary of the Company is resident in the jurisdiction of its formation and is not resident in any other country. Section 3.1(r) of the Company Disclosure Letter contains a list of all jurisdictions in which the Company or any of its Subsidiaries has filed, or is required to file, a Return. Neither the Company nor any of its Subsidiaries is required to file any Return in respect of income taxes in any jurisdiction other than the jurisdiction of its formation.

(x) Neither the Company nor any of its Subsidiaries has received, or been deemed to receive, a dividend in circumstances in which, but for the application of paragraph 55(3)(b) of the Tax Act, all or any portion of such dividend would be deemed by subsection 55(2) of the Tax Act not to be a dividend received by the Company or Subsidiary, where such dividend was received or deemed to have been received (A) in contemplation of this Agreement, the Plan of Arrangement or any transactions contemplated by this Agreement or the Plan of Arrangement or (B) since December 31, 2011.

(xi) Neither the Company nor any of its Subsidiaries is subject to liability for Taxes of any other Person. Neither the Company nor any of its Subsidiaries has acquired property from any Person in circumstances where the Company or

Subsidiary did or could become liable for any Taxes of such Person. Neither the Company nor any of its Subsidiaries has entered into any agreement with, or provided any undertaking to, any Person pursuant to which it has assumed liability for the payment of income Taxes owing by such person.

(xii) No private letter rulings or similar agreements or rulings have been entered into or issued by any Governmental Authority with respect to the Company or any of its Subsidiaries for any taxable year for which the statute of limitations has not yet expired.

(xiii) No facts, circumstances, or events exist or have existed that have resulted in or may result in the application of any of sections 79 to 80.04 of the Tax Act to the Company or any of its Subsidiaries.

(xiv) Records or documents that meet the requirements of paragraphs 247(4)(a) to (c) of the Tax Act have been made and obtained by the Company and each of its Subsidiaries with respect to all material transactions between the relevant entity and any Person not resident in Canada with whom such entity was not dealing at arm's length within the meaning of the Tax Act, during a Tax year commencing after 2005 and ending on or before the Closing Date.

(s) Contracts. Except as set forth in Section 3.1(s) of the Company Disclosure Letter:

(i) none of the Company or any of the Company's Subsidiaries is a party to or bound or governed by any of the following (each, together with all exhibits and schedules thereto, a "**Company Material Contract**"):

A. any Contract, or license related to a Product, regarding the distribution, supply or license of a Product or Product Candidate which generated net sales in excess of \$5,000,000 for the Company and any of its Subsidiaries for the financial year ended December 31, 2012;

B. any Contract under which the Company or any of the Company's Subsidiaries is obliged to make payments on an annual basis in excess of \$5,000,000 in the aggregate and that is (i) not terminable by the Company or any of the Company's Subsidiaries on less than six months' notice or (ii) requires consent of or notice to a third party in the event of or with respect to the Arrangement or the Merger, including in order to avoid termination or loss of benefit under any such Contract;

C. any partnership, limited or unlimited liability company agreement, joint venture, alliance agreement or other similar agreement or arrangement relating to the formation, creation, operation, management, business or control of any Joint Venture;

D. any Contract (other than between the Company and any of its Subsidiaries or among any of its subsidiaries) under which indebtedness for borrowed money in excess of \$5,000,000 is outstanding or may be incurred or pursuant to which any property or asset of the Company or any of the Company's Subsidiaries is mortgaged, pledged or otherwise subject to a Lien, any Contract under which the Company or any of the Company's Subsidiaries has directly or indirectly guaranteed any liabilities or obligations of any Person (other than the Company or any of its Subsidiaries) in excess of \$5,000,000 or any Contract restricting the incurrence of indebtedness by the Company or any of the Company's Subsidiaries in any material respect or the incurrence of Liens on any properties or securities of the Company or any of the Company's Subsidiaries in any material respect or restricting the payment of dividends or other distributions in any material respect;

E. any promissory notes, loans, agreements, indentures, evidences of indebtedness or other instruments (other than between the Company and any of its Subsidiaries or among any of its Subsidiaries) providing for the lending of money, whether as lender or guarantor, in amounts greater than \$5,000,000;

F. any Contract which generated net sales in excess of \$5,000,000 for the Company and any of its Subsidiaries for the financial year ended December 31, 2012 that (i) purports, now or after the Closing, to limit or restrict in any respect the ability of the Company or any of the Company's Subsidiaries or any of their respective successors to (x) engage in any type of activity or business or (y) compete with any Person or operate in any location or (ii) grants to any Person "most favored nations" status or similar rights;

G. any Contract (other than between the Company and any of its wholly-owned Subsidiaries or among any of its wholly-owned Subsidiaries) providing for the sale or exchange of, or option to sell or exchange, any property or asset with a fair market value in excess of \$5,000,000, or for the purchase or exchange of, or option to purchase or exchange, any property or asset with a fair market value in excess of \$5,000,000;

H. any Contract (other than between the Company and any of its wholly-owned Subsidiaries or among any of its wholly-owned Subsidiaries) entered into in the past 12 months or in respect of which the applicable transaction has not yet been consummated for the acquisition or disposition, directly or

indirectly (by merger or otherwise), of assets or shares (or other equity interests) of another Person for aggregate consideration (including the assumption of any debt or liabilities) in excess of \$5,000,000, in each case other than in the ordinary course of business;

I. any material currency, commodity, interest rate or equity related hedge, derivative, swap or other financial risk management Contract of the Company's Subsidiaries;

J. any standstill or similar Contract currently restricting the ability of the Company or any of the Company's Subsidiaries to offer to purchase or purchase the assets or equity securities of another Person;

K. any Contract which, if terminated or modified or if it ceased to be in effect, would reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole;

L. any agreement with any director or officer of the Company or any of its Subsidiaries or with any "associate" or "immediate family member" (as those terms are defined in Canadian Securities Laws) of any such director or officer;

M. any Contract with Joddes Limited or its Subsidiaries;

N. all Contracts other than those relating to the distribution, supply or license of a Product or Product Candidate (except as otherwise disclosed under Section 3.1(s)(i) of the Company Disclosure Letter) pursuant to which the Company or any of its Subsidiaries (i) is granted or obtains or agrees to obtain any right to use any material Intellectual Property (other than standard form Contracts granting rights to use readily available shrink wrap or click wrap Software having a replacement cost and annual license fee of less than \$50,000 in the aggregate for all such related Contracts), (ii) is restricted in its right to use or register any material Intellectual Property or (iii) permits or agrees to permit any other Person, to use, enforce, or register any material Intellectual Property, including any such license agreements, coexistence agreements, and covenants not to sue;

O. any Contract or other agreement expressly restricting the payment of dividends or the repurchase of stock or other equity;

P. collective bargaining or union agreements or other Contract with a labor union, labor organization or employee association; or

Q. any Contract providing for the Company or any of its Subsidiaries to assume or guarantee any liability, contingent or otherwise, under or in relation to any Environmental Law.

True, correct and complete copies of each Company Material Contract have been included in the Company Data Room or otherwise provided to Parent.

(ii) Except as would not reasonably be expected to be material and adverse to the Company and its Subsidiaries, taken as a whole, none of the Company, the Company's Subsidiaries or, to the knowledge of the Company, any of the other parties thereto, is in breach or violation of or in default under, or has committed or failed to perform any act which would result in a default under, (in each case, with or without notice or lapse of time or both) any Company Material Contract, in each case, in any material respect, and none of the Company or any of its Subsidiaries has received or given any notice of default under any Company Material Contract which remains uncured. To the knowledge of the Company, there exists no state of facts which after notice or lapse of time or both would constitute a default under or breach or violation of any Company Material Contract or the inability of a party to any Company Material Contract to perform its obligations thereunder where, in any such case, such default, breach, violation or non-performance would reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole. To the knowledge of the Company, no Person is challenging in writing the validity or enforceability of any Company Material Contract.

(iii) To the knowledge of the Company, except as set forth in Section 3.1(s)(iii) of the Company Disclosure Letter, there are no shareholders or stockholders agreements, registration rights agreements, voting trusts, proxies or similar agreements, arrangements or commitments to which the Company or any of the Company's Subsidiaries is a party or, to the knowledge of the Company, with respect to any shares or other equity interests of the Company or any of the Company's Subsidiaries or any other Contract relating to disposition, voting or dividends with respect to any shares or other equity securities of the Company or any of the Company's Subsidiaries. No shareholder of the Company has any right to compel the Company to register or otherwise qualify the shares or any other equity interests of the Company for public sale or distribution.

(iv) To the knowledge of the Company, except as set forth in Section 3.1(s)(iv) of the Company Disclosure Letter, neither the Company nor any of the

Company's Subsidiaries has received written notice of the termination of, or intent to terminate or otherwise fail to fully perform any Company Material Contract.

(t) Employment Agreements and Collective Agreements. Except as set forth in Section 3.1(t) of the Company Disclosure Letter, none of the Company or any of the Company's Subsidiaries is a party to or bound or governed by (or currently negotiating in connection with entering into), or subject to, or has any liability with respect to:

(i) any employment, retention or change of control agreement with, or any written or oral agreement, commitment, obligation, arrangement, plan or understanding providing for any retention, bonus, severance, change of control, retirement or termination payments to any current or former director, officer or employee of the Company or any of the Company's wholly-owned Subsidiaries (each, an **"Employment Agreement"**) in excess of \$250,000;

(ii) any collective bargaining or union agreements or other Contract with a labor union, labor organization or employee association, or any actual or, to the knowledge of the Company, threatened application for certification, recognition or bargaining rights in respect of the Company or any of the Company's Subsidiaries, or any Proceeding seeking to compel the Company or any of the Company's Subsidiaries to bargain with any labour organization as to wages or conditions of employment;

(iii) any labour dispute, work stoppage or slowdown, strike or lock-out relating to or involving any employees of the Company or any of the Company's Subsidiaries; or

(iv) any actual or, to the knowledge of the Company, threatened grievance, claim or other Proceeding arising out of or in connection with any labour matter or employment by the Company or any of the Company's Subsidiaries or the termination thereof, other than such claims or other Proceedings as have not had and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

True, complete and correct copies of the agreements, arrangements, plans and understandings referred to in paragraphs (i) and (ii) of this Section 3.1(t) are contained in the Company Data Room. The Company and each of the Company's Subsidiaries is in material compliance with all applicable Laws (domestic and foreign), Orders, agreements, contracts, and policies relating to employment, employment practices, wages, hours, and terms and conditions of employment. The Company has complied in all respects with its payment obligations to all employees of the Company and the Company's Subsidiaries in respect of all wages, salaries, commissions, bonuses, benefits and other compensation due and payable to such employees under any Company policy, practice, agreement, plan, program or any Order or statute or other Law. There is no proceeding, action, suit or claim relating to any labour or employment matter pending or threatened involving any of the Company or the Company's Subsidiaries.

(u) Regulatory Matters

(i) The businesses of each of the Company and the Company's Subsidiaries are being conducted in compliance with all healthcare regulatory Laws, including, to the extent applicable (a) the Federal Food, Drug, and Cosmetic Act of 1938, 21 U.S.C. § 301 *et seq.*, as amended, including the rules and regulations promulgated thereunder ("**FDCA**"); (b) the Public Health Service Act of 1944, as amended and the regulations of the FDA promulgated thereunder (the "**PHSA**"); (c) Canada's Food and Drugs Act and the regulations of Health Canada promulgated thereunder ("**CFDA**"); (d) United States federal Medicare and Medicaid statutes and related state or local statutes or regulations; (e) United States federal or state criminal or civil Laws (including the federal Anti-Kickback Statute (42 U.S.C. §1320a-7(b)), Stark Law (42 U.S.C. §1395nn), False Claims Act (42 U.S.C. §1320a-7b(a)), the Physician Payments Sunshine Act, the Prescription Drug Marketing Act of 1987, the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, and the regulations promulgated thereunder (collectively, "**HIPAA**"), and any comparable state, provincial or local Laws; (f) the Canadian Patent Act and Patented Medicines Regulations and the guidelines of the Patent Medicines Pricing Review Board ("**PMPRB**"); (g) state or provincial licensing, disclosure and reporting requirements; (h) and any comparable Laws or Regulatory Guidelines for any of the foregoing promulgated by any other Regulatory Authority.

(ii) Each of the Company and the Company's subsidiaries holds all Regulatory Authorizations, necessary for the lawful operating of their businesses and the import, testing, manufacturing, handling, storage, transportation, sale, distribution, marketing, promotion, or export, as applicable, of each of their products. All such Regulatory Authorizations are valid and in full force and effect. Since January 1, 2010, there has not occurred any violation of, default (with or without notice or lapse of time or both) under, or event giving to others any right of termination, amendment or cancellation of, with or without notice or lapse of time or both, any Regulatory Authorization, except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company. The Company and each of the Company's Subsidiaries are in compliance with the terms of all Regulatory Authorizations, and no event has occurred that, to the knowledge of the Company, would reasonably be expected to result in the revocation, cancellation, non-renewal or adverse modification of any Regulatory Authorization.

(iii) All pre-clinical and clinical investigations conducted or sponsored by the Company or any of the Company Subsidiaries are being conducted in compliance in all material respects with all applicable Laws and Regulatory Guidelines administered or issued by the applicable Regulatory Authorities, including where applicable (a) FDA standards for conducting non-clinical laboratory studies contained in Title 21 part 58 of the Code of Federal Regulations, (b) FDA standards for the design, conduct, performance, monitoring, auditing, recording, analysis and reporting of clinical trials contained in Title 21 parts 50, 54, 56, 312, 314 and 320 of the Code of Federal Regulations, (c) Division 5 of the Food and Drug Regulations regarding Drugs for Clinical Trials Involving Human Subjects, and (d) federal, state and provincial Laws and Regulatory Guidelines restricting the collection, use and disclosure of individually identifiable health information and personal information. Neither the Company nor its

Subsidiaries have received any written notices, correspondence or other communication from the FDA, Health Canada, or any other Regulatory Authority since January 1, 2010 requiring, and are not aware of any facts which are reasonably likely to cause, the termination, suspension or material modification of any clinical trials conducted or sponsored by the Company or the Company's Subsidiaries.

(iv) All material reports, documents, claims, permits, applications, accreditations and notices required to be filed, maintained or furnished to the FDA, Health Canada, PMPRB or any other Regulatory Authority by the Company and its Subsidiaries have been so filed, maintained or furnished. All such reports, documents, claims, permits, applications, and notices were complete and accurate in all material respects on the date filed (or were corrected in or supplemented by a subsequent filing) such that no liability exists with respect to such filing. Neither the Company nor any of its Subsidiaries, nor, to the knowledge of the Company, any officer, employee, agent or distributor of the Company or any of its Subsidiaries, has made an untrue statement of a material fact or a fraudulent statement to the FDA, Health Canada, PMPRB or any other Regulatory Authority, failed to disclose a material fact required to be disclosed to the FDA, Health Canada, PMPRB or any other Regulatory Authority, or, to the knowledge of the Company, committed an act, made a statement, or failed to make a statement that, at the time such disclosure was made, would reasonably be expected to provide a basis for the FDA to invoke its policy respecting "Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities", set forth in 56 Fed. Reg. 46191 (September 10, 1991) or for Health Canada or any other Regulatory Authority to invoke any similar policy.

(v) Neither the Company nor any of the Company Subsidiaries has received any written information from the FDA, Health Canada, or any other Regulatory Authority that would reasonably be expected to lead to the denial of any application for marketing approval currently pending before the FDA, Health Canada, or such other Regulatory Authority.

(vi) Neither the Company nor any of the Company Subsidiaries (i) is party to or has any obligations under any settlement agreement entered into with any Regulatory Authority or (ii) has been the subject of any material Regulatory Authority or medical reimbursement investigation.

(vii) Neither the Company nor any of the Company Subsidiaries, nor, to the knowledge of the Company, any officer, employee, agent or distributor of the Company or any of the Company Subsidiaries, has been convicted of any crime or engaged in any conduct for which debarment is mandated by 21 U.S.C. § 335a(a) or any similar Law or authorized by 21 U.S.C. § 335a(b) or any similar Law. Neither the Company nor any of its Subsidiaries, nor, to the knowledge of the Company, any officer, employee, agent or distributor of the Company or any of its Subsidiaries, has been convicted of any crime or engaged in any conduct for which such Person could be excluded from participating in the United States federal health care programs under Section 1128 of the Social Security Act of 1935, as amended, or any similar Law or program.

(viii) As to each product or product candidate subject to the CFDA, FDCA, or any similar Law or Regulatory Guidelines in any foreign jurisdiction that is or has been developed, manufactured, tested, distributed and/or marketed by or on behalf of the Company or any of the Company Subsidiaries (each a “**Product**” or “**Product Candidate**”), each such Product or Product Candidate is being or has been developed, imported, tested, manufactured, handled, stored, transported, sold, distributed, marketed, promoted, or exported in material compliance with all applicable requirements under the CFDA, FDCA, and similar Laws and Regulatory Guidelines, including those relating to investigational use, special access, premarket clearance or marketing approval, good manufacturing practices, good clinical practices, good laboratory practices, labeling, advertising, record keeping, filing of reports and security. To the Company’s knowledge, no employee of the Company or a Company Subsidiary responsible for management of the import, testing, manufacturing, handling, storage, transportation, sale, distribution, marketing, promotion, or export of the Products or Product Candidates has been sanctioned by a Governmental Authority for non-compliance with applicable Laws or Regulatory Guidelines.

(ix) Other than as set forth in Section 3.1(u)(ix) of the Company Disclosure Letter, neither the Company nor any of the Company’s Subsidiaries has, since January 1, 2010 received any FDA Form 483, notice of adverse finding, notice of violation, untitled letter, warning letter, or other similar correspondence or notice from the FDA, Health Canada, or any other Regulatory Authority and there is no action or proceeding pending or, to the knowledge of the Company, threatened (a) contesting the premarket clearance or approval of, the uses of, the reimbursement of, or the labeling or promotion of any Product or Product Candidate (b) contesting the compliance with Law or Regulatory Guidelines of any facility where a Product or Product Candidate is developed, tested, manufactured, handled, or stored or (c) otherwise alleging any violation applicable to any Product or Product Candidate of any Law or Regulatory Guidelines by the Company or the Company’s Subsidiaries.

(x) The Company and the Company’s Subsidiaries have not either voluntarily or involuntarily initiated, conducted or issued, or caused to be initiated, conducted or issued, any recall, field notifications, field corrections, market withdrawal or replacement, safety alert, warning, “dear doctor” letter, investigator notice, safety alert or other notice or action relating to an alleged lack of safety, efficacy or regulatory compliance of any Product or Product Candidate. The Company and the Company Subsidiaries are not aware of any facts which are reasonably likely to cause, and neither the Company nor any of the Company’s Subsidiaries has received any written notice that the FDA, Health Canada, or any other Regulatory Authority has commenced, or threatened to initiate, any action to cause (a) the recall, market withdrawal or replacement of any Product sold or intended to be sold by the Company or the Company’s Subsidiaries, (b) a change in the marketing classification or a material change in the labeling of any such Products, or (c) a termination, suspension, or injunction of the manufacture, marketing, or distribution of such Products.

(xi) The Company nor any of its Subsidiaries has any liability arising out of or, to the Company’s knowledge, alleged to arise out of, any actual or

alleged injury to individuals or property as a result of the ownership, possession or use of any Product or Product Candidate. The Company and the Company's Subsidiaries have complied in all material respects with all recalls, market withdrawals or other corrective action and have no obligation or liability with respect to any recall, market withdrawal or corrective action.

(xii) No data generated by the Company or any of the Company's Subsidiaries with respect to the Products or Product Candidates that has been provided to its customers or otherwise made public is the subject of any regulatory or other action, either pending or, to the knowledge of the Company, threatened, by any Regulatory Authority relating to the truthfulness or scientific adequacy of such data.

(v) Pension and Employee Benefits.

(i) Section 3.1(v) of the Company Disclosure Letter sets forth a true, complete and correct list of each employee benefit plan, program or arrangement, whether written or unwritten, including without limitation, any Option, stock purchase, or other stock or stock-based incentive plan, cash bonus or incentive compensation arrangement, retirement or deferred compensation plan, profit sharing plan, unemployment or severance compensation plan, or Employment Agreement, for any current or former employee or director of, or other service provider to, the Company or any of its Subsidiaries participates in, is a party or contributes to, or with respect to which the Company or any of its Subsidiaries could reasonably be expected to have any liability (each, a "**Company Plan**").

(ii) With respect to each Company Plan, the Company has made available to Parent a true and complete copy of each Company Plan, including any amendments thereto and all material supporting documents, and a true and complete copy of the following items (in each case, only if applicable): (a) each trust or other funding arrangement, (b) each summary plan description and summary of material modifications, and (c) the most recent financial statements and actuarial or other valuation reports prepared with respect thereto.

(iii) Each Company Plan has been established, registered, qualified, funded, invested, operated and administered in all material respects in accordance with its terms and applicable Law. To the knowledge of the Company, no event has occurred respecting any Company Plan which would result in the revocation of the registration of such Company Plan or entitle any person (without the consent of the Company) to wind up or terminate any Company Plan, in whole or in part, or which could otherwise reasonably be expected to adversely affect the tax status of any such Company Plan. There are no pending, or to the knowledge of the Company, threatened actions, suits, disputes or claims by or on behalf of any Company Plan, by any employee or beneficiary covered under any such Company Plan, as applicable, or otherwise involving any such Company Plan (other than routine claims for benefits).

(iv) No Company Plan provides welfare benefits, including without limitation, death or medical benefits (whether or not insured), beyond retirement

or termination of service to employees or former employees or to the beneficiaries or dependents of such employees, other than coverage mandated solely by applicable Law.

(v) Other than as set forth in Section 3.1(v) of the Company Disclosure Letter, the consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of the Company to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation or benefit due any such employee or officer.

(vi) There are no unfunded liabilities in respect of any Company Plan, including going concern unfunded liabilities, solvency deficiencies or wind-up deficiencies where applicable.

(w) Intellectual Property.

(i) Section 3.1(w)(i) of the Company Disclosure Letter sets forth a correct and complete list of all (i) issued Patents and Patent applications, (ii) Trademark registrations and applications and material unregistered Trademarks, (iii) Copyright registrations and applications, and (iv) material Software, in each case which is owned or exclusively licensed by the Company and its Subsidiaries in any jurisdiction in the world. The Company or one of its Subsidiaries is the sole and exclusive beneficial and, with respect to applications and registrations (including patents), record owner of each item of Intellectual Property set forth in Section 3.1(w)(i) of the Company Disclosure Letter, and, except as could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company or its Subsidiaries, all such Intellectual Property is subsisting, valid, and enforceable.

(ii) All of the registered Intellectual Property is sufficient, in all material respects, for conducting the business, as presently conducted, of the Company and its Subsidiaries, individually and taken as a whole.

(iii) There are no Orders, writs, injunctions or decrees to which the Company or any of its Subsidiaries is subject with respect to any material Intellectual Property.

(iv) Except as disclosed in Section 3.1(w)(iv) of the Company Disclosure Letter:

(1) The Company or one of its Subsidiary owns, or has a valid right to use, free and clear of all Liens (other than Permitted Liens), all Intellectual Property (a) related to the Product set forth in Section 3.1(w)(iv)(1) of the Company Disclosure Letter and (b) used or held for use in, or necessary to conduct, the business and operations of the Company and its Subsidiaries as presently conducted;

(2) To the knowledge of the Company, there is no valid basis for a claim of infringement, misappropriation or other violation of Intellectual Property rights against the Company or any of its Subsidiaries;

(3) To the knowledge of the Company, no Person is infringing, misappropriating or otherwise violating any Intellectual Property owned, used or held for use by the Company and its Subsidiaries;

(4) To the knowledge of the Company, no Person is infringing, misappropriating or otherwise violating any material Intellectual Property owned, used or held for use by the Company and its Subsidiaries in the conduct of the business of the Company and its Subsidiaries as presently conducted, and, except as disclosed in Section 3.1(w)(iv)(4) of the Company Disclosure Letter, no such claims have been asserted or threatened against any Person by the Company or its Subsidiaries or, to the knowledge of the Company, any other Person, in the past six (6) years;

(5) There has been no claim asserted or threatened, or Proceedings of any kind pending or in progress, challenging the scope, validity or enforceability of any Intellectual Property applications or registrations owned by the Company or any of its Subsidiaries, and, to the knowledge of the Company, there are no facts, circumstances or conditions that could reasonably be expected to form the basis for such a claim. Neither the Company nor any of its Subsidiaries has granted any Person any right to control the prosecution or registration of any Intellectual Property owned by the Company or its Subsidiaries or to commence, defend, or otherwise control any claim with respect to such Intellectual Property;

(6) The Company and its Subsidiaries take reasonable measures to protect the confidentiality of Trade Secrets. To the knowledge of the Company, there has not been any disclosure of any material Trade Secret of the Company or its Subsidiaries (including any such information of any other Person disclosed in confidence to the Company or its Subsidiaries) to any Person in a manner that has resulted or is likely to result in the loss of trade secret or other rights in and to such information;

(7) To the knowledge of the Company, no patent applications owned by the Company or its Subsidiaries stand under final rejection before the United States Patent and Trademark Office or have been issued a Final Action by the Canadian Intellectual Property Office or any equivalent foreign governmental entity; the Company and each of its Subsidiaries has taken all commercially reasonable measures to obtain patent rights worldwide with respect to all material inventions owned or controlled by the Company and its Subsidiaries, and has not forfeited or otherwise lost any right to file any material patent applications or obtain any material patents in any jurisdiction, such as by failing to meet any filing deadline, fee submission or otherwise; there is no reason for the scope of any issued claims under any patents owned by the Company or

any of its Subsidiaries to be less than the scope reflected as of the date hereof in such patents or for the scope of any issued claims under any patent applications owned by the Company or any of its Subsidiaries to be materially less than the scope reflected as of the date hereof in such patent applications;

(8) No current or former partner, director, stockholder, officer, or employee of the Company or its Subsidiaries will, after giving effect to the transactions contemplated hereby, own or retain any proprietary rights in any of the Intellectual Property owned, used, or held for use (including for defensive purposes) by the Company and its Subsidiaries in the conduct of their respective businesses as presently conducted;

(9) Neither the Company nor any of its Subsidiaries is now or has ever been a member of, party to, promoter of, or a contributor to, any patent pool, industry standards body, trade association or other organization that could require or obligate the Company or its Subsidiaries to grant or offer to any other Person any license or right to any Intellectual Property;

(10) The consummation of the transactions contemplated by this Agreement will not result in the loss or impairment of or payment of any additional amounts with respect to, nor require the consent of any other Person in respect of, the Company's or any of its Subsidiaries' right to own, use, or hold for use any of the Intellectual Property as owned, used, or held for use (including for defensive purposes) in the conduct of the business of the Company and its Subsidiaries as currently conducted;

(v) Neither the Company nor any of its Subsidiaries has entered into nor is subject to any Orders, consents, indemnifications, forbearances to sue, licenses or other arrangements in connection with the resolution of any disputes or litigation that (A) restricts the Company or any of its Subsidiaries with respect to any material Intellectual Property, (B) restricts the Company's or any of its Subsidiaries' businesses in any material manner in order to accommodate any Person's Intellectual Property, or (C) permits any Person to use any material Intellectual Property.

(vi) The Company and its Subsidiaries have at all times complied with all applicable Laws and Orders, as well as its own rules, policies, and procedures, relating to privacy, data protection, and the collection and use of personal information collected, used, or held for use by the Company and its Subsidiaries. No claims have been asserted or threatened against the Company or its Subsidiaries alleging a violation of any Person's privacy or personal information or data rights and the consummation of the transactions contemplated hereby will not breach or otherwise cause any violation of any Law or rule, policy, Order or procedure related to privacy, data protection, or the collection, use and disclosure of personal information collected, used, disclosed or held for use by or on behalf of the Company or its Subsidiaries in the conduct of their respective businesses as presently conducted. The Company and its Subsidiaries take commercially reasonable measures, in accordance with Law, to ensure that such information is protected against unauthorized access, use, modification, or other misuse.

(vii) The Company and its Subsidiaries have complied in all material respects with all Laws, statutes, regulations, and rules in obtaining and perfecting the Intellectual Property, including, without limitation, all prior art disclosure requirements.

(viii) The Company and its Subsidiaries have paid all fees and annuities on and made all required filings relating to the Intellectual Property rights and the Intellectual Property rights are in good standing except where the failure to make such payments has not had and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

(ix) The Company has taken commercially reasonable efforts to make appropriate submissions of Intellectual Property to the FDA's "Orange Book", the Health Canada Patent Register and all equivalent documents or registries maintained by the EMEA or any other Regulatory Authority for jurisdictions in which the Company and its Subsidiaries sell, market or authorize the sale or marketing of any products.

(x) No funding, facilities or personnel of any governmental body, university, college, other educational institution or research center were used, directly or indirectly, to develop or create, in whole or in part, any Intellectual Property rights owned, used, or held for use by the Company or any of its Subsidiaries.

(xi) Neither the Company nor any of its Subsidiaries intends to utilize any inventions, trade secrets, or proprietary information of any employee made prior to his or her employment by the Company or such Subsidiary, as appropriate.

(xii) Except as disclosed in Section 3.1(w)(xii) of the Company Disclosure Letter, all hardware, software and firmware, processed data, technology infrastructure and other computer systems used in connection with the conduct of the business and operations, as presently conducted, of the Company and its Subsidiaries, individually and taken as a whole (collectively, the "**Technology**") are sufficient, in all material respects, for conducting the business, as presently conducted, of the Company and its Subsidiaries, individually and taken as a whole.

(xiii) During the three (3) years prior to the date hereof, (i) there have been no material security breaches in the Company's or any of its Subsidiaries' information technology systems, and (ii) there have been no disruptions in any of the Company's or any of its Subsidiaries' information technology systems that materially adversely affected the Company's and its Subsidiaries' businesses or operations. The Company and its Subsidiaries have evaluated their disaster recovery and backup needs and have implemented plans and systems that reasonably address their assessment of risk. With respect to the Software used or held for use in the businesses of the Company and its Subsidiaries as presently conducted, to the knowledge of the Company, (i) no such Software contains any device or feature designed to disrupt, disable, or otherwise impair the functioning of any Software, (ii) the Company and its Subsidiaries have not delivered, licensed or made available, and the Company and its Subsidiaries have no duty or obligation (whether present, contingent, or otherwise) to deliver, license or make

available, the source code for any such Software to any escrow agent or other Person who is not, as of the date of this Agreement, an employee of the Company or its Subsidiaries, and (iii) no such Software is subject to the terms of any “open source” or other similar license that provides for any source code of the Software to be disclosed, licensed, publicly distributed, or dedicated to the public.

(x) Environment. Except as disclosed in Section 3.1(x) of the Company Disclosure Letter:

(i) the Company and its Subsidiaries are in compliance in all material respects with all applicable Environmental Laws, including any Laws relating to or governing (including obtaining any necessary governmental approvals, authorizations and permits) the importation, exportation, use, distribution and disposal of any materials, chemicals, equipment and substances into, from or within Canada, including but not limited to, the *Canadian Environmental Protection Act, 1999* and the regulations issued thereunder;

(ii) there has not occurred any Release of any Hazardous Substances on, at, in, under or from any of the real properties currently or previously owned, leased or used by the Company and its Subsidiaries and there is no such Release, regardless of whether it was in compliance with Environmental Laws that could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, and there are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, emission, discharge, presence or disposal of any Hazardous Substances, that could reasonably be expected to form the basis of any material Environmental Claim against the Company or any of its Subsidiaries, or against any Person whose liability for any Environmental Claim the Company or any of its Subsidiaries has retained or assumed either contractually or by operation of law, or otherwise result in material costs or liabilities under any Environmental Law;

(iii) none of the real properties currently or previously owned, leased or used by the Company or its Subsidiaries has been used by the Company to generate, manufacture, refine, treat, recycle, transport, store, handle, dispose of, transfer, produce or process Hazardous Substances, and, to the knowledge of the Company, all Hazardous Substances handled, recycled, disposed of, treated or stored off site by, for or from any Company or Subsidiary operations or properties have been handled, recycled, disposed of, treated and stored in compliance in all material respects with all applicable Environmental Laws, and, to the knowledge of the Company, there are no Hazardous Substances at, in, on, under or migrating from any Company or Subsidiary properties;

(iv) there are no Environmental Claims pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or against any Person whose liability for any Environmental Claim the Company or any of its Subsidiaries has retained or assumed either contractually or by operation of law, arising out of, under or with respect to any Environmental Laws;

(v) no Liens in favor of any Governmental Authority or other Person arising under applicable Environmental Laws exist, are pending or, to the knowledge of the Company, threatened, affecting, directly or indirectly, the Company or any of its Subsidiaries or any real or personal property of the Company or any of its Subsidiaries;

(vi) the Company Data Room contains all environmental assessments, audits, reports, results of investigations, findings, data, and other documents or information in the possession of or reasonably available to the Company or any of its Subsidiaries regarding or relating to environmental matters, or that relate to the current or past environmental condition of any real property currently or formerly owned, leased, occupied or used by the Company or any of its Subsidiaries, or the compliance or noncompliance by the Company or any of its Subsidiaries under or with any Environmental Laws;

(vii) the Company or its Subsidiaries are in possession of all Environmental Approvals required or necessary to own, lease or operate its business and operations, and is in material compliance with the terms and conditions of all such Environmental Approvals; there are no actions, investigations or other Proceedings in progress, pending, or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries that could reasonably be expected to result in the suspension, loss or revocation of any such Environmental Approvals; and true, complete and correct copies of all such Environmental Approvals are contained in the Company Data Room; and,

(viii) neither the Company nor any of its Subsidiaries is required by any Environmental Law or by virtue of the transactions set forth herein and contemplated hereby, or as a condition to the effectiveness of any transactions contemplated hereby, (i) to perform a site assessment for Hazardous Substances, (ii) to remove or remediate Hazardous Substances, (iii) to give notice to, obtain review by, or receive approval from any Governmental Authority, (iv) to record or deliver to any Person any disclosure document or statement pertaining to environmental matters, or (v) to change the status, terms or conditions of any Environmental Approvals held by the Company or any of its Subsidiaries, or required for any of their business or operations, or to renew, modify, revoke, alter, transfer or amend any such Environmental Approval for the continuation of the business and operations of the Company or any of its Subsidiaries after the Closing Date.

(y) Insurance. The Company and the Company's Subsidiaries maintain the material insurance policies described in Section 3.1(y) of the Company Disclosure Letter, which include director and officer and employee and officer insurance policies, and the Company or the relevant Subsidiary of the Company is in compliance in all material respects with all requirements with respect thereto. The Company has made available to Parent true, correct and complete copies of all material insurance policies described in Section 3.1(y) of the Company Disclosure Letter. Except for failures to maintain insurance or self-insurance that would not reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole, since January 1, 2010, each of the Company and the

Company's Subsidiaries, and their respective properties and assets, has been continuously insured with financially responsible insurers or has self-insured, in each case in such amounts and with respect to such risks and losses as (i) are required by applicable Law or by the Company Material Contracts and (ii) are customary for companies conducting the businesses conducted by the Company and the Company's Subsidiaries and, to the knowledge of the Company, there is no condition specific to the Company or its Subsidiaries which would prevent the Company or its Subsidiaries from obtaining insurance policies for such risks and losses. All material insurance policies of each of the Company and the Company's Subsidiaries are in full force and effect. Neither the Company nor any of the Company's Subsidiaries has received any notice of cancellation or termination with respect to any such policy. All premiums due and payable through the date hereof under all such policies have been paid the Company and its Subsidiaries are otherwise in compliance in all material respects with the terms of such policies, except for such failures to be in compliance as would not be material to the Company and its Subsidiaries, taken as a whole. There has been no denial of material claims nor material claims disputed by the Company's or any of the Company's Subsidiaries' insurers in the past or present.

(z) Relationships with Third Parties. Except as disclosed in Section 3.1(z) of the Company Disclosure Letter, neither the Company nor any of the Company's Subsidiaries has received any written or, to the knowledge of the Company, other notice or other communication that any material customer, supplier, manufacturer, licensor, distributor or sales representative intends to cancel, terminate, discontinue or not renew or change the terms or otherwise modify its relationship with the Company or any of the Company's Subsidiaries, and, to the knowledge of the Company, no such action has been threatened, which would reasonably be expected to be material to the Company and its Subsidiaries, taken as a whole.

(aa) Books and Records. The corporate records and minute books of the Company and the Company's Subsidiaries have been maintained in accordance with all applicable Laws in all material respects, and such corporate records and minute books are complete and accurate in all material respects, including, but not limited to the fact that, the minute books contain the minutes of all meetings of the boards of directors, committees of the board and shareholders and all resolutions passed by the boards of directors, committees of the boards and the shareholders. The financial books, records and accounts of the Company and the Company's Subsidiaries (i) have in all material respects been maintained in accordance with good business practices and in accordance with IFRS and with the accounting principles generally accepted in the country of domicile of each such entity on a basis consistent with prior years, (ii) are stated in reasonable detail and accurately and fairly reflect the transactions and acquisitions and dispositions of property or assets of each of the Company and the Company's Subsidiaries, and (iii) accurately and fairly reflect the basis for the consolidated financial statements of the Company. All such corporate records and minute books of the Company and the Company's Subsidiaries have been made available to Parent.

(bb) Non-Arm's Length Transactions. Except for employment or employment compensation agreements entered into in the ordinary course of business, as disclosed in the Company Public Disclosure Record or the Litha Public Disclosure Record, or as disclosed in Section 3.1(bb) of the Company Disclosure Letter, there are no current

Contracts or transactions, nor are there any currently proposed Contracts or transactions between the Company or any of the Company's Subsidiaries, on the one hand, and any (i) officer or director of the Company or any of the Company's Subsidiaries, (ii) any holder of record or, to the knowledge of the Company, beneficial owner of or 10% or more of the outstanding Company Common Shares or (iii) any Affiliate or associate or any such officer, director or Company Shareholder, on the other hand.

(cc) No Collateral Benefits. To the knowledge of the Company, no related party of the Company is entitled to receive as a consequence of the Arrangement or the other transactions contemplated by this Agreement any collateral benefit, other than a benefit described in paragraph (c) of the definition of collateral benefit where either (i) the related party, together with its associated entities beneficially owns or exercises control or direction over less than one percent or more of the outstanding Company Common Shares or (ii) the requirements of clause (c)(iv)(B)(I) and (II) of the definition of collateral benefit have been satisfied with respect to that benefit and the Company will provide the disclosure contemplated by clause (c)(iv)(B)(III) in the Joint Proxy Statement/Circular. The terms "related party", "associated entity" and "collateral benefit" are used in this paragraph as defined in MI 61-101.

(dd) Corrupt Practices Legislation. Neither the Company nor any of the Company's Subsidiaries has taken or committed to take any action which would cause the Company or any of the Company's Subsidiaries or Affiliates to be in violation of the United States *Foreign Corrupt Practices Act*, the *Corruption of Foreign Public Officials Act* (Canada) or any applicable Law of similar effect, and, to the knowledge of the Company, no such action has been taken by any Person acting on behalf of the Company or any of the Company's Subsidiaries or Affiliates.

(ee) Fairness Opinion. The Company Board of Directors has received the Company Fairness Opinion from the Company Financial Advisor to the effect that, as of the date of this Agreement, the consideration to be received by the Company Shareholders under the Arrangement is fair, from a financial point of view, to such Company Shareholders, excluding the Specified Shareholders. A true, correct and complete copy of the Company Fairness Opinion will be provided by the Company to Parent not later than two Business Days after the date hereof.

(ff) Board of Directors Approval. The Board of Directors, at a meeting duly called and held, has unanimously determined that the Arrangement is fair, from a financial point of view, to the Company Shareholders and is in the best interests of the Company, has unanimously approved the execution and delivery of this Agreement and the transactions contemplated by this Agreement and has unanimously resolved to recommend that the Company Shareholders vote in favour of the Arrangement Resolution. Each director and executive officer of the Company intends, to the knowledge of the Company, to vote all of the Company Common Shares held by him or her in favour of the Arrangement Resolution and has agreed that references to such intention may be made in the Circular and other documents relating to the Arrangement and the Merger.

(gg) Shareholder Approval. The only vote of the Company Shareholders required to approve the Arrangement Resolution in accordance with the CBCA is the Company Shareholder Approval. No other vote of the stockholders of the Company is required by Law, the constating documents of the Company or otherwise to adopt this Agreement and approve the Arrangement.

(hh) No Other Representations and Warranties. Except for the representations and warranties made by the Company in this Section 3.1, neither the Company or any other Person makes any express or implied representation or warranty with respect to the Company or any of its Subsidiaries or their respective businesses, assets, operations, liabilities, condition (financial or otherwise) or prospects, and the Company hereby disclaims any such other representations or warranties. In particular, without limiting the foregoing disclaimer, except for the representations and warranties made by the Company in this Section 3.1, neither Company nor any other Person makes or has made any representation or warranty to Parent or any of its Representatives, with respect to (i) any financial projection, forecast, estimate, budget or prospective information relating to the Company, any of the Company's Subsidiaries or their respective businesses or operations or (ii) any oral or written information furnished or made available to Parent or any of its Representatives in the course of their due diligence investigation of Company, the negotiation of this Agreement or the consummation of this transaction and the other transactions contemplated by this Agreement, including the accuracy, completeness or currentness thereof, and neither the Company nor any other Person will have any liability to Parent or any other Person in respect of such information, including any subsequent use of such information, except in the case of fraud. Notwithstanding anything contained in this Agreement to the contrary, the Company acknowledges and agrees that none of Parent, any Parent Party or any other Person has made or is making any representations or warranties whatsoever, express or implied, beyond those expressly made by Parent in Section 3.2, including any implied representation or warranty as to the accuracy or completeness of any information regarding Parent furnished or made available to the Company, or any of its Representatives.

3.2 Representations and Warranties of Parent

Except as disclosed in the Parent Disclosure Letter or the Parent Public Disclosure Record (other than any disclosure contained under the captions "Risk Factors" or "Forward Looking Statements" or similar captions and any other disclosure contained therein that is predictive, cautionary or forward-looking in nature), Parent represents and warrants to and in favour of the Company as follows and acknowledges that the Company is relying upon such representations and warranties in entering into this Agreement:

(a) Organization and Corporate Capacity. Each of Parent and CanCo 1 is a corporation and has been duly organized and is validly existing and in good standing under the Laws of its respective jurisdiction of incorporation. Each of Parent and CanCo 1 has the power and authority to own its property and to conduct its business as described in the Parent Public Disclosure Record, as applicable, and is duly qualified to transact business and is in good standing (to the extent such concept is recognized) in each jurisdiction in which the conduct of its business as currently conducted or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good

standing would not reasonably be expected to have a Parent Material Adverse Effect. Parent has made available to the Company true, complete and correct copies of the constating documents of CanCo 1 and Parent, in each case as amended.

(b) Authority Relative to this Agreement. Each of Parent and CanCo 1 has the requisite corporate power, authority and capacity to enter into and perform its respective obligations under this Agreement and to complete the transactions contemplated hereby. The execution and delivery of this Agreement and the completion by Parent and CanCo 1 of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action of Parent and CanCo 1 and no other corporate proceedings on the part of Parent and CanCo 1 are necessary to authorize the execution and delivery by it of this Agreement or the Arrangement or the completion by Parent and CanCo 1, respectively, of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and CanCo 1 and constitutes the legal, valid and binding obligation of Parent and CanCo enforceable against each of it in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other Laws relating to or affecting the availability of equitable remedies and the enforcement of creditors' rights generally and general principles of equity.

(c) Required Approvals. No authorization, licence, Permit, certificate, registration, consent or approval of, or filing with, or notification to, any Governmental Authority is necessary for the execution and delivery by Parent and CanCo 1 of this Agreement, the performance by Parent and CanCo 1 of its obligations hereunder and the completion by either of them of the Arrangement, other than:

(i) the Interim Order and any filings required in order to obtain, and approvals required under, the Interim Order;

(ii) the Final Order, and any filings required in order to obtain the Final Order;

(iii) such filings and other actions required under applicable Canadian Securities Laws and the securities Laws of the United States (including any state or provincial securities Laws) and the rules and policies of the TSX and the NASDAQ, in each case, as are contemplated by this Agreement;

(iv) the Required Regulatory Approvals; and

(v) any other authorizations, licences, Permits, certificates, registrations, consents, approvals and filings and notifications with respect to which the failure to obtain or make same would not reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger.

(d) No Violation. Subject to obtaining the authorizations, consents and approvals and making the filings referred to in Section 3.2(c) and complying with applicable Laws and Orders, the execution and delivery by Parent and CanCo 1 of this Agreement, the performance by Parent and CanCo 1 of their respective obligations hereunder

and the completion of the Arrangement and the Merger does not and will not (nor will they with the giving of notice or the lapse of time or both):

(i) result in a contravention, breach, violation or default under any Law or Order applicable to Parent or the Parent Material Subsidiaries or any of its or their respective properties or assets,

(ii) result in a contravention, conflict, violation, breach or default under the constating documents of Parent or the Parent Material Subsidiaries;

(iii) result in a contravention, breach or default under or termination of, or acceleration or permit the acceleration of the performance required by, any Parent Material Contract or material Permit to which Parent or any Parent Material Subsidiary is a party or by which Parent or any Parent Material Subsidiary is bound, or to which any of Parent's or any Parent Material Subsidiary's properties or assets is subject or give to any Person any interest, benefit or right, including any right of purchase or sale, termination, payment, modification, reimbursement, penalty, cancellation or acceleration, under any such Contract or Permit; or

(iv) result in the suspension or alteration in the terms of any material Permit held by Parent or any Parent Material Subsidiary or in the creation of any Lien upon any of their properties or assets;

except, in the case of each of clauses (i), (iii) and (iv) above, as would not reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger.

(e) Capitalization of Parent. As of the date of this Agreement, the authorized capital of Parent consists of 350,000,000 shares of common stock, of which 143,927,490 (including 29,088,505 shares of treasury stock) shares are issued and outstanding, and 40,000,000 shares of preferred stock, par value U.S.\$0.01 per share, of which zero shares of convertible preferred stock are issued and outstanding. All of the issued and outstanding shares of common stock and preferred stock of Parent (i) have been duly authorized and validly issued and are fully paid and nonassessable, (ii) have not been issued in violation of the articles, charter, by-laws or other constating documents of Parent, or any agreement, contract, covenant, undertaking, or commitment to which Parent is a party or bound, and (iii) have been issued and sold in compliance with U.S. Securities Laws in all material respects. Except as set forth in the Parent Public Disclosure Record, as of the date of this Agreement, there are no outstanding agreements, subscriptions, warrants, options, rights or commitments (nor has it granted any right or privilege capable of becoming an agreement, subscription, warrant, option, right or commitment) obligating Parent to issue or sell any shares of common stock or other securities of Parent, including any security or obligation of any kind convertible into or exchangeable or exercisable for any shares of common stock or other security of Parent.

(f) IrishCo Shares. The IrishCo Shares to be issued pursuant to the Plan of Arrangement and the Merger (i) have been duly authorized, and, upon issuance, will

be validly issued, fully paid and not subject to calls for any additional payments (non-assessable) and (ii) will not be issued in violation of the memorandum, articles, charter, by-laws or other constating documents of IrishCo, as the case may be, or any agreement, contract, covenant, undertaking, or commitment to which IrishCo is a party or bound.

(g) Parent Public Disclosure Record; Financial Statements; Listing.

(i) Parent has filed all required registration statements, prospectuses, reports, schedules, forms, statements and other documents required to be filed by it with the SEC since January 1, 2011 (collectively, as they may have been amended since the time of their filing and including all exhibits thereto, the “**SEC Reports**”). No Parent Material Subsidiary is required to file any form, report, registration statement, prospectus or other document with the SEC. None of the SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date hereof, then on the date of such filing), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(ii) Each of the financial statements (including the related notes) included in the SEC Reports (if amended, as of the date of the last such amendment prior to the date hereof) (the “**Parent Financial Statements**”) presents fairly, in all material respects, the consolidated financial position and consolidated results of operations and cash flows of Parent and the Parent Material Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with U.S. GAAP, except as otherwise noted therein, and subject, in the case of the unaudited interim financial statements, to year-end audit adjustments, and lack of footnote disclosure or, with respect to pro forma information, subject to the qualifications stated therein. All of such SEC Reports (including any financial statements included or incorporated by reference therein), as of their respective dates (and as of the date of any amendment to the respective SEC Report), complied as to form in all material respects with the applicable requirements of the 1933 Securities Act and the 1934 Exchange Act.

(iii) Parent is in compliance in all material respects with the requirements of the NASDAQ for continued listing of its shares of common stock thereon. Parent has not taken any action designed to terminate, or likely to have the effect of terminating, the registration of its shares of common stock under the 1934 Exchange Act or the listing of such shares on the NASDAQ.

(h) No Undisclosed Liabilities. Parent and the Parent Material Subsidiaries have no liability or obligation of any nature (whether accrued, absolute, contingent or otherwise), other than (i) liabilities and obligations disclosed in the Parent Public Disclosure Record, (ii) liabilities and obligations incurred in the ordinary course of business since December 31, 2012 that have not had and would not reasonably be expected to have, individually or in aggregate with all other liabilities and obligations of the Parent and the Parent Material Subsidiaries (other than those disclosed in the Parent Public Disclosure Record), a Parent Material Adverse Effect and (iii) liabilities and obligations incurred in

connection with this Agreement and the transactions contemplated hereby. Without limiting anything set forth herein, the Parent Financial Statements filed prior to the date of this Agreement reflected and continued to reflect, in each case as of the date filed, appropriate reserves under U.S. GAAP for contingent liabilities relating to pending or anticipated litigation and other contingent obligations of the Parent and the Parent's Subsidiaries.

(i) Absence of Certain Changes. (i) Since December 31, 2012, no result, fact, change, effect, event, circumstance, occurrence or development has occurred or arisen which has had or would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect and (ii) since June 30, 2013, Parent and each of the Parent Material Subsidiaries has conducted its business in all material respects in the ordinary course of business consistent with past practice.

(j) Compliance with Laws. Since January 1, 2012, the business of Parent and of each of the Parent Material Subsidiaries has been and is currently being conducted in compliance with all applicable Laws, Orders and Regulatory Guidelines and Parent has not received any notice of any alleged material non-compliance or violation of any such Laws, Orders or Regulatory Guidelines, except where any failure of compliance would not, and could not reasonably be expected to, result in a Material Adverse Effect on Parent. Without limiting the generality of the foregoing, all issued and outstanding of Parent Common Shares have been issued in compliance, in all material respects, with all applicable U.S. Securities Laws.

(k) Litigation. As of the date hereof, there is no Proceeding against or involving Parent or any of the Parent Material Subsidiaries (whether in progress, pending or, to the knowledge of Parent, threatened) that, if adversely determined, would prevent or significantly impede or materially delay the completion of the Arrangement or the Merger and, to the knowledge of Parent, no event or circumstance has occurred which might reasonably be expected to give rise to any such Proceeding. Neither Parent nor any of the Parent Material Subsidiaries nor any of their respective properties or assets is subject to any outstanding Order that that would reasonably be expected to (x) prevent or significantly impede or materially delay the completion of the Arrangement or the Merger or (y) have a Parent Material Adverse Effect on the Parent or any of the Parent Material Subsidiaries.

(l) Contracts.

(i) Except as set forth in Section 3.2(l) of the Parent Disclosure Letter or in the SEC Reports, none of Parent or any of the Parent Material Subsidiaries is a party to or bound or governed by any "material contract", as such term is defined in Item 601(b)(10) of Regulation S-K promulgated by the SEC (any such contract, a "**Parent Material Contract**"). True, correct and complete copies of each Parent Material Contract have been provided to the Company.

(ii) Except as would not reasonably be expected to have a Parent Material Adverse Effect, none of Parent, the Parent Material Subsidiaries or, to the knowledge of Parent, any of the other parties thereto, is in breach or violation of or in default under, or committed or failed to perform any act which would result in a default

under, (in each case, with or without notice or lapse of time or both) any Parent Material Contract in any material respect, and none of Parent or any of the Parent Material Subsidiaries has received or given any notice of default under any Parent Material Contract which remains uncured. To the knowledge of Parent, there exists no state of facts which after notice or lapse of time or both would constitute a default under or breach or violation of any Parent Material Contract or the inability of a party to any Parent Material Contract to perform its obligations thereunder where, in any such case, such default, breach, violation or non-performance has had or would reasonably be expected to have a Parent Material Adverse Effect. To the knowledge of Parent, no Person has challenged in writing the validity or enforceability of any Parent Material Contract.

(iii) There are no shareholders or stockholders agreements, registration rights agreements, voting trusts, proxies or similar agreements, arrangements or commitments to which Parent or any of the Parent Material Subsidiaries is a party or, to the knowledge of Parent, with respect to any shares or other equity interests of Parent or any of the Parent Material Subsidiaries or any other Contract relating to disposition, voting or dividends with respect to any shares or other equity securities of Parent or any of the Parent Material Subsidiaries.

(iv) Neither Parent nor any of the Parent Material Subsidiaries has received written notice of the termination of, or intent to terminate or otherwise fail to fully perform any Parent Material Contract.

(m) Board of Directors Approval. The Parent Board of Directors, at a meeting duly called and held, has unanimously determined that this Agreement, the Arrangement and the Merger are fair to its shareholders and are in the best interests of Parent, has unanimously approved the execution and delivery of this Agreement and the transactions contemplated by this Agreement and has unanimously resolved to recommend that the Parent Shareholders vote to adopt this Agreement. Each director and executive officer of Parent intends, to the knowledge of Parent, to vote all of the Parent Common Shares held by him or her in favour of the adoption of this Agreement and has agreed that references to such intention may be made in the Joint Proxy Statement/Circular and other documents relating to the Arrangement or the Merger.

(n) Shareholder Approval. The only vote of the stockholders of Parent required to adopt this Agreement and approve the Merger is the Parent Shareholder Approval. No other vote of the stockholders of Parent is required by Law, the constating documents of Parent or otherwise to adopt this Agreement and approve the Merger.

(o) Investment Canada. Neither Parent nor IrishCo is a Canadian within the meaning of the Investment Canada Act.

(p) Financial Resources. At the Closing, Parent will have (i) sufficient cash, available lines of credit or other sources of immediately available funds to deliver the aggregate Arrangement Cash Consideration and (ii) the financial resources and capabilities to perform its obligations under this Agreement.

(q) No Other Representations and Warranties. Except for the representations and warranties made by Parent in this Section 3.2, neither Parent or any other Person makes any express or implied representation or warranty with respect to the Parent or any Parent Material Subsidiary or their respective businesses, assets, operations, liabilities, condition (financial or otherwise) or prospects, and Parent hereby disclaims any such other representations or warranties. In particular, without limiting the foregoing disclaimer, except for the representations and warranties made by the Parent in this Section 3.2, neither Parent nor any other Person makes or has made any representation or warranty to the Company or any of its Representatives, with respect to (i) any financial projection, forecast, estimate, budget or prospective information relating to Parent, any of the Parent Material Subsidiary or their respective businesses or operations or (ii) any oral or written information furnished or made available to the Company or any of its Representatives in the course of its due diligence investigation of Parent, the negotiation of this Agreement or the consummation of this transaction and the other transactions contemplated by this Agreement, including the accuracy, completeness or currentness thereof, and neither Parent nor any other Person will have any liability to the Company or any other Person in respect of such information, including any subsequent use of such information, except in the case of fraud. Notwithstanding anything contained in this Agreement to the contrary, Parent acknowledges and agrees that none of Company or any other Person has made or is making any representations or warranties whatsoever, express or implied, beyond those expressly made by the Company in Section 3.1, including any implied representation or warranty as to the accuracy or completeness of any information regarding Company furnished or made available to Parent, or any of its Representatives.

(r) Taxes.

(i) Parent and each of its Subsidiaries has duly and timely made or prepared all Returns required to be made or prepared by it, has duly and timely filed all Returns required to be filed by it with the appropriate Governmental Authority and has completely and correctly reported all income and all other amounts or information required to be reported thereon.

(ii) Parent and each of its Subsidiaries has (A) duly and timely paid all Taxes due and payable by it other than those that are being contested in good faith pursuant to applicable Laws and in respect of which adequate reserves have been established in accordance with U.S. GAAP; and (B) duly and timely withheld all Taxes and other amounts required by applicable Laws to be withheld by it and has duly and timely remitted to the appropriate Governmental Authority such Taxes and other amounts required by applicable Laws to be remitted by it.

(iii) No audit, action, investigation, deficiency, litigation, proposed adjustment or other Proceeding exists or has been asserted or, to the knowledge of Parent, threatened with respect to Taxes or Returns of Parent or any of its Subsidiaries, and neither Parent nor any of its Subsidiaries is a party to any Proceeding for assessment, reassessment, or collection of Taxes and no such Proceeding has been asserted or, to the knowledge of Parent, threatened against Parent or any of its Subsidiaries or any of their respective assets, and there are no matters of dispute or matters under discussion with any

Governmental Authority relating to Taxes assessed by any Governmental Authority against Parent or any of its Subsidiaries or relating to Returns or any other matters which could result in claims for Taxes or additional Taxes.

(iv) There are no currently effective or pending material elections, agreements, or waivers extending the statute of limitations or providing for an extension of time with respect to the assessment or reassessment of any Taxes, the filing of any Return, or the payment of any Taxes by Parent or any of its Subsidiaries.

(v) Neither Parent nor any of its Subsidiaries has made, prepared and/or filed any elections, designations, or similar filings relating to Taxes or entered into any agreement or other arrangement in respect of Taxes or Returns that has effect for any period ending after the Closing Date.

(vi) There are no Liens for Taxes on the property or assets of Parent or any of its Subsidiaries, except for Permitted Liens.

(vii) Neither Parent nor any of its Subsidiaries has constituted a “distributing corporation” or a “controlled corporation” (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (or any similar provision of state, local, or non-US. law) in the two years prior to the date of this Agreement.

(viii) None of Parent or any of its Subsidiaries has any liability for Taxes of any Person (other than Parent or any of its Subsidiaries) under U.S. Treasury Regulation § 1.1502-6 (or any similar provision of state, local, or non-US. law), as transferee or successor, by contract or otherwise

(ix) No private letter rulings or similar agreements or rulings have been entered into or issued by any Governmental Authority with respect to Parent or any of its Subsidiaries for any taxable year for which the statute of limitations has not yet expired.

(s) Except as set forth in Section 3.2(s) of the Parent Disclosure Letter, the consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of Parent to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer.

3.3 Representations and Warranties of IrishCo

IrishCo represents and warrants to and in favour of the Company as follows and acknowledges that the Company is relying upon such representations and warranties in entering into this Agreement:

(a) Since its date of formation, IrishCo has not carried on any business or conducted any operations other than the execution of this Agreement, the performance of its obligations hereunder and thereunder and matters ancillary thereto.

(b) The authorized share capital of IrishCo consists of 1,000,000,000 IrishCo Shares, none of which are issued and outstanding as at the date of this Agreement and 100,000 IrishCo Euro Shares, of which two are issued and outstanding (one held by Parent and the other held by the Company), as at the date of this Agreement. All of the outstanding IrishCo Euro Shares have been validly issued, free and clear of any Lien.

(c) Any actions or matters under this Agreement which shall, or may, constitute unlawful financial assistance for the purpose of section 60 of the Companies Act 1963 of Ireland, shall not be carried out by IrishCo unless and until the Whitewash Requirements have been carried out.

3.4 Representations and Warranties of Interco

Interco represents and warrants to and in favour of the Company as follows and acknowledges that the Company is relying upon such representations and warranties in entering into this Agreement:

(a) Since its date of formation, Interco has not carried on any business or conducted any operations other than the execution of this Agreement, the performance of its obligations hereunder and thereunder and matters ancillary thereto.

(b) The authorized share capital of Interco consists of 100,000 Ordinary Shares of €1.00 each, 100,000 Preference Shares of €1.00 each and 10 A Ordinary Shares of €1.00 each. One Preference Share and one A Ordinary Share are issued and outstanding as at the date of this Agreement, each of which has been validly issued, free and clear of any Lien.

(c) Any actions or matters under this Agreement which shall, or may, constitute unlawful financial assistance for the purpose of section 60 of the Companies Act 1963 of Ireland, shall not be carried out by Interco unless and until the Whitewash Requirements have been carried out.

3.5 Survival of Representations and Warranties

The representations and warranties of the Parties contained in this Agreement will not survive the completion of the Arrangement and will expire and be terminated on the earlier of the Effective Time and, subject to the obligation to make any payment hereunder pursuant to Section 7.2, the date on which this Agreement is terminated in accordance with its terms. This Section 3.5 will not limit any covenant or agreement of any of the Parties, which, by its terms, contemplates performance after the Closing or the date on which this Agreement is terminated, as the case may be.

ARTICLE 4

COVENANTS REGARDING THE CONDUCT OF BUSINESS

4.1 Covenants of the Company

The Company covenants and agrees that, until the earlier of the Closing and the time that this Agreement is terminated in accordance with its terms, unless Parent otherwise consents in writing (to the extent that such consent is permitted by applicable Law) or as is otherwise disclosed in Section 4.1 of the Company Disclosure Letter or expressly permitted or specifically contemplated by this Agreement or the Plan of Arrangement or as is required by applicable Law or Order:

(a) the respective businesses of the Company and its Subsidiaries will be conducted, their respective facilities will be maintained, and the Company and its Subsidiaries will continue to operate their respective businesses, only in the ordinary course of business in an effort to preserve the value thereof;

(b) the Company and its Subsidiaries will comply in all material respects with the terms of all Company Material Contracts and the Company will use its commercially reasonable efforts to maintain and preserve intact its and its Subsidiaries' respective business organizations, assets, Permits, properties, rights, goodwill and business relationships and keep available the services of its and its Subsidiaries' respective officers and employees as a group;

(c) the Company will not, and will cause its wholly-owned Subsidiaries not to, and will use its commercially reasonable efforts, in its capacity as a shareholder of Litha, to cause Litha not to (provided that nothing shall restrict any director or officer of Litha in the exercise of its fiduciary or other applicable duties to Litha), directly or indirectly:

(i) alter or amend its articles, charter, by-laws or other constating documents;

(ii) declare, set aside or pay any dividend on or make any distribution or payment or return of capital (x) in respect of the Company Common Shares or (y) in respect of the equity interests of any Subsidiary of the Company that is not directly or indirectly wholly owned by the Company (in each case, whether in cash or property);

(iii) split, divide, consolidate, combine or reclassify the Company Common Shares or any other securities;

(iv) issue, grant, sell or pledge or authorize or agree to issue, grant, sell or pledge any Company Common Shares or other securities of the Company or its Subsidiaries (including Options or any equity-based or equity-linked awards such as restricted or deferred share units or phantom share plans), or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, Company

Common Shares or other securities of the Company or its Subsidiaries, other than the issuance of Company Common Shares issuable pursuant to the exercise of Options outstanding on the date hereof or otherwise in accordance with the Company Share Purchase Plan;

(v) (A) grant any increases in the compensation of any of its directors, executive officers or employees, except for increases in the compensation of employees with total annual compensation not in excess of \$500,000 in the ordinary course of business consistent with past practice; (B) except as required by this Agreement or as required by applicable Law (i) grant or increase any severance, change in control, termination or similar compensation or benefits payable to any director, officer or employee, (ii) except as contemplated by this Agreement, accelerate the time of payment or vesting of, or the lapsing of restrictions with respect to, or fund or otherwise secure the payment of, any compensation or benefits under any Company Plan or (iii) enter into, terminate or materially amend any Company Plan (or any plan, program, agreement, or arrangement that would constitute a Company Plan if in effect on the date hereof); (C) hire any person to be employed by the Company or any of its Subsidiaries or terminate the employment of any employee of the Company or any of its Subsidiaries, other than the hiring or firing of employees with total annual compensation not in excess of \$500,000 in the ordinary course of business consistent with past practice or (D) grant any equity or equity-based awards;

(vi) redeem, purchase or otherwise acquire any outstanding Company Common Shares or other securities or securities convertible into or exchangeable or exercisable for Company Common Shares or any such other securities, other than in transactions between two or more Company wholly-owned Subsidiaries or between the Company and a Company wholly-owned Subsidiary;

(vii) amend the terms of any securities of the Company or any of its Subsidiaries;

(viii) adopt a plan of liquidation or resolution providing for the liquidation or dissolution of the Company or any of its Subsidiaries;

(ix) reorganize, amalgamate or merge with any other Person;

(x) make any material changes to any of its accounting policies, principles, methods, practices or procedures (including by adopting any material new accounting policies, principles, methods, practices or procedures) or as contemplated hereby or in connection with any transactions contemplated hereby, except as required by applicable Laws or IFRS;

(xi) make any material change to its general practices and policies relating to the payment of accounts payable or the collection of accounts receivable;

(xii) except for sales in the ordinary course of business, or as contemplated hereby or in connection with any transactions contemplated hereby, sell,

pledge, lease, license, dispose of or encumber any assets or properties of the Company (including the shares or other equity securities of any Subsidiary of the Company) or of any of its Subsidiaries having a value greater than \$1,000,000 in the aggregate;

(xiii) (A) acquire (by merger, amalgamation, consolidation, arrangement or acquisition of shares or other equity securities or interests or assets or otherwise) any corporation, partnership, association or other business organization or division thereof or any property or asset, or make any investment by the purchase of securities, contribution of capital, property transfer, or purchase of any property or assets of any other Person that, together with all other such acquisitions, investments, contributions, transfers or purchases, has a value greater than \$5,000,000 in the aggregate other than in connection with the purchase of additional Litha shares for an aggregate consideration equal to \$15,000,000 or (B) enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement with respect to such a transaction;

(xiv) incur any indebtedness (including the making of any payments in respect thereof, including any premiums or penalties thereon or fees in respect thereof) or issue any debt securities, or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other Person, or make any loans or advances in excess of \$1,000,000 in the aggregate to any other Persons;

(xv) enter into any material currency, commodity, interest rate or equity related hedge, derivative, swap or other financial risk management Contract;

(xvi) pay, discharge or satisfy any claim, liability or obligation prior to the same being due, other than the payment, discharge or satisfaction of liabilities reflected or reserved against in the Company Financial Statements, or voluntarily waive, release, assign, settle or compromise any Proceeding, where such payment, discharge, satisfaction, waiver, release, assignment, settlement or compromise exceeds \$1,000,000 in the aggregate or in any case, would entail any non-monetary damages;

(xvii) settle or compromise any action, claim or other Proceeding brought by any present, former or purported holder of its securities in connection with the transactions contemplated by this Agreement, the Merger or the Arrangement;

(xviii) enter into any material new line of business, enterprise or other activity;

(xix) expend or commit to expend any amounts with respect to capital expenses, where such expenditure or commitment exceeds \$1,000,000 in the aggregate;

(xx) enter into any lease or sublease of real property (whether as a lessor, sublessor, lessee or sublessee), or modify, amend or exercise any right to renew any lease or sublease of real property or acquire any interest in real property that would exceed \$500,000 per year;

(xxi) (x) other than in the ordinary course of business, enter into any contract that would, if entered into prior to the date hereof, be a Company Material Contract, or (y) materially modify, materially amend or terminate any Company Material Contract or waive, release or assign any material rights or claims thereunder;

(xxii) other than in the ordinary course of business, fail to use commercially reasonable efforts to maintain in full force and effect the existing material insurance policies covering the Company or its Subsidiaries;

(xxiii) make, change, revoke or rescind any material election relating to Taxes or make any material amendment with respect to any Return;

(xxiv) take any action that would reasonably be expected to prevent or significantly impede or materially delay the completion of the Arrangement or the Merger;

(xxv) make, or permit any of the Company's Subsidiaries to, make, any loan to any officer or director of the Company or any of its Subsidiaries;

(xxvi) enter into, modify or terminate any Contract with respect to any of the foregoing or otherwise agree or announce an intention to do any of the foregoing; or

(xxvii) other than in the ordinary course of business, submit any material information to or enter into any material discussions with or respond to any enquiry from any Regulatory Authority with respect to any product (a "**Product Regulatory Communication**"), without having fully and promptly consulted with, and had due regard to the feedback received from, Parent. Parent shall be provided with at least five Business Days' notice to comment on any Product Regulatory Communication, save that in the event that the Company is legally compelled to submit any such information or otherwise respond to any such Governmental Authority on less than five Business Days' notice, Parent's period of consultation shall be reduced to such period as is reasonably practicable in the circumstances;

(d) the Company will comply with all Laws, and use commercially reasonable efforts to comply with all Regulatory Guidelines (and in any event at least to the extent complied with in accordance with past practices), affecting the operation of the Company, and

(e) the Company will promptly notify Parent in writing of any "material change" (as defined in the Securities Act) in relation to the Company, and the Company will promptly notify Parent in writing of any circumstance or development that, to the knowledge of the Company, has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

Nothing in this Section 4.1 shall give Parent or any Parent Party the right to control, directly or indirectly, the operations or the business of the Company or any of its Subsidiaries at any time prior to the Closing.

4.2 Covenants of Parent

Parent covenants and agrees that, until the earlier of the Closing and the time that this Agreement is terminated in accordance with its terms, unless the Company otherwise consents in writing (to the extent that such consent is permitted by applicable Law), which consent shall not be unreasonably withheld, conditioned or delayed, or as is otherwise disclosed in Section 4.2 of the Parent Disclosure Letter or expressly permitted or specifically contemplated by this Agreement or as is otherwise required by applicable Law or Order:

(a) the respective businesses of Parent and the Parent Material Subsidiaries will be conducted, their respective facilities will be maintained, and Parent and the Parent Material Subsidiaries will continue to operate their respective businesses, only in the ordinary course of business in an effort to preserve the value thereof;

(b) Parent will use commercially reasonable efforts to maintain and preserve intact its and the Parent Material Subsidiaries' respective business organizations, assets, properties, rights, goodwill and business relationships and keep available the services of its and its subsidiaries' respective officers and employees as a group;

(c) Parent will not, and will not permit any of the Parent Material Subsidiaries to, directly or indirectly:

(i) alter or amend its articles, charter, by-laws or other constituting documents in a manner adverse to the Company Shareholders;

(ii) declare, set aside or pay any dividend on or make any distribution or payment or return of capital in respect of any of its securities other than in the ordinary course of business and consistent with past practice except, in the case of any of Parent's wholly-owned Subsidiaries, for dividends payable to Parent or among wholly-owned Subsidiaries of Parent;

(iii) split, divide, consolidate, combine or reclassify the Parent Common Shares;

(iv) amend the material terms of any other securities of Parent;

(v) adopt a plan of liquidation or resolution providing for the liquidation or dissolution of Parent or any of its Subsidiaries; or

(vi) enter into any agreement, contract, covenant, undertaking, or commitment with respect to any of the foregoing; or

(vii) issue any Parent securities other than in settlement of any outstanding equity compensation awards; and

(d) Parent will promptly notify the Company in writing of any circumstance or development that, to the knowledge of Parent, has had or would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

ARTICLE 5

ADDITIONAL COVENANTS

5.1 Access to Information

Subject to compliance with applicable Laws and Orders and the terms of any existing Contracts, each Party shall, and shall cause its respective wholly-owned Subsidiaries to, afford to the other Parties and their respective Representatives, until the earlier of the Closing or the termination of this Agreement in accordance with its terms, continuing access to the other parties' virtual data rooms, and reasonable access, during normal business hours and upon reasonable notice, to its businesses, properties, books and records and such other data and information as a Party may reasonably request, as well as to the other Party's and its wholly-owned Subsidiaries' personnel, subject, however, to such access not interfering with the ordinary conduct of its businesses. Subject to compliance with applicable Laws and Orders and such requests not materially interfering with the ordinary conduct of the business of a Party and its wholly-owned Subsidiaries, the Company will also make available to the Parties and their Representatives all other information reasonably requested by Parent; provided, that if the terms of any Law, Order or Contract shall limit a Party's right to access or information pursuant to this Section 5.1, the disclosing Party shall use its commercially reasonable efforts to (a) obtain any consents from a third party to provide such access or information or (b) develop an alternative to providing such access or information to a Party so as to address such lack of access or information in a manner reasonably acceptable to the receiving Party. Without limiting the generality of the provisions of the Non-Disclosure Agreement, each of the Parties acknowledges that all information provided to it under this Section 5.1, or otherwise pursuant to this Agreement or in connection with the transactions contemplated hereby, is subject to the Non-Disclosure Agreement, which will remain in full force and effect notwithstanding any other provision of this Agreement or any termination of this Agreement. If any provision of this Agreement otherwise conflicts or is inconsistent with any provision of the Non-Disclosure Agreement, the provisions of this Agreement will supersede those of the Non-Disclosure Agreement but only to the extent of the conflict or inconsistency and all other provisions of the Non-Disclosure Agreement will remain in full force and effect.

5.2 Consents and Approvals

(a) Subject to the terms and conditions of this Agreement (including Section 5.2(e)), each Party shall, and shall cause its wholly-owned Subsidiaries to, use commercially reasonable efforts to take, or cause to be taken, all actions, and do, or cause to be done, and to assist and cooperate with the other Party in doing, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement (including the Arrangement and the Merger) as promptly as practicable, including:

(i) as promptly as practicable, obtain from any Governmental Authority all waivers, consents, clearances and approvals, including the Required Regulatory Approvals, required to be obtained in connection with the consummation of the transactions contemplated by this Agreement (including the Arrangement and the Merger);

(ii) as promptly as reasonably practicable (but in any event within 14 days following the date of this Agreement), make all filings and submissions, including, without limiting the foregoing, an application by IrishCo for an Advance Ruling Certificate or no-action letter under the Competition Act (to the extent the Competition Act Approval is required under applicable Law in respect of the transactions contemplated by this Agreement (including the Arrangement and the Merger)) and an application by IrishCo for review under the Investment Canada Act, except that each Party's pre-merger notification filings under Part IX of the Competition Act will be made within 20 days of the filing of the Advance Ruling Certificate unless the Parties agree otherwise, and thereafter make any other required or appropriate submissions, that are required or reasonably necessary to consummate the transactions contemplated by this Agreement (including the Arrangement and the Merger), including all filings and submissions required in connection with the Required Regulatory Approvals; and

(iii) as promptly as reasonably practicable, take reasonable actions to provide notice to any third party, or obtain from any third party any waivers, consents and approvals required to be obtained, in connection with the consummation of the transactions contemplated by this Agreement (including the Arrangement and the Merger); provided, however, that notwithstanding anything in this Agreement to the contrary, in no event shall Company, Parent, IrishCo or any of their respective Subsidiaries be required to pay, prior to the Closing, any fee, penalty or other consideration to any third party for any waiver, consent or approval required in connection with the consummation of the transactions contemplated by this Agreement (including the Arrangement and the Merger) under any Contract or other arrangement.

(b) Subject to the terms and conditions hereof, including Section 5.2(e), each of the Parties agrees, and shall cause each of their respective Subsidiaries, to cooperate and to use commercially reasonable efforts to (i) obtain any waivers, consents, clearances and approvals required in connection with the consummation of the transactions contemplated hereby (including the Arrangement and the Merger) under the HSR Act, the Competition Act (to the extent the Competition Act Approval is required under applicable Law in respect of the transactions contemplated by this Agreement (including the Arrangement and the Merger)), the Investment Canada Act, Competition Act of South Africa and any other federal, provincial, state or foreign Law designed to prohibit, restrict or regulate actions for the purpose or effect of monopolization or restraint of trade or foreign investment (collectively, "**Relevant Laws**"), and (ii) respond to any requests of any Governmental Authority for information or documentary material under any Relevant Law, and to contest and resist any action, including any legislative, administrative or judicial action, and to have vacated, lifted, reversed or overturned any Law or Order (whether temporary, preliminary or permanent) that restricts, prevents or prohibits the consummation of the Arrangement, the Merger or any other transactions contemplated by this Agreement under any Relevant Law. The Parties shall consult and cooperate with one another, and consider in good faith the views of one another, regarding the form and content of any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any Party in connection with proceedings under or relating to any Relevant Law prior to their submission.

(c) Each of the Company, Parent and IrishCo shall (i) promptly advise each other of any written or oral communication (including communications received by their respective Subsidiaries) from any Governmental Authority or third party from whom a waiver, consent or approval is required or reasonably necessary in connection with the consummation of the transactions contemplated by this Agreement (including the Arrangement and the Merger); (ii) not participate in any meeting or discussion with any Governmental Authority in respect of any filing, investigation, or enquiry concerning this Agreement or the transactions contemplated by this Agreement unless it consults with the other Party in advance, and, unless prohibited by such Governmental Authority, gives the other Party the opportunity to attend; and (iii) promptly furnish the other Party with copies of all correspondence, filings, and written communications between them and their Subsidiaries and Representatives, on the one hand, and any Governmental Authority or its staff, on the other hand, with respect to this Agreement and the transactions contemplated by this Agreement, except that materials may be redacted as necessary to address reasonable privilege, competitively sensitive information, or confidentiality concerns. If a Party (the “**Disclosing Party**”) is required to provide information to the other Party (the “**Receiving Party**”) that the Disclosing Party deems to be competitively sensitive information (or otherwise reasonably determines in respect thereof that disclosure should be restricted), the Disclosing Party may restrict the provision of such information to the Receiving Party’s external legal counsel.

(d) Each Party will provide as promptly as practicable such information and documentary material as may be requested by a Governmental Authority following any such filing or notification.

(e) In furtherance and not in limitation of the other covenants contained in this Section 5.2, but subject to the last sentence of this Section 5.2(e), each of the Company and Parent agrees to take, or cause to be taken (including by its Subsidiaries), any and all steps and to make, or cause to be made (including by its Subsidiaries), any and all undertakings necessary to resolve such objections, if any, that a Governmental Authority may assert under any Relevant Law with respect to the Arrangement and the Merger, and to avoid or eliminate each and every impediment under any Relevant Law that may be asserted by any Governmental Authority with respect to the Arrangement and the Merger, in each case, so as to enable each of the Effective Time and the Merger Effective Time to occur as promptly as practicable and in any event no later than the Outside Date, including (x) proposing, negotiating, committing to and effecting, by consent decree, hold separate order, or otherwise, the sale, divestiture or disposition of any businesses, assets, equity interests, product lines or properties of the Company or Parent (or any of their respective Subsidiaries) or any equity interest in any Joint Venture held by the Company or Parent (or any of their respective Subsidiaries), (y) creating, terminating, or divesting relationships, ventures, contractual rights or obligations of the Company or Parent or their respective Subsidiaries and (z) otherwise taking or committing to take any action that would limit Parent’s or IrishCo’s freedom of action with respect to, or its ability to retain or hold, directly or indirectly, any businesses, assets, equity interests, product lines or properties of the Company or Parent (including any of their respective Subsidiaries), in each case as may be required in order to obtain all waivers, consents, clearances or approvals required directly or indirectly under any Relevant Law or to avoid the commencement of any action to prohibit the Arrangement or the Merger under any

Relevant Law, or to avoid the entry of, or to effect the dissolution of, any Order in any Proceeding seeking to prohibit the Arrangement or the Merger or delay the Effective Time or the Merger Effective Time beyond the Outside Date. Notwithstanding anything in this Agreement to the contrary, nothing in this Agreement shall require, or be deemed to require, the Company or Parent (or any of their Subsidiaries) to take any action, agree to take any action or consent to the taking of any action (including with respect to selling, holding separate or otherwise disposing of any business or assets or conducting its (or their Subsidiaries) or, following consummation of the Arrangement and the Merger, IrishCo's, business in any specified manner) if doing so would, individually or in the aggregate, reasonably be expected to be material and adverse to the Company and its Subsidiaries and to Parent and its Subsidiaries, taken as a whole (a "**Restraint**").

5.3 Covenants of the Company Regarding the Arrangement and the Merger

Subject to the terms and conditions of this Agreement (including Section 5.2), the Company will perform all obligations required to be performed by the Company under this Agreement, cooperate with Parent in connection therewith, and use commercially reasonable efforts to do such other acts and things as may be necessary or desirable in order to complete the Arrangement, the Merger and the other transactions contemplated hereby, including:

- (a) publicly announcing the entering into of this Agreement, the support of the Company Board of Directors of the Arrangement and the Company Recommendation;
- (b) using commercially reasonable efforts to defend all lawsuits or other legal, regulatory or other Proceedings against the Company challenging or affecting this Agreement or the completion of the Arrangement or the Merger; and
- (c) forthwith carrying out the terms of the Interim Order and Final Order to the extent applicable to it and taking all necessary actions to give effect to the transactions contemplated by this Agreement and the Plan of Arrangement.

5.4 Covenants of the Parent Regarding the Arrangement and the Merger

Subject to the terms and conditions of this Agreement (including Section 5.2), Parent will and shall cause each of its Subsidiaries to, perform all obligations required to be performed by it under this Agreement, cooperate with the Company in connection therewith, and use commercially reasonable efforts to do such other acts and things as may be necessary or desirable in order to complete the Arrangement, the Merger and the other transactions contemplated hereby, including:

- (a) publicly announcing the entering into of this Agreement, the support of the Parent Board of Directors of the Merger and the Parent Recommendation;
- (b) using commercially reasonable efforts to defend all lawsuits or other legal, regulatory or other Proceedings against or relating to Parent challenging or affecting this Agreement or the completion of the Arrangement or the Merger; and

(c) forthwith carrying out the terms of the Interim Order and Final Order to the extent applicable to it and taking all necessary actions to give effect to the transactions contemplated herein and the Plan of Arrangement, including to provide the Exchange Agent with sufficient IrishCo Shares to pay the Arrangement Stock Consideration and Merger Consideration.

5.5 Parent Guarantee

Parent hereby unconditionally and irrevocably guarantees, covenants and agrees to be jointly and severally liable with its Subsidiaries for the due and punctual performance of each and every obligation of such Subsidiaries arising under this Agreement and the transactions contemplated hereby.

5.6 Employee Matters

(a) Subject to applicable Law, during the one year period following the Closing Date, IrishCo or any Subsidiary of IrishCo, as applicable, shall provide to each employee of the Company and its Subsidiaries who is employed at the Closing Date and who remains employed with the IrishCo or any Subsidiary of IrishCo (“**Company Employees**”) compensation and employee benefits that, with respect to each such employee, are substantially similar in the aggregate to either, in IrishCo’s sole discretion, (i) the compensation and benefits provided to similarly situated employees of Parent or (ii) the compensation and benefits provided to such employee under the Company Plans.

(b) For the purposes of vesting, eligibility to participate and level of benefits provided under the employee benefit plans of IrishCo and Parent which provide benefits to any Company Employee after the Closing Date (the “**New Plans**”), each Company Employee shall be credited with his or her years of service with the Company and its predecessors before the Closing Date, to the same extent as such Company Employee was entitled, before the Closing Date, to credit for such service under any similar Company Plan in which such Company Employee participated or was eligible to participate immediately prior to the Closing Date (excluding for purposes of eligibility, vesting and accrual under defined benefit pension plans and retiree medical plans). In addition, and except as set forth in the foregoing, (i) each Company Employee shall be eligible to participate in any and all New Plans to the extent coverage under such New Plan is replacing comparable coverage under a Company Plan in which such Company Employee participated immediately before the Closing Date (such plans, collectively, the “**Old Plans**”), and (ii) for the purposes of each New Plan providing medical, dental, pharmaceutical and/or vision benefits (but not including any disability benefits) to any Company Employee, IrishCo shall use all reasonable endeavours to cause (1) all pre-existing condition exclusions and actively-at-work requirements of such New Plan to be waived for such employee and his or her covered dependents, unless and to the extent the individual, immediately prior to entry in the New Plans, was subject to such conditions under the comparable Old Plans, and (2) any eligible expenses incurred by such employee and his or her covered dependents during the portion of the plan year of the Old Plan ending on the date such employee’s participation in the corresponding New Plan begins to be taken into account under such New Plan for the purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements

applicable to such employee and his or her covered dependents for the applicable plan year as if such amounts had been paid in accordance with such New Plan.

(c) No provision of this agreement shall (i) create any right in any employee of the Company or any of the subsidiaries to continued employment by IrishCo, Parent, the Company, or any respective subsidiary or preclude the ability of the Parent, the Company, or any respective subsidiary to terminate the employment of any employee for any reason, (ii) require IrishCo, Parent, the Company, or any respective subsidiary to continue any Company Plans or prevent the amendment, modification or termination thereof after the Closing Date, (iii) confer upon any Company Employee any rights or remedies under or by reason of this Agreement or (iv) be treated as an amendment to any particular employee benefit plan of the Parent, the Company or any respective subsidiary.

(d) The Parties agree that the Company (or any successor thereof) shall elect (and file such election as soon as practicable) under subsection 110(1.1) of the Tax Act that neither the Company nor any person not dealing at arm's length with the Company will deduct in computing its income for a taxation year any amount in respect of the Option Consideration.

5.7 Indemnification and Insurance

(a) Each of the Company, Parent and Parent's Subsidiaries agree that all rights to indemnification or exculpation now existing in favour of the present and former directors and officers of the Company, Parent or of any of their respective Subsidiaries (each such present or former director or officer (i) of Parent being herein referred to as a "**Parent Indemnified Party**" and (ii) of the Company being herein referred to as a "**Company Indemnified Party**" and each Parent Indemnified Party and Company Indemnified Party being an "**Indemnified Party**" and such Persons collectively being referred to as the "**Indemnified Parties**") as provided in the constating documents of the Company, Parent or any of their respective Subsidiaries or any Contract by which the Company, Parent or any of their respective Subsidiaries is bound and which is in effect as of the date hereof, will survive the completion of the Plan of Arrangement and the Merger and continue in full force and effect and without modification, with respect to actions or omissions of the Indemnified Parties occurring prior to the Closing, for the period contemplated therein.

(b) IrishCo will, or will cause the Company, Parent and their respective Subsidiaries to, maintain in effect without any reduction in scope or coverage for seven (7) years from the Closing Date customary policies of directors' and officers' liability insurance providing protection no less favourable to the protection provided by the policies maintained by the Company, Parent or their respective Subsidiaries, as applicable, which are in effect immediately prior to the Closing Date and providing protection in respect of claims arising from facts or events which occurred on or prior to the Closing Date; provided, however, that each of the Company and Parent may, prior to the Closing Date, purchase prepaid non-cancellable run-off directors' and officers' liability insurance on terms substantially similar to the directors' and officers' liability policies currently maintained by the Company or Parent, as applicable, but providing coverage for a period of seven (7) years from the Closing Date with respect to claims arising from or related to facts or events which

occurred on or prior to the Closing Date and provided that the premiums for such insurance do not exceed 300% of the Company's or Parent's current premium for directors' and officers' liability insurance, as applicable.

(c) The covenants contained in this Section 5.7 (i) are intended to be for the irrevocable benefit of, and shall be enforceable by, the Indemnified Parties and their respective heirs, executors, administrators and other legal representatives and (ii) shall not be deemed exclusive of any other rights to which an Indemnified Party has under Law, Contract or otherwise, and shall be binding on IrishCo and any of its successors. It is the intention of Parent to constitute the Company as a trustee for the Company Indemnified Parties not a party to this Agreement for the covenants of Parent under Section 5.7 of this Agreement, and the Company agrees to accept such trust and to hold and enforce the obligations and covenants on behalf of each such person. It is the intention of the Company to constitute Parent as a trustee for the Parent Indemnified Parties not a party to this Agreement for the covenants of the Company under Section 5.7 of this Agreement, and the Parent agrees to accept such trust and to hold and enforce the obligations and covenants on behalf of each such person.

(d) If the Company, Parent, IrishCo or any of their respective successors or assigns (i) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, IrishCo shall ensure that any such successor or assign assumes all of the obligations set forth in this Section 5.7.

(e) Parent shall indemnify and hold harmless the members of the board of directors of IrishCo, the Parent Parties and their Affiliates (including the designees of the Company to such board of directors), to the fullest extent permitted by applicable law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment), against any judgment, damage or loss and any reasonable, documented expenses (including, without limitation, reasonable attorneys' fees) (each, a "Loss") actually incurred by any such director in connection with his or her duties as a director of IrishCo, the Parent Parties or any of their Affiliates from the date of this Agreement (and for actions taken in connection with the approval and adoption of this Agreement) until the Closing, unless such Loss shall relate to (a) a violation of such director's duties under applicable Law, (b) gross negligence, fraud or intentional misconduct by such director or (c) actions taken (or omitted to be taken) by such director in violation of the organizational documents of IrishCo, the Parent Parties or their Affiliates, as applicable, or this Agreement.

5.8 Rule 16b-3 Actions Prior to the Closing, IrishCo, the Company and Parent shall take all such steps as may be required to cause (a) any dispositions of Parent Common Shares (including derivative securities with respect to Parent Common Shares) resulting from the Arrangement or the Merger and the other transactions contemplated by this Agreement by each individual who will be subject to the reporting requirements of Section 16(a) of the 1934 Exchange Act with respect to Parent immediately prior to the Merger Effective Time to be exempt under Rule 16b-3 promulgated under the 1934 Exchange Act and (b) any acquisitions of IrishCo Shares or Parent Common Shares (including derivative securities with

respect to IrishCo Shares or Parent Common Shares) resulting from the Arrangement or the Merger and the other transactions contemplated by this Agreement, by each individual who may become or is reasonably expected to become subject to the reporting requirements of Section 16(a) of the 1934 Exchange Act with respect to IrishCo to be exempt under Rule 16b-3 promulgated under the 1934 Exchange Act.

5.9 Stock Exchange Listings

(a) IrishCo and Parent shall use all commercially reasonable efforts to cause the IrishCo Shares issued as Merger Consideration, Arrangement Stock Consideration, Qualifying Holdco Stock Consideration and Option Consideration to be (i) approved for listing on NASDAQ, subject only to official notice of issuance and (ii) conditionally approved for listing on the TSX, subject only to the satisfaction of the customary listing conditions of the TSX, prior to the Closing.

(b) Each of the Parties agrees to cooperate with each other in taking, or causing to be taken, all actions necessary to delist Parent Common Shares from the NASDAQ and Company Common Shares from the TSX and to cause the Company to cease to be a reporting issuer in each jurisdiction in Canada and terminate registration of Parent Common Shares under the 1934 Exchange Act; provided, that such delisting and termination shall not be effective until after the Effective Time.

(c) Each of the Parties agrees to cooperate with each other and use their commercially reasonable efforts to cause the Therapeutics Common Shares issued as Arrangement Therapeutics Consideration, Qualifying Holdco Therapeutics Consideration and Option Consideration to be conditionally approved for listing on the TSXV, subject only to the satisfaction of the customary listing conditions of the TSXV, prior to the Effective Time; provided, that in no event shall the obligations of the Parties to complete the Arrangement or consummate the Merger be conditioned upon any such approval for listing and provided further that in the event that listing on the TSXV does not occur at or prior to the Effective Time, if Therapeutics qualifies under applicable legislation to do so, each of the parties agrees to cause Therapeutics to elect to be a public corporation under the *Tax Act* and any corresponding provincial or territorial legislation effective at the time the Therapeutics Common Shares are acquired by the Company's Shareholders, the Qualifying Holdco Shareholders and the Optionholders pursuant to the Plan of Arrangement.

5.10 Takeover Statutes

If any antitakeover statute or similar statute or regulation is or may become applicable to the transactions contemplated by this Agreement, each of the Parties and its respective Affiliates shall (a) grant such approvals and take all such actions as are legally permissible so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and (b) otherwise act to eliminate or minimize the effects of any such statute or regulation on the transactions contemplated hereby.

5.11 Creation of Distributable Reserves.

(a) Unless Parent and the Company otherwise agree,

(i) Parent shall use all reasonable endeavours to submit to the vote of the Parent Shareholders at the Parent Shareholders Meeting a resolution (the **“Parent Distributable Reserves Resolution”**) to approve the creation of distributable reserves of IrishCo by (a) the reduction of the share premium of IrishCo to allow the creation of distributable reserves of IrishCo resulting from the transactions contemplated by this Agreement; and (b) by any other means; and

(ii) The Company shall use all reasonable endeavours to submit to the vote of the Company Shareholders at the Company Meeting a resolution to approve the creation of distributable reserves of IrishCo by (a) the reduction of share premium of IrishCo to allow the creation of distributable reserves of IrishCo resulting from the transactions contemplated by this Agreement; and (b) by any other means (the **“Company Distributable Reserves Resolution”**);

(the creation of distributable reserves in IrishCo by any of the means described in this Section 5.11(a) is referred to as the **“IrishCo Distributable Reserves Proposals”**)

(b) The Parties agree that none of the approval of the Parent Distributable Reserves Resolution, the approval of the Company Distributable Reserves Resolution or the implementation of the IrishCo Distributable Reserves Proposals shall be a condition to the Parties’ obligation to effect the Arrangement or the Merger.

(c) Subject to approval of the Company Distributable Reserves Resolution by the Company Shareholders and the Parent Distributable Reserves Resolution by the Parent Shareholders:

(i) the Company, Parent and IrishCo shall prior to Closing, procure the passing of a resolution (1) of the then shareholders of IrishCo providing for the reduction of share capital of IrishCo in order to allow an application to be made under section 72 of the Irish Companies Act 1963, as amended, to the Irish High Court to allow for the IrishCo Distributable Reserves Proposal (the **“Irish High Court Application”**); and

(ii) Parent and IrishCo shall as promptly as reasonably practicable following the Closing, prepare and file an application to the Irish High Court for an order pursuant to the Irish Companies Act 1963, as amended, approving the IrishCo Distributable Reserves Proposals.

(d) As promptly as reasonably practicable following the date hereof, the Company and its Subsidiaries shall in connection with the IrishCo Distributable Reserves Proposals and the Irish High Court Application:

(i) provide Parent and IrishCo with all information requested by Parent and IrishCo relating to the Company and its Subsidiaries, as is required by Parent, IrishCo or any Governmental Authority, including without limitation details of the Company and its Subsidiaries’ financial position, creditors, liabilities and debts;

(ii) keep Parent reasonably informed and consult with Parent as to the performance of the obligations and responsibilities required of the Company pursuant to the Agreement and as to any material developments relevant to the IrishCo Distributable Reserves Proposals, the Irish High Court Application and any analogous transaction;

(iii) as promptly as reasonably practicable, notify Parent of any matter of which Company becomes aware which would reasonably be expected to materially delay or prevent the IrishCo Distributable Reserves Proposals and/or the Irish High Court Application;

(iv) make any necessary applications to any Governmental Authority, and provide Parent with drafts of any and all pleadings, affidavits, petitions and other filings prior to their filing, and afford Parent reasonable opportunities to review and make comments on all such documents and accommodate such comments reasonably proposed by the Parent; and

(v) take all other steps as may be reasonably requested by Parent and IrishCo.

5.12 IrishCo and InterCo Resolutions.

(a) Prior to Closing, Irishco shall do all things, cause all board meetings to be held, all resolutions to be passed, all filings and other lawful actions and matters to be taken and done as are necessary, proper or advisable for IrishCo, in order to consummate and make effective the transactions contemplated by this Agreement, including without limitation to effect the following for:

(i) the reregistration of IrishCo as a public limited company;

(ii) the purchase of its own shares and reissue of treasury shares;

(iii) the adoption of revised memorandum and articles of association of IrishCo, which shall be consistent with Parent's existing organizational documents; and

(iv) the approval of any other matters as are deemed necessary or expedient in connection with giving effect to the transactions contemplated by, or ancillary to, this Agreement.

(b) Prior to Closing, IrishCo and InterCo shall procure, and shall assist and cooperate with the other Parties in procuring, the taking of such other lawful actions and matters as are necessary, proper or advisable for Interco, in order to consummate and make effective the transactions provided in or contemplated by this Agreement.

5.13 Financing Cooperation. The Company agrees to, and shall cause its wholly-owned Subsidiaries to and shall use its commercially reasonable efforts to cause its and their Representatives to, use commercially reasonable efforts to provide customary and

reasonable cooperation with the Parent Parties and their Affiliates with respect to the arrangement of debt financing in connection with the consummation of Closing (a “**Debt Financing**”), including, at the reasonable request by a Parent Party, (i) assisting in the preparation for and participation in a reasonable number of lender marketing meetings, presentations, road shows and calls and a reasonable number of other due diligence and drafting sessions with prospective lenders and/or underwriters and ratings agencies in each case in connection with obtaining the Debt Financing, and otherwise providing cooperation that is customary and reasonable in connection with the marketing efforts of the Parent Parties and the Financing Sources for the Debt Financing, (ii) providing pertinent and customary information regarding the Company and its Subsidiaries reasonably requested by the Parent Parties, including any requested documentation and other information regarding the Company and its Subsidiaries required under applicable “know your customer” and anti-money laundering rules and regulations, in each case at least 5 Business Days prior to the Closing Date, financial statements and financial projections, and other pertinent financial information, in all cases to the extent required in connection with the Debt Financing and reasonably requested by the Parent Parties, (iii) to the extent reasonably requested, assisting the Parent Parties and their Financing Sources in the preparation of appropriate and customary offering documents, lender and investor presentations, rating agency presentations, bank information memoranda, prospectuses and similar documents for the Debt Financing, which contain all financial statements and other data relating to the Company and its Subsidiaries required to be included therein (which, in the case of financial information relating to the Company and its Subsidiaries, if required by applicable rules or regulations of the SEC, under applicable Canadian Securities Law or by the underwriters for any securities offering, shall have been reviewed by the independent accountants for the Company as provided in the procedures specified by the Public Company Accounting Oversight Board in AU 722) and all appropriate pro forma financial information of the Company and its Subsidiaries (which pro forma financial statements shall be prepared by the Parent Parties or their Representatives) in accordance with, or reconciled to, U.S. GAAP and prepared in accordance with Regulation S-X under the 1933 Securities Act and under applicable Canadian Securities Law, and all other data (including selected financial data) relating to the Company and its Subsidiaries that the SEC and applicable Canadian securities regulators would require in a registered debt offering or that would be necessary for an investment bank to receive customary “comfort” (including “negative assurance” comfort) from independent accountants in connection with a registered debt offering, (iv) providing reasonable and customary authorization letters to the Financing Sources authorizing the distribution of information to prospective lenders, (v) causing its independent accountants, consistent with their customary practice, to provide reasonable assistance and cooperation to the Parent Parties, including accounting due diligence sessions, and providing consent to the Parent Parties to use their audit reports relating to the Company and reasonable assistance in facilitating the provision of customary “comfort” (including “negative assurance” comfort) by such independent accountants, in each case on customary terms and consistent with their customary practice in connection with financings similar to the Debt Financing, (vi) assisting the Parent Parties and the Financing Sources to review and comment on the Debt Financing definitive documentation as may be reasonably requested by the Parent Parties, (vii) taking all reasonable and customary corporate or other organizational action, subject to the occurrence of the Closing, reasonably requested by the Parent Parties and necessary to permit the consummation of the Debt Financing, (viii) providing pertinent and customary information with respect to its property and assets reasonably required

in connection with the Debt Financing and facilitating the pledge and perfection of liens security and the providing of guarantees supporting the Debt Financing, (ix) using commercially reasonable efforts to ensure that the Financing Sources benefit from the existing lending relationships of the Company and its Subsidiaries, (x) providing all cooperation that is reasonable and customary to satisfy the conditions precedent to the Debt Financing or any financing documents relating thereto to the extent the satisfaction of such conditions requires the reasonable and customary cooperation of, or is within the control of, the Company and its Subsidiaries and (xi) assisting the Parent Parties in obtaining corporate and facilities ratings for the Debt Financing; provided, that, in each case, (A) neither the Company, any of its Subsidiaries nor any of their respective Representatives shall be required to pay (or agree to pay) any commitment or other fee, provide any indemnities or incur any liability or enter into any agreement in connection with the Debt Financing (other than agreements and liability entered into or incurred by the Company and its Subsidiaries that only become effective upon the consummation of the Closing) and (B) no personal liability shall be imposed on the Representatives of the Company or any of its Subsidiaries involved. The Parent Parties shall promptly, upon request by the Company, reimburse the Company for all documented out-of-pocket costs and expenses (including reasonable attorneys' fees) incurred by the Company, its Subsidiaries and their respective Representatives in connection with the cooperation of the Company, its Subsidiaries and their respective Representatives contemplated by this Section. The Parent Parties shall on a joint and several basis indemnify, defend and hold harmless the Company, its Subsidiaries and their respective Representatives from and against any and all fees, costs and other liabilities arising in whole or in part out of actions or omissions undertaken pursuant to this Section, except to the extent such fees, costs and other liabilities have resulted from the willful misconduct, bad faith or gross negligence of the Company, its Subsidiaries or any such Representative. The Company and its Subsidiaries hereby consent to the use of their logos in connection with the Debt Financing. For avoidance of doubt, the Parties agree that no Lien shall be placed on any assets or shares of the Company or any of its Subsidiaries prior to the Closing, without the prior written consent of the Company.

5.14 Board of Directors. The Company and the Parent Parties shall take all actions necessary so that, as of the earlier of the Effective Time or the Merger Effective Time, the board of directors of IrishCo shall, subject to any board composition requirements under applicable Law, consist of the individuals who are the members of the Parent Board of Directors as of the date of this Agreement.

5.15 Separation.

(a) Prior to the Effective Time, the Parties agree to cooperate with each other and use their commercially reasonable efforts to execute such agreements, instruments of assignment and transfer and similar documents and take such other corporate actions as are necessary to effect the transactions described in Schedule E in accordance with the terms and conditions set forth therein.

(b) Prior to the Effective Date, but in any event not later than twenty (20) Business Days before the Effective Date, the Company shall provide Parent with a valuation report (the "**Therapeutics Valuation Report**") which shall determine the fair market value of (i) I- IP, (ii) the Voucher, (iii) the common shares of Delco held by the

Company, (iv) the rights of Barbco under the License; (v) the rights of each party to the Therapeutics Distribution and License Agreement; and (vi) the Therapeutics Common Shares that will be outstanding after the completion of the Business Separation Transactions. The Company, with the consent of Parent, which consent shall not be unreasonably withheld, shall select a nationally recognized valuator with experience in valuing assets of this nature (the “**Valuator**”) to prepare the Therapeutics Valuation Report. The Parties shall agree, acting reasonably, on instructions to be provided to the Valuator with respect to the preparation of the Therapeutics Valuation Report. All costs for the Valuator and the Therapeutics Valuation Report shall be borne by the Company. Terms used in this Section 5.15(b) and not otherwise defined herein shall have the meanings given to them in Schedule E.

(c) The Parties agree that the Company shall designate, pursuant to subsection 111(4) of the Tax Act and any similar provincial Tax provision, in its Return(s) of income for its taxation year ending immediately before its acquisition of control by CanCo 1 under the Plan of Arrangement, the Therapeutics Common Shares such that those shares are deemed to be disposed of by the Company in accordance with that provision or similar provincial provision, as applicable, for proceeds of disposition that result in a capital gain to the Company equal to the lesser of (i) the accrued capital gain, if any, in the Therapeutics Common Shares at that time, and (ii) the Company’s net capital losses that became subject to such provision further to such acquisition of control.

5.16 IrishCo Euro Shares. Upon the earlier of the Closing or the termination of this Agreement in accordance with its terms, the Company shall transfer, or procure the transfer of, all IrishCo Euro Shares owned by the Company or any of its Subsidiaries, or its or their nominees to such individual or party as is nominated by Parent.

5.17 Whitewash Requirements. Parent agrees to use all commercially reasonable endeavours to procure the carrying out of the Whitewash Requirements by IrishCo and/or Interco and by any of their Irish Subsidiaries which are organised under the laws of the Republic of Ireland as the context requires, prior to the taking of any actions by such Party under or contemplated by this Agreement which shall, or may, constitute unlawful financial assistance for the purpose of section 60 of the Companies Act 1963 of Ireland, and all of the Parties hereto acknowledge and agree that any such actions, shall not be performed until such Whitewash Requirements have been met.

ARTICLE 6

ACQUISITION PROPOSALS

6.1 Company Non-Solicitation

(a) Until the earlier of the Closing or the date, if any, on which this Agreement is terminated pursuant to Section 7.1, neither the Company Board of Directors nor the Company shall, and the Company shall cause its Subsidiaries and each of its and their respective Representatives not to, directly or indirectly through any other Person:

(i) initiate, solicit, facilitate or knowingly encourage (including by way of furnishing or affording access to information), or take any other action that promotes, directly or indirectly, or may reasonably cause, any inquiries or the making of any proposal or offer with respect to a Company Acquisition Proposal or potential Company Acquisition Proposal;

(ii) participate or engage in any discussions or negotiations regarding, or provide any information with respect to, or otherwise cooperate in any way with, or assist or participate in, knowingly encourage or otherwise facilitate, any effort or attempt by any other Person (other than Parent and its Affiliates) to make or complete a Company Acquisition Proposal;

(iii) subject to Section 6.2, effect any Company Change of Recommendation; or

(iv) subject to Section 6.2, accept or enter into, or publicly propose to accept or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, transaction agreement, implementation agreement, option agreement, joint venture agreement, alliance agreement, partnership agreement or other agreement, arrangement or undertaking constituting or related to, or that would reasonably be expected to lead to, any Company Acquisition Proposal (a “**Company Acquisition Agreement**”).

(b) The Company shall, and shall cause its Subsidiaries and each of its and their respective Representatives to, immediately cease and cause to be terminated any solicitation, encouragement, discussion or negotiation with or involving any Person (other than Parent and its Affiliates) conducted heretofore by the Company or its Subsidiaries, or any of its or their respective Representatives, with respect to any Company Acquisition Proposal or which could reasonably be expected to lead to a Company Acquisition Proposal and, in connection therewith, the Company will immediately discontinue access to any Person (other than Parent and its Affiliates) to any data room (virtual or otherwise). The Company agrees not to release any third party from any standstill agreement to which it is a party. Within ten Business Days from the date hereof, the Company shall request the return or destruction of all information provided to any third parties who have entered into a confidentiality agreement with the Company since January 1, 2012 relating to any potential Company Acquisition Proposal and shall use commercially reasonable efforts to ensure that such requests are honoured in accordance with the terms of such confidentiality agreements.

(c) The Company shall promptly (and, in any event, within 24 hours of receipt by the Company) notify Parent, at first orally and then in writing, of any proposal, inquiry, offer or request relating to or constituting a Company Acquisition Proposal, or which could reasonably be expected to lead to a Company Acquisition Proposal, in each case, received after the date hereof, of which the Company, any of its Subsidiaries or any of their respective Representatives is or becomes aware, or any request received by the Company or any of its Subsidiaries or any of their respective Representatives for non-public information relating to the Company or any of its Subsidiaries in connection with a potential or actual Company Acquisition Proposal or for access to the properties, books and records or a list of

securityholders of the Company or any of its Subsidiaries in connection with a potential or actual Company Acquisition Proposal. Such notice shall include the identity of the Person making such Company Acquisition Proposal or proposal, inquiry, offer or request and a description of the material terms and conditions of such Company Acquisition Proposal or proposal, inquiry, offer or request. The Company will keep Parent promptly and fully informed of the status, including any change to the material terms and conditions, of any such Company Acquisition Proposal, proposal, inquiry, offer or request.

(d) Following receipt by the Company of any proposal, inquiry, offer or request (or any amendment thereto) that is not a Company Acquisition Proposal but which the Company reasonably believes could lead to a Company Acquisition Proposal, the Company may respond to the proponent to advise it that, in accordance with this Agreement, the Company can only enter into discussions or negotiations with a party in accordance with this Agreement.

6.2 Parent Right to Match

(a) Notwithstanding Section 6.1(a) or any other provision of this Agreement to the contrary, if after the date hereof and before the Company Meeting, the Company or any of its Subsidiaries, or any of its or their respective Representatives, receives a written Company Acquisition Proposal (including, an amendment, change or modification to a Company Acquisition Proposal made prior to the date hereof) that was not solicited after the date hereof in contravention of Section 6.1, the Company and its Representatives may:

(i) contact the Person making such Company Acquisition Proposal and its Representatives solely for the purpose of clarifying the terms and conditions of such Company Acquisition Proposal and the likelihood of its consummation so as to determine whether such Company Acquisition Proposal is, or could reasonably be expected to lead to, a Company Superior Proposal; and

(ii) if the Company Board of Directors determines in good faith, after consultation with its outside legal counsel and financial advisors, and to the extent in accordance with this Agreement, taking into account other factors, that such Company Acquisition Proposal is, or could reasonably be expected to lead to, a Company Superior Proposal and that the failure to take the relevant action would be reasonably likely to be inconsistent with the fiduciary duties of the Company Board of Directors under applicable Law:

A. furnish information with respect to the Company and its Subsidiaries to the Person making such Company Acquisition Proposal and its Representatives provided that (1) the Company first enters into a customary confidentiality agreement with such Person that is no less favourable (including with respect to any “standstill” and similar provisions) to the Company than the Non-Disclosure Agreement, and sends a copy of such agreement to Parent promptly following its execution, and (2) the Company contemporaneously provides to Parent any material

non-public information concerning the Company or its Subsidiaries that is provided to such Person which was not previously provided to Parent or its Representatives; and

B. engage in discussions and negotiations with respect to the Company Acquisition Proposal with the Person making such Company Acquisition Proposal and its Representatives.

(b) Notwithstanding Section 6.1(a) or any other provision of this Agreement to the contrary, the Company may, at any time after the date of this Agreement and prior to the Company Meeting, (x) terminate this Agreement and enter into any agreement, understanding or arrangement in respect of a Company Acquisition Proposal (with the exception of a customary confidentiality agreement described in Section 6.2(a)(ii)(A), the execution of which shall not be subject to the conditions of this Section 6.2(b) and shall be governed by Section 6.2(a)(ii)(A)) or (y) effect a Company Change of Recommendation with respect to any Company Acquisition Proposal, if and only if:

(i) such Company Acquisition Proposal did not result from a breach of Section 6.1 and the Company has complied with the other terms of this Section 6.2;

(ii) the Company Board of Directors has determined in good faith, after consultation with its outside legal counsel and financial advisors, that such Company Acquisition Proposal constitutes a Company Superior Proposal and that the failure to take the relevant action would be reasonably likely to be inconsistent with its fiduciary duties to the Company Shareholders under applicable Law;

(iii) the Company has (A) delivered a Company Superior Proposal Notice to Parent and (B) provided Parent with a copy of the document containing such Company Acquisition Proposal;

(iv) a period of least five full Business Days (such five Business Day period, the “**Right to Match Period**”) shall have elapsed from the later of the date on which Parent received the Company Superior Proposal Notice and the date on which Parent received a copy of the documents referred to in clause (B) of Section 6.2(b)(iii), it being understood that the Right to Match Period shall expire at 11:59 p.m. (New York City time) at the end of the fifth full Business Day following such later date;

(v) if Parent has offered to amend the terms of this Agreement and the Arrangement and Merger during the Right to Match Period pursuant to Section 6.2(c), the Company Board of Directors has determined in good faith, after consultation with its outside legal counsel and financial advisors, that such Company Acquisition Proposal continues to be a Company Superior Proposal when assessed against this Agreement and the Arrangement and Merger as they are proposed to be amended as at the termination of the Right to Match Period and that the failure to take the relevant

action would be reasonably likely to be inconsistent with the fiduciary duties of the Company Board of Directors under applicable Law; and

(vi) if the Company Board of Directors, subject to compliance with the provisions of this Agreement, determines to terminate this Agreement to enter into any agreement, understanding or arrangement in respect of a Company Superior Proposal, the Company terminates this Agreement pursuant to Section 7.1(d)(ii) and pays the Termination Fee pursuant to Section 7.2(a).

(c) During the Right to Match Period, Parent will have the opportunity, but not the obligation, to offer to amend the terms of this Agreement and the Arrangement and Merger. The Company agrees that, if requested by Parent, it will negotiate with Parent in good faith to make such amendments to the terms of this Agreement and the Arrangement and Merger as would enable it to proceed with the transactions contemplated hereby on such amended terms. The Company Board of Directors will review in good faith any such offer made by Parent to amend the terms of this Agreement and the Arrangement and Merger in order to determine, as part of exercising its fiduciary duties, and in consultation with its financial advisors and outside legal counsel, whether such offer to amend the terms of this Agreement and the Arrangement and Merger would, upon its acceptance, result in the applicable Company Acquisition Proposal ceasing to be a Company Superior Proposal when assessed against this Agreement and the Arrangement and Merger as they are proposed to be amended as at the termination of the Right to Match Period. If the Company Board of Directors determines that the applicable Company Acquisition Proposal would cease to be a Company Superior Proposal when assessed against this Agreement and the Arrangement and Merger as they are proposed to be amended as at the termination of the Right to Match Period, the Company will forthwith so advise Parent and will promptly thereafter accept the offer by Parent to amend the terms of this Agreement and the Arrangement and Merger, and the Parties agree to take such actions and execute such documents as are necessary to give effect to the foregoing.

(d) The Company Board of Directors shall reaffirm the Company Recommendation by news release as soon as reasonably practicable following (A) any Company Acquisition Proposal that the Company Board of Directors determines not to be a Company Superior Proposal is publicly announced or made or (B) the Company Board of Directors determines that a Company Acquisition Proposal which previously constituted a Company Superior Proposal would cease to be a Company Superior Proposal when assessed against this Agreement and the Arrangement and Merger as they are proposed to be amended as at the termination of the Right to Match Period. Parent shall be given a reasonable opportunity to review and comment on the form and content of any such news release. Such news release shall state that the Company Board of Directors has determined that the applicable Company Acquisition Proposal is not a Company Superior Proposal.

(e) Each successive material amendment, change or modification to any Company Acquisition Proposal that results in an increase in, or modification of, the consideration (or value of such consideration) to be received by the Company Shareholders or other material terms and conditions thereof shall constitute a new Company Acquisition Proposal for the purposes of this Section 6.2 and shall result in the commencement of a new

Right to Match Period from the date specified in Section 6.2(b)(iv) with respect to such new Acquisition Proposal. If the Company provides Parent with a Company Superior Proposal Notice on a date that is less than five Business Days prior to the Company Meeting, the Company shall adjourn the Company Meeting to a date that is not later than the tenth Business Day following the first day of the Right to Match Period.

(f) Nothing contained in this Agreement shall prohibit the Company from complying with its disclosure obligations under applicable Law; provided that the Company shall not make any disclosure to Company Shareholders or otherwise take any action that constitutes a Company Change of Recommendation other than in compliance with this Section 6.2.

(g) The Company shall ensure that each of its Subsidiaries, and each of its and their respective Representatives, is aware of the provisions of Section 6.1 and this Section 6.2 and the Company shall be responsible for any breach of Section 6.1 or this Section 6.2 by such Persons.

6.3 Parent Non-Solicitation

(a) Until the earlier of the Closing or the date, if any, on which this Agreement is terminated pursuant to Section 7.1, neither the Parent Board of Directors nor Parent shall, and Parent shall cause its Subsidiaries and each of its and their respective Representatives not to, directly or indirectly through any other Person:

(i) initiate, solicit, facilitate or knowingly encourage (including by way of furnishing or affording access to information), or take any other action that promotes, directly or indirectly, or may reasonably cause, any inquiries or the making of any proposal or offer with respect to a Parent Acquisition Proposal or potential Parent Acquisition Proposal;

(ii) participate or engage in any discussions or negotiations regarding, or provide any information with respect to, or otherwise cooperate in any way with, or assist or participate in, knowingly encourage or otherwise facilitate, any effort or attempt by any other Person (other than the Company and its Affiliates) to make or complete a Parent Acquisition Proposal;

(iii) except in accordance with Section 6.4, effect any Parent Change of Recommendation; or

(iv) except in accordance with Section 6.4, accept or enter into, or publicly propose to accept or enter into a Parent Acquisition Agreement.

(b) Parent shall, and shall cause its Subsidiaries and each of its and their respective Representatives to, immediately cease and cause to be terminated any solicitation, encouragement, discussion or negotiation with or involving any Person (other than the Company and its Subsidiaries) conducted heretofore by Parent or its Subsidiaries, or any of its or their respective Representatives, with respect to any Parent Acquisition Proposal or which could reasonably be expected to lead to a Parent Acquisition Proposal and, in

connection therewith, Parent will immediately discontinue access to any Person (other than the Company and its Affiliates) to any data room (virtual or otherwise). Parent agrees not to release any third party from any standstill agreement to which it is a party, unless the Parent Board of Directors determines in good faith, after consultation with its financial advisors and outside legal counsel, and to the extent in accordance with this Agreement, taking into account other factors, that the failure to take action is reasonably likely to be inconsistent with its fiduciary duties to the Parent Shareholders under applicable Law.

(c) Parent shall promptly (and, in any event, within 24 hours of receipt by Parent) notify the Company, at first orally and then in writing, of any proposal, inquiry, offer or request relating to or constituting a Parent Acquisition Proposal, or which could reasonably be expected to lead to a Parent Acquisition Proposal, in each case, received after the date hereof, of which Parent, any of its Subsidiaries or any of their respective Representatives is or becomes aware, or any request received by Parent or any of its Subsidiaries or any of their respective Representatives for non-public information relating to Parent or any of the Parent Material Subsidiaries in connection with a potential or actual Parent Acquisition Proposal or for access to the properties, books and records or a list of securityholders of Parent or any of the Parent Material Subsidiaries in connection with a potential or actual Parent Acquisition Proposal. Such notice shall include the identity of the Person making such Parent Acquisition Proposal or proposal, inquiry, offer or request and a description of the material terms and conditions of such Parent Acquisition Proposal or proposal, inquiry, offer or request. Parent will keep the Company promptly and fully informed of the status, including any change to the material terms and conditions, of any such Parent Acquisition Proposal, proposal, inquiry, offer or request.

(d) Following receipt by Parent of any proposal, inquiry, offer or request (or any amendment thereto) that is not a Parent Acquisition Proposal but which Parent reasonably believes could lead to a Parent Acquisition Proposal, Parent may respond to the proponent to advise it that, in accordance with this Agreement, Parent can only enter into discussions or negotiations with a party in accordance with this Agreement.

6.4 Parent Third Party Proposals

(a) Notwithstanding Section 6.3(a) or any other provision of this Agreement to the contrary, if after the date hereof and before the Parent Shareholders Meeting, Parent or any of its Subsidiaries, or any of its or their respective Representatives, receives a written Parent Acquisition Proposal (including an amendment, change or modification to a Parent Acquisition Proposal made prior to the date hereof) that was not solicited after the date hereof in contravention of Section 6.3, Parent and its Representatives may:

(i) contact the Person making such Parent Acquisition Proposal and its Representatives solely for the purpose of clarifying the terms and conditions of such Parent Acquisition Proposal and the likelihood of its consummation so as to determine whether such Parent Acquisition Proposal is, or could reasonably be expected to lead to, a Parent Superior Proposal; and

(ii) if the Parent Board of Directors determines in good faith, after consultation with its outside legal counsel and financial advisors, and to the extent in accordance with this Agreement, taking into account other factors, that such Parent Acquisition Proposal is, or could reasonably be expected to lead to, a Parent Superior Proposal and that the failure to take the relevant action would be reasonably likely to be inconsistent with its fiduciary duties to the Parent Shareholders under applicable Law:

A. furnish information with respect to Parent and Parent's Subsidiaries to the Person making such Parent Acquisition Proposal and its Representatives provided that (1) Parent first enters into a customary confidentiality agreement with such Person that is no less favourable (including with respect to any "standstill" or similar provisions) to Parent than the Non-Disclosure Agreement, and sends a copy of such agreement to the Company promptly following its execution, and (2) Parent contemporaneously provides to the Company any material non-public information concerning Parent or its Subsidiaries that is provided to such Person which was not previously provided to the Company or its Representatives; and

B. engage in discussions and negotiations with respect to such Parent Acquisition Proposal with the Person making such Parent Acquisition Proposal and its Representatives.

(b) Notwithstanding Section 6.3(a) or any other provision of this Agreement to the contrary, Parent may, at any time after the date of this Agreement and prior to the Parent Shareholders Meeting, (x) terminate this Agreement and enter into any agreement, understanding or arrangement in respect of a Parent Acquisition Proposal (with the exception of a customary confidentiality agreement described in Section 6.4(a)(ii)(A), the execution of which shall not be subject to the conditions of this Section 6.4(b) and shall be governed by Section 6.4(a)(ii)(A)) or (y) effect a Parent Change of Recommendation with respect to any Parent Acquisition Proposal, if and only if:

(i) such Parent Acquisition Proposal did not result from a breach of Section 6.3 and Parent has complied with the other terms of this Section 6.4;

(ii) the Parent Board of Directors has determined in good faith, after consultation with its outside legal counsel and financial advisors, that such Parent Acquisition Proposal constitutes a Parent Superior Proposal and that the failure to take the relevant action would be reasonably likely to be inconsistent with its fiduciary duties to the Parent Shareholders under applicable Law; and

(iii) if the Parent Board of Directors, subject to compliance with the provisions of this Agreement, determines to terminate this Agreement to enter into any agreement, understanding or arrangement in respect of a Parent Superior Proposal,

Parent terminates this Agreement pursuant to Section 7.1(c)(ii) and pays the Parent Termination Fee pursuant to Section 7.2.

(c) The Parent Board of Directors shall reaffirm the Parent Recommendation by news release within five Business Days following any Parent Acquisition Proposal that the Parent Board of Directors determines not to be a Parent Superior Proposal is publicly announced or made. The Company shall be given a reasonable opportunity to review and comment on the form and content of any such news release. Such news release shall state that the Parent Board of Directors has determined that the applicable Parent Acquisition Proposal is not a Parent Superior Proposal.

(d) Nothing contained in this Agreement shall prohibit Parent from complying with its disclosure obligations under applicable Law; provided that Parent shall not make any disclosure to Parent Shareholders or otherwise take any action that constitutes a Parent Change of Recommendation other than in compliance with this Section 6.4.

(e) Parent shall ensure that each of its Subsidiaries, and each of its and their respective Representatives, is aware of the provisions of Section 6.3 and this Section 6.4 and Parent shall be responsible for any breach of Section 6.3 or this Section 6.4 by such Persons.

ARTICLE 7

TERMINATION

7.1 Termination

(a) Termination by Mutual Consent. This Agreement may be terminated at any time prior to the Closing by mutual written consent of the Company and Parent.

(b) Termination by Either the Company or Parent. This Agreement may be terminated by either the Company or Parent at any time prior to the Closing:

(i) if the Closing does not occur on or before the Outside Date, except that the right to terminate this Agreement under this Section 7.1(b)(i) shall not be available to a Party if the failure of that Party or its Affiliate to fulfill any of its obligations or breach of any of its representations and warranties under this Agreement has been a principal cause of, or resulted in, the failure of the Closing to occur by the Outside Date;

(ii) if the Arrangement Resolution is not approved by the Company Shareholders in accordance with applicable Laws and the Interim Order at the Company Meeting or any adjournment or postponement thereof;

(iii) if the Merger is not adopted by the Parent Shareholders in accordance with the DGCL at the Parent Shareholders Meeting or any adjournment or postponement thereof; or

(iv) if any Governmental Authority of competent jurisdiction shall have issued a Law or Order or taken any other action restraining, enjoining or otherwise prohibiting the Arrangement or the Merger, and such Law, Order, ruling or other action is or shall have become final and nonappealable.

(c) Termination by Parent. This Agreement may be terminated by Parent at any time prior to the Closing if:

(i) the Company shall have effected a Company Change of Recommendation in accordance with the terms of this Agreement;

(ii) subject to concurrently paying the Termination Fee in accordance with Section 7.2(a), to concurrently enter into a Parent Acquisition Agreement that constitutes a Parent Superior Proposal; provided that the Parent Board of Directors has determined in good faith, after consultation with its outside legal counsel and financial advisors, that the applicable Parent Acquisition Proposal constitutes a Parent Superior Proposal and that the failure to terminate this Agreement would be reasonably likely to be inconsistent with its fiduciary duties to the Parent Shareholders under applicable Law;

(iii) the Company materially breaches any of the provisions of Sections 6.1 or 6.2;

(iv) the Company breaches any of its representations, warranties, covenants or agreements contained in this Agreement (other than as provided in clause (iii) above), which breach would cause any of the conditions set forth in Section 8.3 not to be satisfied and which breach is not cured within 30 days following written notice of such breach or by its nature or timing cannot be cured within that time; or

(v) a Material Adverse Effect on the Company shall have occurred.

(d) Termination by the Company. This Agreement may be terminated by the Company at any time prior to the Closing if:

(i) Parent shall have effected a Parent Change of Recommendation in accordance with the terms of this Agreement;

(ii) subject to the Company complying with the terms of Article 6 and paying the Termination Fee in accordance with Section 7.2(a), to concurrently enter into a Company Acquisition Agreement that constitutes a Company Superior Proposal;

(iii) if Parent breaches any of its representations, warranties, covenants or agreements contained in this Agreement, which breach would cause any of the conditions set forth in Section 8.2 not to be satisfied and which breach is not cured within 30 days following written notice of such breach or by its nature or timing cannot be cured within that time; or

- (iv) a Parent Material Adverse Effect shall have occurred.

7.2 Termination Fee

(a) If a Company Termination Fee Event occurs, the Company shall pay to Parent a termination fee of \$60,000,000 (the “**Termination Fee**”) by wire transfer in immediately available funds to an account specified by Parent. If a Parent Termination Fee Event occurs, Parent shall pay to the Company the Termination Fee by wire transfer in immediately available funds to an account specified by the Company. The Termination Fee shall in each case be payable at the time specified in Section 7.2(b).

(b) “**Company Termination Fee Event**” means:

(i) the termination of this Agreement by the Company pursuant to Section 7.1(d)(ii), in which case the Termination Fee shall be paid by the Company concurrent with the Company Termination Fee Event; or

(ii) the termination of this Agreement by either the Company or Parent pursuant to Section 7.1(b)(i) or by the Company pursuant to Section 7.1(b)(ii) or by Parent pursuant to Sections 7.1(c)(i) or 7.1(c)(iii) (solely as it relates to Section 6.1), if (x) prior to such termination, a Company Acquisition Proposal shall have been made public or proposed publicly to the Company or the Company Shareholders and (y) within nine months following such termination, the Company or one or more of the Company’s Subsidiaries shall have consummated any transaction in respect of any Company Acquisition Proposal or entered into any Company Acquisition Agreement, in which case the Termination Fee shall be paid by the Company on the date of entry into such agreement or, if earlier, consummation of such transaction.

(c) “**Parent Termination Fee Event**” means:

(i) the termination of this Agreement by Parent pursuant to Section 7.1(c)(ii) or the termination of this Agreement by the Company pursuant to Section 7.1(d)(i), in which case the Termination Fee shall be paid by Parent concurrent with the Parent Termination Fee Event; or

(ii) the termination of this Agreement by either the Company or Parent pursuant to Sections 7.1(b)(i) or 7.1(b)(iii) or by the Company pursuant to Section 7.1(d)(iii) (solely with respect to Section 6.3), if (x) prior to such termination, a Parent Acquisition Proposal shall have been made public or proposed publicly to Parent or the Parent Shareholders and (y) within nine months following such termination, Parent or one or more of Parent’s Subsidiaries shall have consummated any transaction in respect of any Parent Acquisition Proposal or entered into any Parent Acquisition Agreement, in which case the Termination Fee shall be paid by Parent on the date of entry into such agreement or, if earlier, consummation of such transaction.

(d) Each of the Company and Parent acknowledges that the agreements contained in this Section 7.2 are an integral part of the transactions contemplated in this Agreement and that without these agreements the other Parties would not enter into this

Agreement. Accordingly, if the Company or Parent fails to timely pay any amount due pursuant to this Section 7.2 and, in order to obtain the payment, the Company or Parent, as applicable, commences a suit which results in a judgment against the other Party for the payment set forth in this Section 7.2, the Party that has failed to timely pay pursuant to this Section 7.2 shall pay the other Party its reasonable and documented costs and expenses (including reasonable and documented attorneys' fees) in connection with such suit, together with interest on such amount at the prime rate of the Royal Bank of Canada in effect on the date such payment was required to be made to and including the date on which such payment was actually received.

(e) Each Party acknowledges that all of the payment amounts set out in this Section 7.2 are payments of liquidated damages which are a genuine pre-estimate of the damages which the Company or Parent, as applicable, will suffer or incur as a result of the event giving rise to such payment and are not penalties. Each of the Company and Parent irrevocably waives any right that it may have to raise as a defense that any such liquidated damages are excessive or punitive. The Parties agree that the payment of an amount pursuant to this Section 7.2 in the manner provided therein is the sole and exclusive remedy of the Company or Parent, as applicable, in respect of the event giving rise to such payment; provided, however, that nothing contained in this Section 7.2, and no payment of any such amount, shall relieve or have the effect of relieving a Party in any way from liability for damages incurred or suffered by the other Party as a result of an intentional or willful breach of this Agreement.

(f) Notwithstanding any other provision in this Agreement, in no event will the Company or Parent, as applicable, be required to pay the Termination Fee more than once.

7.3 Void upon Termination

If this Agreement is terminated in accordance with Section 7.1, this Agreement shall become void and of no force and effect and no Party will have any liability or further obligation to the other Party hereunder, except that the provisions of this Section 7.3, Section 5.1, Section 7.2 and Article 9 shall survive any termination hereof in accordance with Section 7.1, provided, however, that neither the termination of this Agreement nor anything contained in Section 7.2 or this Section 7.3 will relieve any Party from any liability for any intentional or willful breach by it of this Agreement, including any intentional or willful making of a misrepresentation in this Agreement. Notwithstanding anything to the contrary contained in this Agreement, the Non-Disclosure Agreement shall survive any termination hereof in accordance with Section 7.1. For purposes of Sections 7.2 and 7.3, an "intentional or willful" breach or misrepresentation means a breach of any representation, warranty, covenant or agreement in this Agreement or a failure to perform any covenant or agreement in this Agreement arising as a consequence of an act or omission undertaken with the primary intent of causing a breach of, or failure to perform under, this Agreement.

ARTICLE 8

CONDITIONS PRECEDENT

8.1 Mutual Conditions Precedent

The respective obligations of the Parties to complete the Arrangement are subject to the satisfaction, or mutual waiver by Parent and the Company, on or before the Closing Date, of each of the following conditions, each of which are for the mutual benefit of the Parties and which may be waived, in whole or in part, by Parent and the Company at any time:

(a) the Arrangement Resolution shall have been approved by the Company Shareholders at the Company Meeting in accordance with the Interim Order and applicable Laws;

(b) the Parent Shareholder Approval shall have been obtained at the Parent Shareholders Meeting;

(c) each of the Interim Order and Final Order shall have been obtained on terms consistent with this Agreement and in form and substance satisfactory to each of the Company and Parent, each acting reasonably, and shall not have been set aside or modified in any manner unacceptable to either the Company or Parent, each acting reasonably, on appeal or otherwise;

(d) the Form S-4 shall have been declared effective and no stop order suspending the effectiveness of the Form S-4 shall be in effect;

(e) the IrishCo Shares to be issued as Merger Consideration, Arrangement Stock Consideration, Qualifying Holdco Stock Consideration and Option Consideration shall have been (i) approved for listing on NASDAQ, subject only to official notice of issuance and (ii) conditionally approved for listing on the TSX, subject only to the satisfaction of the customary listing conditions of the TSX;

(f) the Required Regulatory Approvals shall have been obtained or concluded and shall be in the full force and effect and any waiting or suspensory periods related to the Required Regulatory Approvals shall have expired or been terminated, in each case, without the imposition of any Restraint;

(g) (i) No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law or Order (whether temporary, preliminary or permanent), in any case which is in effect and which prevents or prohibits consummation of the Arrangement, the Merger or any of the other transactions contemplated in this Agreement and (ii) no Governmental Authority shall have instituted or threatened any Proceeding (which remains pending at what would otherwise be the Closing Date) before any Governmental Authority of competent jurisdiction seeking to enjoin, restrain or otherwise prohibit consummation of the transactions contemplated by this Agreement; and

(h) this Agreement shall not have been terminated in accordance with its terms.

8.2 Additional Conditions Precedent to the Obligations of the Company

The obligation of the Company to complete the Arrangement shall be subject to the satisfaction, or waiver by the Company, on or before the Closing Date, of each of the following conditions, each of which is for the exclusive benefit of the Company and which may be waived by the Company at any time, in whole or in part, in its sole discretion and without prejudice to any other rights that the Company may have:

(a) Parent shall have complied in all material respects with its obligations, covenants and agreements in this Agreement to be performed and complied with on or before the Closing Date;

(b) (i) the representations and warranties of Parent and set forth in Section 3.2(i)(i) and the representations and warranties of IrishCo set forth in Section 3.3 shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date, as if made on and as of such date; and (ii) the representations and warranties of Parent set forth in Section 3.2 (other than those referenced in clause (i) above) shall be true and correct (disregarding for this purpose all materiality or Material Adverse Effect qualifications contained therein) as of the Closing Date, as if made on and as of such date (except for such representations and warranties which refer to or are made as of another specified date, in which case such representations and warranties shall have been true and correct as of that date), except for breaches of representations and warranties which have not had and would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect;

(c) since the date of this Agreement, no Parent Material Adverse Effect shall be continuing, and there shall not have occurred any result, fact, change, effect, event, circumstance, occurrence or development that would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect; and

(d) the Company shall have received a certificate of Parent signed by a senior officer of Parent for and on behalf of Parent and dated the Closing Date certifying that the conditions set out in Section 8.2(a) and Section 8.2(b) have been satisfied.

8.3 Additional Conditions Precedent to the Obligations of Parent

The obligation of Parent to complete the Arrangement shall be subject to the satisfaction, or waiver by Parent, on or before the Closing Date, of each of the following conditions, each of which is for the exclusive benefit of Parent and which may be waived by Parent at any time, in whole or in part, in its sole discretion and without prejudice to any other rights that Parent may have:

(a) the Company shall have complied in all material respects with its obligations, covenants and agreements in this Agreement to be performed and complied with on or before the Closing Date;

(b) (i) the representations and warranties of the Company set forth in Section 3.1(k)(i) shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date, as if made on and as of such date; and (ii) the representations and warranties of the Company set forth in Section 3.1 (other than those referenced in clause (i) above) shall be true and correct (disregarding for this purpose all materiality or Material Adverse Effect qualifications contained therein) as of the Closing Date, as if made on and as of such date (except for such representations and warranties which refer to or are made as of another specified date, in which case such representations and warranties shall have been true and correct as of that date), except for breaches of representations and warranties which have not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company;

(c) since the date of this Agreement, no Material Adverse Effect on the Company shall be continuing, and there shall not have occurred any result, fact, change, effect, event, circumstance, occurrence or development that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company;

(d) Parent shall have received a certificate of the Company signed by a senior officer of the Company for and on behalf of the Company and dated the Closing Date certifying that the conditions set out in Section 8.3(a), Section 8.3(b), and Section 8.3(c) have been satisfied;

(e) the Plan of Arrangement shall not have been modified or amended in a manner adverse to Parent without Parent's consent;

(f) no applicable Law or Order shall be and remain in effect which imposes, and no suit, action, claim, proceeding or investigation shall be pending or threatened by any Governmental Authority which seeks to impose, any material limitations on Parent's or IrishCo's ownership of the Company or any Subsidiary of the Company or any requirement that Parent, IrishCo or the Company or any of their respective Subsidiaries agree to or implement any Restraint; and

(g) Parent will have received from Skadden, Arps, Slate, Meagher & Flom LLP, counsel to Parent, an opinion, dated as of the Closing Date, to the effect that Section 7874 of the Code and the regulations promulgated thereunder should not apply in such a manner so as to cause IrishCo to be treated as a domestic corporation for U.S. federal income tax purposes from and after the Closing Date.

8.4 Conditions Precedent to the Merger

The respective obligations of the Parties to consummate the Merger is conditioned solely upon the consummation of the Arrangement.

ARTICLE 9

GENERAL

9.1 Notices

Any demand, notice or other communication to be given in connection with this Agreement must be given in writing and will be given by personal delivery or by facsimile or electronic transmission, in each case, with either confirmation of receipt or confirmatory copy delivered by internationally or nationally recognized courier services within three Business Days following notification, addressed to the recipient as follows:

(i) if to Parent:

Endo Health Solutions Inc.
1400 Atwater Drive
Malvern, PA 19355
Attention: Caroline B. Manogue
Facsimile No.: (610) 884-7159
E-mail: manogue.caroline@endo.com

with a copy (which will not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
Attention: Eileen Nugent, Esq.
Brandon Van Dyke, Esq.
Facsimile No.: (212) 735-2000
E-mail: eileen.nugent@skadden.com
brandon.vandyke@skadden.com

(ii) if to the Company:

Paladin Labs Inc.
100 Alexis Nihon Blvd.
Suite 600
St-Laurent, Quebec, Canada
H4M 2P2
Attention: Mark A. Beaudet
Facsimile No.: 514-344-4675
E-mail: mbeaudet@paladinlabs.com

with a copy (which will not constitute notice) to:

Davies Ward Phillips and Vineberg LLP
1501 McGill College Avenue, 26th Floor
Montreal, Québec,
Canada H3A 3N9
Attention: Hillel W. Rosen and Neil Kravitz
Facsimile No.: (514) 841-6499
E-mail: hrosen@dwpv.com

or to such other street address, individual or electronic communication number or address as may be designated by notice given by either Party to the other. Any demand, notice or other communication given by personal delivery will be conclusively deemed to have been given on

the day of actual delivery thereof and, if given by electronic communication, on the day of transmittal thereof if given during the normal business hours of the recipient and on the Business Day during which such normal business hours next occur if not given during such hours on any day.

9.2 Expenses

Except as otherwise specified herein and except in respect of any fees associated with any filings made pursuant to Relevant Laws, which fees shall be split evenly between Parent and the Company, each Party will pay its respective legal and accounting costs and expenses incurred in connection with the preparation, execution and delivery of this Agreement and all documents and instruments executed pursuant to this Agreement and any other costs and expenses whatsoever and howsoever incurred, and will indemnify and save harmless the others from and against any claim for any broker's, finder's or placement fee or commission alleged to have been incurred as a result of any action by it in connection with the transactions hereunder.

9.3 No Assignment

Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any Party without the prior written consent of the other Parties, provided that Parent may assign any or all of its rights and interests hereunder to one or more of its Subsidiaries, but no such assignment shall relieve Parent of its obligations hereunder; provided, however, that Parent shall have the right to assign all or any portion of its rights and obligations pursuant to this Agreement from and after the Effective Time and completion of the Arrangement to any Financing Source pursuant to the terms of the Debt Financing for purposes of creating a security interest herein or otherwise assigning as collateral in respect of the Debt Financing.

9.4 Benefit of Agreement

Subject to Section 9.8, this Agreement will inure solely to the benefit of and be binding upon each Party hereto.

9.5 Public Announcements

No Party shall issue any press release or otherwise make any written public statement with respect to the Arrangement, the Merger or this Agreement without the consent of the other Parties (which consent shall not be unreasonably withheld, conditioned or delayed). The Company shall not make any filing with any Governmental Authority with respect to the Arrangement, the Merger or the transactions contemplated hereby without prior consultation with Parent, and Parent shall not make any filing with any Governmental Authority with respect to the Arrangement, the Merger or the transactions contemplated hereby without prior consultation with the Company, provided, however, that the foregoing shall be subject to each Party's overriding obligation to make any disclosure or filing required under applicable Laws, and the Party making the disclosure shall use commercially reasonable efforts to give prior oral or written notice to the other Party and reasonable opportunity for the other Party to review or comment on the disclosure or filing (other than with respect to confidential information contained in such disclosure or filing), and if such prior notice is not possible, to give notice immediately following the making of any such disclosure or filing, and provided further,

however, that, except as otherwise required pursuant to this Agreement (other than this Section 9.5), neither the Company nor Parent shall have any obligation to obtain the consent of or consult with the other Party prior to any press release, public statement, disclosure or filing by with regard to any Company Acquisition Proposal, Parent Acquisition Proposal, Company Change of Recommendation or Parent Change of Recommendation.

9.6 Governing Law; Attornment; Service of Process; Waiver of Jury

Trial

(a) This Agreement, and any dispute arising out of, relating to, or in connection with this Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware, except that the approval and effectiveness of the Arrangement shall be governed by the CBCA. Each of the Parties (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware (the “**Chancery Court**”) or, if, but only if, the Chancery Court lacks subject matter jurisdiction, any federal court located in the State of Delaware with respect to any dispute arising out of, relating to or in connection with this Agreement or any transaction contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action arising out of, relating to or in connection with this Agreement or any transaction contemplated by this Agreement, in any court other than any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the Chancery Court or, if, but only if, the Chancery Court lacks subject matter jurisdiction, in any federal court located in the State of Delaware, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) Each Party hereby agrees that any service of process, summons, notice or document by registered mail addressed to such Person at its address set forth in Section 9.1 shall be effective service of process for any suit, action or proceeding relating to any dispute arising out of this Agreement or the transactions contemplated by this Agreement.

(C) EACH PARTY HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT (INCLUDING ANY SUIT, ACTION, OR OTHER PROCEEDING AGAINST OR INVOLVING ANY FINANCING SOURCE ARISING OUT OF THIS AGREEMENT OR THE DEBT FINANCING).

(d) Notwithstanding anything in this Section 9.6 to the contrary, and without limiting anything set forth in Section 9.14, each of the Parties agrees that it will not bring or support (and it will not support any of its Affiliates to bring or support) any claim,

suit, action or other proceeding (whether at law, in equity, in contract, in tort or otherwise) against or involving any Financing Source in any way relating to this Agreement or any of the transactions contemplated by this Agreement (including any related financing), including any dispute arising out of or relating in any way to the Debt Financing or the performance thereof, in any forum other than any New York State court or federal court sitting in the County of New York and the Borough of Manhattan (and appellate courts thereof). The Parties further agree that all of the provisions of this Section 9.6 relating to waiver of jury trial shall apply to any suit, action or other proceeding referenced in this Section 9.6(d).

9.7 Entire Agreement

This Agreement, together with the Non-Disclosure Agreement and the Voting Agreement, and any documents delivered hereunder, constitutes the entire agreement between the Parties and supersedes all prior agreements and understandings, both written and oral, among the Parties, with respect to the subject matter thereof.

9.8 Third Party Beneficiaries

(a) This Section 9.8 and Sections, 9.6, 9.9, and 9.14 are intended to be for the benefit of the Persons referred to therein (including the Financing Sources) and may be enforced by any such Persons and shall not be amended, modified or waived with respect to any such Person without such Person's prior written consent.

(b) The provisions of Section 5.7, are: (i) intended for the benefit of the Indemnified Parties, and, in the case of Section 5.7(e) the directors of IrishCo, and shall be enforceable by each of such Persons and his or her heirs, executors administrators and other legal representatives; and (ii) are in addition to, and not in substitution for, any other rights that the Indemnified Parties or such directors of IrishCo may have by contract or otherwise. It is the intention of Parent to constitute the Company as a trustee for the Company Indemnified Parties and the directors of IrishCo designated by the Company not a party to this Agreement for the covenants of Parent under Section 5.7 of this Agreement, and the Company agrees to accept such trust and to hold and enforce the obligations and covenants on behalf of each such person. It is the intention of the Company to constitute Parent as a trustee for the Parent Indemnified Parties not a party to this Agreement for the covenants of the Company under Section 5.7 of this Agreement, and the Parent agrees to accept such trust and to hold and enforce the obligations and covenants on behalf of each such person.

(c) Except as provided in this Section 9.8, this Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

9.9 Amendment

(a) This Agreement may, at any time and from time to time but not later than the Closing, be amended by written agreement of the Parties hereto without, subject to applicable Laws, further notice to or authorization on the part of the Company Shareholders or Parent Shareholders.

(b) Notwithstanding the foregoing, the Plan of Arrangement may only be supplemented or amended in accordance with the provisions thereof.

(c) Notwithstanding anything to the contrary contained herein, Sections 9.6, 9.8, 9.9, 9.13, 9.14 and this Section 9.9 (and any provision of this Agreement to the extent a modification, waiver by Parent or termination of such provision would modify the substance of any of the foregoing provisions) may not be modified, waived by Parent or terminated in a manner that is adverse in any respect to a Financing Source without the prior written consent of such Financing Source.

9.10 Waiver and Modifications

Any Party may (a) waive, in whole or in part, any inaccuracy of, or consent to the modification of, any representation or warranty made to it hereunder or in any document to be delivered pursuant hereto, (b) extend the time for the performance of any of the obligations or acts of the other Parties (c) waive or consent to the modification of any of the covenants herein contained for its benefit or waive or consent to the modification of any of the obligations of the other Parties hereto or (d) waive the fulfilment of any condition to its own obligations contained herein. No waiver or consent to the modifications of any of the provisions of this Agreement will be effective or binding unless made in writing and signed by the Party or Parties purporting to give the same and, unless otherwise provided, will be limited to the specific breach or condition waived. The rights and remedies of the Parties hereunder are cumulative and are in addition to, and not in substitution for, any other rights and remedies available at Law or in equity or otherwise. No single or partial exercise by a Party of any right or remedy precludes or otherwise affects any further exercise of such right or remedy or the exercise of any other right or remedy to which that Party may be entitled. No waiver or partial waiver of any nature, in any one or more instances, will be deemed or construed a continued waiver of any condition or breach of any other term, representation or warranty in this Agreement.

9.11 Severability

Upon such determination that any provision is illegal, invalid or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the Arrangement and Merger be consummated as originally contemplated to the fullest extent possible.

9.12 Further Assurances

Subject to the provisions of this Agreement, the Parties will, from time to time, do all acts and things and execute and deliver all such further documents and instruments, as the other Parties may, either before or after the Closing, reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

9.13 Injunctive Relief

The Parties agree that irreparable harm would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached for which money damages would not be an adequate remedy at Law. It is

accordingly agreed that the Parties will be entitled to an injunction or injunctions and other equitable relief to prevent breaches of this Agreement, any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief hereby being waived.

9.14 No Recourse

Without limiting any other provision in this Agreement, this Agreement may only be enforced against, and any claims or causes of action that may be based upon, arise out of or relate to this Agreement, or the negotiation, execution or performance of this Agreement, may only be made against the Parties hereto, and no Financing Source shall have any liability for any obligations or liabilities of the Parties hereto or for any claim (whether in tort, contract or otherwise), based on, in respect of, or by reason of, the transactions contemplated hereby or in respect of any oral representations made or alleged to be made in connection herewith. In no event, shall the Company or any of their Affiliates, and the Company agrees not to and to cause their Affiliates not to, (A) seek to enforce this Agreement against, make any claims for breach of this Agreement against, or seek to recover monetary damages from, any Financing Source or (B) seek to enforce the commitments against, make any claims for breach of the Debt Financing commitments against, or seek to recover monetary damages from, or otherwise sue, the Financing Sources for any reason, including in connection with the Debt Financing commitments or the obligations of Financing Sources thereunder. Nothing in this Section 9.14 shall in any way limit or qualify the obligations and liabilities of the parties to the Debt Financing to each other or in connection therewith.

9.15 Counterparts

This Agreement may be executed and delivered in any number of counterparts (including by facsimile or electronic transmission), each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same instrument, and each Party may enter into this Agreement by executing a counterpart and delivering it to the other Party (by personal delivery, facsimile, electronic transmission or otherwise).

[The remainder of this page is left intentionally blank—Signature page follows]

IN WITNESS WHEREOF the Parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

ENDO HEALTH SOLUTIONS INC.

By: (signed) Rajiv De Silva
Name: Rajiv De Silva
Title: President & Chief Executive Officer

Given under the **COMMON SEAL** of
SPORTWELL LIMITED

By: (signed) Robert J. Cobuzzi Jr., Ph.D
Name: Robert J. Cobuzzi Jr., Ph.D.
Title: Director

By: (signed) Donald DeGolyer
Name: Donald DeGolyer
Title: Director

Given under the **COMMON SEAL** of
SPORTWELL II LIMITED

By: (signed) Robert J. Cobuzzi Jr., Ph.D
Name: Robert J. Cobuzzi Jr., Ph.D.
Title: Director

By: (signed) Donald DeGolyer
Name: Donald DeGolyer
Title: Director

ULU ACQUISITION CORP.

By: (signed) Brian Lortie
Name: Brian Lortie
Title: President

RDS MERGER SUB, LLC

By: (signed) Brian Lortie
Name: Brian Lortie
Title: President

8312214 CANADA INC.

By: (signed) Brian Lortie
Name: Brian Lortie
Title: President

PALADIN LABS INC.

By: (signed) Mark A. Beaudet
Name: Mark A. Beaudet
Title: Interim President & Chief Executive Officer

SCHEDULE A – PLAN OF ARRANGEMENT

SCHEDULE A

PLAN OF ARRANGEMENT

FORM OF PLAN OF ARRANGEMENT UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions.

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the meanings hereinafter set forth:

"Amalco" means Paladin Labs Inc., a corporation amalgamated under the laws of Canada;

"Amalco Common Shares" means the common shares without par value in the capital of Amalco;

"Arrangement" means the arrangement of the Company under section 192 of the CBCA on the terms and subject to the conditions set forth in this Plan of Arrangement, subject to any amendments or variations thereto made in accordance with the Arrangement Agreement and Section 5.1 hereof or made at the discretion of the Court in the Final Order (with the consent of the Company and Parent, each acting reasonably);

"Arrangement Agreement" means the Arrangement Agreement dated as of November 5, 2013, among Parent, IrishCo, Interco, ULU Acquisition Corp., RDS Merger Sub, LLC, CanCo 1 and the Company (including the Schedules attached thereto) as may be amended, supplemented, restated or otherwise modified from time to time in accordance with its terms;

"Arrangement Cash Consideration" means, in respect of each Company Common Share subject to the Arrangement, \$1.16 in cash, plus an amount equal to the Company Exchange Ratio multiplied by the following amount (with the result converted into Canadian dollars at the Currency Exchange Rate), as applicable:

- (a) If the Endo VWAP Ratio is greater than or equal to 93%, nil; or
- (b) If the Endo VWAP Ratio is greater than or equal to 80% but less than 93%, then an amount equal to (x) the Endo Announcement Date VWAP multiplied by (y) the percentage obtained by subtracting the Endo VWAP Ratio from 93%; or
- (c) If the Endo VWAP Ratio is less than 80% but greater than or equal to 76%, then the aggregate of:

- (i) an amount equal to (v) the Endo Announcement Date VWAP, multiplied by (w) 13%; plus
 - (ii) an amount equal to (x) the Endo Announcement Date VWAP, multiplied by (y) 50% multiplied by (z) the percentage obtained by subtracting the Endo VWAP Ratio from 80%; or
- (d) If the Endo VWAP Ratio is less than 76%, then the aggregate of:
 - (i) an amount equal to (v) the Endo Announcement Date VWAP multiplied by (w) 13%; plus
 - (ii) an amount equal to (x) the Endo Announcement Date VWAP multiplied by (y) 2%.

"Arrangement Exchange Agent" means [■] at its offices set out in the Letter of Transmittal;

"Arrangement Resolution" means the special resolution of the Company to be considered and, if thought fit, passed by the Company Shareholders at the Company Meeting to approve the Arrangement, to be substantially in the form and content of Schedule B to the Arrangement Agreement;

"Arrangement Stock Consideration" means, in respect of each Company Common Share subject to the Arrangement, 1.6331 IrishCo Shares;

"Arrangement Therapeutics Consideration" means, in respect of each Company Common Share subject to the Arrangement, one Therapeutics Common Share;

"Articles of Arrangement" means the articles of arrangement of the Company in respect of the Arrangement to be filed with the Director after the Final Order is made, which shall be in form and substance satisfactory to Parent and the Company, each acting reasonably;

"Business Day" means a day other than a Saturday, a Sunday or any other day on which major commercial banking institutions in Montreal, Québec, New York, New York or Dublin, Ireland are closed for business;

"Calculation Agent" means a nationally recognized independent investment banking firm jointly selected by Parent and the Company for the purpose of calculating the Endo Reference VWAP;

"CanCo 1" means 8312214 Canada Inc., a corporation incorporated under the laws of Canada;

"CanCo 1 Common Shares" means the common shares without par value in the capital of CanCo 1;

"**CanCo 2**" means 8312222 Canada Inc., a corporation incorporated under the laws of Canada;

"**CanCo 2 Common Shares**" means the common shares without par value in the capital of CanCo 2;

"**CanCo 2 Common Share Consideration**" means the fair market value of the CanCo 1 Common Shares transferred and assigned to CanCo 2 pursuant to Section 3.1(h) less the CanCo 2 Payment;

"**CanCo 2 Payment**" has the meaning ascribed thereto in Section 3.1(h);

"**CBCA**" means the *Canada Business Corporations Act*;

"**Certificate of Arrangement**" means the certificate of arrangement certifying that the Arrangement has been effected, issued pursuant to subsection 192(7) of the CBCA after the Articles of Arrangement have been filed;

"**Company**" means Paladin Labs Inc., a corporation continued under the laws of Canada;

"**Company Board of Directors**" means the board of directors of the Company;

"**Company Common Shares**" means the common shares without par value in the capital of the Company;

"**Company Common Share Closing Price**" means the closing price of a Company Common Share on the TSX on the trading day immediately preceding the Effective Date;

"**Company Exchange Ratio**" means 1.6331 IrishCo Shares;

"**Company Meeting**" means the special meeting of the Company Shareholders, including any adjournment or postponement thereof, to be called and held in accordance with the Arrangement Agreement and the Interim Order for the purpose of considering and, if thought fit, approving the Arrangement Resolution;

"**Company Shareholder**" means a holder of one or more Company Common Shares;

"**Company Share Purchase Plan**" means the Employee Share Purchase Plan adopted by the Company Board of Directors on May 10, 2000, as amended from time to time;

"**Court**" means the Superior Court of Québec;

"**CSPP Participant**" means a participant under the Company Share Purchase Plan;

"**Currency Exchange Rate**" means [■], being the noon rate quoted by the Bank of Canada on the fourth Business Day prior to the Company Meeting for the conversion of United States dollars into Canadian dollars;

"**Director**" means the Director appointed pursuant to section 260 of the CBCA;

"Effective Date" means the date upon which all of the conditions to the completion of the Arrangement as set out in Article 8 of the Arrangement Agreement have been satisfied or waived (subject to applicable Laws) in accordance with the provisions of the Arrangement Agreement and all documents agreed to be delivered thereunder have been delivered to the satisfaction of the recipient, acting reasonably, and the Arrangement becomes effective in accordance with the CBCA and the Final Order;

"Effective Time" means 1:00 a.m. (Montreal Time) on the Effective Date, or such other time as the parties may agree to in writing before the Effective Date;

"Endo Announcement Date VWAP" means US\$44.4642;

"Endo Reference VWAP" means the volume weighted average price per share of the common stock of Parent for the regular trading session of NASDAQ as displayed under the heading "Bloomberg VWAP" on Bloomberg Page ENDP <equity> AQR for the ten trading days ending on the third trading day prior to the date of the Company Meeting (the **"Reference Valuation Period"**) in respect of the period from 9:30 a.m. to 4:00 p.m. (New York City time) for such Reference Valuation Period; or if such volume weighted average price is not available, as determined by the Calculation Agent, using a reasonable, good faith estimate of such price for such Reference Valuation Period;

"Endo VWAP Ratio" means $[\blacksquare]\%$, being (x) the Endo Reference VWAP divided by (y) the Endo Announcement Date VWAP, expressed as a percentage;

"Euro Purchaser" means the Person identified in writing by Parent to the Company prior to the Effective Time as the "Euro Purchaser";

"Final Order" means the order of the Court in a form acceptable to the Company and Parent, each acting reasonably, approving the Arrangement under section 192(4) of the CBCA, as such order may be affirmed, amended, modified, supplemented or varied by the Court (with the consent of both the Company and Parent, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn, abandoned or denied, as affirmed or amended (provided that any such amendment is acceptable to both the Company and Parent, each acting reasonably) on appeal;

"Former Company Common Shareholders" means, at and following the Effective Time, the holders of Company Common Shares (other than Qualifying Holdcos), in each case immediately prior to the Effective Time;

"Former Optionholders" means, at and following the Effective Time, the Optionholders, in each case immediately prior to the Effective Time;

"Former Qualifying Holdco Shareholders" means, at and following the Effective Time, the holders of Qualifying Holdco Shares, in each case immediately prior to the Effective Time;

"Former Shareholders" means the Former Company Common Shareholders and the Former Qualifying Holdco Shareholders;

"Governmental Authority" means any international, multinational, federal, provincial, territorial, state, regional, municipal, local or other government or governmental body and any ministry, department, division, bureau, agent, official, agency, commission, board or authority of any government, governmental body, quasi-governmental or private body (including the TSX, the NASDAQ, or any other stock exchange), domestic or foreign, exercising any statutory, regulatory, expropriation or taxing authority under the authority of any of the foregoing and any domestic, foreign or international judicial, quasi-judicial or administrative court, tribunal, commission, board, panel, arbitrator or arbitral body acting under the authority of any of the foregoing;

"Holdco Agreements" means the share purchase agreement and other ancillary documentation containing such representations and warranties and covenants acceptable to Parent, acting reasonably, to be entered into by each Qualifying Holdco Shareholder, in a form consistent with Section 2.6 of the Arrangement Agreement;

"Holdco Alternative" means the alternative for a Qualifying Holdco Shareholder to elect to sell its Company Common Shares through its Qualifying Holdco in accordance with the terms and conditions of Section 2.6 of the Arrangement Agreement;

"Interco" means Sportwell II Limited, a company incorporated in Ireland (Registered Number 534651) with registered address 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland;

"Interim Order" means the interim order of the Court in a form acceptable to the Company and Parent, each acting reasonably, to be issued following the application therefor contemplated by Section 2.1(d) of the Arrangement Agreement providing for, among other things, the calling and holding of the Company Meeting, as such order may be amended, modified, supplemented or varied by the Court with the consent of both the Company and Parent, each acting reasonably;

"In-the-Money Amount per Share" means, in respect of each Option, the amount by which (A) the Company Common Share Closing Price exceeds (B) the exercise price for each Common Share subject to the Option;

"IrishCo" means Sportwell Limited, a company incorporated in Ireland (Registered Number 534814) with registered address 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland;

"IrishCo CanCo 1 Common Share" has the meaning ascribed thereto in Section 3.1(f);

"IrishCo Euro Share" means an ordinary share, par value €1.00 per share, in the share capital of IrishCo;

"IrishCo Share" means an ordinary share, par value US\$0.0001 per share, in the share capital of IrishCo;

"Laws" means any and all laws, statutes, codes, ordinances (including zoning), approvals, decrees, rules, regulations, by-laws, notices, policies, protocols, guidelines, treaties or other requirements of any Governmental Authority having the force of law and any legal requirements arising under the common law or principles of law or equity;

"Letter of Transmittal" means the letter of transmittal for use by Company Shareholders or Optionholders with respect to the Arrangement;

"NASDAQ" means the NASDAQ Global Select Market;

"Optionholder" means a holder of one or more Options;

"Options" means, at any time, rights to acquire Company Common Shares granted pursuant to the Stock Option Plan which are, at such time, outstanding and unexercised, whether or not vested;

"Option Consideration" means, in respect of each right to acquire one Company Common Share pursuant to an Option, the aggregate of:

- (a) one Therapeutics Common Share; plus
- (b) the Company Exchange Ratio multiplied by the quotient obtained by dividing:
 - (i) the In-the-Money Amount per Share in respect of that Option plus the Arrangement Cash Consideration; by
 - (ii) the Company Common Share Closing Price;

provided that if the In-the-Money Amount per Share is equal to or less than zero, the Option Consideration shall be nil;

"Parent" means Endo Health Solutions Inc., a corporation incorporated under the laws of Delaware;

"Person" includes an individual, sole proprietorship, corporation, body corporate, incorporated or unincorporated association, syndicate or organization, partnership, limited partnership, limited liability company, unlimited liability company, joint venture, joint stock company, trust, natural Person in his or her capacity as trustee, executor, administrator or other legal representative, a government or Governmental Authority or other entity, whether or not having legal status;

"Plan of Arrangement", "hereof", "herein", "hereto" and like references mean and refer to this plan of arrangement;

"Qualifying Holdco" means a corporation that meets the conditions described in Section 2.6 of the Arrangement Agreement;

"Qualifying Holdco Cash Consideration" means, in respect of each Qualifying Holdco, an amount equal to the Arrangement Cash Consideration multiplied by the number of Company Common Shares held by such Qualifying Holdco;

"Qualifying Holdco Shareholder" means any Person that is a registered owner of Company Common Shares before the 10th Business Day prior to the Effective Time and is not a non-resident of Canada within the meaning of the Tax Act and that has validly elected the Holdco Alternative in accordance with Section 2.6 of the Arrangement Agreement;

"Qualifying Holdco Shares" means shares in the capital of a Qualifying Holdco;

"Qualifying Holdco Stock Consideration" means, in respect of each Qualifying Holdco, an amount equal to the Arrangement Stock Consideration multiplied by the number of Company Common Shares held by such Qualifying Holdco;

"Qualifying Holdco Therapeutics Consideration" means, in respect of each Qualifying Holdco, an amount equal to the Arrangement Therapeutics Consideration multiplied by the number of Company Common Shares held by such Qualifying Holdco;

"Selling Shareholders" means the Company Shareholders (other than Qualifying Holdcos) and the Qualifying Holdco Shareholders;

"Stock Option Plan" means the Company Stock Option Plan adopted by the Company Board of Directors on May 10, 2000, as amended from time to time;

"Tax Act" means the *Income Tax Act* (Canada);

"Therapeutics" means Knight Therapeutics Inc., a corporation organized under the laws of Canada;

"Therapeutics Common Shares" means the common shares without par value in the capital of Therapeutics;

"Total Company Common Share Consideration" means (i) the total fair market value of the Arrangement Stock Consideration and the Qualifying Holdco Stock Consideration delivered directly to the Selling Shareholders by IrishCo pursuant to Section 3.1(d) and Section 3.1(e); plus (ii) the total of the Arrangement Cash Consideration and Qualifying Holdco Cash Consideration paid directly to the Selling Shareholders by IrishCo pursuant to Section 3.1(d) and Section 3.1(e); plus (iii) the total fair market value of the Option Consideration that is comprised of IrishCo Shares and delivered directly to the Optionholders by IrishCo pursuant to Section 3.1(a); and

"TSX" means the Toronto Stock Exchange.

Words and phrases used herein that are defined in the Arrangement Agreement and not defined herein shall have the same meaning herein as in the Arrangement Agreement, unless the context otherwise requires. Words and phrases used herein that are defined in the CBCA and not

defined herein or in the Arrangement Agreement shall have the same meaning herein as in the CBCA, unless the context otherwise requires.

1.2 Interpretation Not Affected By Headings, etc.

The division of this Plan of Arrangement into Articles, Sections and subsections and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan of Arrangement.

1.3 Article References

Unless the contrary intention appears, references in this Plan of Arrangement to an Article, Section or subsection by number or letter or both refer to the Article, Section or subsection respectively, bearing that designation in this Plan of Arrangement.

1.4 Number and Gender

In this Plan of Arrangement, unless the contrary intention appears, words importing the singular include the plural and vice versa, and words importing gender shall include all genders.

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the parties is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.

1.6 Statutory References

Unless otherwise indicated, references in this Plan of Arrangement to any statute include all regulations made pursuant to such statute and the provisions of any statute or regulation which amends, supplements or supersedes any such statute or regulation.

1.7 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

ARTICLE 2 ARRANGEMENT AGREEMENT

2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to, and is subject to the provisions of, the Arrangement Agreement. This Plan of Arrangement shall become effective at, and be binding at and after, the Effective Time on:

- a) Parent;
- b) the Company;

- c) IrishCo;
- d) Interco;
- e) CanCo 1;
- f) CanCo 2;
- g) each Qualifying Holdco;
- h) Therapeutics;
- i) all persons who were immediately prior to the Effective Time holders or beneficial owners of Company Common Shares or Qualifying Holdco Shares;
- j) all persons who were immediately prior to the Effective Time holders or beneficial owners of Options; and
- k) all holders of any rights or entitlements under the Company Share Purchase Plan.

ARTICLE 3 ARRANGEMENT

3.1 Arrangement

Commencing at the Effective Time, the following events or transactions shall occur and shall be deemed to occur in the following sequence without any further act or formality:

- (a) notwithstanding any vesting or exercise provisions to which an Option might otherwise be subject (whether by contract, the conditions of a grant, applicable Laws or the terms of the Stock Option Plan):
 - (i) each right to acquire a Company Common Share pursuant to an Option that is issued and outstanding at the Effective Time shall, without any further action by or on behalf of any holder of such Option, be deemed to be fully vested and transferred and disposed of by the holder thereof to CanCo 1 (free and clear of all liens, claims and encumbrances) and cancelled in exchange for, subject to Section 3.4, (A) the delivery by Amalco (as successor to CanCo 1's obligations and liabilities) of the portion of the Option Consideration in respect of that right consisting of Therapeutics Common Shares pursuant to Section 3.1(l)(iii), and (B) the payment by IrishCo on behalf of CanCo 1 of the portion of the Option Consideration in respect of that right consisting of IrishCo Shares; and
 - (ii) with respect to each such Option, the holder thereof will cease to be the holder of such Option, will cease to have any rights as a holder in respect of such Option or under the Stock Option Plan, such holder's name will be

removed from the register of Options, and all option agreements, grants and similar instruments relating thereto will be cancelled;

- (b) Notwithstanding any provisions of the Company Share Purchase Plan:
 - (i) all rights of each CSPP Participant under the Company Share Purchase Plan to contributions by the Company and to the acquisition of Company Common Shares under the Company Share Purchase Plan shall, without any further action by or on behalf of the CSPP Participant, be cancelled in exchange for a cash amount equal to 25% of the aggregate number of shares purchased on behalf of that Participant under the Company Share Purchase Plan with the CSPP Participant's contributions in respect of each of the 8 fiscal quarters ending immediately prior to the Effective Time (but excluding any Company Common Shares purchased with CSPP Participant's contributions after November 5, 2013 that exceeded his or her rate of contribution before that date), multiplied by the Company Common Share Closing Price; and
 - (ii) each CSPP Participant shall be entitled to the return of any contributions he or she made under the Company Share Purchase Plan after the fiscal quarter ending immediately before the Effective Time, without interest;
- (c) the Stock Option Plan and the Company Share Purchase Plan shall be terminated (and all rights issued thereunder shall expire) and shall be of no further force or effect;
- (d) each outstanding Company Common Share (other than those held by a Qualifying Holdco) shall be transferred and assigned to CanCo 1 in exchange for, subject to Section 3.4, (A) the payment by IrishCo on behalf of CanCo 1 of the Arrangement Cash Consideration; (B) the delivery by IrishCo on behalf of CanCo 1 of the Arrangement Stock Consideration; and (C) the delivery by Amalco (as successor to CanCo 1's obligations and liabilities) of the Arrangement Therapeutics Consideration pursuant to Section 3.1(l)(i), and in respect of each Company Common Share so transferred and assigned,
 - (i) the registered holder thereof shall cease to be the registered holder of such Company Common Share and the name of such registered holder shall be removed from the register of Company Shareholders as of the Effective Time; and
 - (ii) CanCo 1 shall be recorded as the registered holder of such Company Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (e) all of the outstanding Qualifying Holdco Shares of each Qualifying Holdco shall be transferred and assigned to CanCo 1 in exchange for, subject to Section 3.4, (A) the payment by IrishCo on behalf of CanCo 1 of the Qualifying Holdco Cash

Consideration in respect of each such Qualifying Holdco; (B) the delivery by IrishCo on behalf of CanCo 1 of the Qualifying Holdco Stock Consideration in respect of each such Qualifying Holdco, and (C) the delivery by Amalco (as successor to CanCo 1's obligations and liabilities) of the Qualifying Holdco Therapeutics Consideration pursuant to Section 3.1(l)(ii), in respect of each such Qualifying Holdco, and in respect of each Qualifying Holdco Share so transferred and assigned,

- (i) the registered holder thereof shall cease to be the registered holder of such Qualifying Holdco Share and the name of such registered holder shall be removed from the register of Qualifying Holdco Shareholders as of the Effective Time; and
 - (ii) CanCo 1 shall be recorded as the registered holder of such Qualifying Holdco Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (f) in consideration for (A) IrishCo delivering, on behalf of CanCo 1, the Arrangement Stock Consideration and the Qualifying Holdco Stock Consideration directly to the Selling Shareholders pursuant to Section 3.1(d) and Section 3.1(e), (B) IrishCo delivering on behalf of CanCo 1 the Option Consideration consisting of IrishCo Shares directly to the Optionholders pursuant to Section 3.1(a), and (C) IrishCo paying, on behalf of CanCo 1, the Arrangement Cash Consideration and the Qualifying Holdco Cash Consideration to the Selling Shareholders pursuant to Section 3.1(d) and Section 3.1(e), [■] CanCo 1 Common Shares (the "**IrishCo CanCo 1 Common Shares**") shall be issued to IrishCo, and, in respect thereof, there shall be added to the stated capital account maintained by CanCo 1 for CanCo 1 Common Shares an amount equal to the Total Company Common Share Consideration;
- (g) each IrishCo CanCo 1 Common Share acquired pursuant to Section 3.1(f) shall be contributed by IrishCo to the capital of Interco and, in respect of each IrishCo CanCo 1 Common Share so contributed, IrishCo shall cease to be the registered holder thereof and IrishCo's name shall be removed from the register of shareholders of CanCo 1, and Interco shall be recorded as the registered holder of such IrishCo CanCo 1 Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (h) each outstanding CanCo 1 Common Share shall be transferred and assigned to CanCo 2 in exchange for (i) [■] CanCo 2 Common Shares and (ii) the payment by CanCo 2 of \$[■] in cash (the "**CanCo 2 Payment**"), and (A) in respect of each CanCo 1 Common Share so transferred and assigned, Interco shall cease to be the registered holder thereof and Interco's name shall be removed from the register of shareholders of CanCo 1, and CanCo 2 shall be recorded as the registered holder of such CanCo 1 Common Share and shall be deemed to be the legal and

beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others) and (B) there shall be added to the stated capital account maintained by CanCo 2 for CanCo 2 Common Shares an amount equal to the CanCo 2 Common Share Consideration, in respect of the CanCo 2 Common Shares issued to Interco pursuant to this Section 3.1(h);

- (i) the Company shall transfer one IrishCo Euro Share to Euro Purchaser, in exchange for €1, and in respect of such IrishCo Euro Share so delivered, the Company shall cease to be the registered holder thereof and the Company's name shall be removed from the register of shareholders of IrishCo, and the name of Euro Purchaser shall be recorded as the registered holder of such IrishCo Euro Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
- (j) the Company shall file an election with the Canada Revenue Agency, to be effective prior to the amalgamation described in Section 3.1(k) below, to cease to be a public corporation for the purposes of the Tax Act;
- (k) CanCo 1, CanCo 2, each Qualifying Holdco and the Company shall amalgamate to form Amalco, as more fully described in Section 3.2; and
- (l) concurrently:
 - (i) Amalco (as successor to CanCo 1's obligations and liabilities) shall deliver and each Former Company Common Shareholder shall acquire the Arrangement Therapeutics Consideration, and in respect of each Therapeutics Common Share so delivered, Amalco shall cease to be the registered holder thereof and Amalco's name shall be removed from the register of shareholders of Therapeutics, and the name of such Former Company Common Shareholder shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
 - (ii) Amalco (as successor to CanCo 1's obligations and liabilities) shall deliver and each Former Qualifying Holdco Shareholder shall acquire the Qualifying Holdco Therapeutics Consideration, and in respect of each Therapeutics Common Share so delivered, Amalco shall cease to be the registered holder thereof and Amalco's name shall be removed from the register of shareholders of Therapeutics, and the name of such Former Qualifying Holdco Shareholder shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others);
 - (iii) Amalco (as successor to CanCo 1's obligations and liabilities) shall deliver and each Former Optionholder shall acquire the portion of the Option

Consideration consisting of Therapeutics Common Shares, and in respect of each Therapeutics Common Share so delivered, Amalco shall cease to be the registered holder thereof and Amalco's name shall be removed from the register of shareholders of Therapeutics, and the name of each Former Optionholder shall be recorded as the registered holder of such Therapeutics Common Share and shall be deemed to be the legal and beneficial owner thereof (free and clear of all liens, charges, encumbrances and any other rights of others); and

- (iv) unless Therapeutics determines otherwise, Therapeutics shall file an election with the Canada Revenue Agency to be a public corporation for the purposes of the Tax Act, such election to be effective concurrently with the acquisition of the Therapeutics Common Shares pursuant to this Section 3.1(l).

3.2 Amalgamation of CanCo 1, CanCo 2, each Qualifying Holdco and the Company

- (a) Pursuant to Section 3.1(k), CanCo 1, CanCo 2, each Qualifying Holdco and the Company shall amalgamate to form Amalco under the CBCA, with the effect described below, and, unless and until otherwise determined in the manner required by Law, the following shall apply:
 - (i) **Name.** The name of Amalco shall be Paladin Labs Inc.
 - (ii) **Registered Office.** The registered office of Amalco shall be located in Montreal in the Province of Québec. The address of the registered office shall be 6111 Royalmount Avenue, Suite 102, Montreal, Québec, H4P 2T4.
 - (iii) **Business and Powers.** There shall be no restrictions on the business that Amalco may carry on or on the powers it may exercise.
 - (iv) **Authorized Share Capital.** Amalco shall be authorized to issue an unlimited number of common shares designated as "Common Shares".
 - (v) **Share Provisions.** The Amalco Common Shares shall have the same terms as the CanCo 2 Common Shares.
 - (vi) **Shares.** Each CanCo 2 Common Share shall be converted into one fully paid and non-assessable Amalco Common Share and the shares so converted shall be added to the register of shareholders of Amalco. Each CanCo 1 Common Share, Qualifying Holdco Share and Company Common Share (including Company Common Shares held by Qualifying Holdcos) shall be cancelled without any repayment of capital.
 - (vii) **Restrictions on Transfer.** The transfer of Amalco Common Shares shall be restricted and no holder of Amalco Common Shares shall transfer any such share without either: (i) the approval of the directors of Amalco

passed at a meeting of the board of directors or by an instrument or instruments in writing signed by a majority of the directors; or (ii) the approval of the holders of at least a majority of the shares of Amalco entitling the holders thereof to vote in all circumstances (other than holders of shares who are entitled to vote separately as a class) for the time being outstanding, expressed by a resolution passed at a meeting of the holders of such shares or by an instrument or instruments in writing signed by the holders of a majority of such shares.

- (viii) **Number of Directors.** The number of directors of Amalco shall not be less than 1 and not more than 3, and otherwise as the shareholders of Amalco may from time to time determine by special resolution.

- (ix) **Initial Directors.** The initial directors of Amalco shall be:

Name	Residence Address	Canadian Resident
[■]	[■]	[■]

- (x) **By-laws.** The by-laws of Amalco shall be the same as the by-laws of CanCo 2.

- (xi) **First Annual General Meeting.** The first annual general meeting of Amalco shall be held within 18 months from the Effective Date.

- (xii) **Stated Capital.** The aggregate of the stated capital of the issued and outstanding Amalco Common Shares shall be equal to the aggregate of the stated capital of the issued and outstanding CanCo 2 Common Shares immediately before the amalgamation described in Section 3.1(k).

- (xiii) **Effect of Amalgamation.** Upon the amalgamation of CanCo 1, CanCo 2, each Qualifying Holdco and the Company to form Amalco becoming effective pursuant to Section 3.1(k):

- (A) the property of each of CanCo 1, CanCo 2, each Qualifying Holdco and the Company, including, for greater certainty, any and all of the Therapeutics Common Shares, shall continue to be the property of Amalco;
- (B) Amalco shall continue to be liable for the obligations of CanCo 1, CanCo 2, each Qualifying Holdco and the Company;
- (C) all existing causes of action, claims or liabilities to prosecution with respect of CanCo 1, CanCo 2, each Qualifying Holdco and the Company shall be unaffected;

- (D) all civil, criminal or administrative actions or proceedings pending by or against CanCo 1, CanCo 2, each Qualifying Holdco and the Company may be continued to be prosecuted by or against Amalco;
- (E) all convictions against, or rulings, orders or judgments in favour of or against CanCo 1, CanCo 2, each Qualifying Holdco and the Company may be enforced by or against Amalco; and
- (F) the Articles of Arrangement shall be deemed to be the articles of incorporation of Amalco and the Certificate of Arrangement shall be deemed to be the certificate of incorporation of Amalco.

3.3 Post-Effective Time Procedures

At or prior to the Effective Time, IrishCo shall (i) deposit or cause to be deposited with the Arrangement Exchange Agent, for the benefit of and to be held on behalf of the Selling Shareholders, the aggregate amount of cash that such Selling Shareholders are entitled to receive under the Arrangement; (ii) deposit or cause to be deposited with the Arrangement Exchange Agent, for the benefit of and to be held on behalf of the Selling Shareholders and the Optionholders, certificates representing the IrishCo Shares that such Selling Shareholders and such Optionholders are entitled to receive under the Arrangement; and (iii) deposit or cause to be deposited with the Arrangement Exchange Agent, for the benefit of and to be held on behalf of the Selling Shareholders and the Optionholders, certificates representing the Therapeutics Common Shares that such Selling Shareholders and such Optionholders are entitled to receive under the Arrangement, which certificates and cash shall be held by the Arrangement Exchange Agent as agent and nominee for the Former Shareholders and the Former Optionholders for distribution to the Former Shareholders and the Former Optionholders in accordance with the provisions of Article 4 hereof.

3.4 Fractional IrishCo Shares and Rounding of Cash Consideration

- (a) No certificates representing fractional IrishCo Shares shall be issued to the Former Shareholders or the Former Optionholders upon the surrender for exchange of certificates pursuant to Section 4.1 or Section 4.2 and no dividend, stock split or other change in the capital structure of IrishCo shall relate to any such fractional security and such fractional interests shall not entitle the holder thereof to exercise any rights as a security holder of IrishCo. In lieu of any such fractional shares, each Former Shareholder and each Former Optionholder otherwise entitled to a fractional interest in an IrishCo Share will receive a cash payment equal to such Former Shareholder or such Former Optionholder's pro rata portion of the net proceeds after expenses received by the Arrangement Exchange Agent upon the sale of whole shares representing an accumulation of all fractional interests in IrishCo Shares to which all such Former Shareholders and Former Optionholders would otherwise be entitled. The Arrangement Exchange Agent will sell such IrishCo Shares by private sale (including by way of sale through the facilities of any stock exchange upon which the IrishCo Shares

are then listed) as soon as reasonably practicable following the Effective Date. The aggregate net proceeds after expenses of such sale will be distributed by the Arrangement Exchange Agent, pro rata in relation to the respective fractions, among the Former Shareholders and the Former Optionholders otherwise entitled to receive fractional interests in IrishCo Shares.

- (b) If the aggregate cash amount which a Selling Shareholder is entitled to receive pursuant to Section 3.1(d) or Section 3.1(e) would otherwise include a fraction of \$0.01, then the aggregate cash amount to which such Selling Shareholder shall be entitled to receive shall be rounded up to the nearest whole \$0.01.

ARTICLE 4

DELIVERY OF CONSIDERATION

4.1 Delivery of Share Consideration and Cash Consideration

- (a) Upon surrender to the Arrangement Exchange Agent for cancellation of a certificate which immediately prior to the Effective Time represented one or more outstanding Company Common Shares, Qualifying Holdco Shares or Options, together with a duly completed and executed Letter of Transmittal, and such additional documents and instruments as the Arrangement Exchange Agent may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and the Arrangement Exchange Agent shall deliver to such holder following the Effective Time (in each case, less any amounts withheld pursuant to Section 4.4 hereof), (i) a certificate representing the number of IrishCo Shares to which such holder is entitled to receive under the Arrangement; (ii) a cheque for the cash consideration to which such holder is entitled to under the Arrangement; and (iii) a certificate representing the number of Therapeutics Common Shares to which such holder is entitled to under the Arrangement.
- (b) After the Effective Time and until surrendered for cancellation as contemplated by Section 4.1(a) hereof, each certificate which immediately prior to the Effective Time represented one or more Company Common Shares, Qualifying Holdco Shares or Options shall be deemed at all times to represent only the right to receive in exchange therefor the entitlements which the holder of such certificate is entitled to receive in accordance with Section 4.1(a) hereof.
- (c) Notwithstanding anything to the contrary herein, the only property delivered to or acquired by a Former Shareholder or a Former Optionholder herein is that which is stipulated to have been delivered to or acquired by such person in Section 3.1.

4.2 Lost Certificates

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Company Common Shares that were exchanged pursuant to Section 3.1(d) or that were held by a Qualifying Holdco, the Qualifying Holdco Shares of which were exchanged pursuant to Section 3.1(e), shall have been lost, stolen or destroyed, then upon the

making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Arrangement Exchange Agent will deliver in exchange for such lost, stolen or destroyed certificate, the cash amount and the IrishCo Shares that such Person is entitled to receive pursuant to Section 3.1(d) or Section 3.1(e) (and any dividends or distributions with respect thereto pursuant to Section 4.3) and the Therapeutics Common Shares that such Person is entitled to receive pursuant to Section 3.1(l)(i) or Section 3.1(l)(ii) (and any dividends or distributions with respect thereto pursuant to Section 4.3), in accordance with such holder's Letter of Transmittal. When authorizing the delivery of such consideration in exchange for any lost, stolen or destroyed certificate, the Person to whom the consideration is being delivered shall, as a condition precedent to the delivery of such consideration, give a bond satisfactory to IrishCo and the Arrangement Exchange Agent in such sum as IrishCo and the Arrangement Exchange Agent may direct or otherwise indemnify IrishCo, Amalco and the Arrangement Exchange Agent in a manner satisfactory to IrishCo and the Arrangement Exchange Agent against any claim that may be made against IrishCo, Amalco or the Arrangement Exchange Agent with respect to the certificate alleged to have been lost, stolen or destroyed.

4.3 Distributions with Respect to Unsurrendered Certificates

No dividend or other distribution declared or made after the Effective Time with respect to IrishCo Shares or Therapeutics Common Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered certificate which, immediately prior to the Effective Time, represented outstanding Company Common Shares or Options unless and until the holder of such certificate shall have complied with the provisions of Section 4.1 or Section 4.2 hereof. Subject to applicable law and to Section 4.4 hereof, at the time of such compliance, a Former Shareholder or a Former Optionholder entitled to receive IrishCo Shares or Therapeutics Common Shares shall receive, in addition to the delivery of a certificate representing the IrishCo Shares or Therapeutics Common Shares, a cheque for the amount of the dividend or other distribution, if any, with a record date after the Effective Time, without interest, paid with respect to such IrishCo Shares or Therapeutics Common Shares, respectively, prior to such delivery.

4.4 Withholding Rights

IrishCo, CanCo 1, Amalco, the Company and the Arrangement Exchange Agent shall be entitled to deduct and withhold from any consideration otherwise payable to any holder of Company Common Shares, Qualifying Holdco Shares or Options or any CSPP Participant, such amounts as IrishCo, CanCo 1, Amalco, the Company or the Arrangement Exchange Agent are required to deduct and withhold with respect to such payment under the Tax Act, the United States *Internal Revenue Code of 1986* or any provision of provincial, state, local or foreign tax law, in each case as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the Company Common Shares, Qualifying Holdco Shares or Options or such CSPP Participant in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to a holder or a CSPP Participant exceeds the cash component of the consideration otherwise payable to the holder or such CSPP Participant, IrishCo, CanCo 1, Amalco, the Company and the Arrangement Exchange Agent are

hereby authorized to sell or otherwise dispose of such portion of the consideration otherwise payable to the holder or such CSPP Participant as is necessary to provide sufficient funds to IrishCo, CanCo 1, Amalco, the Company or the Arrangement Exchange Agent, as the case may be, to enable it to comply with such deduction or withholding requirement and IrishCo, CanCo 1, Amalco, the Company or the Arrangement Exchange Agent shall notify the holder thereof or such CSPP Participant and remit the applicable portion of the net proceeds of such sale to the appropriate taxing authority, and shall remit to such holder any unapplied balance of the proceeds of such sale.

4.5 Extinction of Rights

Any certificate which immediately prior to the Effective Time represented outstanding Company Common Shares that are exchanged pursuant to Section 3.1(d), outstanding Qualifying Holdco Shares that are exchanged pursuant to Section 3.1(e) or outstanding Options that are exchanged pursuant to Section 3.1(a) and not deposited with all other instruments required by Section 4.1(a) or Section 4.2 on or prior to the second anniversary of the Effective Date, shall cease to represent a claim or interest of any kind or nature as a shareholder of IrishCo or Therapeutics. On such date, the cash, IrishCo Shares (or cash in lieu of fractional interests therein) and Therapeutics Common Shares to which the former registered holder of the certificate referred to in the preceding sentence was ultimately entitled shall be deemed to have been surrendered to IrishCo in accordance with applicable Laws, together with all entitlements to dividends, distributions and interest thereon held for such former registered holder.

4.6 No Liens

Any exchange or transfer of securities pursuant to this Plan of Arrangement shall be free and clear of any liens, charges, security interests, encumbrances, mortgages, hypothecs, restrictions, adverse claims or other claims of third parties of any kind.

4.7 Paramountcy

From and after the Effective Time: (i) this Plan of Arrangement shall take precedence and priority over any and all Company Common Shares, Qualifying Holdco Shares and Options issued prior to the Effective Time; (ii) the rights and obligations of the registered holders of Company Common Shares and Qualifying Holdco Shares, the Optionholders, the Company, IrishCo, Interco, Parent, Therapeutics, CanCo 1, CanCo 2, each Qualifying Holdco, Amalco, the Arrangement Exchange Agent and any transfer agent or other depositary therefor in relation thereto, shall be solely as provided for in this Plan of Arrangement; and (iii) all actions, causes of action, claims or proceedings (actual or contingent and whether or not previously asserted) based on or in any way relating to any Company Common Shares, Qualifying Holdco Shares or Options shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

4.8 Illegality of Delivery of IrishCo Shares or Therapeutics Common Shares

Notwithstanding the foregoing, if it appears to CanCo 1 or IrishCo that it would be contrary to applicable Laws to deliver, or cause to be delivered, IrishCo Shares or Therapeutics Common Shares pursuant to the Arrangement to a Selling Shareholder or Optionholder that is

not a resident of Canada, the IrishCo Shares and the Therapeutics Common Shares that otherwise would be issued to that Person will be issued to the Arrangement Exchange Agent for sale by Arrangement Exchange Agent on behalf of that Person. The IrishCo Shares and the Therapeutics Common Shares so issued to the Arrangement Exchange Agent will be pooled and sold as soon as practicable after the Effective Date, on such dates and at such prices as the Arrangement Exchange Agent determines in its sole discretion. The Arrangement Exchange Agent shall not be obligated to seek or obtain a minimum price for any of the IrishCo Shares and the Therapeutics Common Shares sold by it. Each such Person will receive a pro rata share of the cash proceeds from the sale of the IrishCo Shares or Therapeutics Common Shares sold by the Arrangement Exchange Agent (less commissions, other reasonable expenses incurred in connection with the sale of the IrishCo Shares and the Therapeutics Common Shares and any amount withheld in respect of taxes) in lieu of the IrishCo Shares and the Therapeutics Common Shares themselves. The net proceeds will be remitted in the same manner as other payments pursuant to this Article 4. None of IrishCo, Amalco or the Arrangement Exchange Agent will be liable for any loss arising out of any such sales.

ARTICLE 5 AMENDMENTS

5.1 Amendments to Plan of Arrangement

- (a) Parent and the Company may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment, modification and/or supplement must: (i) be set out in writing; (ii) be approved by Parent and the Company; (iii) be filed with the Court and, if made following the Company Meeting, approved by the Court; and (iv) be communicated to Company Shareholders if and as required by the Court.
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Company at any time prior to the Company Meeting (provided that Parent shall have consented thereto in writing) with or without any other prior notice or communication, and if so proposed and accepted by the Persons voting at the Company Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement that is approved or directed by the Court following the Company Meeting shall be effective only if: (i) it is consented to in writing by each of Parent and the Company (in each case, acting reasonably); and (ii) if required by the Court, it is consented to by holders of the Company Common Shares, voting in the manner directed by the Court.
- (d) Any amendment, modification or supplement to this Plan of Arrangement may be made following the Effective Date unilaterally by Amalco, provided that it concerns a matter which, in the reasonable opinion of Amalco, is of an administrative nature required to better give effect to the implementation of this

Plan of Arrangement and is not adverse to the economic interest of any Former Shareholder or any Former Optionholder and such amendments, modifications or supplements to this Plan Arrangement need not be filed with Court or communicated to Selling Shareholders or any Former Optionholder.

- (e) CanCo 1 may amend, modify and/or supplement Article 3 of this Plan of Arrangement at any time and from time to time prior to the Effective Date, including to give effect to any amendments to the Holdco Alternative and Section 2.6 of the Arrangement Agreement, provided that each such amendment, modification and/or supplement does not and will not have an adverse impact on any holder of Company Common Shares or Options.

ARTICLE 6 FURTHER ASSURANCES

6.1 Further Assurances

Notwithstanding that the transactions and events set out herein shall occur and shall be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by either of them in order to further document or evidence any of the transactions or events set out herein.

SCHEDULE B – FORM OF PALADIN LABS INC. ARRANGEMENT RESOLUTION

BE IT RESOLVED THAT:

1. The arrangement (the “**Arrangement**”) under section 192 of the *Canada Business Corporations Act* (the “**CBCA**”) of Paladin Labs Inc. (the “**Company**”), as more particularly described and set forth in the management proxy circular (the “**Circular**”) dated November [■], 2013 of the Company accompanying the notice of this meeting and as it may be amended, modified or supplemented in accordance with the arrangement agreement dated [■], 2013 between the Company, Endo Health Solutions, Inc., Sportwell Limited, plc, Sportwell II Limited, plc, ULU Acquisition Corp., RDS Merger Sub, LLC and 8312214 Canada Inc. (as it may be amended, modified or supplemented, the “**Arrangement Agreement**”), is hereby authorized, approved and adopted.
2. The plan of arrangement of the Company, as it may be amended, modified or supplemented in accordance with its terms and the Arrangement Agreement (the “**Plan of Arrangement**”), the full text of which is set out in Appendix [■] to the Circular, is hereby authorized, approved and adopted.
3. The (i) Arrangement Agreement and transactions contemplated thereby, (ii) actions of the directors of the Company in approving the Arrangement Agreement, and (iii) actions of the directors and officers of the Company in executing and delivering the Arrangement Agreement, and any amendments, modifications or supplements thereto, are hereby ratified, confirmed, authorized and approved.
4. The Company is hereby authorized to apply for a final order from the Superior Court of Québec (the “**Court**”) to approve the Arrangement on the terms set forth in the Arrangement Agreement and the Plan of Arrangement.
5. Notwithstanding that this resolution has been passed by the holders of common shares of the Company (the “**Shareholders**”) or that the Arrangement has been approved by the Court, the directors of the Company are hereby authorized and empowered to, without notice to or approval of the Shareholders: (i) amend, modify or supplement the Arrangement Agreement or the Plan of Arrangement, to the extent permitted thereby; and (ii) subject to the terms of the Arrangement Agreement, not proceed with the Arrangement and related transactions.
6. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute, under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered, for filing with the Director under the CBCA articles of arrangement and such other documents as are necessary or desirable to give effect to the Arrangement and the Plan of Arrangement and transactions contemplated thereby in accordance with the Arrangement Agreement, such determination to be conclusively evidenced by the execution and delivery of such articles of arrangement and any such other documents.
7. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute or cause to be executed, under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered all such other documents and instruments and to perform or cause to be performed all such other acts and things as such person determines may be necessary or desirable to give full effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or instrument or the doing of any such act or thing.

SCHEDULE C – REQUIRED REGULATORY APPROVALS

1) Competition Act Approval (to the extent required under applicable Law in respect of the transactions contemplated by this Agreement (including the Arrangement and the Merger))

2) Investment Canada Act Approval

3) Approval pursuant to HSR Act

4) South African Competition Act approval

SCHEDULE D – FORM OF VOTING AGREEMENT

[SEE ATTACHED]

VOTING AGREEMENT

THIS AGREEMENT is dated as of November 5, 2013 (this "**Agreement**")

BETWEEN:

4527712 CANADA INC., a corporation incorporated under the laws of Canada

(the "**Voting Trustee**")

AND:

THE PERSONS NAMED ON THE SIGNATURE PAGE HERETO

(each such person a "**Company Shareholder**")

AND:

ENDO HEALTH SOLUTIONS INC., a corporation incorporated under the laws of Delaware

(the "**Parent**").

WHEREAS:

A. Paladin Labs Inc., a corporation continued under the laws of Canada (the "**Company**"), Parent, Sportwell Limited, a company incorporated in Ireland, ULU Acquisition Corp., a corporation incorporated under the laws of Delaware, RDS Merger Sub, LLC, a limited liability company organized under the laws of Delaware ("**Merger Sub**"), Sportwell II Limited, a company incorporated in Ireland, and 8312214 Canada Inc., a corporation incorporated under the laws of Canada ("**CanCo**"), have entered into an Arrangement Agreement (the "**Arrangement Agreement**") providing for (i) the acquisition by CanCo of all of the outstanding shares of the Company by means of the Arrangement (including, for greater certainty, pursuant to the Holdco Alternative) and (ii) the merger of Merger Sub with and into Parent, with Parent being the surviving corporation, or such other similar transaction as may be agreed by Parent and the Company (such transactions together with any other transaction contemplated by the Arrangement Agreement, the "**Transaction**");

B. The Company Shareholders or their Affiliates (which includes for the purposes of this Agreement, any entity controlled by a Company Shareholder or an Affiliate of any entity controlled by a Company Shareholder) are the record or beneficial owners (as defined under Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of the number of shares in the capital of the Company (the "**Shares**"), options to acquire such shares, if any (the "**Options**"), and warrants to acquire such shares, if any (the "**Warrants**"), set forth next to each Company Shareholder's name in Schedule A of this Agreement (the Shares, Options and Warrants are collectively referred to herein as the "**Securities**");

C. The Voting Trustee and the Company Shareholders have entered into that certain Voting Trust and Right of First Refusal Agreement dated as of November 30, 2009 (the "**Voting Trust Agreement**") pursuant to which the Voting Trustee possesses and is entitled to exercise, in its sole and absolute discretion, all voting rights of every kind with respect to the Shares set forth next to each Company Shareholder's name in Schedule A of this Agreement including the right to vote and to take part in or consent to any corporate or shareholders' action in respect of and as holder of all and any such Shares, including voting and taking part in or consenting to the sale of the Shares; and

D. Parent requires the Voting Trustee and the Company Shareholders to enter into this Agreement with respect to the Securities in order to set out the terms and conditions of the agreement of the Voting Trustee and the Company Shareholders to support the Transaction and to vote the Securities in favour of the Transaction at any meeting of the Company's shareholders, optionholders or warrant holders called to consider such Transaction.

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions in the Arrangement Agreement.** Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to such terms by the Arrangement Agreement. All references herein to the Arrangement Agreement or any portion thereof refer to the Arrangement Agreement as originally executed by the parties thereto as of the date hereof and without giving effect to any subsequent amendments, modifications, restatements or waivers thereof except ones that have been approved by the Voting Trustee in writing or that result solely from the waiver of one or more conditions that may be waived without the consent of the Voting Trustee pursuant to paragraph 4.
2. [RESERVED]
3. **Obligations of Parent to Complete the Transaction.** The obligation of Parent to complete the Transaction shall be subject only to the conditions set forth in Article 8 of the Arrangement Agreement.
4. **Amendments to the Arrangement Agreement.** Parent may, in its sole discretion, modify or waive any term or condition of the Arrangement Agreement in accordance with its terms, provided that Parent shall not, without the prior written consent of the Voting Trustee: (a) impose additional conditions to completion of the Transaction; (b) change the amount or form of consideration per Security payable pursuant to the Transaction (other than to increase the total consideration per Security or add additional consideration); or (c) otherwise vary the Transaction or any terms or conditions thereof in a manner that is material and adverse to shareholders of the Company.
5. **Agreement to Vote Securities.** At the Company Meeting or at any adjournment or postponement thereof, or in connection with any written consent of the shareholders of the Company or in any other circumstances upon which a vote, consent or other approval of all or some of the shareholders of the Company with respect to the Arrangement

Resolution is sought, the Voting Trustee shall vote (or cause to be voted) all of the Company Shareholder's Securities entitled to be voted thereat and any other shares in the capital of the Company owned, beneficially or of record as set forth next to its name in Schedule A of this Agreement and any Additional Securities (as that term is defined herein) owned, beneficially or of record by such Company Shareholder (with respect to each Company Shareholder, its "**Owned Securities**");

- (a) in favor of approval of the Transaction, including without limitation in favor of approval of the Arrangement Resolution, and any actions required in furtherance thereof; and
- (b) against the following actions (other than the Arrangement and the transactions contemplated by the Arrangement Agreement): (i) any acquisition proposal or merger, takeover bid, amalgamation, plan of arrangement, business combination or similar transaction involving the Company, other than the Transaction (an "**Alternative Transaction**"); (ii) any reorganization, recapitalization, dissolution, liquidation or winding up of the Company or any of its subsidiaries; (iii) any amendment of the Company's certificate of incorporation or bylaws that would reasonably be regarded as being directed towards or likely to prevent, delay or impede the consummation of the Transaction; (iv) any action or transaction that would result in a breach of any representation, warranty covenant or agreement of the Company under the Arrangement Agreement; or (v) any other action or transaction that would reasonably be regarded as being directed towards or likely to prevent, delay or impede the consummation of the Transaction.

6. **Representations of the Voting Trustee.** The Voting Trustee represents and warrants to Parent (and acknowledges that Parent is relying upon such representations and warranties) as follows:

- (a) it has sole voting power and exclusive right of disposition with respect to the Owned Securities;
- (b) it has the legal capacity, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Voting Trustee and, assuming the due authorization, execution and delivery by each of the Company Shareholders and Parent, this Agreement constitutes the legal, valid and binding obligation of the Voting Trustee, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;
- (c) the Voting Trust Agreement is currently in force in accordance with its terms;
- (d) except as may be set forth in the Arrangement Agreement (including, without limitation, filings as may be required under applicable securities laws), no filing with, and no permit, authorization, consent, or approval of, any Governmental Authority is necessary for the execution of this Agreement by the Voting Trustee

and the consummation by the Voting Trustee of the transactions contemplated by this Agreement, and (ii) none of the execution and delivery of this Agreement by the Voting Trustee, the consummation by the Voting Trustee of the transactions contemplated by this Agreement or compliance by the Voting Trustee with any of the provisions of this Agreement shall (A) conflict with or result in any breach of the organizational documents of the Voting Trustee, (B) result in a material violation or material breach of, or constitute (with or without notice or lapse of time, or both) a default (or give rise to any third party right of termination, cancellation, amendment, or acceleration) under any of the terms, conditions, or provisions of any material note, bond, mortgage, indenture, license, contract (including the Voting Trust Agreement), commitment, arrangement, understanding, agreement, or other instrument or obligation of any kind to which the Voting Trustee is a party, or (C) violate any order, writ, injunction, decree, judgment, statute, rule, or regulation applicable to the Voting Trustee, except in each case under clauses (B) and (C), where the absence of filing or authorization, conflict, violation, breach, or default would not materially impair or materially adversely affect the ability of the Voting Trustee to perform its obligations hereunder on a timely basis; and

- (e) there is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any Governmental Authority, or, to the knowledge of the Voting Trustee, threatened against the Voting Trustee, any of its Affiliates or any of their respective properties that, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the Voting Trustee's ability to consummate the transactions contemplated by this Agreement. There is no judgment, decree or order against the Voting Trustee or any of its Affiliates that could prevent, enjoin, alter or materially delay any of the transactions contemplated by this Agreement, or that could reasonably be expected to have a material adverse effect on its ability to consummate the transactions contemplated by this Agreement.

7. **Representations of the Company Shareholders.** Each Company Shareholder, severally and not jointly, represents and warrants to Parent (and acknowledges that Parent is relying upon such representations and warranties) as follows:

- (a) except as set forth in the Voting Trust Agreement, it or one of its Affiliates is the record or beneficial owner of the Owned Securities with good and marketable title thereto free and clear of any liens, pledges, mortgages, charges, restrictions, security interests, adverse claims and demands or rights of others of any nature or kind whatsoever (including without limitation any restriction on the right to vote, tender or otherwise transfer such Owned Securities), other than as may be imposed by applicable securities laws;
- (b) except as set forth in the Voting Trust Agreement, no person has any agreement or option, or any right or privilege, whether by law, pre-emptive or contractual, capable of becoming an agreement or option, for the exchange, acquisition or

transfer from the Company Shareholder or any of its Affiliates of any of its Owned Securities or any interest therein or right thereto;

- (c) except as set forth in the Voting Trust Agreement, neither the Company Shareholder nor any of its Affiliates has previously granted or agreed to grant a proxy or other right to vote in respect of such Securities or entered into any voting trust, nor pooling or other agreement with respect to the right to vote, call meetings of securityholders or give consents or approvals of any kind as to such Securities except those which are no longer of force or effect;
- (d) except for any Securities subject to that certain Voting Agreement, dated as of the date hereof, between Parent and Jonathan Ross Goodman, neither such Company Shareholder nor any of its Affiliates beneficially owns or controls any securities of the Company other than its Owned Securities;
- (e) it has the legal capacity, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company Shareholder and, assuming the due authorization, execution and delivery by each of the Voting Trustee and Parent, this Agreement constitutes the legal, valid and binding obligation of the Company Shareholder, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;
- (f) the Voting Trust Agreement is currently in force in accordance with its terms;
- (g) except as may be set forth in the Arrangement Agreement (including, without limitation, filings as may be required under applicable securities laws), no filing with, and no permit, authorization, consent, or approval of, any Governmental Authority is necessary for the execution of this Agreement by the Company Shareholder and the consummation by the Company Shareholder of the transactions contemplated by this Agreement, and (ii) none of the execution and delivery of this Agreement by the Company Shareholder, the consummation by the Company Shareholder of the transactions contemplated by this Agreement or compliance by the Company Shareholder with any of the provisions of this Agreement shall (A) conflict with or result in any breach of the organizational documents, if applicable, of the Company Shareholder, (B) result in a material violation or material breach of, or constitute (with or without notice or lapse of time, or both) a default (or give rise to any third party right of termination, cancellation, amendment, or acceleration) under any of the terms, conditions, or provisions of any material note, bond, mortgage, indenture, license, contract (including the Voting Trust Agreement), commitment, arrangement, understanding, agreement, or other instrument or obligation of any kind to which the Company Shareholder is a party, or (C) violate any order, writ, injunction, decree, judgment, statute, rule, or regulation applicable to the Company Shareholder, except in each case under clauses (B) and (C), where the absence of filing or authorization, conflict, violation, breach, or default would not materially

impair or materially adversely affect the ability of such Company Shareholder to perform such Company Shareholder's obligations hereunder on a timely basis; and

- (h) there is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any Governmental Authority, or, to the knowledge of the Company Shareholder, threatened against the Company Shareholder, any of its Affiliates or any of their respective properties that, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the Company Shareholder's ability to consummate the transactions contemplated by this Agreement. There is no judgment, decree or order against the Company Shareholder or any of its Affiliates that could prevent, enjoin, alter or materially delay any of the transactions contemplated by this Agreement, or that could reasonably be expected to have a material adverse effect on the Company Shareholder's ability to consummate the transactions contemplated by this Agreement.

8. **Representations of Parent.** Parent represents and warrants to each of the Voting Trustee and the Company Shareholders that (and acknowledges that the Voting Trustee and the Company Shareholders are relying upon such representations and warranties):

- (a) Parent is, and will be as at the Effective Time, validly existing under the laws of Delaware;
- (b) it has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder;
- (c) it has full power and authority to make, enter into and carry out the terms of this Agreement;
- (d) no consent, approval or authorization of, or declaration or filing with, or notice to, any governmental entity or stock exchange which has not been received or made is required by Parent in connection with the execution and delivery of this Agreement; and
- (e) there are no legal proceedings in progress or pending before any governmental entity, or to the knowledge of Parent, threatened against Parent or its Affiliates that would adversely affect in any manner the ability of Parent to enter into this Agreement or the Arrangement Agreement and to perform its obligations hereunder or thereunder.

9. **No Action to Reduce Likelihood of Success or Delay.** Each of the Voting Trustee and the Company Shareholders will not, and will not permit any of their Affiliates to:

- (a) solicit proxies or become a participant in a solicitation of proxies for any Alternative Transaction;

- (b) assist any person, entity or group in taking or planning any action that would compete with, restrain or otherwise serve to interfere with or inhibit Parent in connection with the Transaction;
- (c) solicit, initiate, knowingly encourage or knowingly facilitate a shareholders' vote with respect to any Alternative Transaction;
- (d) become a member of a "group" (as defined by the Securities Exchange Act of 1934, as amended) or act jointly or in concert (as "acting jointly or in concert" is interpreted under applicable Canadian securities laws) with respect to any voting securities of the Company with respect to any Alternative Transaction;
- (e) otherwise take any action that the Company is prohibited from taking under the Arrangement Agreement;
- (f) take any other action of any kind that might reasonably be regarded as likely to reduce the success of, or delay or interfere or compete with the completion of, the proposed transaction or any other transaction contemplated by the Arrangement Agreement;
- (g) solicit, initiate, knowingly encourage or knowingly facilitate any Acquisition Proposal;
- (h) participate in any discussions, conversations, negotiations or other communications with any person with respect to an Acquisition Proposal; or
- (i) furnish any information to any person in connection with a proposed Acquisition Proposal or otherwise assist, facilitate or encourage the making of, or cooperate in any way regarding, any Acquisition Proposal.

10. **Covenants of the Voting Trustee.** Except with the prior written consent of Parent, the Voting Trustee and/or any of its Affiliates agrees as follows:

- (a) No later than one (1) Business Day before the Company Meeting, the Voting Trustee shall deliver or cause to be delivered to the Company, with a copy to Parent concurrently, a duly executed proxy or proxies in respect of the Owned Securities directing those individuals as may be designated by the Company in the Joint Proxy Statement/Circular to vote (i) in favour of the approval of the Arrangement Resolution, and (ii) in favour of any other matter necessary for the consummation of transactions contemplated by the Arrangement Agreement, and each such proxy or proxies shall not be revoked without the written consent of Parent.
- (b) The Voting Trustee shall not (i) directly or indirectly, sell, transfer, tender, pledge, encumber, gift, assign or otherwise dispose of or exchange any or all of the Owned Securities or enter into any contract, option, agreement, arrangement or understanding (including any profit sharing agreement) in connection therewith, (ii) grant any proxies or powers of attorney, or any other authorization

or consent with respect to any or all of such Owned Securities or (iii) deposit any of such Owned Securities into a voting trust or enter into a voting agreement with respect to any of such Owned Securities (other than the Voting Trust Agreement).

- (c) The Voting Trustee hereby covenants and agrees that it will not exercise any rights of appraisal or rights of dissent provided under any applicable laws or otherwise in connection with the Arrangement or the transactions contemplated by the Arrangement Agreement considered at the Company Meeting in connection therewith.
- (d) The Voting Trustee shall not amend the terms of, or terminate the Voting Trust Agreement, except that the Voting Trustee may amend the Voting Trust Agreement to the extent necessary to permit any transfer of Securities as permitted pursuant to paragraph 13.

11. **Covenants of the Company Shareholders.** Except with the prior written consent of Parent, each Company Shareholder and/or any of its Affiliates agrees as follows:

- (a) Each Company Shareholder shall not (i) directly or indirectly, sell, transfer, tender, pledge, encumber, gift, assign or otherwise dispose of or exchange any or all of the Owned Securities or enter into any contract, option, agreement, arrangement or understanding (including any profit sharing agreement) in connection therewith, (ii) grant any proxies or powers of attorney, or any other authorization or consent with respect to any or all of such Owned Securities or (iii) deposit any of such Owned Securities into a voting trust or enter into a voting agreement with respect to any of such Owned Securities (other than the Voting Trust Agreement).
- (b) Each Company Shareholder agrees with, and covenants to, Parent that (i) this Agreement and the obligations hereunder shall attach to the Company Shareholder's Owned Securities and shall be binding upon any person or entity to which legal or beneficial ownership shall pass, whether by operation of law or otherwise, including, without limitation, such Company Shareholder's successors or assigns and (ii) the Company Shareholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any or all of the Company Shareholder's Owned Securities, unless such transfer is made in compliance with this Agreement and such Company Shareholder shall promptly following the date hereof authorize and instruct the Company to instruct its transfer agent to enter a stop transfer order with respect to all of its Owned Securities with respect to any transfer not permitted hereunder.
- (c) Each Company Shareholder hereby covenants and agrees that it will not exercise any rights of appraisal or rights of dissent provided under any applicable laws or otherwise in connection with the Arrangement or the transactions contemplated by the Arrangement Agreement considered at the Company Meeting in connection therewith.

- (d) In the event any Company Shareholder becomes the record or beneficial owner of
 - (i) any common shares of the Company or any other securities of the Company,
 - (ii) any securities which may be converted into or exchanged for such shares or other securities or
 - (iii) any securities issued in replacement of, or as a dividend or distribution on, or otherwise in respect of, such shares or other securities(collectively, “**Additional Securities**”), the terms of this Agreement shall apply to any of such Additional Securities as though owned by such Company Shareholder on the date of this Agreement.
 - (e) Each Company Shareholder is entering into this Agreement solely in its capacity as the record or beneficial owner of its Owned Securities. Nothing contained in this Agreement shall limit the rights and obligations of any Company Shareholder, any of its Affiliates, representatives or any employee of any of its Affiliates in his or her capacity as a director or officer of the Company, and the agreements set forth herein shall in no way restrict any director or officer of the Company in the exercise of his or her fiduciary duties as a director or officer of the Company in his or her capacity as such. Each Company Shareholder shall have no liability to Parent or any of its Affiliates under this Agreement as a result of any action or inaction by such Company Shareholder acting in his capacity as a director or officer of the Company.
 - (f) Each Company Shareholder shall not amend the terms of, or terminate the Voting Trust Agreement, except that the Company Shareholders may amend the Voting Trust Agreement to the extent necessary to permit any transfer of Securities as permitted pursuant to paragraph 13.
12. **Other Covenants.** Each of the Voting Trustee and the Company Shareholders agree, severally and not jointly, to the details of this Agreement being set out in any information circular or disclosure document produced by the Company or Parent in connection with the Transaction and to this Agreement being available for public inspection to the extent required by law.
13. **Company Shareholder Acknowledgments.** Notwithstanding paragraphs 10 and 11, each Company Shareholder acknowledges that it may (a) exercise Options or Warrants to acquire additional Shares, and (b) transfer Securities to another Company Shareholder or to a corporation or other entity, directly or indirectly, wholly-owned by a Company Shareholder, to a private foundation controlled by Company Shareholders or Affiliates of the Company Shareholders or any parties related thereto, or to a charitable remainder trust of which a Company Shareholder or an Affiliate thereof is a beneficiary, provided that (i) such transfer shall not relieve or release the Company Shareholder of or from its obligations under this Agreement, including, without limitation the obligation of the Company Shareholder to vote or cause to be voted all its Owned Securities in favour of the Transaction, (ii) prompt written notice of such transfer is provided to Parent, (iii) the transferee agrees to be bound by the terms hereof pursuant to documentation approved in writing by Parent in advance of such transfer and (iv) the transferee continues to be a Company Shareholder or a corporation or other entity, directly or indirectly, wholly-owned by a Company Shareholder, at all times prior to the Effective Time.

14. **Parent Acknowledgements.** Parent acknowledges that, if any Company Shareholder is also a director, officer or employee of the Company or any of its subsidiaries, that the provisions of this Agreement shall bind such Company Shareholder solely in his or her capacity as a Company Shareholder of the Company and shall not be deemed or interpreted to bind any such Company Shareholder in his or her capacity as a director, officer or employee of the Company or any of its subsidiaries.
15. **Automatic Termination.** Unless otherwise provided for herein, this Agreement shall terminate on the earlier of: (a) the consummation of the Transaction and (b) termination of the Arrangement Agreement.
16. **Termination by the Voting Trustee or Parent.** This Agreement may be terminated by notice in writing:
- (a) at any time prior to the Effective Time, by the mutual agreement of the parties;
 - (b) by the Voting Trustee, if the Effective Date has not occurred by the Outside Date;
 - (c) by the Voting Trustee, if the Arrangement Agreement is amended by the parties thereto in a manner that results in a reduction of the purchase price payable per Security; or
 - (d) by the Voting Trustee, if Parent Reference VWAP is less than 76% of US\$44.4642. For purposes of this Agreement, "**Parent Reference VWAP**" means the volume weighted average price per share of the common stock of Parent for the regular trading session of NASDAQ as displayed under the heading "Bloomberg VWAP" on Bloomberg Page ENDP <equity> AQR for the ten trading days ending on the third trading day prior to the date of the Company Meeting (the "**Reference Valuation Period**") in respect of the period from 9:30 am to 4:00 p.m. (New York City time) for such Reference Valuation Period; or if such volume weighted average price is not available, as determined by a Calculation Agent, using reasonable, good faith estimate of such price for such Reference Valuation Period. The Calculation Agent shall be a nationally recognized independent investment banking firm jointly selected by Parent and the Company for such purpose.
17. **Effect of Termination.** If this Agreement is terminated in accordance with paragraphs 15 or 16, the provisions of this Agreement will become void and no party shall have liability to any other party, except in respect of a breach of this Agreement which occurred prior to such termination. The Voting Trustee shall be entitled to withdraw any form of proxy in respect of the Arrangement Resolution in the event this Agreement is terminated in accordance with paragraphs 15 or 16.
18. **Specific Performance.** The parties agree that irreparable harm would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached for which money damages would not be an adequate remedy at law. It is accordingly agreed that the parties hereto will be entitled to an injunction or injunctions and other equitable relief to prevent breaches of this

Agreement, any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief hereby being waived.

19. **No Ownership Interest.** Nothing contained in this Agreement shall be deemed to vest in Parent any direct or indirect ownership or incidence of ownership at law or in equity with respect to any of the Securities or any right or entitlement to acquire or become the owner at law or in equity of the Securities. Except as otherwise set forth in this Agreement, any rights, ownership and economic benefits of and relating to the Securities shall remain vested in and belong to the Voting Trustee and/or the Company Shareholders and their Affiliates, as the case may be. Parent shall have no authority to manage, direct, superintend, restrict, regulate, govern or administer any of the policies or operations of the Company or exercise any power or authority to direct the Voting Trustee and/or any Company Shareholder or his or her Affiliates in the voting of any of the Securities, except as otherwise provided herein, or in the performance of the Company Shareholder's and its Affiliates' duties or responsibilities as a Company Shareholder of the Company.
20. **Successors and Assigns.** The provisions of this Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns, provided that no party may assign, delegate or otherwise transfer any of its or his rights, interests or obligations under this Agreement without the prior written consent of the other party, except that Parent may assign, delegate or otherwise transfer any of its rights, interests or obligations under this Agreement to a direct or indirect subsidiary, without reducing its own obligations hereunder, without the prior consent of the Voting Trustee and the Company Shareholders.
21. **Confidentiality.** Each of the parties hereto shall maintain in confidence the matters referred to in this Agreement and shall not make any public disclosure, except to the extent required by applicable law or the requirements of any securities regulatory authority or stock exchange, of the terms of this Agreement without the consent of the other parties, such consent not be unreasonably withheld.
22. **Entire Agreement.** This Agreement supersedes all prior agreements among the parties hereto with respect to the subject matter hereof and contains the entire agreement among the parties with respect to the subject matter hereof. This Agreement may not be modified or waived, except expressly by an instrument in writing signed by all the parties hereto. No waiver of any provision hereof by any party shall be deemed a waiver by any other party nor shall any such waiver be deemed a continuing waiver of any matter by such party.
23. **Notice.** Any demand, notice or other communication to be given in connection with this Agreement must be given in writing and will be given by personal delivery or by electronic means of communication addressed to the recipient as follows:

if to the Voting Trustee or to any Company Shareholder: c/o 4527712 Canada Inc.
6111 Royalmount Avenue
Suite 100
Montréal, Québec H4P 2T4

Attention: President
Fax No.: (514) 223-6943

with a copy (which shall not constitute notice) to:

Davies Ward Phillips & Vineberg LLP
1501 McGill College Avenue, Suite 2600
Montréal, Québec H3A 3N9
Canada

Attention: Richard Cherney and Olivier Désilets
Fax No.: (514) 841-6499

if to Parent:

Endo Health Solutions Inc.
1400 Atwater Drive
Malvern, PA 19355
Attention: Caroline B. Manogue
Facsimile No.: (610) 884-7159
E-mail: manogue.caroline@endo.com

with a copy (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
Attention: Eileen Nugent, Esq.
Brandon Van Dyke, Esq.
Facsimile No.: (212) 735-2000
E-mail: eileen.nugent@skadden.com
brandon.vandyke@skadden.com

Any demand, notice or other communication given by personal delivery will be conclusively deemed to have been given on the day of actual delivery thereof and, if given by electronic communication, on the day of transmittal thereof if given during the normal business hours of the recipient and on the business day during which such normal business hours next occur if not given during such hours on any day.

24. **Further Assurances.** Each of the parties hereto agrees to execute such further and other deeds, documents and assurances and to do such further and other acts as may be necessary to carry out the true intent and meaning of this Agreement fully and effectually.

25. **Severability.** Each of the covenants, provisions, sections, subsections and other subdivisions hereof is severable from every other covenant, provision, section, subsection and subdivision and the invalidity or unenforceability of any one or more covenants, provisions, sections, subsections and other subdivisions hereof shall not effect the validity or enforceability of the remaining covenants, provisions, sections, subsections or subdivisions hereof.
26. **Governing Law.** This Agreement, and any dispute arising out of, relating to, or in connection with this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. Each of the parties (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware (the "**Chancery Court**") or, if, but only if, the Chancery Court lacks subject matter jurisdiction, any Federal court located in the State of Delaware with respect to any dispute arising out of, relating to or in connection with this Agreement or any transaction contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action arising out of, relating to or in connection with this Agreement or any transaction contemplated by this Agreement, in any court other than any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the Chancery Court or, if, but only if, the Chancery Court lacks subject matter jurisdiction, in any Federal court located in the State of Delaware, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.
27. **Counterparts.** This Agreement may be executed and delivered in any number of counterparts (including by facsimile or electronic transmission), each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same instrument, and each party may enter into this Agreement by executing a counterpart and delivering it to the other party (by personal delivery, facsimile, electronic transmission or otherwise).
28. **Interpretation Not Affected by Headings.** The division of this Agreement into articles, sections, paragraphs and subparagraphs and the insertion of a table of contents and headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement, and not to any particular article, section or other portion hereof. Unless something in the subject matter or context is clearly inconsistent therewith, references herein to an article, section, subsection, paragraph, clause, subclause or schedule by number or letter or both are to that article, section, subsection, paragraph, clause or subclause in this Agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

ENDO HEALTH SOLUTIONS INC.

(signed) Rajiv De Silva
Authorized Signatory

4527712 CANADA INC.

(signed) Morris Goodman
Authorized Signatory

3487911 CANADA INC.

(signed) Jonathan Ross Goodman
Authorized Signatory

3260217 NOVA SCOTIA COMPANY

(signed) Shawna Goodman
Authorized Signatory

3487938 CANADA INC.

(signed) David Goodman
Authorized Signatory

JODDES LIMITED

(signed) Morris Goodman
Authorized Signatory

(signed) Deborah Goodman Davis
DEBORAH GOODMAN DAVIS

THE GOODMAN DAVIS 2008 FAMILY TRUST

(signed) Richard S. Finkelstein, Trustee
Authorized Signatory

SCHEDULE A
OWNERSHIP OF SECURITIES

Name of Company Shareholder	Number of Shares	Number of Warrants	Number of Options
3487911 Canada Inc.	683,486	Nil	Nil
3260217 Nova Scotia Company	683,485	Nil	Nil
3487938 Canada Inc.	683,486	Nil	Nil
Joddes Limited	4,241,245	Nil	Nil
Deborah Goodman Davis	485	Nil	Nil
The Goodman Davis 2008 Family Trust	683,000	Nil	Nil

VOTING AGREEMENT

THIS AGREEMENT is dated as of November 5, 2013 (this "**Agreement**")

BETWEEN:

JONATHAN ROSS GOODMAN

(the "**Company Shareholder**")

AND:

ENDO HEALTH SOLUTIONS INC., a corporation incorporated under the laws of Delaware

(**"Parent"**).

WHEREAS:

A. Paladin Labs Inc., a corporation continued under the laws of Canada (the "**Company**"), Parent, Sportwell Limited, a company incorporated in Ireland, ULU Acquisition Corp., a corporation incorporated under the laws of Delaware, RDS Merger Sub, LLC, a limited liability company organized under the laws of Delaware ("**Merger Sub**"), Sportwell II Limited, a company incorporated in Ireland, and 8312214 Canada Inc., a corporation incorporated under the laws of Canada ("**CanCo**"), have entered into an Arrangement Agreement (the "**Arrangement Agreement**") providing for (i) the acquisition by CanCo of all of the outstanding shares of the Company by means of the Arrangement (including, for greater certainty, pursuant to the Holdco Alternative) and (ii) the merger of Merger Sub with and into Parent, with Parent being the surviving corporation, or such other similar transaction as may be agreed by Parent and the Company (such transactions together with any other transaction contemplated by the Arrangement Agreement, the "**Transaction**");

B. The Company Shareholder or its Affiliates (which includes for the purposes of this Agreement, any entity controlled by the Company Shareholder or an Affiliate of any entity controlled by the Company Shareholder) is the record or beneficial owner (as defined under Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of the number of shares in the capital of the Company (the "**Shares**"), options to acquire such shares, if any (the "**Options**"), and warrants to acquire such shares, if any (the "**Warrants**"), set forth next to the Company Shareholder's name in Schedule A of this Agreement (the Shares, Options and Warrants are collectively referred to herein as the "**Securities**"); and

C. Parent requires the Company Shareholder to enter into this Agreement with respect to the Securities in order to set out the terms and conditions of the agreement of the Company Shareholder to support the Transaction and to vote the Securities in favour of the Transaction at any meeting of the Company's shareholders, optionholders or warrant holders called to consider such Transaction.

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Definitions in the Arrangement Agreement.** Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to such terms by the Arrangement Agreement. All references herein to the Arrangement Agreement or any portion thereof refer to the Arrangement Agreement as originally executed by the parties thereto as of the date hereof and without giving effect to any subsequent amendments, modifications, restatements or waivers thereof except ones that have been approved by the Company Shareholder in writing or that result solely from the waiver of one or more conditions that may be waived without the consent of the Company Shareholder pursuant to paragraph 4.
2. [RESERVED]
3. **Obligations of Parent to Complete the Transaction.** The obligation of Parent to complete the Transaction shall be subject only to the conditions set forth in Article 8 of the Arrangement Agreement.
4. **Amendments to the Arrangement Agreement.** Parent may, in its sole discretion, modify or waive any term or condition of the Arrangement Agreement in accordance with its terms, provided that Parent shall not, without the prior written consent of the Company Shareholder: (a) impose additional conditions to completion of the Transaction; (b) change the amount or form of consideration per Security payable pursuant to the Transaction (other than to increase the total consideration per Security or add additional consideration); or (c) otherwise vary the Transaction or any terms or conditions thereof in a manner that is material and adverse to shareholders of the Company.
5. **Agreement to Vote Securities.** At the Company Meeting or at any adjournment or postponement thereof, or in connection with any written consent of the shareholders of the Company or in any other circumstances upon which a vote, consent or other approval of all or some of the shareholders of the Company with respect to the Arrangement Resolution is sought, the Company Shareholder shall vote (or cause to be voted) all of the Company Shareholder's Securities entitled to be voted thereat and any other shares in the capital of the Company owned, beneficially or of record as set forth next to its name in Schedule A of this Agreement and any Additional Securities (as that term is defined herein) owned, beneficially or of record by the Company Shareholder (its "**Owned Securities**");
 - (a) in favor of approval of the Transaction, including without limitation in favor of approval of the Arrangement Resolution, and any actions required in furtherance thereof; and
 - (b) against the following actions (other than the Arrangement and the transactions contemplated by the Arrangement Agreement): (i) any acquisition proposal or merger, takeover bid, amalgamation, plan of arrangement, business combination or similar transaction involving the Company, other than the Transaction (an

"**Alternative Transaction**"); (ii) any reorganization, recapitalization, dissolution, liquidation or winding up of the Company or any of its subsidiaries; (iii) any amendment of the Company's certificate of incorporation or bylaws that would reasonably be regarded as being directed towards or likely to prevent, delay or impede the consummation of the Transaction; (iv) any action or transaction that would result in a breach of any representation, warranty covenant or agreement of the Company under the Arrangement Agreement; or (v) any other action or transaction that would reasonably be regarded as being directed towards or likely to prevent, delay or impede the consummation of the Transaction.

6. [RESERVED]

7. **Representations of the Company Shareholder.** The Company Shareholder represents and warrants to Parent (and acknowledges that Parent is relying upon such representations and warranties) as follows:

- (a) it or one of its Affiliates is the record or beneficial owner of the Owned Securities with good and marketable title thereto free and clear of any liens, pledges, mortgages, charges, restrictions, security interests, adverse claims and demands or rights of others of any nature or kind whatsoever (including without limitation any restriction on the right to vote, tender or otherwise transfer such Owned Securities), other than as may be imposed by applicable securities laws;
- (b) no person has any agreement or option, or any right or privilege, whether by law, pre-emptive or contractual, capable of becoming an agreement or option, for the exchange, acquisition or transfer from the Company Shareholder or any of its Affiliates of any of its Owned Securities or any interest therein or right thereto;
- (c) it or one of its Affiliates has sole voting power and exclusive right of disposition with respect to the Owned Securities and sole power to agree to all matters set forth in this Agreement and neither the Company Shareholder nor any of its Affiliates has previously granted or agreed to grant a proxy or other right to vote in respect of such Securities or entered into any voting trust, nor pooling or other agreement with respect to the right to vote, call meetings of securityholders or give consents or approvals of any kind as to such Securities except those which are no longer of force or effect;
- (d) except for any Securities subject to that certain Voting Agreement, dated as of the date hereof, between Parent and 4527712 Canada Inc., 3487911 Canada Inc., 3260217 Nova Scotia Company, 3487938 Canada Inc., Joddes Limited, Deborah Goodman Davis and The Goodman Davis 2008 Family Trust, neither the Company Shareholder nor any of its Affiliates beneficially owns or controls any securities of the Company other than its Owned Securities;
- (e) it has the legal capacity, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company Shareholder

and, assuming the due authorization, execution and delivery by Parent, this Agreement constitutes the legal, valid and binding obligation of the Company Shareholder, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;

- (f) except as may be set forth in the Arrangement Agreement (including, without limitation, filings as may be required under applicable securities laws), no filing with, and no permit, authorization, consent, or approval of, any Governmental Authority is necessary for the execution of this Agreement by the Company Shareholder and the consummation by the Company Shareholder of the transactions contemplated by this Agreement, and (ii) none of the execution and delivery of this Agreement by the Company Shareholder, the consummation by the Company Shareholder of the transactions contemplated by this Agreement or compliance by the Company Shareholder with any of the provisions of this Agreement shall (A) conflict with or result in any breach of the organizational documents, if applicable, of the Company Shareholder, (B) result in a material violation or material breach of, or constitute (with or without notice or lapse of time, or both) a default (or give rise to any third party right of termination, cancellation, amendment, or acceleration) under any of the terms, conditions, or provisions of any material note, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement, or other instrument or obligation of any kind to which the Company Shareholder is a party, or (C) violate any order, writ, injunction, decree, judgment, statute, rule, or regulation applicable to the Company Shareholder, except in each case under clauses (B) and (C), where the absence of filing or authorization, conflict, violation, breach, or default would not materially impair or materially adversely affect the ability of such Company Shareholder to perform such Company Shareholder's obligations hereunder on a timely basis; and
- (g) there is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any Governmental Authority, or, to the knowledge of the Company Shareholder, threatened against the Company Shareholder, any of its Affiliates or any of their respective properties that, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the Company Shareholder's ability to consummate the transactions contemplated by this Agreement. There is no judgment, decree or order against the Company Shareholder or any of its Affiliates that could prevent, enjoin, alter or materially delay any of the transactions contemplated by this Agreement, or that could reasonably be expected to have a material adverse effect on the Company Shareholder's ability to consummate the transactions contemplated by this Agreement.

8. **Representations of Parent.** Parent represents and warrants to the Company Shareholder that (and acknowledges that the Company Shareholder is relying upon such representations and warranties):

- (a) Parent is, and will be as at the Effective Time, validly existing under the laws of Delaware;
 - (b) it has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder;
 - (c) it has full power and authority to make, enter into and carry out the terms of this Agreement;
 - (d) no consent, approval or authorization of, or declaration or filing with, or notice to, any governmental entity or stock exchange which has not been received or made is required by Parent in connection with the execution and delivery of this Agreement; and
 - (e) there are no legal proceedings in progress or pending before any governmental entity, or to the knowledge of Parent, threatened against Parent or its Affiliates that would adversely affect in any manner the ability of Parent to enter into this Agreement or the Arrangement Agreement and to perform its obligations hereunder or thereunder.
9. **No Action to Reduce Likelihood of Success or Delay.** The Company Shareholders will not, and will not permit any of its Affiliates to:
- (a) solicit proxies or become a participant in a solicitation of proxies for any Alternative Transaction;
 - (b) assist any person, entity or group in taking or planning any action that would compete with, restrain or otherwise serve to interfere with or inhibit Parent in connection with the Transaction;
 - (c) solicit, initiate, knowingly encourage or knowingly facilitate a shareholders' vote with respect to any Alternative Transaction;
 - (d) become a member of a "group" (as defined by the Securities Exchange Act of 1934, as amended) or act jointly or in concert (as "acting jointly or in concert" is interpreted under applicable Canadian securities laws) with respect to any voting securities of the Company with respect to any Alternative Transaction;
 - (e) otherwise take any action that the Company is prohibited from taking under the Arrangement Agreement;
 - (f) take any other action of any kind that might reasonably be regarded as likely to reduce the success of, or delay or interfere or compete with the completion of, the proposed transaction or any other transaction contemplated by the Arrangement Agreement;
 - (g) solicit, initiate, knowingly encourage or knowingly facilitate any Acquisition Proposal;

- (h) participate in any discussions, conversations, negotiations or other communications with any person with respect to an Acquisition Proposal; or
 - (i) furnish any information to any person in connection with a proposed Acquisition Proposal or otherwise assist, facilitate or encourage the making of, or cooperate in any way regarding, any Acquisition Proposal.
10. [RESERVED]
11. **Covenants of the Company Shareholder.** Except with the prior written consent of Parent, the Company Shareholder and/or any of its Affiliates agrees as follows:
- (a) No later than one (1) Business Day before the Company Meeting, the Company Shareholder shall deliver or cause to be delivered to the Company, with a copy to Parent concurrently, a duly executed proxy or proxies in respect of the Owned Securities directing those individuals as may be designated by the Company in the Joint Proxy Statement/Circular to vote (i) in favour of the approval of the Arrangement Resolution, and (ii) in favour of any other matter necessary for the consummation of transactions contemplated by the Arrangement Agreement, and each such proxy or proxies shall not be revoked without the written consent of Parent.
 - (b) The Company Shareholder shall not (i) directly or indirectly, sell, transfer, tender, pledge, encumber, gift, assign or otherwise dispose of or exchange any or all of the Owned Securities or enter into any contract, option, agreement, arrangement or understanding (including any profit sharing agreement) in connection therewith, (ii) grant any proxies or powers of attorney, or any other authorization or consent with respect to any or all of such Owned Securities or (iii) deposit any of such Owned Securities into a voting trust or enter into a voting agreement with respect to any of such Owned Securities; provided that, the Company Shareholder may (A) exercise Options or Warrants to acquire additional Shares, and (B) transfer Securities to a corporation or other entity, directly or indirectly, wholly-owned by the Company Shareholder, to a private foundation controlled by the Company Shareholder or Affiliate of the Company Shareholder or any parties related thereto, or to a charitable remainder trust of which the Company Shareholder or an Affiliate thereof is a beneficiary, provided that (1) such transfer shall not relieve or release the Company Shareholder of or from its obligations under this Agreement, including, without limitation the obligation of the Company Shareholder to vote or cause to be voted all its Owned Securities in favour of the Transaction, (2) prompt written notice of such transfer is provided to Parent, (3) the transferee agrees to be bound by the terms hereof pursuant to documentation approved in writing by Parent in advance of such transfer and (4) the transferee continues to be a Company Shareholder or a corporation or other entity, directly or indirectly, wholly-owned by the Company Shareholder, at all times prior to the Effective Time.

- (c) The Company Shareholder agrees with, and covenants to, Parent that (i) this Agreement and the obligations hereunder shall attach to the Company Shareholder's Owned Securities and shall be binding upon any person or entity to which legal or beneficial ownership shall pass, whether by operation of law or otherwise, including, without limitation, the Company Shareholder's successors or assigns and (ii) the Company Shareholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any or all of the Company Shareholder's Owned Securities, unless such transfer is made in compliance with this Agreement and the Company Shareholder shall promptly following the date hereof authorize and instruct the Company to instruct its transfer agent to enter a stop transfer order with respect to all of its Owned Securities with respect to any transfer not permitted hereunder.
 - (d) The Company Shareholder hereby covenants and agrees that it will not exercise any rights of appraisal or rights of dissent provided under any applicable laws or otherwise in connection with the Arrangement or the transactions contemplated by the Arrangement Agreement considered at the Company Meeting in connection therewith.
 - (e) In the event the Company Shareholder becomes the record or beneficial owner of (i) any common shares of the Company or any other securities of the Company, (ii) any securities which may be converted into or exchanged for such shares or other securities or (iii) any securities issued in replacement of, or as a dividend or distribution on, or otherwise in respect of, such shares or other securities (collectively, "**Additional Securities**"), the terms of this Agreement shall apply to any of such Additional Securities as though owned by the Company Shareholder on the date of this Agreement.
 - (f) The Company Shareholder is entering into this Agreement solely in its capacity as the record or beneficial owner of its Owned Securities. Nothing contained in this Agreement shall limit the rights and obligations of the Company Shareholder, any of its Affiliates, representatives or any employee of any of its Affiliates in his or her capacity as a director or officer of the Company, and the agreements set forth herein shall in no way restrict any director or officer of the Company in the exercise of his or her fiduciary duties as a director or officer of the Company in his or her capacity as such. The Company Shareholder shall have no liability to Parent or any of its Affiliates under this Agreement as a result of any action or inaction by the Company Shareholder acting in his capacity as a director or officer of the Company.
12. **Other Covenants.** The Company Shareholder agrees to the details of this Agreement being set out in any information circular or disclosure document produced by the Company or Parent in connection with the Transaction and to this Agreement being available for public inspection to the extent required by law.
13. [RESERVED]

14. **Parent Acknowledgements.** Parent acknowledges that, if the Company Shareholder is also a director, officer or employee of the Company or any of its subsidiaries, that the provisions of this Agreement shall bind the Company Shareholder solely in his or her capacity as a Company Shareholder of the Company and shall not be deemed or interpreted to bind the Company Shareholder in his capacity as a director, officer or employee of the Company or any of its subsidiaries.
15. **Automatic Termination.** Unless otherwise provided for herein, this Agreement shall terminate on the earlier of: (a) the consummation of the Transaction and (b) termination of the Arrangement Agreement.
16. **Termination by the Company Shareholder or Parent.** This Agreement may be terminated by notice in writing:
- (a) at any time prior to the Effective Time, by the mutual agreement of the parties;
 - (b) by the Company Shareholder, if the Effective Date has not occurred by the Outside Date;
 - (c) by the Company Shareholder, if the Arrangement Agreement is amended by the parties thereto in a manner that results in a reduction of the purchase price payable per Security; or
 - (d) by the Company Shareholder, if Parent Reference VWAP is less than 76% of US\$44.4642. For purposes of this Agreement, "**Parent Reference VWAP**" means the volume weighted average price per share of the common stock of Parent for the regular trading session of NASDAQ as displayed under the heading "Bloomberg VWAP" on Bloomberg Page ENDP <equity> AQR for the ten trading days ending on the third trading day prior to the date of the Company Meeting (the "**Reference Valuation Period**") in respect of the period from 9:30 am to 4:00 p.m. (New York City time) for such Reference Valuation Period; or if such volume weighted average price is not available, as determined by a Calculation Agent, using reasonable, good faith estimate of such price for such Reference Valuation Period. The Calculation Agent shall be a nationally recognized independent investment banking firm jointly selected by Parent and the Company for such purpose.
17. **Effect of Termination.** If this Agreement is terminated in accordance with paragraphs 15 or 16, the provisions of this Agreement will become void and no party shall have liability to any other party, except in respect of a breach of this Agreement which occurred prior to such termination. The Company Shareholder shall be entitled to withdraw any form of proxy in respect of the Arrangement Resolution in the event this Agreement is terminated in accordance with paragraphs 15 or 16.
18. **Specific Performance.** The parties agree that irreparable harm would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached for which money damages would not be an adequate remedy at law. It is accordingly agreed that the parties hereto will be entitled to

an injunction or injunctions and other equitable relief to prevent breaches of this Agreement, any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief hereby being waived.

19. **No Ownership Interest.** Nothing contained in this Agreement shall be deemed to vest in Parent any direct or indirect ownership or incidence of ownership at law or in equity with respect to any of the Securities or any right or entitlement to acquire or become the owner at law or in equity of the Securities. Except as otherwise set forth in this Agreement, any rights, ownership and economic benefits of and relating to the Securities shall remain vested in and belong to the Company Shareholder and its Affiliates, as the case may be. Parent shall have no authority to manage, direct, superintend, restrict, regulate, govern or administer any of the policies or operations of the Company or exercise any power or authority to direct the Company Shareholder or his Affiliates in the voting of any of the Securities, except as otherwise provided herein, or in the performance of the Company Shareholder's and its Affiliates' duties or responsibilities as a Company Shareholder of the Company.
20. **Successors and Assigns.** The provisions of this Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns, provided that no party may assign, delegate or otherwise transfer any of its or his rights, interests or obligations under this Agreement without the prior written consent of the other party, except that Parent may assign, delegate or otherwise transfer any of its rights, interests or obligations under this Agreement to a direct or indirect subsidiary, without reducing its own obligations hereunder, without the prior consent of the Company Shareholder.
21. **Confidentiality.** Each of the parties hereto shall maintain in confidence the matters referred to in this Agreement and shall not make any public disclosure, except to the extent required by applicable law or the requirements of any securities regulatory authority or stock exchange, of the terms of this Agreement without the consent of the other parties, such consent not be unreasonably withheld.
22. **Entire Agreement.** This Agreement supersedes all prior agreements among the parties hereto with respect to the subject matter hereof and contains the entire agreement among the parties with respect to the subject matter hereof. This Agreement may not be modified or waived, except expressly by an instrument in writing signed by all the parties hereto. No waiver of any provision hereof by any party shall be deemed a waiver by any other party nor shall any such waiver be deemed a continuing waiver of any matter by such party.
23. **Notice.** Any demand, notice or other communication to be given in connection with this Agreement must be given in writing and will be given by personal delivery or by electronic means of communication addressed to the recipient as follows:

if to the Company
Shareholder:

605 Cote Saint-Antoine
Westmount, Québec H3Y 2K5

with a copy (which shall not constitute notice) to:

Davies Ward Phillips & Vineberg LLP
1501 McGill College Avenue, Suite 2600
Montréal, Québec H3A 3N9
Canada

Attention: Richard Cherney and Olivier Désilets
Fax No.: (514) 841-6499

if to Parent:

Endo Health Solutions Inc.
1400 Atwater Drive
Malvern, PA 19355
Attention: Caroline B. Manogue
Facsimile No.: (610) 884-7159
E-mail: manogue.caroline@endo.com

with a copy (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
Attention: Eileen Nugent, Esq.
Brandon Van Dyke, Esq.
Facsimile No.: (212) 735-2000
E-mail: eileen.nugent@skadden.com
brandon.vandyke@skadden.com

Any demand, notice or other communication given by personal delivery will be conclusively deemed to have been given on the day of actual delivery thereof and, if given by electronic communication, on the day of transmittal thereof if given during the normal business hours of the recipient and on the business day during which such normal business hours next occur if not given during such hours on any day.

24. **Further Assurances.** Each of the parties hereto agrees to execute such further and other deeds, documents and assurances and to do such further and other acts as may be necessary to carry out the true intent and meaning of this Agreement fully and effectually.
25. **Severability.** Each of the covenants, provisions, sections, subsections and other subdivisions hereof is severable from every other covenant, provision, section, subsection and subdivision and the invalidity or unenforceability of any one or more covenants, provisions, sections, subsections and other subdivisions hereof shall not effect the

validity or enforceability of the remaining covenants, provisions, sections, subsections or subdivisions hereof.

26. **Governing Law.** This Agreement, and any dispute arising out of, relating to, or in connection with this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. Each of the parties (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware (the "**Chancery Court**") or, if, but only if, the Chancery Court lacks subject matter jurisdiction, any Federal court located in the State of Delaware with respect to any dispute arising out of, relating to or in connection with this Agreement or any transaction contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action arising out of, relating to or in connection with this Agreement or any transaction contemplated by this Agreement, in any court other than any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the Chancery Court or, if, but only if, the Chancery Court lacks subject matter jurisdiction, in any Federal court located in the State of Delaware, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.
27. **Counterparts.** This Agreement may be executed and delivered in any number of counterparts (including by facsimile or electronic transmission), each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same instrument, and each party may enter into this Agreement by executing a counterpart and delivering it to the other party (by personal delivery, facsimile, electronic transmission or otherwise).
28. **Interpretation Not Affected by Headings.** The division of this Agreement into articles, sections, paragraphs and subparagraphs and the insertion of a table of contents and headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement, and not to any particular article, section or other portion hereof. Unless something in the subject matter or context is clearly inconsistent therewith, references herein to an article, section, subsection, paragraph, clause, subclause or schedule by number or letter or both are to that article, section, subsection, paragraph, clause or subclause in this Agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

ENDO HEALTH SOLUTIONS INC.

(signed) Rajiv De Silva
Authorized Signatory

(signed) Jonathan Ross Goodman
JONATHAN ROSS GOODMAN

SCHEDULE A
OWNERSHIP OF SECURITIES

Name of Company Shareholder	Number of Shares	Number of Warrants	Number of Options
Jonathan Ross Goodman	155,917	Nil	252,500

SCHEDULE E – BUSINESS SEPARATION TERM SHEET

Business Separation Agreement

Summary of Terms and Conditions

Purpose:	The parties will enter into an agreement (the “ Agreement ”) immediately before the Effective Time that shall provide for the separation of the Therapeutics Assets and Therapeutics Liabilities from the Company Group, which is to be accomplished by the implementation of the Business Separation Transactions prior to the Effective Time. Capitalized terms used in this term sheet are defined below or, if not defined below, shall have the meanings set out in the Arrangement Agreement. Except where otherwise specified, all references to currency herein are to lawful money of Canada and “\$” refers to Canadian dollars.
Parties:	The Company and Knight Therapeutics Inc. (“ Therapeutics ”).
Performance:	The Company shall cause to be performed, and shall guarantee the performance of, all actions, agreements and obligations set forth in the Agreement or in any other Business Separation Agreement to be performed by any member of the Company Group. The Company further agrees that it shall cause the other members of the Company Group not to take any action inconsistent with, or fail to take any action necessary in connection with, the Company’s obligations under this Agreement, or the obligations of any member of the Company Group under any other Business Separation Agreement, or any of the transactions contemplated hereby or thereby. The Company further agrees that Therapeutics shall not be obligated to proceed against any other member of the Company Group before proceeding against the Company to enforce any provision of the Agreement or of any other Business Separation Agreement. Therapeutics shall cause to be performed, and shall guarantee the performance of, all actions, agreements and obligations set forth in the Agreement or in any other Business Separation Agreement to be performed by any member of the Therapeutic Group. Therapeutics further agrees that it shall cause the other members of the Therapeutics Group not to take any action inconsistent with, or fail to take any action necessary in connection with, Therapeutics’ obligations under this Agreement, or the obligations of any member of the Therapeutics Group under any other Business Separation Agreement, or any of the transactions contemplated hereby or thereby. Therapeutics further agrees that the Company shall not be obligated to proceed against any other member of the Therapeutics Group before proceeding against Therapeutics to enforce any provision of the Agreement or any other Business Separation Agreement.

Therapeutics Assets:	Immediately before the Effective Time and as a result of the Business Separation Transactions, the following assets (the “Therapeutics Assets”) will be owned by Therapeutics and the members of the Therapeutics Group and not directly by the Company or any other member of the Company Group: (a) the I-IP; (b) the Voucher or any rights to the Voucher; (c) the common shares of Delco held by the Company; (d) Barbco’s rights as licensor under License; and (e) \$1,000,000 in cash. For greater certainty, all inventory, tenders, customer contracts, orders, purchase orders, licenses, manufacturing and other agreements relating to the Product (other than those held by or in the name of Delco) shall remain the property of the Company Group.
Distribution and License Agreement:	The Therapeutics Group or one of its affiliates (as licensor) shall enter into a distribution and license agreement with Barbco granting Barbco exclusive commercialization rights for the Product for the world, other than the United States, for a ten (10) year term (the “Therapeutics Distribution and License Agreement”). Under the Therapeutics Distribution and License Agreement: (a) the Therapeutics Group (or its affiliates) will provide no representations or warranties in respect of the I-IP; and (b) the Company Group shall have no minimum sales or other commercialization requirements. Barbco shall pay to Therapeutics Group or one of its affiliates a fee of 22.5% of gross sales in consideration thereof. Under that agreement (or in a separate agreement) the Therapeutics Group shall be entitled to source Product from the Company Group in respect of its own commercialization of the Product in the United States and to tag onto its own orders of Product (so as to meet minimum batch sizes etc.) at cost.

Therapeutics Liabilities:	Therapeutics shall, or shall cause a member of the Therapeutics Group to, assume and fully pay, discharge and fulfill any and all Liabilities, whether arising or accruing before, on or after the Effective Date, related to the Therapeutics Assets and any Liability to be assumed by any member of the Therapeutics Group pursuant to the Business Separation Agreements (collectively, the “Therapeutics Liabilities”); <u>provided that</u> with respect to any such Liability arising or accruing in respect of the period before the Effective Date, the responsibility of the Therapeutics Group shall be limited to 25% of same. For greater certainty, the Therapeutics Liabilities shall exclude, and the Company Group shall be solely responsible for, all of the Liabilities of the Company Group under the Therapeutics Distribution and License Agreement and all activities conducted by the Company Group thereunder.
Consideration:	The consideration payable by the Therapeutics Group to the Company Group pursuant to the Business Separation Transactions shall be as set forth in <u>Schedule A</u> hereto.
Representations and Warranties:	The Agreement will contain representations and warranties typical for agreements of this nature.
Indemnification:	Therapeutics, for and on behalf of each member of the Therapeutics Group, shall indemnify, defend and save harmless each Company Indemnified Person from and against any and all Losses suffered or incurred by any such Company Indemnified Person as a direct or indirect result of, or arising in connection with or related in any manner whatsoever to: (a) any misrepresentation or breach of any warranty made or given by Therapeutics in the Agreement; (b) any lawsuits or claims made before, on or after the Effective Date arising from the design of the Product before on or after the Effective Date, including without limitation, recalls, warranty claims and product liability claims; <u>provided that</u> responsibility of the Therapeutics Group shall be limited to 25% of same. For greater certainty, the Therapeutics Liabilities shall exclude, and the Company Group shall be solely responsible for, all of the Liabilities of the Company Group under the Therapeutics Distribution and License Agreement and all activities conducted by the Company Group thereunder; (c) any failure by any member of the Therapeutics Group to observe or perform any covenant or obligation contained in the Agreement, any other Business Separation Agreement or in any document delivered pursuant to the

	Agreement or any other Business Separation Agreement; (d) any failure by any member of the Therapeutics Group to perform or otherwise properly discharge in accordance with its terms any of the Therapeutics Liabilities; (e) any fees and expenses payable by the Company Group in respect of services provided in connection with the Business Separation Transactions in excess of \$100,000; (f) any misrepresentation or any alleged misrepresentation in any information included in the Joint Proxy Statement/Circular or any other public filing by the Company relating to any member of the Therapeutics Group or the Therapeutics Assets, including any order made, or any inquiry, investigation or proceeding by any Person based on any such misrepresentation or alleged misrepresentation; and (g) any Taxes payable by any Company Indemnified Person arising solely as a consequence of the Business Separation Transactions. For the purposes of paragraph (g) above and subject to Section 5.15(c) of the Arrangement Agreement, the Taxes payable by any Company Indemnified Person (i) shall be computed as if such Company Indemnified Person has no deductions, losses, credits or other Tax attributes (other than any such deductions, losses, credits or other Tax attributes that arise solely as a consequence of the Business Separation Transactions) that can be applied to reduce the amount of Taxes payable, and (ii) for greater certainty, includes any reduction in a refund of Taxes otherwise receivable by such Company Indemnified Person. The obligation of the Therapeutics Group to indemnify the Company Indemnified Persons for Losses (“Indemnified Losses”) will be limited as follows: (a) the Therapeutics Group shall indemnify the Company Indemnified Persons for the first \$2,000,000 of Indemnified Losses; (b) if the Indemnified Losses exceed \$2,000,000 in aggregate, the Therapeutics Group shall have no obligation to indemnify the Company Indemnified Persons for the next \$20,000,000 of Indemnified Losses;

	and (c) there shall be no limit on the obligation of Therapeutics Group to indemnify the Company Indemnified Persons for all Indemnified Losses in excess of \$22,000,000. The Agreement will also include standard terms and procedures for indemnification claims typical of transactions of this nature, as required by Parent, acting reasonably.
Survival of Indemnification:	The indemnification shall survive until six (6) months after the period for which the taxation year of the Company in which the Business Separation Transactions occur become statute barred under the Tax Act and any other applicable Tax legislation.
Governing Law:	The law of the Province of Quebec.
Other Terms and Conditions:	The Agreement shall include such other terms and conditions as are typically included in agreements of this type.
Defined Terms:	“Arrangement Agreement” the Arrangement Agreement dated as of November 5, 2013, among Parent, IrishCo, Interco, DE INC., Merger Sub, CanCo 1 and the Company (including the Schedules attached thereto) as may be amended, supplemented, restated or otherwise modified from time to time in accordance with its terms “Barbco” means Paladin Labs (Barbados) Inc., a corporation incorporated under the laws of the Barbados. “Business Separation Agreements” means, collectively, the Agreement and all other agreements and documents effecting the Business Separation Transactions. “Business Separation Transactions” means the transactions described in Schedule A hereto which provide for the transfer to Therapeutics and its subsidiaries of (i) the shares of Delco; (ii) the I-IP; and (iii) Barbco’s rights under the License. “Company Group” means, collectively, the Company and Barbco. “Company Indemnified Person” means each of the Company, Irishco and Parent and each of their respective directors, officers, employees, representatives, agents and affiliates. “Delco” means Paladin Therapeutics, Inc., a corporation incorporated under the laws of Delaware. “I-IP” means the Intellectual Property and any other rights related to the Product. “Intellectual Property” means any or all of the following and all rights, arising out of or associated therewith: (a) all patents and applications therefor and all reissues, divisions, renewals, extensions,

	provisionals, continuations and continuations-in-part thereof; (b) all inventions (whether patentable or not), invention disclosures, improvements, proprietary information, know-how, technology, technical data and customer lists, and all documentation relating to any of the foregoing; (c) all copyrights, copyright registrations and applications therefor, and all other rights corresponding thereto; (d) all industrial designs and any registrations and applications therefor; (e) all internet uniform resource locators, domain names, trade names, logos, slogans, designs, common law trademarks and service marks, trademark and service mark registrations and applications therefor and all goodwill associated therewith; (f) all software, databases and data collections and all rights therein; (g) all moral and economic rights of authors and inventors, however denominated; and (h) any similar or equivalent rights to any of the foregoing. “Liability” means any indebtedness, liability, assessment, expense, claim, loss damage, deficiency or obligation of any kind, whether known or unknown, primary or secondary, direct or indirect, asserted or unasserted, absolute or contingent, matured or unmatured, conditional or unconditional, latent or patent, accrued or unaccrued, secured or unsecured, liquidated or unliquidated or due or to become due and whether or not required to be reflected in a balance sheet in accordance with generally accepted accounting principles. “License” means the license agreement in place as of November 5, 2013 entered into by Barbro and Delco pursuant to which Barbro granted a license to Delco to make, market and sell the Product in the United States. “Losses” means all damages, losses, liabilities, payments, amounts paid in settlement, obligations, fines penalties, costs of burdens associated with performing injunctive relief and other costs and expenses (including reasonable fees and expenses of outside legal advisors, accountants and other professional advisors and of expert witnesses and other costs and expenses of investigation, preparation and litigation in connection with or related to any claim, appeal, petition, plea, charge, complaint, hearing, or similar matter or other proceeding) of any kind or nature whatsoever, including in connection with or relating to a claim whether known, or unknown, contingent or vested or matured or unmatured. “Product” means the drug product containing miltefosine for the treatment of parasitic diseases such as leishmaniasis in any formulation and any dosage strength currently under development by the Company and referred to as Impavido, including an authorized generic version and/or ANDA thereof. “Therapeutics Group” means Therapeutics and each of its subsidiaries.

	“Voucher” means the priority review voucher to be issued in the name of Delco by the United States Food and Drug Administration or, if not yet issued at the time the Business Separation Transactions are completed, the right to be issued that voucher.

APPENDIX “D”
INTERIM ORDER

SUPERIOR COURT
Commercial Division

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

No: 500-11-045944-143

DATE: January 17, 2014

BY: THE HONOURABLE DANIELÉ MAYRAND, J.C.S.

**IN THE MATTER OF A PROPOSED ARRANGEMENT CONCERNING PALADIN
LABS INC. PURSUANT TO SECTION 192 OF THE CANADA BUSINESS
CORPORATION ACT (the "CBCA"):**

PALADIN LABS INC.
Petitioner

-and-

**ENDO HEALTH SOLUTIONS INC.
ENDO INTERNATIONAL LIMITED
ENDO LIMITED
8312214 CANADA INC.
8312222 CANADA INC.
KNIGHT THERAPEUTICS INC.**

-and-

THE DIRECTOR APPOINTED PURSUANT TO THE CBCA
Impleaded Parties

INTERIM ORDER¹

¹ All capitalized terms used, but not otherwise defined herein, shall have the same meaning as set out in the Glossary contained in the Circular (Exhibit P-1, *en liasse*, at pp. 5 to 12).

GIVEN Paladin Labs Inc.'s ("**Paladin**") *Motion for Interim and Final Orders in connection with a proposed arrangement* pursuant to the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (as amended, the "**CBCA**") (the "**Motion**"), the exhibits, and the affidavit of Samira Sakhia filed in support thereof;

GIVEN that this Court is satisfied that the Director appointed pursuant to the *CBCA* has been duly served with the Motion and has confirmed in writing that he would not appear or be heard on the Motion;

GIVEN the provisions of the *CBCA*;

GIVEN the representations made by counsel for Paladin;

GIVEN that this Court is satisfied, at the present time, that the proposed transaction is an "arrangement" within the meaning of Section 192(1) of the *CBCA*;

GIVEN that this Court is satisfied, at the present time, that it is not practicable for Paladin to effect the arrangement proposed under any other provision of the *CBCA*;

GIVEN that this Court is satisfied, at the present time, that Paladin meets the requirements set out in Subsections 192(2)(a) and (b) of the *CBCA* and that Paladin is not insolvent;

GIVEN that this Court is satisfied, at the present time, that the arrangement is put forward in good faith and, in all likelihood, for a valid business purpose;

GIVEN that this Court is satisfied, based on the Motion and the representations made by Paladin's counsel, that it is not appropriate to grant an order permitting a shareholder to dissent under Section 190 of the *CBCA*;

FOR THESE REASONS, THE COURT:

- [1] **GRANTS** the Interim Order sought in the Motion;
- [2] **DISPENSES** Paladin of the obligation, if any, to notify any person other than the Director appointed pursuant to the *CBCA* with respect to the Interim Order;
- [3] **ORDERS** that each Qualifying Holdco and all holders or beneficial owners of Paladin Shares or Qualifying Holdco Shares, all holders or beneficial owners of Paladin Options and all holders of any rights or entitlements under the Paladin ESPP (in each case immediately prior to the effective time) be deemed parties, as Impleaded Parties, to the present proceedings and be bound by the terms of the Orders from this Court;

As to the Interim Order:

The Meeting

- [4] **ORDERS** that Paladin may convene, hold and conduct the Meeting on February 24, 2014, commencing at 3:00 P.M. (Montréal time) at the following location: 6111 Royalmount Avenue, Montréal, Québec, H4P 2T4, at which time the Paladin Shareholders will be asked, among other things, to consider and, if thought appropriate, to pass, with or without variation, the Arrangement Resolution substantially in the form set forth in Appendix "B" of the Circular (Exhibit P-1, en liasse) to, among other things, authorize, approve and adopt the Arrangement, and to transact such other business as may properly come before the Meeting, the whole in accordance with the terms, restrictions and conditions of the articles and by-laws of Paladin, the CBCA, and this Interim Order, provided that to the extent there is any inconsistency between this Interim Order and the terms, restrictions and conditions of the articles and by-laws of Paladin or the CBCA, this Interim Order shall govern;
- [5] **ORDERS** that in respect of the vote on the Arrangement Resolution or any matter determined by the Chair of the Meeting to be related to the Arrangement, each registered holder of Paladin Shares shall be entitled to cast one vote in respect of each such Paladin Share held;
- [6] **ORDERS** that, on the basis that each registered holder of Paladin Shares be entitled to cast one vote in respect of each such Paladin Share for the purpose of the vote on the Arrangement Resolution, the quorum for the Meeting is fixed at Paladin Shareholders present in person or by proxy holding, in aggregate, 5% of all the outstanding Paladin Shares;
- [7] **ORDERS** that the only persons entitled to attend, be heard or vote at the Meeting (as it may be adjourned or postponed) shall be the registered Paladin Shareholders at the close of business on the January 21, 2014 (the "**Record Date**"), their proxy holders, the directors and advisors of Paladin, and representatives and advisors of Endo, provided however that such other persons having the permission of the Chair of the Meeting shall also be entitled to attend and be heard at the Meeting;
- [8] **ORDERS** that for the purpose of the vote on the Arrangement Resolution, or any other vote taken at the Meeting, any spoiled ballots, illegible ballots and defective ballots shall be deemed not to be votes cast by Paladin Shareholders and further **ORDERS** that proxies that are properly signed and dated but which do not contain voting instructions shall be voted in favour of the Arrangement Resolution;
- [9] **ORDERS** that Paladin, subject to compliance with the terms of the Arrangement Agreement, if it deems it advisable, be authorized to adjourn or postpone the Meeting on one or more occasions (whether or not a quorum is present), without

the necessity of first convening the Meeting or first obtaining any vote of Paladin Shareholders respecting the adjournment or postponement; further **ORDERS** that notice of any such adjournment or postponement shall be given by press release, newspaper advertisement or by mail, as determined to be the most appropriate method of communication by Paladin; further **ORDERS** that any adjournment or postponement of the Meeting will not change the Record Date for Paladin Shareholders entitled to notice of, and to vote at, the Meeting and further **ORDERS** that at any subsequent reconvening of the Meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the Meeting, except for any proxies that have been effectively revoked or withdrawn prior to the subsequent reconvening of the Meeting;

- [10] **ORDERS** that Paladin is authorized to make, subject to the terms of the Arrangement Agreement, and paragraph [11] below, such amendments, modifications or supplements to the Arrangement and the Plan of Arrangement as it may determine without any additional notice to the Paladin Shareholders, or any other person entitled to receive notice pursuant to this Interim Order, and further **ORDERS** that the Arrangement and Plan of Arrangement, as so amended, modified or supplemented, shall be the Arrangement and Plan of Arrangement to be submitted to the Paladin Shareholders at the Meeting and shall be the subject of the Arrangement Resolution. Amendments, modifications or supplements may be made following the Meeting, but shall be subject to review and, if appropriate, further direction by this Court at the hearing for the final approval of the Arrangement;
- [11] **ORDERS** that, if any amendments, modifications or supplements to the Arrangement or Plan of Arrangement, as referred to in paragraph [10] above, would, if disclosed, reasonably be expected to affect a Paladin Shareholder's decision to vote for or against the Arrangement Resolution, notice of such amendment, modification or supplement shall be distributed, subject to further Order of this Court, by press release, newspaper advertisement, prepaid ordinary mail, or by the method most reasonably practicable in the circumstances, as Paladin may determine;
- [12] **ORDERS** that Paladin is authorized to use proxies at the Meeting; that Paladin is authorized, at its expense, to solicit proxies on behalf of its management, directly or through its officers, directors and employees, and through such agents or representatives as it may retain for that purpose, and by mail or such other forms of personal or electronic communication as it may determine; and that Paladin may waive, in its discretion, the time limits for the deposit of proxies by the Paladin Shareholders (5:00 P.M., Montréal time, on February 20, 2014) if it considers it advisable to do so;
- [13] **ORDERS** that, to be effective, the Arrangement Resolution, with or without variation, must be approved by the affirmative vote of not less than 66⅔ % of the total votes cast on the Arrangement Resolution by the Paladin Shareholders present in person or by proxy at the Meeting and entitled to vote at the Meeting;

and further **ORDERS** that such vote shall be sufficient to authorize and direct Paladin to do all such acts and things as may be necessary or desirable to give effect to the Arrangement and the Plan of Arrangement on a basis consistent with what has been disclosed to the Paladin Shareholders in the Notice Materials (as this term is defined below);

The Notice Materials

[14] **ORDERS** that Paladin shall give notice of the Meeting, and that service of the *Motion for a Final Order* shall be made by mailing or delivering, in the manner hereinafter described and to the persons hereinafter specified, a copy of this Interim Order, together with the following documents, with such non-material amendments thereto as Paladin may deem to be necessary or desirable, provided that such amendments are not inconsistent with the terms of this Interim Order (collectively, the "**Notice Materials**");

- (a) the Notice of Meeting substantially in the same form as contained in Exhibit P-1;
- (b) the Circular substantially in the same form as contained in Exhibit P-1;
- (c) a form of proxy substantially in the same form as Exhibit P-13, which shall be finalized by inserting the relevant dates and other information;
- (d) a Letter of Transmittal substantially in the same form as Exhibit P-14;
- (e) a notice substantially in the same form as Exhibit P-15 providing, among other things, the date, time and room where the *Motion for a Final Order* will be heard, and that a copy of the Motion can be found on Paladin's Website (www.paladin-labs.com) (the "**Notice of Presentation**");

[15] **ORDERS** that the Notice Materials shall be distributed:

- (a) to the registered Paladin Shareholders by mailing the same to such persons in accordance with the CBCA and Paladin's by-laws at least twenty-one (21) days prior to the date of the Meeting;
- (b) to the non-registered Paladin Shareholders, in compliance with National Instrument 54-101 – Communication with Beneficial Owners of Securities of a Reporting Issuer;
- (c) to the holders of Paladin Options and participants under the Paladin ESPP, by delivering same at least twenty-one (21) days prior to the date of the Meeting in person or by recognized courier service;
- (d) to Paladin's directors and auditors, by delivering same at least twenty-one (21) days prior to the date of the Meeting in person or by recognized courier service; and

- (e) to the Director appointed pursuant to the CBCA, by delivering same at least twenty-one (21) days prior to the date of the Meeting in person or by recognized courier service;
- [16] **ORDERS** that a copy of the Motion be posted on Paladin's Website (www.paladin-labs.com) at the same time the Notice Materials are mailed;
- [17] **ORDERS** that the Record Date for the determination of Paladin Shareholders entitled to receive the Notice Materials and to attend and be heard at the Meeting and vote on the Arrangement Resolution shall be the close of business (Montréal time) on January 21, 2014;
- [18] **ORDERS** that Paladin, subject to compliance with the terms of the Arrangement Agreement, may make, in accordance with this Interim Order, such additions, amendments or revision to the Notice Materials as it determines to be appropriate (the "**Additional Materials**"), which shall be distributed to the persons entitled to receive the Notice Materials pursuant to this Interim Order by the method and in the time determined by Paladin to be most practicable in the circumstances;
- [19] **DECLARES** that the mailing or delivery of the Notice Materials and any Additional Materials in accordance with this Interim Order as set out above constitutes good and sufficient notice of the Meeting upon all persons, and that no other form of service of the Notice Materials and any Additional Materials or any portion thereof, or of the Motion need be made, or notice given or other material served in respect of the Meeting to any persons;
- [20] **ORDERS** that the Notice Materials and any Additional Materials shall be deemed, for the purposes of the present proceedings, to have been received and served upon:
- (a) in the case of distribution by mail, three (3) business days after delivery thereof to the post office;
 - (b) in the case of delivery in person or by courier, upon receipt thereof at the intended recipient's address; and
 - (c) in the case of delivery by facsimile transmission or by e-mail, on the day of transmission;
- [21] **DECLARES** that the accidental failure or omission to give notice of the Meeting to, or the non-receipt of such notice by one or more of the persons specified in this Interim Order shall not invalidate any resolution passed at the Meeting or the proceedings herein, and shall not constitute a breach of this Interim Order or defect in the calling of the Meeting, provided that if any such failure or omission is brought to the attention of Paladin, it shall use reasonable efforts to rectify such failure or omission by the method and in the time it determines to be most reasonably practicable in the circumstances;

- [22] **DECLARES** that it is not appropriate that dissent rights be ordered in respect to the Arrangement;

The Final Order Hearing

- [23] **ORDERS** that subject to the approval by the Paladin Shareholders of the Arrangement Resolution in the manner set forth in this Interim Order, Paladin may apply for this Court to sanction the Arrangement by way of a final judgment (the "***Motion for a Final Order***");
- [24] **ORDERS** that the *Motion for a Final Order* be presented on February 27, 2014 before the Superior Court of Québec, sitting in the Commercial Division in and for the district of Montréal at the Montréal Courthouse, located at 1 Notre-Dame Street East in Montréal, Québec, Room 16.12 at 9:15 A.M. or so soon thereafter as counsel may be heard, or at any other date this Court may see fit;
- [25] **ORDERS** that the mailing or delivery of the Notice Materials constitutes good and sufficient service of the Motion and good and sufficient Notice of Presentation of the *Motion for a Final Order* to all persons, whether those persons reside within Québec or in another jurisdiction;
- [26] **ORDERS** that the only persons entitled to appear and be heard at the hearing of the *Motion for a Final Order* shall be the Petitioner, the Impleaded Parties, and any person that:
- (a) files an appearance with this Court's registry and serve same on Paladin's counsel, (c/o: Mtre Louis-Martin O'Neill, 1501 McGill College, 26th Floor, Montréal, Québec, H3A 3N9, facsimile number (514) 841-6499), no later than 4:30 p.m. on February 19, 2014 with a copy to counsel to Endo Health Solutions Inc. (c/o Andrew Gray, Torys LLP, Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2 facsimile number (416) 865-7380); and
 - (b) if such appearance is with a view to contesting the *Motion for a Final Order*, serves on Paladin's counsel (at the above address and facsimile number), no later than 4:30 p.m. on February 21, 2014, a written contestation supported as to the facts alleged by affidavit(s), and exhibit(s), if any;
- [27] **ALLOWS** the Petitioner and the Impleaded Parties to file any further evidence they deem appropriate, by way of supplementary affidavits or otherwise, in connection with the *Motion for a Final Order*;

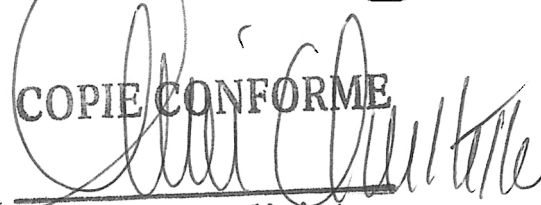
Miscellaneous

- [28] **DECLARES** that the Petitioner shall be entitled to seek leave to vary this Interim Order upon such terms and such notice as this Court deems just;

[29] **ORDERS** provisional execution of the Interim Order notwithstanding any appeal therefrom and without the necessity of furnishing any security;

[30] **THE WHOLE** without costs.


DANIELE MAYRAND, J.C.S.


COPIE CONFORME

Greffier adjoint

APPENDIX “E”

CREDIT SUISSE FAIRNESS OPINION

November 5, 2013

Board of Directors
Paladin Labs Inc.
100 Blvd. Alexis Nihon
Suite 600
St-Laurent, Quebec H4M 2P2
CANADA

Members of the Board:

You have asked us to advise you with respect to the fairness, from a financial point of view, to the holders of common shares ("Company Common Shares") of Paladin Labs Inc. (the "Company"), other than those certain holders of Company Common Shares that are signatories to the Voting Agreement (defined below) (the "Excluded Persons"), of the Transaction Consideration (defined below) expected to be received by the holders of Company Common Shares pursuant to the terms and subject to the conditions of an arrangement agreement, dated as of November 5, 2013 (the "Arrangement Agreement"), by and among the Company, Endo Health Solutions Inc. (the "Acquiror"), Sportwell Limited ("IrishCo"), Sportwell II Limited, ULU Acquisition Corp., RDS Merger Sub, LLC and 8312214 Canada Inc. We understand that in connection with the Transaction (defined below), the Excluded Persons have entered into that certain voting agreement, dated as of November 5, 2013, by and among the Excluded Persons, the Acquiror and 8312214 Canada Inc. (the "Voting Agreement"), pursuant to which the Excluded Persons have agreed to vote their voting securities of the Company in favor of the Transaction, subject to the terms and conditions of the Voting Agreement.

We understand that pursuant to the Arrangement Agreement and a related plan of arrangement under the *Canada Business Corporations Act* (the "Plan of Arrangement"), each of the Company and the Acquiror will become wholly-owned indirect subsidiaries of IrishCo (the "Transaction"). We also understand that under the terms of the Transaction, each Company Common Share will be converted into the right to receive (a) 1.6331 ordinary shares of IrishCo, par value \$0.0001 (the "Company Exchange Ratio") and (b) CDN \$1.16 in cash, plus an amount, in cash, determined by the following, as applicable (as may be increased in accordance with the following, the "Arrangement Cash Consideration"): (i) if the Endo Reference VWAP (defined below) is greater than or equal to 93% of the Endo Announcement Date VWAP (defined below), \$0; (ii) if the Endo Reference VWAP is greater than or equal to 80% of the Endo Announcement Date VWAP but less than 93% of the Endo Announcement Date VWAP, an amount equal to (A) the difference between 93% of the Endo Announcement Date VWAP and the Endo Reference VWAP, multiplied by (B) the Company Exchange Ratio; (iii) if the Endo Reference VWAP is greater than or equal to 76% of the Endo Announcement Date VWAP but less than 80% of the Endo Announcement Date VWAP, an amount equal to (A) the sum of (1) 13% of the Endo Announcement Date VWAP and (2) 50% of the difference between 80% of the Endo Announcement Date VWAP and the Endo Reference VWAP, multiplied by (B) the Company Exchange Ratio; or (iv) if the Endo Reference VWAP is less than 76% of the Endo Announcement Date VWAP, an amount equal to (A) 15% of the Endo

Announcement Date VWAP multiplied by (B) the Company Exchange Ratio. As used herein, (a) "Endo Reference VWAP" means the volume weighted average trading price of a share of the common stock of the Acquiror for the ten trading days ending on the third trading day prior to the date of the special meeting of the holders of Company Common Shares to approve the Transaction (the "Company Shareholder Meeting"), to be determined in accordance with the Arrangement Agreement and the Plan of Arrangement, and (b) "Endo Announcement Date VWAP" means US \$44.4642. The Arrangement Cash Consideration, including the additional cash consideration (if any) determined in accordance with the foregoing, will be paid in Canadian dollars using the exchange rate quoted by the Bank of Canada on the fourth business day prior to the Company Shareholder Meeting. The Company Exchange Ratio and the Arrangement Cash Consideration are collectively referred to herein as the "Transaction Consideration." We also understand that in connection with the Transaction, the Company proposes to consummate the spin-off of Knight Therapeutics Inc. ("Therapeutics") by distributing to the holders of Company Common Shares one share of the common shares of Therapeutics (the "Therapeutics Common Shares"), for each share of Company Common Shares. The terms and conditions of the Transaction are more fully set forth in the Arrangement Agreement and the Plan of Arrangement.

In arriving at our opinion, we have reviewed the Arrangement Agreement, the Plan of Arrangement, the Voting Agreement, certain related agreements and certain publicly available business and financial information relating to the Company and the Acquiror. We have also reviewed certain other information relating to the Company and the Acquiror, including financial forecasts provided to or discussed with us by the Company (including estimates of the amounts and availability of the Company's net operating losses, and the financial forecasts relating to Serelaxin and the Latin American operations of the Company provided to us by the Company, as adjusted with your consent after discussions with the management of the Company), and have met with the management of the Company to discuss the business and prospects of the Company and the Acquiror. We have additionally reviewed certain estimates provided to us by the management of the Acquiror with respect to the anticipated synergies, including tax synergies, to be achieved by IrishCo and its affiliates as a result of the Transaction. We have also considered certain financial and stock market data of the Company and the Acquiror, and we have compared that data with similar data for other publicly held companies in businesses we deemed similar to those of the Company and the Acquiror and we have considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not independently verified any of the foregoing information and we have assumed and relied upon such information being complete and accurate in all material respects. With respect to the financial forecasts for the Company and the Acquiror that we have used in our analyses, the management of the Company has advised us, and we have assumed, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company and the Acquiror. With respect to (a) the estimates provided to us by the management of the Acquiror with respect to the anticipated tax synergies to be achieved by IrishCo and its affiliates as a result of the Transaction and (b) the amount and availability of the net operating losses of the Company and

the Acquiror after the consummation of the Transaction, we have been advised by the managements of the Company and the Acquiror, as applicable, and we have assumed, that such estimates have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of the Company and the Acquiror, as applicable, and will be realized in the amounts and the times indicated thereby. With respect to outstanding litigation matters involving the Acquiror and for which significant damages are alleged in the aggregate, you have instructed us to rely solely upon the information provided by the management of the Company relating to, among other matters, the expected costs of litigation and settlements. With respect to the shares of the common stock of Litha Healthcare Group owned by the Company, we have assumed, with your consent, that the value of such shares are equal to the publicly traded price of such shares, as of the date hereof. We also have assumed, with your consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Transaction, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Company, the Acquiror or the contemplated benefits of the Transaction and that the Transaction will be consummated in accordance with the terms of the Arrangement Agreement without waiver, modification or amendment of any material term, condition or agreement thereof. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company or the Acquiror, nor have we been furnished with any such evaluations or appraisals.

Our opinion addresses only the fairness, from a financial point of view, to the holders of Company Common Shares, other than the Excluded Persons, of the Transaction Consideration and does not address any other aspect or implication of the Transaction or any other agreement, arrangement or understanding entered into in connection with the Transaction or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, (a) the Therapeutics Common Shares or (b) any compensation to any officers, directors or employees of any party to the Transaction, or class of such persons, relative to the Transaction Consideration or otherwise. We are not expressing any opinion as to any tax or other consequences that might result from the Transaction, nor does our opinion address any legal, tax, regulatory or accounting matters, as to which we understand that the Company obtained such advice as it deemed necessary from qualified professionals. The issuance of this opinion was approved by our authorized internal committee.

Our opinion is necessarily based upon information made available to us as of the date hereof and financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. We are not expressing any opinion as to what the value of shares of IrishCo Ordinary Shares or Therapeutics Common Shares actually will be when issued to the holders of Company Common Shares pursuant to the Transaction or the prices at which shares of IrishCo Ordinary Shares or the Therapeutics Common Shares will trade at any time. Our opinion does not address the relative merits of the Transaction as compared to alternative transactions or strategies that might be available to the Company, nor does it address the underlying business decision of the Company to proceed with the Transaction. We were previously requested to solicit third party indications of interest in acquiring all or substantially all of the Company in May 2012. In connection with the Transaction, however, we were not requested to, and did not, solicit third party indications of interest in acquiring all or any part of the Company.

Our opinion is given as of the date hereof and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting this opinion that may come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting this opinion after the date hereof, we reserve the right to change, modify or withdraw this opinion.

We have acted as financial advisor to the Company in connection with the Transaction and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Transaction. We also became entitled to receive a fee upon the rendering of our opinion, which fee may be credited against the total fees payable upon consummation of the Transaction. In addition, the Company has agreed to indemnify us and certain related parties for certain liabilities and other items arising out of or related to our engagement. We and our affiliates have in the past provided investment banking and other financial services to the Company and its affiliates, including in connection with the solicitation of third party indications of interest in acquiring all or substantially all of the Company in May 2012. We and our affiliates have also in the past provided and are currently providing investment banking and other financial services to the Acquiror and its affiliates, including in connection with financing and refinancing transactions. We and our affiliates may have provided other financial advice and services, and may in the future provide financial advice and services, to the Company, the Acquiror, IrishCo, Therapeutics and their respective affiliates for which we and our affiliates may have received, and would expect to receive, compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our own and our affiliates' accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Company, the Acquiror, IrishCo, Therapeutics and any other company that may be involved in the Transaction, as well as provide investment banking and other financial services to such companies.

It is understood that this letter is for the information of the Board of Directors in connection with its consideration of the Transaction and does not constitute advice or a recommendation to any shareholder as to how such shareholder should vote or act on any matter relating to the proposed Transaction.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Transaction Consideration is fair, from a financial point of view, to the holders of Company Common Shares, other than the Excluded Persons.

Very truly yours,

CREDIT SUISSE SECURITIES (USA) LLC

By: 

Managing Director

APPENDIX “F”

INFORMATION CONCERNING KNIGHT THERAPEUTICS AND THE KNIGHT SHARES

No securities regulatory authority or the TSX Venture Exchange has expressed an opinion about the Knight Shares.

TABLE OF CONTENTS

NOTICE TO READERS	F-3	CORPORATE GOVERNANCE	
FORWARD LOOKING INFORMATION ...	F-3	INFORMATION	F-27
GLOSSARY OF TERMS	F-4	AUDIT COMMITTEE INFORMATION	F-30
SUMMARY	F-7	COMPENSATION OF EXECUTIVE	
CORPORATE STRUCTURE	F-9	OFFICERS AND DIRECTORS	F-32
KNIGHT THERAPEUTICS' BUSINESS ...	F-10	INDEBTEDNESS OF DIRECTORS AND	
SELECTED FINANCIAL		SENIOR OFFICERS	F-32
INFORMATION	F-14	RISK FACTORS	F-33
MANAGEMENT'S DISCUSSION AND		PROMOTERS	F-45
ANALYSIS	F-15	SPONSORSHIP	F-46
DESCRIPTION OF SECURITIES		MATERIAL CONTRACTS	F-46
DELIVERED	F-15	LEGAL PROCEEDINGS	F-46
CAPITALIZATION	F-16	REGULATORY ACTIONS	F-46
DIVIDEND POLICY	F-16	INTEREST OF MANAGEMENT AND	
OPTIONS AND OTHER RIGHTS TO		OTHERS IN MATERIAL	
PURCHASE SECURITIES OF KNIGHT		TRANSACTIONS	F-47
THERAPEUTICS	F-17	AUDITORS, TRANSFER AGENT AND	
PRIOR SALES OF KNIGHT SHARES	F-21	REGISTRAR	F-47
PRINCIPAL KNIGHT SHAREHOLDERS ..	F-21	LEGAL MATTERS	F-47
DIRECTORS AND EXECUTIVE		INTEREST OF EXPERTS	F-47
OFFICERS	F-23		

SCHEDULES

Schedule "A" Audited Financial Statements of Knight Therapeutics for the Period from Incorporation on November 1, 2013 to November 30, 2013	F-48
Schedule "B" Audited Carve-Out Balance Sheet of the Impavido Product Business as at December 31, 2013	F-56
Schedule "C" Audited Carve-Out Financial Statements of the Impavido Product Business for the years ended December 31, 2012, December 31, 2011 and December 31, 2010	F-67
Schedule "D" Unaudited Carve-Out Condensed Interim Financial Statements of the Impavido Product Business for the three-month and nine-month periods ended September 30, 2013 and September 30, 2012	F-86
Schedule "E" Unaudited Pro-Forma Consolidated Financial Statements of Knight Therapeutics Inc. for the year ended December 31, 2012 and for the nine-month period ended September 30, 2013	F-94
Schedule "F" Management's Discussion and Analysis of Knight Therapeutics for the Period from Incorporation on November 1, 2013 to November 30, 2013	F-101
Schedule "G" Management's Discussion and Analysis for the Years Ended December 31, 2012 and 2011	F-104
Schedule "H" Management's Discussion and Analysis for the Three Months and Nine Months Ended September 30, 2013	F-112
Schedule "I" Proposed Knight Therapeutics Stock Option Plan	F-119
Schedule "J" Proposed Knight Therapeutics Employee Share Purchase Plan	F-132
Schedule "K" Proposed Audit Committee Charter of Knight Therapeutics	F-139

NOTICE TO READERS

The following is a summary of Knight Therapeutics Inc. (“**Knight Therapeutics**”), its business and operations, which should be read together with the more detailed information and financial data and statements contained elsewhere in the management information circular (the “**Circular**”) of Paladin Labs Inc. (“**Paladin**”) to which this Appendix “F” (the “**Appendix**”) is attached. The information contained in this Appendix, unless otherwise indicated, is given as of the date of the Circular.

FORWARD LOOKING INFORMATION

Any statements made in this Appendix that are not statements of historical fact or that refer to estimated or anticipated future events are forward-looking statements. Knight Therapeutics has based its forward-looking statements on management’s beliefs and assumptions based on information available to its management at the time these statements are made. Such forward-looking statements reflect Knight Therapeutics’ current perspective of its business, future performance, existing trends and information as of the date of the Circular. These include, but are not limited to, Knight Therapeutics’ beliefs about future revenue and expense levels and growth rates, prospects related to its strategic initiatives and business strategies, including the integration of, and synergies associated with, strategic acquisitions, express or implied assumptions about government regulatory action or inaction, anticipated product approvals and launches, business initiatives and product development activities, assessments related to clinical trial results, product performance and competitive environment, and anticipated financial performance. Without limiting the generality of the foregoing statements including words such as “*pro forma*”, “*anticipates*”, “*expects*”, “*intends*”, “*plans*”, “*predicts*”, “*believes*”, “*seeks*”, “*estimates*”, “*could*”, “*would*”, “*will*”, “*may*”, “*can*”, “*continue*”, “*potential*”, “*should*”, “*look forward*”, “*guidance*”, “*pursue*”, and the negative of these terms or other variations thereof or comparable or similar terminology or expressions often identify forward-looking statements. The statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Knight Therapeutics cautions the reader that these statements are based on certain assumptions, risks and uncertainties, many of which are beyond Knight Therapeutics’ control. In addition, certain important factors may affect Knight Therapeutics’ actual operating results and could cause such results to differ materially from those expressed or implied by forward-looking statements. Knight Therapeutics believes the risks and uncertainties discussed under the section entitled “*Risk Factors—Risks Related to Knight Therapeutics’ Business*” of this Appendix and other risks and uncertainties detailed herein, may cause its actual results to vary materially than those anticipated in any forward-looking statement. Knight Therapeutics disclaims any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

GLOSSARY OF TERMS

All capitalized terms used in this Appendix and otherwise undefined in the Circular and this Appendix shall have the meaning ascribed to such terms in the “Glossary of Terms”, words importing the singular number only shall include the plural and vice versa, and words importing the use of any gender shall include all genders. Unless otherwise indicated herein, references to “\$” or “Canadian dollars” in this Appendix are to Canadian dollars, references to “US\$” or “U.S. dollars” are to United States dollars.

“**Arrangement**” means the arrangement of Paladin under section 192 of the CBCA on the terms and subject to the conditions set forth in the Plan of Arrangement.

“**Arrangement Agreement**” means the Arrangement Agreement, dated as of November 5, 2013, among Endo Health Solutions Inc., New Endo, Sportwell II Limited (subsequently renamed Endo Limited), ULU Acquisition Corp. (subsequently renamed Endo U.S. Inc.), RDS Merger Sub, LLC, 8312214 Canada Inc. and Paladin, as same may be amended, supplemented, restated or otherwise modified from time to time, a copy of which is included as “Appendix “C”—Arrangement Agreement” to the Circular.

“**Barbco**” means Paladin Labs (Barbados) Inc., an international business corporation incorporated under the laws of Barbados, and a subsidiary of Paladin which will become an indirect subsidiary of New Endo as of the Effective Time.

“**Barbco License**” means the license agreement dated January 1, 2012 between Barbco and Delco and pursuant to which Barbco granted a license to Delco to make, market and sell Impavido in the United States.

“**Business Separation Agreement**” means the agreement to be entered into by Paladin and Knight Therapeutics prior to the Effective Time in accordance with the Arrangement Agreement and providing for the transfer of, among other things, all rights of Paladin or its affiliates related to Impavido and the Voucher to Knight Therapeutics or one of its affiliates.

“**CBCA**” means the *Canada Business Corporations Act* and all regulations made thereunder, as amended.

“**Circular**” means the management information circular of Paladin dated January 21, 2014, including the notice of meeting to shareholders of Paladin and all schedules and appendices thereto.

“**Delco**” means Paladin Therapeutics, Inc., a corporation incorporated under the laws of Delaware and currently a wholly-owned subsidiary of Paladin.

“**Distribution and License Agreement**” means the distribution and license agreement to be entered into between Knight Therapeutics, or one of its affiliates, and Barbco which, among other things, grants Barbco exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term.

“**Effective Date**” means date upon which all of the conditions to the completion of the Arrangement as set out in the Arrangement Agreement have been satisfied or waived in accordance with the provisions of the Arrangement Agreement and the Arrangement becomes effective in accordance with the CBCA and the Final Order.

“**Effective Time**” means 7:00 a.m. (Montréal Time) on the Effective Date, or such other time as the parties to the Arrangement Agreement may agree to in writing before the Effective Date.

“**FDA**” means the U.S. Food and Drug Administration.

“**Generic Drug**” means a drug that, in comparison with an Innovative Drug, contains identical amounts of the identical medicinal ingredients, in comparable dosage forms, but does not necessarily contain the same non-medicinal ingredients and which is interchangeable with the said Innovative Drug.

“**GMP**” means Good Manufacturing Practices, which are the standards established by health authorities under which drugs can be developed, manufactured, packaged, analyzed, stored and shipped.

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board.

“**Impavido**” means Impavido® (miltefosine), a Paladin product indicated for the treatment of leishmaniasis approved in certain jurisdictions.

“**Impavido IP**” means all intellectual property rights of Paladin related to Impavido.

“**IMS**” means IMS Health Incorporated, a leading pharmaceutical market research organization.

“**Innovative Drug**” means a drug that usually enjoys proprietary barriers to entry, including regulatory or patent-derived market exclusivity, novelty or brand differentiation.

“**In-the-Money Amount per Share**” means, in respect of each Paladin Option, the amount by which the closing price of a Paladin Share on Toronto Stock Exchange on the trading day immediately preceding the Effective Date exceeds the exercise price for each Paladin Share subject to that Paladin Option.

“**ITA**” means the *Income Tax Act* (Canada), as amended.

“**Joddes**” means Joddes Limited, a private corporation incorporated under the laws of Canada.

“**Knight Board of Directors**” means the board of directors of Knight Therapeutics.

“**Knight Shares**” means the common shares without par value in the capital of Knight Therapeutics.

“**Knight Therapeutics**” means Knight Therapeutics Inc., a corporation incorporated under the laws of Canada and currently a wholly-owned subsidiary of Paladin.

“**Knight Therapeutics Arrangement Consideration**” means, in respect of each Paladin Share subject to the Arrangement, one Knight Share.

“**Knight Therapeutics Valuation Report**” means the valuation report in respect of Knight Therapeutics to be delivered to Endo by Paladin in accordance with the terms of the Arrangement Agreement.

“**New Endo**” means Endo International Limited (formerly known as Sportwell Limited), a private limited company incorporated under the laws of Ireland and which will be re-registered as a public limited company.

“**Paladin**” means Paladin Labs Inc., a corporation continued under the laws of Canada.

“**Paladin Options**” means, at any time, rights to acquire Paladin Shares granted pursuant to the Paladin stock option plan adopted by the Paladin board of directors on May 10, 2000, as amended from time to time, which are, at such time, outstanding and unexercised, whether or not vested.

“**PFIC**” means a passive foreign investment company as defined under section 1297 of the U.S. Internal Revenue Code of 1986.

“**Plan of Arrangement**” means the plan of arrangement substantially in the form and content set out in “Appendix “A”—*Plan of Arrangement*” to the Circular, as the same may be amended, supplemented or varied from time to time in accordance with Article 5 of the Plan of Arrangement or at the direction of the Superior Court of Québec with the prior written consent of Paladin and Endo, each acting reasonably.

“**PMPRB**” means the Patented Medicine Prices Review Board, which is an independent quasi-judicial body that oversees pricing of patented pharmaceuticals in Canada.

“Principal Knight Shareholders” means, collectively, Jonathan Ross Goodman and 3487911 Canada Inc. (which is controlled by Jonathan Ross Goodman).

“Principal Paladin Shareholders” means, collectively, Jonathan Ross Goodman, Joddes, 3487938 Canada Inc., 3260217 Nova Scotia Company, 3487911 Canada Inc., The Goodman Davis (2008) Family Trust, and Deborah Goodman Davis.

“Registered Plan” means a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered disability savings plan, a deferred profit sharing plan, a registered education savings plans or a tax-free savings account, each as defined in the ITA.

“TPD” means Therapeutic Products Directorate, which is the national authority that regulates, evaluates and monitors the safety, efficacy and quality of therapeutic and diagnostic products and vaccines available to Canadians. The TPD oversees the development process and the manufacturing, use and sale of pharmaceutical products in Canada.

“TSX-V” means TSX Venture Exchange.

“Voucher” means a priority review voucher that, if issued by the FDA upon the approval of Impavido by the FDA, will be issued in the name of Delco.

SUMMARY

The following is a summary of the business of Knight Therapeutics and the principal features of the delivery of the Knight Shares and should be read together with more detailed information and financial data and statements contained elsewhere in this Appendix and in the Circular, including the other appendices included in the Circular and the documents incorporated by reference in the Circular. The page references have been included in this summary to direct you to a more complete description of the topics presented below.

All information in this Appendix is given as of the date of the Circular, unless otherwise indicated. Unless otherwise indicated, all references to “Canadian dollars” or “\$” in this Appendix are references to Canadian dollars, and all references to “U.S. dollars” or “US\$” are to U.S. dollars.

Corporate Structure (Page F-9)

Knight Therapeutics was incorporated under the CBCA on November 1, 2013 and is currently a wholly-owned subsidiary of Paladin, a corporation existing under the CBCA (TSX:PLB). On November 5, 2013, Paladin announced that it had entered into the Arrangement Agreement with respect to the proposed Arrangement on the terms and subject to the conditions set forth in the Plan of Arrangement. A copy of the Arrangement Agreement is available electronically at www.sedar.com under Paladin’s company profile and is attached to the Circular as “Appendix “C”—Arrangement Agreement”. In accordance with the Plan of Arrangement, at the Effective Time each holder of Paladin Shares and each holder of a Paladin Option that has a positive In-the-Money Amount per Share will be entitled to receive, among other things, one Knight Share in exchange for each Paladin Share or Paladin Option, as applicable, held by such holder, and Knight Therapeutics will become a publicly-held corporation. Please see the section entitled “*The Arrangement and the Merger*” in the Circular.

Description of Knight Therapeutics’ Business (Page F-10)

Prior to the Effective Time, Knight Therapeutics, or its affiliates, will hold certain rights associated with Impavido and the Voucher, and \$1 million in cash. Knight Therapeutics intends to become a specialty pharmaceutical company and believes that this can be accomplished through (i) the acquisition or in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products and (ii) the acquisition of specialty pharmaceutical businesses in select international markets. Knight Therapeutics also expects to expand its presence in specialty therapeutic fields by developing innovative products that are in late stage development. In addition, Knight Therapeutics intends to finance other life science companies in Canada and internationally. See “*Knight Therapeutics’ Business—Impavido and the Voucher*”.

Description of Securities Delivered (Page F-15)

The Arrangement Agreement provides that, among other things, holders of Paladin Shares will receive one Knight Share for each Paladin Share as partial consideration for their Paladin Shares under the Arrangement. As at the date of the Circular, there are 20,765,385 Paladin Shares issued and outstanding and 1,270,675 Paladin Options with a positive In-the-Money Amount per Share and, assuming completion of the Arrangement, Knight Therapeutics expects to deliver 22,036,060 Knight Shares to the former holders of Paladin Shares. For a summary of the description of the Knight Shares, please see “*Description of Securities Delivered*” in this Appendix.

Risk Factors (Page F-33)

An investment in the Knight Shares involves risk. Shareholders should consider carefully the risks and uncertainties set forth in the section entitled “*Risk Factors*” in this Appendix and the other information contained in the Circular in respect of the Arrangement under the section entitled “*Risk Factors*”. Such risks include, without limitation: the limited business history of Knight Therapeutics; the fact that the Voucher may never be

issued and that the Voucher's value and timing of sale are uncertain; the fact that collaborations or other transactions with companies may involve the lending of money to companies that may put Knight Therapeutics' capital at risk in the event of a failure to repay; and, Knight Therapeutics' reliance on third parties for the supply and manufacture of products and other support services. These are not the only risks and uncertainties that Knight Therapeutics faces. Additional risks and uncertainties not presently known, or that are currently considered immaterial, may also materially and adversely affect Knight Therapeutics. If any of the events identified in these risks and uncertainties were to actually occur, Knight Therapeutics' business, financial condition and results of operations could be materially harmed.

Selected Financial Information (Page F-14)

Certain financial information of Knight Therapeutics is included in this Appendix and was prepared in accordance with IFRS. Readers should note that, while applicable securities legislation requires the inclusion of the historical, carve-out financial statements for Impavido in this Appendix, such financial statements are not necessarily indicative of the assets, liabilities or business of Knight Therapeutics going forward. In particular, such carve-out financial statements for Impavido include inventory that will not be transferred to Knight Therapeutics (or one of its affiliates) in connection with the Business Separation Agreement or be part of its business. Readers should therefore review such financial statements together with the financial and other information in the Circular.

Included as Schedule "A" to this Appendix are audited financial statements of Knight Therapeutics for the period from its incorporation on November 1, 2013 to November 30, 2013. Included as Schedule "B" to this Appendix is the audited carve-out balance sheet in respect of the Impavido product business, which will be acquired by Knight Therapeutics as a result of the Knight Therapeutics Business Separation, as at December 31, 2013. Included as Schedule "C" to this Appendix are the audited carve-out financial statements in respect of the Impavido product business, which will be acquired by Knight Therapeutics as a result of the Knight Therapeutics Business Separation, for the years ended December 31, 2012, December 31, 2011 and December 31, 2010. Included as Schedule "D" to this Appendix are the unaudited carve-out condensed interim financial statements in respect of the Impavido product business, which will be acquired by Knight Therapeutics as a result of the Knight Therapeutics Business Separation, for the three-month and nine-month periods ended September 30, 2013 and September 30, 2012. Included as Schedule "E" to this Appendix are the unaudited pro-forma consolidated financial statements of Knight Therapeutics for the year ended December 31, 2012 and for the nine-month period ended September 30, 2013.

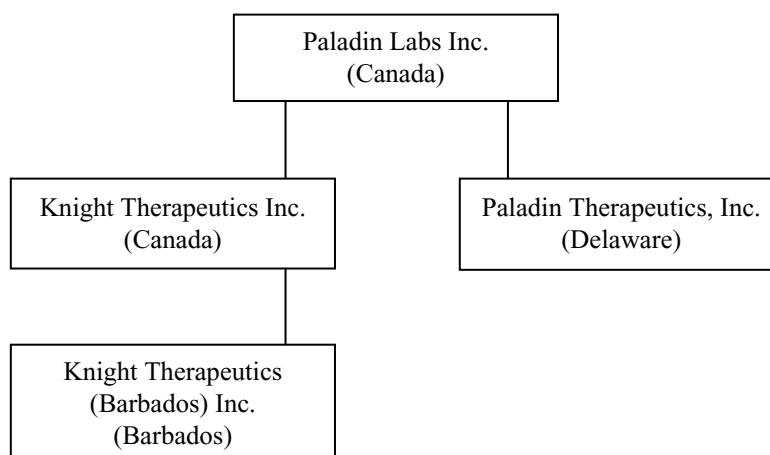
CORPORATE STRUCTURE

Knight Therapeutics was incorporated under the CBCA on November 1, 2013 and is currently a wholly-owned subsidiary of Paladin, a corporation existing under the CBCA (TSX:PLB). Knight Therapeutics (Barbados) Inc., a wholly-owned subsidiary of Knight Therapeutics, was incorporated under the laws of Barbados as an international business corporation on January 6, 2014.

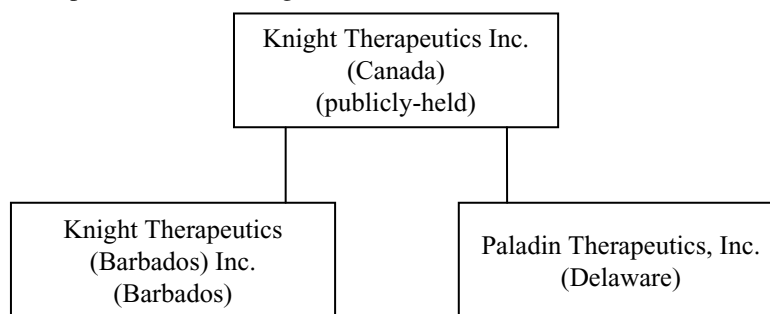
On November 5, 2013, Paladin announced that it had entered into the Arrangement Agreement with respect to the proposed Arrangement on the terms and subject to the conditions set forth in the Plan of Arrangement attached to the Arrangement Agreement as Schedule “A”. A copy of the Arrangement Agreement is available electronically at www.sedar.com under Paladin’s company profile and is attached to the Circular as “Appendix “C”—Arrangement Agreement”.

The Arrangement Agreement provides for the proposed Arrangement on the terms and conditions of the Plan of Arrangement. In accordance with the Plan of Arrangement, at the Effective Time each holder of Paladin Shares and each holder of a Paladin Option that has a positive In-the-Money Amount per Share will be entitled to receive, among other things, one Knight Share in exchange for each Paladin Share or Paladin Option, as applicable, held by such holder, and Knight Therapeutics will become a publicly-held corporation. Please see the section entitled “*The Arrangement and the Merger*” in the Circular.

The following is an organizational chart showing the intercorporate relationships of Knight Therapeutics as of the date of the Circular:



The following is an organizational chart showing the intercorporate relationships of Knight Therapeutics immediately after the completion of the Arrangement:



Each subsidiary indicated on the above charts is wholly-owned.

Knight Therapeutics’ head and registered offices are located at 6111 Royalmount Avenue, Suite 102, Montréal, Québec, Canada, H4P 2T4.

KNIGHT THERAPEUTICS' BUSINESS

Overview

Knight Therapeutics intends to become a specialty pharmaceutical company and believes that this can be accomplished through (i) the acquisition or in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products and (ii) the acquisition of specialty pharmaceutical businesses in select international markets. Knight Therapeutics also expects to expand its presence in specialty therapeutic fields by developing innovative products that are in late stage development. In addition, Knight Therapeutics intends to finance other life science companies in Canada and internationally.

Impavido and the Voucher

On November 5, 2013, Paladin announced that it had entered into the Arrangement Agreement with respect to the Arrangement. The Arrangement Agreement provides that, among other things, Paladin or one of its affiliates shall transfer all of the intellectual property rights on a worldwide basis for the drug known as Impavido to Knight Therapeutics, or one of its affiliates, before the Effective Time. Please see “*Corporate Structure*” in this Appendix and “*The Arrangement and the Merger*” in the Circular. Please also see “*Knight Therapeutics' Business—Business Separation Agreement*” for more information on the transfer of Impavido.

In 2012, global net sales of Impavido were \$2.1 million. Under the Distribution and License Agreement to be entered into between Knight Therapeutics, or one of its affiliates, and Barbro, among other things, Knight Therapeutics, or one of its affiliates, will grant Barbro exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbro shall pay to Knight Therapeutics or its affiliate, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. For the year ended December 31, 2012 and for the nine-month period ended September 30, 2013, 22.5% of gross sales of Impavido would have been \$467,251 and \$653,034, respectively. It is expected that net sales of Impavido will decline due to the emergence of generic competition. Please see “*Knight Therapeutics' Business—Business Separation Agreement*” and “*Risk Factors—Risks Related to Knight Therapeutics' Business—Generic Product Risk*”.

Impavido is an oral agent for the treatment of leishmaniasis and currently the only oral treatment for leishmaniasis approved for sale in Europe, the Indian subcontinent, and Central and South America. Leishmaniasis is a parasitic disease transmitted by a species of sandfly (*Phlebotomus* sp. and *Lutzomyia* sp.) and is found in over 80 countries worldwide. It is estimated that 350 million people are at risk for leishmaniasis. Twelve million people are currently infected, with 1.5 to 2 million new cases being reported annually, and 70,000 deaths occurring annually. While exact data on incidence of leishmaniasis is not available for the United States, persons immigrating/travelling from endemic countries, military personnel, and immunocompromised patients are most at risk for infection. Based on the evidence of safety and efficacy from multiple clinical studies, miltefosine has been recognized by the World Health Organization (WHO) as being one of only five therapeutic agents to be placed on their “Essential Medicines List” for the treatment of leishmaniasis.

Leishmaniasis is also one of the diseases targeted by the FDA for innovation and development of new therapies through their tropical disease priority review voucher program. A priority review granted by the FDA reduces the target review time for a new drug application from the standard target of ten months to a target of six months. Under this program, if a therapy for a selected tropical disease qualifies for priority review and receives FDA approval, the sponsor will be awarded a priority review voucher. A priority review voucher entitles the bearer to a priority review of a future new drug application that would not otherwise qualify for such a review. Such vouchers are designed to encourage the development of new treatments for tropical diseases.

On June 19, 2013, Paladin announced that it has received notice that its new drug application to the FDA for Impavido had been accepted for review and had been granted priority review status. If approved, Paladin will be authorized to commercialize Impavido in the U.S. and Delco may receive the Voucher through the FDA's tropical disease priority review voucher program.

On October 18, 2013, the Anti-Infective Drugs Advisory Committee, an advisory panel of the FDA, issued a non-binding recommendation announcing that Impavido was safe and effective for the treatment of leishmaniasis. The advisory panel voted 14 to 2 to approve the drug for cutaneous leishmaniasis and voted 15 to 1 to approve the drug for visceral leishmaniasis, the most severe form of the disease. The advisory panel also voted 13 to 3 to approve the drug for the mucosal version of the disease. If Impavido is approved by the FDA, Delco would receive the Voucher. To the knowledge of Paladin's management, only two priority review vouchers have been granted in the past and neither has been sold or otherwise transferred to a third party. Knight Therapeutics' current intention is to sell or otherwise transfer the Voucher to a third party, if and when received by the FDA, for either cash, rights to pharmaceutical products with existing sales or other consideration. As there is no known value for such a voucher, the sale process for such voucher may be lengthy with uncertain results.

On June 19, 2013, the FDA also confirmed that the Prescription Drug User Fee Act ("PDUFA") action date with respect to Impavido would be December 19, 2013. During the course of further discussions with the FDA, Paladin submitted revisions regarding chemistry, manufacturing and control details, and other aspects related to the proposed label of Impavido. The FDA determined that this submission qualified as a major amendment filed during the final three months of the review and extended the PDUFA action date to March 19, 2014, thereby extending the deadline for the FDA to approve Impavido to such revised PDUFA action date. As of the date of the Circular, the FDA has not requested any additional clinical studies prior to the revised PDUFA action date.

Business Separation Agreement

Pursuant to the Arrangement Agreement, prior to the Effective Time, Paladin and Knight Therapeutics will enter into the Business Separation Agreement providing for the transfer of the assets to be owned by, and the liabilities to be assumed by, Knight Therapeutics (or one of its affiliates) from Paladin and Barbc0. The assets to be owned by Knight Therapeutics (or one of its affiliates) consist of: (i) the Impavido IP, (ii) the Voucher or, if not yet issued at the time of the consummation of the transactions contemplated by the Business Separation Agreement, any rights to the Voucher, (iii) the common shares of Delco, (iv) the rights of Barbc0 as licensor under the Barbc0 License and (v) \$1,000,000 in cash (collectively, the "**Knight Therapeutics Business Separation**").

The Business Separation Agreement will also provide that Knight Therapeutics, or one of its affiliates, as licensor, will enter into the Distribution and License Agreement with Barbc0 granting Barbc0 exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term. Barbc0 will become an indirect subsidiary of New Endo as of the Effective Time. Under the Distribution and License Agreement, Barbc0 shall pay to Knight Therapeutics, or one of its affiliates, as the case may be, a fee of 22.5% of gross sales resulting from the worldwide commercialization of Impavido, other than the United States. In addition, under the Distribution and License Agreement, Barbc0 will be responsible for all regulatory services, product manufacturing, quality services, supply chain management and commercialization activities related to Impavido for all markets except the U.S. In addition, Barbc0 will supply Impavido to Knight Therapeutics, or one of its affiliates, for the U.S. market. For the year ended December 31, 2012 and the nine-month period ended September 30, 2013, 22.5% of gross sales of Impavido would have been \$467,251 and \$653,034, respectively. Such amount is expected to decline in the future due to the emergence of generic competition to Impavido. Please see "*Risk Factors—Risks Related to Knight Therapeutics' Business—Generic Product Risk*" in this Appendix.

In connection with the Knight Therapeutics Business Separation, prior to the Effective Date, but in any event not later than 20 business days before the Effective Date, Paladin shall provide Endo with the Knight Therapeutics Valuation Report, which shall determine the fair market value of (a) the Impavido IP, (b) the Voucher, (c) the common shares of Delco, (d) the rights of Barbc0 under the Barbc0 License, (e) the rights of each party to the Distribution and License Agreement and (f) the Knight Shares that will be issued and outstanding after the completion of transactions contemplated by the Business Separation Agreement. Paladin has selected MNP LLP to prepare the Knight Therapeutics Valuation Report. All costs for the Knight Therapeutics Valuation Report shall be borne by Paladin. The Knight Therapeutics Valuation Report, when finalized, will be made available to shareholders of Paladin on SEDAR at www.sedar.com when it is complete.

Knight Therapeutics' Strategy

Knight Therapeutics intends to become a specialty pharmaceutical company and believes that this can be accomplished through (i) the acquisition or in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products and (ii) the acquisition of specialty pharmaceutical businesses in select international markets. Knight Therapeutics also expects to expand its presence in specialty therapeutic fields by developing innovative products that are in late stage development. Knight Therapeutics believes that there are opportunities to obtain sales and marketing rights to products.

Knight Therapeutics also intends to strategically invest in certain early and late stage pharmaceutical and drug development companies and, where possible, to partner its investment in these organizations with a license or other rights to such organizations' valuable intellectual property. The form of Knight Therapeutics' investment may include secured and unsecured loans, convertible debentures, collaborative arrangements and joint ventures, among others. Since Knight Therapeutics does not currently intend to engage in any proprietary research activity with respect to product development, it will, as part of this strategy and others, rely heavily on purchasing or licensing product lines from other companies.

Employees

Knight Therapeutics has appointed Jonathan Ross Goodman as President and Chief Executive Officer of Knight Therapeutics. Mr. Goodman will be employed by Knight Therapeutics following completion of the Arrangement. Please see "*Directors and Executive Officers*" in this Appendix. Knight Therapeutics is actively searching for a Chief Financial Officer and will appoint one prior to the closing of the Arrangement. After giving effect to the Arrangement, Knight Therapeutics expects to hire approximately 10 employees over the course of the next year. To proceed with the development of Knight Therapeutics' business, Knight Therapeutics may hire additional experienced employees or third-party consultants and contractors. See "*Risk Factors—Risks Related to Knight Therapeutics' Business—Key Person, Ability to Hire and Retain Key Personnel*" in this Appendix.

Bankruptcy and Similar Procedures

There have been no bankruptcy, receivership or similar proceedings against Knight Therapeutics, or any voluntary bankruptcy, receivership or similar proceedings by Knight Therapeutics.

Material Restructuring Transactions

Other than the Knight Therapeutics Business Separation and the Arrangement, there have been no material restructuring transactions of Knight Therapeutics. Pursuant to the Plan of Arrangement, at the Effective Time, the holders of Paladin Shares and each holder of a Paladin Option that has a positive In-the-Money Amount per Share will be entitled to receive, among other things, one Knight Share in exchange for each Paladin Share or Paladin Option, as applicable, held by such holder. See "*Corporate Structure*" in this Appendix and "*The Arrangement and the Merger*" in the Circular.

Outsourcing of Select Functions

Under the Distribution and License Agreement, Barbco, a subsidiary of Paladin which will become an indirect subsidiary of New Endo as of the Effective Time, will be responsible for all regulatory services, product manufacturing, quality services, supply chain management and commercialization activities related to Impavido for all markets except the U.S. In addition, Barbco will supply Impavido to Knight Therapeutics for the U.S. market. Please see "*Knight Therapeutics' Business—Business Separation Agreement*" and "*Risk Factors—Risks Related to Knight Therapeutics' Business—Dependence on Paladin*".

By using contract manufacturers to produce Impavido and other products to be acquired, which require relatively small and infrequent production runs, Knight Therapeutics expects to control its investment in capital

and avoid the risks involved in manufacturing. Similarly, by contracting with other persons to perform certain research needed to bring any acquired product to market, Knight Therapeutics aims to reduce expenses and risks associated with maintaining a research facility. Please see “*Interest Of Management And Others In Material Transactions*” in this Appendix.

Listing and Securities Law Matters

Knight Therapeutics has applied to list the Knight Shares on TSX-V. Listing is subject to Knight Therapeutics fulfilling all of the requirements of TSX-V. If listing approval is ultimately obtained, trading in the Knight Shares is expected to commence immediately after the Effective Time. The completion of the Arrangement is not conditional upon the listing of the Knight Shares. There can be no assurance that TSX-V will list the Knight Shares. Please see “*Risk Factors—Risks Related to the Listing of Knight Shares—No existing market for the Knight Shares*” in this Appendix.

Upon completion of the Arrangement, Knight Therapeutics will become a reporting issuer or the equivalent thereof in each of the provinces of Canada and will become subject to the disclosure and reporting requirements under applicable securities laws. The Knight Shares to be issued to Paladin shareholders pursuant to the Arrangement will, subject to certain trading restrictions under applicable securities laws in Canada and the United States, generally not be subject to any resale or transfer restrictions. Please see “*The Arrangement and the Merger—Applicable Canadian Securities Laws Matters—Distribution and Resale of New Endo Shares and Knight Shares under Canadian Securities Laws*” in the Circular.

SELECTED FINANCIAL INFORMATION

Financial Statements

The financial statements of Knight Therapeutics included in this Appendix were prepared in accordance with IFRS. Readers should note that, while applicable securities legislation requires the inclusion of the historical, carve-out financial statements for Impavido in this Appendix, such financial statements are not necessarily indicative of the assets, liabilities or business of Knight Therapeutics going forward. In particular, such carve-out financial statements for Impavido include inventory that will not be transferred to Knight Therapeutics (or one of its affiliates) in connection with the Business Separation Agreement or be part of its business. Readers should therefore review such financial statements together with the financial and other information in the Circular.

Included as Schedule “A” to this Appendix are audited financial statements of Knight Therapeutics for the period from its incorporation on November 1, 2013 to November 30, 2013, comprised of a balance sheet, statements of income and comprehensive income, changes in shareholder’s equity and cash flows, and notes to such statements.

Included as Schedule “B” to this Appendix is the audited carve-out balance sheet in respect of the Impavido product business, which will be acquired by Knight Therapeutics as a result of the Knight Therapeutics Business Separation, as at December 31, 2013, and notes to such balance sheet.

Included as Schedule “C” to this Appendix are the audited carve-out financial statements in respect of the Impavido product business, which will be acquired by Knight Therapeutics as a result of the Knight Therapeutics Business Separation, for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, comprised of the carve-out balance sheets, the carve-out statements of loss and comprehensive loss, carve-out statements of changes in owner’s net investment, carve-out statements of cash flows, and notes to such statements.

Included as Schedule “D” to this Appendix are the unaudited carve-out condensed interim financial statements in respect of the Impavido product business, which will be acquired by Knight Therapeutics as a result of the Knight Therapeutics Business Separation, for the three-month and nine-month periods ended September 30, 2013 and September 30, 2012, comprised of carve-out interim balance sheets, carve-out interim statements of income and comprehensive income, carve-out interim statements of owner’s net investment, carve-out interim statements of cash flows, and notes to such statements.

Included as Schedule “E” to this Appendix are the unaudited pro-forma consolidated financial statements of Knight Therapeutics for the year ended December 31, 2012 and for the nine-month period ended September 30, 2013, comprised of a pro-forma consolidated balance sheet, a pro-forma consolidated statement of income and comprehensive income, a pro-forma consolidated statement of loss and comprehensive loss, and notes to such statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Included as Schedules "F", "G" and "H" to this Appendix are the following management's discussion and analysis in respect of Knight Therapeutics:

- (a) management's discussion and analysis of the operations, performance and financial condition of Knight Therapeutics for the period from incorporation on November 1, 2013 to November 30, 2013;
- (b) management's discussion and analysis of the Impavido product business' operations, performance and financial condition for the years ended December 31, 2012 and December 31, 2011; and
- (c) management's discussion and analysis of the Impavido product business' operations, performance and financial condition for the three months and nine months ended September 30, 2013.

DESCRIPTION OF SECURITIES DELIVERED

Knight Shares

The authorized share capital of Knight Therapeutics is comprised of an unlimited number of Knight Shares without par value, of which one Knight Share held by Paladin is issued and outstanding as of the date of the Circular, and an unlimited number of first preferred shares, which may be issued from time to time in one or more series. Each Knight Share entitles the holder to one vote per share. The holders of Knight Shares are entitled to receive notice of meetings of shareholders of Knight Therapeutics and to vote at such meetings. The holders of the Knight Shares are entitled to receive, as and when declared by the Knight Board of Directors, dividends in such amounts as shall be determined by the Knight Board of Directors. The holders of Knight Shares have the right to receive the remaining property of Knight Therapeutics in the event of liquidation, dissolution or winding-up of Knight Therapeutics, whether voluntary or involuntary. Pursuant to the CBCA and the articles of incorporation of Knight Therapeutics, any modification, amendment or variation of any rights attached to the Knight Shares will require approval of the holders of Knight Shares by special resolution. A "special resolution" is a resolution passed by a majority of not less than two-thirds of the votes cast by the shareholders of Knight Therapeutics.

On November 5, 2013, Paladin announced that it had entered into the Arrangement Agreement with respect to the Arrangement. Please see "*The Arrangement and the Merger*" in the Circular and "*Corporate Structure*" in this Appendix. The Arrangement Agreement provides for the proposed Arrangement on the terms and conditions set forth in the Plan of Arrangement. In accordance with the Plan of Arrangement, at the Effective Time each holder of Paladin Shares and each holder of a Paladin Option that has a positive In-the-Money Amount per Share will be entitled to receive, among other things, one Knight Share in exchange for each Paladin Share or Paladin Option, as applicable, held by such holder, and Knight Therapeutics will become a publicly-held corporation. As at the date of the Circular, there are currently 20,765,385 Paladin Shares issued and outstanding and 1,270,675 Paladin Options with a positive In-the-Money Amount per Share and, assuming completion of the Arrangement, Knight Therapeutics expects to have issued and outstanding, and is applying to list on TSX-V, 22,036,060 Knight Shares.

The calculation in this Appendix of the approximate aggregate number of Knight Shares to be delivered pursuant to the Arrangement assumes that all outstanding Paladin Options with a positive In-the-Money Amount per Share are settled pursuant to the terms of the Arrangement. For further details with respect to the delivery of the Knight Shares on completion of the Arrangement, please see "*The Arrangement and the Merger*" in the Circular.

Stock Options

As of the date of the Circular, Knight Therapeutics has adopted the Knight Therapeutics Option Plan and the Knight Therapeutics ESPP (as defined below), but it has not granted any incentive stock options, nor has it issued any other rights or securities to purchase Knight Shares. The Knight Board of Directors does not intend to grant any stock options until such time, following listing of the Knight Shares on TSX-V, that the trading price of the Knight Shares has stabilized such that a fair market value exercise price for options can be determined. Please see "*Options and Other Rights to Purchase Securities of Knight Therapeutics—Knight Therapeutics Option Plan*" and "*Knight Therapeutics Employee Share Purchase Plan*" in this Appendix.

CAPITALIZATION

The following table sets out the consolidated capitalization of Knight Therapeutics (i) as at November 30, 2013 and (ii) as at November 30, 2013 after giving effect to the Arrangement.

	As at November 30, 2013	
	Actual (unaudited)	As Adjusted ⁽¹⁾ (unaudited)
Shareholders' equity (deficiency):		
Share capital	1	12,000,001
Deficit	—	—
Total Capitalization	1	12,000,001

(1) Knight Therapeutics has not incurred any expenses since incorporation.

There have been no material changes to the share or loan capital of Knight Therapeutics since November 30, 2013.

DIVIDEND POLICY

Other than general corporate law restrictions on the payment of dividends, there are no restrictions in Knight Therapeutics' articles or elsewhere which could prevent Knight Therapeutics from paying dividends. However, Knight Therapeutics intends to retain its earnings to finance growth and does not expect to pay dividends on its Knight Shares in the near future. The Knight Board of Directors will review this policy from time to time having regard to Knight Therapeutics' financial condition, its financing requirements and other factors considered relevant. No dividend has been declared or paid by Knight Therapeutics on its Knight Shares since its incorporation.

OPTIONS AND OTHER RIGHTS TO PURCHASE SECURITIES OF KNIGHT THERAPEUTICS

Knight Therapeutics Option Plan

The following is a summary only of the material terms of the Knight Therapeutics Option Plan and is subject to, and qualified in its entirety by, the full text of the Knight Therapeutics Option Plan. Shareholders of Paladin are urged to read the Knight Therapeutics Option Plan, which will be substantially in the form attached as Schedule “G” to this Appendix.

The Knight Board of Directors, with the approval of Paladin as Knight Therapeutics’ sole shareholder, will adopt a stock option plan (the “**Knight Therapeutics Option Plan**”) that will be implemented upon acceptance by TSX-V in conjunction with the proposed listing of the Knight Shares on TSX-V. The Knight Therapeutics Option Plan is a rolling stock option plan that sets the number of Knight Shares issuable under the Knight Therapeutics Option Plan at a maximum of 10% of the Knight Shares issued and outstanding at the time of any grant under the Knight Therapeutics Option Plan. As of the date of the Circular, Knight Therapeutics has not granted any stock options under the Knight Therapeutics Option Plan or otherwise, nor has it issued any other rights or securities to purchase Knight Shares. As of the date of the Circular, there are currently 20,765,385 Paladin Shares issued and outstanding and 1,270,675 Paladin Options with a positive In-the-Money Amount per Share. Assuming completion of the Arrangement, 22,036,060 Knight Shares are expected to be delivered at the Effective Time. As such, a maximum of 2,203,606 Knight Shares may be issued under the Knight Therapeutics Option Plan at the Effective Time. However, the Knight Board of Directors does not intend to grant any stock options until such time, following listing of the Knight Shares on TSX-V, that the trading price of the Knight Shares on TSX-V has stabilized, such that a fair market value exercise price for options can be determined.

Stock options to purchase Knight Shares may be granted from time to time to directors, senior officers, key employees and service providers of Knight Therapeutics and its affiliates and to eligible charitable organizations pursuant to the Knight Therapeutics Option Plan in order to incentivize and sustain a commitment to long-term profitability and to maximize shareholder value. Grants of stock options are based on a variety of factors, such as the need to attract or retain the individual, competitive market conditions and internal equity, among other things. The amounts and terms of outstanding options are taken into account when determining whether and how many new option grants are made. In addition, consideration is given to the performance of past option grants including whether options are forfeited without being exercised due to the exercise price being above the market price. The Knight Therapeutics Option Plan will be administered by the Knight Board of Directors or the Corporate Governance and Compensation Committee of Knight Therapeutics (such committee or, if no such committee is appointed or designated to administer the Knight Therapeutics Option Plan, the Knight Board of Directors, is hereinafter referred to for the purposes of this section as the “**Committee**”).

The aggregate number of Knight Shares issuable pursuant to the Knight Therapeutics Option Plan may not exceed 10% of Knight Therapeutics’ issued and outstanding Knight Shares at the time of any particular grant. The aggregate number of Knight Shares reserved for issuance pursuant to options granted to insiders of Knight Therapeutics at any given time, or within a 12-month period, shall not exceed 10% of the issued and outstanding Knight Shares on a non-diluted basis, unless “Disinterested Shareholder Approval” (as defined below) is obtained. The aggregate number of Knight Shares reserved for issuance pursuant to options granted to any one person or entity within any 12-month period shall not exceed 5% of the issued and outstanding Knight Shares on a non-diluted basis, unless Disinterested Shareholder Approval is obtained. “Disinterested Shareholder Approval” means approval by a majority of the votes cast by all of the shareholders of Knight Therapeutics at a duly constituted shareholders’ meeting, excluding votes attached to shares beneficially owned by insiders of Knight Therapeutics to whom options may be granted under the Knight Therapeutics Option Plan and their associates. In addition, the aggregate number of options granted and outstanding to eligible charitable organizations shall not at any time exceed 1% of the issued and outstanding Knight Shares, as calculated immediately subsequent to the grant of any options to eligible charitable organizations. As of the date hereof, no options have been granted under the Knight Therapeutics Option Plan.

Under the terms of the Knight Therapeutics Option Plan, the Committee will establish the exercise price of an option at the time each option is granted according with the following conditions: (a) if the Knight Shares are listed on TSX-V, then (i) the exercise price will not be less than the minimum prevailing price permitted by the rules and policies of TSX-V, as amended, supplemented or replaced from time to time (collectively, the “**TSX-V Policies**”), (ii) if the exercise price of any option granted is based on the discounted market price as defined in TSX-V Policies rather than the market price as defined in the TSX-V Policies, all such options and Knight Shares issued upon exercise thereof will be subject to a four-month hold period commencing on the grant date, and the certificates representing Knight Shares issued prior to the expiry of the said hold period will bear the legend required by the TSX-V Policies, and (iii) if an option is granted within 90 days of a sale of securities of Knight Therapeutics by way of prospectus (a “**Distribution**”), the exercise price shall not be less than the price that is the greater of the minimum prevailing price permitted by the TSX-V Policies and the per Knight Share price paid by the public investors for Knight Shares acquired under such Distribution, with such 90-day period beginning on the date a final receipt is issued for the prospectus related to such Distribution; or (b) if the Knight Shares are listed on a stock exchange other than TSX-V, the exercise price shall not be less than the minimum prevailing price permitted by the rules of the stock exchange on which the Knight Shares are listed at the time the option is granted.

All options granted under the Knight Therapeutics Option Plan will be granted under agreements which provide that the options may be exercised over a maximum term of 10 years (subject to an extension of the scheduled expiry date for a further 10 business days if the option would otherwise expire during a blackout period) and that the options are personal to the optionee and are non-assignable. An option granted to a director who is not an employee will terminate on the earliest of: (a) if such director is removed or is not re-elected, the date that such director is removed or is not re-elected as a director, or (b) if such director resigns, the date that is the earlier of (i) the expiry date of the option and (ii) the date that is 30 days after the effective date of such director’s resignation. The right to exercise the options granted under any agreements will terminate immediately upon the termination of employment of the optionee (including termination of employment of the optionee for cause) unless, before the expiry of an option, the employment of an optionee has been terminated for any reason whatsoever (other than (a) termination by Knight Therapeutics for cause, (b) death, or (c) retirement), in which case such option may be exercised, to the extent vested and unexercised at the date such employment ceased and, subject to the terms of the Knight Therapeutics Option Plan, at any time within 30 days following the day when the optionee ceased to be employed but in no event after the expiry of the option, and any such option shall expire and terminate to the extent that it remains unvested or unexercised at the end of such period. If, before the expiry of an option, the employment of the optionee has terminated by reason of retirement, such option may be exercised by the optionee, to the extent vested and unexercised at the date such employment ceased and, subject to the terms of the Knight Therapeutics Option Plan, at any time within the 30 days following the day when the optionee ceased to be employed but in no event after the expiry of the option, and any such option shall expire and terminate to the extent that it remains unvested or unexercised at the end of such period. If, before the expiry of an option, the employment of the optionee has terminated by reason of death, such option may be exercised by the legal personal representatives, heirs, executors or administrators of the optionee, to the extent vested and unexercised at the date such employment ceased and, subject to the terms of the Knight Therapeutics Option Plan, at any time within the six months following the death of the optionee but in no event after the expiry of the option, and any such option shall expire and terminate to the extent that it remains unvested or unexercised at the end of such period. Generally, options vest equally on an annual basis over a period of three to four years for employees and executives and over a period of one year for directors, or at such other times and on such other terms as the Committee may determine and the Knight Board of Directors may approve in their discretion.

The Committee may amend or terminate the Knight Therapeutics Option Plan at any time if and when it is deemed advisable, in its absolute discretion, provided, however that no such amendment or termination may adversely affect any outstanding options granted under the Knight Therapeutics Option Plan without the consent of the affected optionees. Any amendment to the Knight Therapeutics Option Plan will also be subject to acceptance of such amendment for filing by TSX-V, if applicable, and, where required by TSX-V, the approval of the shareholders of Knight Therapeutics. By its current terms, the Knight Therapeutics Option Plan and any

option granted thereunder may be amended by the Knight Board of Directors without the consent of the shareholders generally to: (a) fix typographical errors; and (b) clarify existing provisions of the Knight Therapeutics Option Plan that do not have the effect of altering the scope, nature and intent of such provisions. In addition to such amendments as may require shareholder approval under applicable laws, the amendments to any of the following provisions of the Knight Therapeutics Option Plan will be subject to shareholder approval: (a) persons eligible to be granted options under the Knight Therapeutics Option Plan; (b) the maximum number or percentage, as the case may be, of Knight Shares that may be reserved under the Knight Therapeutics Option Plan for issuance pursuant to the exercise of stock options; (c) the limitations under the Knight Therapeutics Option Plan on the number of options that may be granted to any one person or any category of persons (such as, for example, insiders of Knight Therapeutics); (d) the method for determining the exercise price of options; (e) the maximum term of options; and (f) the expiry and termination provisions applicable to options.

The Committee may amend any outstanding option granted under the Knight Therapeutics Option Plan with the consent of the affected optionee(s) and TSX-V, if required, subject to the following conditions: (a) if the optionee is an insider of Knight Therapeutics at the time of the amendment, Knight Therapeutics must obtain Disinterested Shareholder Approval, unless the amendment relates to extending the length of the term of the option; (b) where an amendment is made to reduce the exercise price of an outstanding option, (i) if the exercise price is reduced to less than the Discounted Market Price, the four-month hold period commencing on the grant date of such option shall apply from the date of amendment and (ii) at least six months shall have elapsed since the later of (A) the commencement of the term of the option; (B) the date the Knight Shares commenced trading on TSX-V; and (C) the date the option exercise price was last amended; and (c) if the length of the exercise period of any option is extended, any such extension shall be treated as a grant of a new option and must comply with the pricing and other requirements of the TSX-V Policies and the option must have been outstanding for at least one year prior to the extension of the exercise period.

Under the terms of the Knight Therapeutics Option Plan, options do not automatically vest upon the occurrence of a change of control. Rather, the Knight Therapeutics Option Plan provides that upon the occurrence of a “Change of Control” or if a take-over bid is made for any or all of the outstanding Knight Shares, the Knight Board of Directors may, in its sole and absolute discretion and if permitted by the TSX-V Policies and applicable securities laws, determine by resolution that all outstanding options shall immediately become exercisable in full by the holders thereof, notwithstanding any vesting provisions or other restrictions or conditions that would otherwise attach to such options, provided, however that the expiry date of any outstanding option may not be extended beyond the 10-year maximum term. A “Change of Control” means either of the following: (a) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving Knight Therapeutics or any of its affiliates and another corporation or entity, as a result of which the holders of Knight Shares prior to the completion of the transaction hold less than 50% of the outstanding shares or interests of the successor entity after completion of the transaction; (b) the sale, lease, exchange or other disposition, in a single transaction or a series of related transactions, of assets, rights or property of Knight Therapeutics and/or any of its subsidiaries which have an aggregate book value greater than 50% of the book value of the assets, rights and property of Knight Therapeutics and its subsidiaries on a consolidated basis to any other person or entity, other than a disposition to a wholly-owned subsidiary of Knight Therapeutics in the course of a reorganization of the assets of Knight Therapeutics and its subsidiaries; (c) a resolution is adopted to wind up, dissolve or liquidate Knight Therapeutics; (d) any person, entity or group of persons or entities acting jointly or in concert, other than an insider of Knight Therapeutics (an “**Acquiror**”) acquires, or acquires control of (including, without limitation, the right to vote or direct the voting of) voting securities of Knight Therapeutics which, when added to the voting securities owned of record or beneficially by the Acquiror or which the Acquiror has the right to vote or in respect of which the Acquiror has the right to direct the voting, would entitle the Acquiror (or its associates or affiliates) to cast or to direct the casting of 50% or more of the votes attached to all of Knight Therapeutics outstanding voting securities which may be cast to elect directors of Knight Therapeutics or the successor corporation (regardless of whether a meeting has been called to elect directors); (e) as a result of in connection with: (i) a contested election of directors; (ii) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving Knight Therapeutics or any of its

affiliates and another corporation or entity, the nominees named in the most recent management information circular of Knight Therapeutics for election to the Knight Board of Directors shall not constitute a majority of the Knight Board of Directors; or (f) the Knight Board of Directors adopts a resolution to the effect that a Change of Control (as defined herein) has occurred or is imminent.

Knight Therapeutics Employee Share Purchase Plan

The following is a summary only of the material terms of the Knight Therapeutics ESPP and is subject to, and qualified in its entirety by, the full text of the Knight Therapeutics ESPP. Shareholders of Paladin are urged to read the Knight Therapeutics ESPP, which will be substantially in the form attached as Schedule “H” to this Appendix.

The Knight Board of Directors, with the approval of Paladin as Knight Therapeutics’ sole shareholder, will adopt an employee share purchase plan (the “**Knight Therapeutics ESPP**”) for the benefit of full-time employees and members of the Knight Board of Directors, as designated by the Knight Board of Directors or any appropriate committee thereof, to purchase a maximum of 200,000 Knight Shares.

The Knight Therapeutics ESPP provides that the subscription price per Knight Share for Knight Shares which are the subject of any purchase under the Knight Therapeutics ESPP shall be the volume weighted average trading price of the Knight Shares for the 5 trading days immediately preceding the applicable purchase date (the “**Market Price**”). Knight Therapeutics shall contribute, in cash, an amount equal to 25% of the contributions made by participants towards the purchase of Knight Shares pursuant to the Knight Therapeutics ESPP, subject to certain conditions. Employees under the Knight Therapeutics ESPP will receive at least the number of Knight Shares that such employees would have received had Knight Therapeutics contributed on the date of such employee’s contribution. As such, if the Market Price of the Knight Shares on the purchase date is higher than the Market Price for the relevant contribution period immediately preceding the eighth previous purchase date (the “**Relevant Contribution Period**”), Knight Therapeutics will contribute such amount that is sufficient to purchase 25% of the number of Knight Shares purchased by the participant during the Relevant Contribution Period. Conversely, if the Market Price of the Knight Shares on the purchase date is lower than the Market Price for the Relevant Contribution Period, Knight Therapeutics will contribute such amount that is 25% of the amount that was contributed by the participant in the Relevant Contribution Period. No Knight Shares will be purchased on behalf of a participating employee under the Knight Therapeutics ESPP if such purchase could result, at any time, in (a) the issuance to insiders of Knight Therapeutics, within a one-year period, of a number of Knight Shares exceeding 10% of the issued and outstanding Knight Shares; or (b) the issuance to any one insider of Knight Therapeutics and such insider’s associates, within a one-year period, of a number of Knight Shares exceeding 5% of the issued and outstanding Knight Shares. In addition, the maximum number of Knight Shares issuable to insiders at any time under the Knight Therapeutics ESPP and any other share compensation arrangements shall be 10% of the outstanding Knight Shares of Knight Therapeutics. An employee’s yearly participation under the Knight Therapeutics ESPP is limited to 10% of such employee’s annual income. For members of the Board of the Directors, the yearly participation amount cannot exceed \$10,000. Rights under the Knight Therapeutics ESPP are non-assignable.

In the event that a participant, while remaining an employee, will no longer be paid by Knight Therapeutics due to an authorized period of absence, the contributions of such participant will be suspended until the participant resumes employment Knight Therapeutics.

In the event of the death or termination of employment of a participant and in the event a participant ceases to be a participant, participation in the Knight Therapeutics ESPP will automatically terminate and Knight Therapeutics will, subject to certain exceptions, remit to the estate of the deceased participant, to the participant or to the former participant, as the case may be, a certificate representing the number of whole Knight Shares standing to the credit of such participant or former participant.

The Knight Board of Directors may amend or modify the Knight Therapeutics ESPP at any time without the consent of the participants, provided, however, that such amendment shall (a) subject to certain exceptions, not adversely alter or impair any Knight Shares issued under the Knight Therapeutics ESPP; (b) be subject to any regulatory approvals including, where required, the approval of TSX-V; and (c) be subject to shareholder approval, where required by law or the requirements of TSX-V.

PRIOR SALES OF KNIGHT SHARES

On November 1, 2013, Knight Therapeutics issued one Class A common share to Paladin at a price of \$1.00 to facilitate its organization. Pursuant to a certificate of amendment and the accompanying articles of amendment issued by Industry Canada on December 20, 2013, the one Class A common share issued and outstanding in the capital of Knight Therapeutics was re-designated as one Knight Share. Shortly prior to the Effective Time, additional Knight Shares will be issued to Paladin such that the total number of Knight Shares issued and outstanding will equal the aggregate number of (i) Paladin Shares issued and outstanding immediately prior to the Effective Time and (ii) Paladin Options with a positive In-the-Money Amount per Share outstanding immediately prior to the Effective Time. Pursuant to the Plan of Arrangement, all of the holders of Paladin Shares will receive the Knight Therapeutics Arrangement Consideration at the Effective Time and, in respect of each Knight Share so delivered, Paladin shall be removed from the register of Knight Shares. Please see “*The Arrangement Agreement*” in the Circular.

PRINCIPAL KNIGHT SHAREHOLDERS

To the best of the knowledge of the directors and officers of Knight Therapeutics, the following table sets forth the shareholdings of those persons who, as of the date of the Circular, were the direct or indirect beneficial owners of, or exercised control or direction over, 10% or more of the outstanding Knight Shares:

<u>Name of Shareholder</u>	<u>Knight Shares Beneficially Owned Prior to the Arrangement</u>	
	<u>Number</u>	<u>%</u>
Paladin Labs Inc.	1	100

To the best of the knowledge of the directors and officer of Knight Therapeutics, the following table sets forth the shareholdings of the Principal Knight Shareholders who, immediately after the Effective Time, are currently expected to be the direct or indirect beneficial owners of, or will exercise control or direction over, 10% or more of the outstanding Knight Shares:

<u>Name of Shareholder</u>	<u>Knight Shares Beneficially Owned Immediately after the Arrangement</u>	
	<u>Number</u>	<u>%</u>
Jonathan Ross Goodman	408,649	2
3487911 Canada Inc. ⁽¹⁾	6,975,187	32

- (1) 3487911 Canada Inc. is controlled by Jonathan Ross Goodman, the President and Chief Executive Officer of Knight Therapeutics.

As of the date of the Circular, the Principal Paladin Shareholders own in the aggregate approximately 34% of the Paladin Shares. The Principal Paladin Shareholders are either members of, or are owned and controlled by members of, the Goodman family. Please see the sections entitled “*Management Solicitation—Share Ownership by and Voting Rights of Paladin’s Directors and Executive Officers*”, “*The Arrangement and the Merger—Interests of Certain Persons in the Arrangement*” and “*The Voting Agreements*” in the Circular.

It is expected that, immediately following the closing of the Arrangement, all of the Principal Paladin Shareholders (or their affiliates that are Qualifying Holdco Shareholders), other than the Principal Knight Shareholders, will sell and transfer the Knight Shares they receive as of the Effective Time as the Knight Therapeutics Arrangement Consideration to the Principal Knight Shareholders (or any of their affiliates) for a per share amount based on the Knight Therapeutics Valuation Report. As such, the Principal Knight Shareholders (and/or their affiliates) are currently expected to own directly or indirectly in aggregate approximately 34% of the outstanding Knight Shares after giving effect to the Arrangement and the completion of the sale and transfer of Knight Shares to the Principal Knight Shareholders (or any of their affiliates).

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the name, provinces of residence, position held with Knight Therapeutics, principal occupation and number of Knight Shares held by each person who will be a director and/or an officer of Knight Therapeutics as at the Effective Time:

<u>Name and Province/State of Residence</u>	<u>Position with Knight Therapeutics</u>	<u>Principal Occupation During the Past 5 Years</u>	<u>Date of Appointment</u>	<u>Knight Shares Held⁽¹⁾</u>
MARK A. BEAUDET ⁽²⁾⁽³⁾ Québec, Canada	Director	Interim President and Chief Executive Officer and Secretary of Paladin	November 1, 2013	218,014 ⁽⁴⁾
JAMES C. GALE ⁽²⁾⁽⁵⁾ New York, USA	Director	Managing Director, Signet Healthcare Partners	January 6, 2014	49,053
JONATHAN ROSS GOODMAN Québec, Canada	President and Chief Executive Officer, Director	Chairman of Board of Directors of Paladin, and President and Chief Executive Officer of Paladin (on medical leave)	November 1, 2013	7,383,836 ⁽⁶⁾
ROBERT N. LANDE ⁽²⁾⁽³⁾ New York, USA	Director	Chief Financial Officer of FXCM Inc. ⁽⁷⁾	January 6, 2014	21,600
HILLEL W. ROSEN ⁽⁵⁾ Québec, Canada	Director	Partner, Davies Ward Phillips & Vineberg LLP	January 6, 2014	0

(1) After giving effect to the Arrangement.

(2) Proposed member of the Audit Committee.

(3) Proposed member of the Corporate Governance and Compensation Committee.

(4) Includes 100 Knight Shares to be held by Matthew Beaudet and 100 Knight Shares to be held by Ethan Beaudet.

(5) Proposed member of the Nominating Committee.

(6) Includes 100 Knight Shares to be held by Noah Goodman and 6,975,187 Knight Shares to be held by 3487911 Canada Inc..

(7) Mr. Robert N. Lande was a managing partner of Riveredge Capital Partners from 2004 to January 2010.

Each of the directors of Knight Therapeutics will hold office until the first annual meeting of the Knight Therapeutics shareholders or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with Knight Therapeutics' articles or by-laws.

Immediately after the Effective Time, the directors and officers of Knight Therapeutics, as a group, will beneficially own, directly or indirectly, or exercise control or direction over, 7,672,503 Knight Shares, representing approximately 34.8% of the Knight Shares outstanding.

The following is biographical information relating to each of the directors and officers of Knight Therapeutics. The directors of Knight Therapeutics shall be elected at each annual general meeting of the shareholders of Knight Therapeutics held to elect directors.

Mark A. Beaudet, Interim President and Chief Executive Officer and Secretary

Since 1996, Mr. Beaudet has been a co-founder, director and Vice President of Sales and Marketing for Paladin. Since August 18, 2011, Mr. Beaudet assumed the duties of President and Chief Executive Officer of Paladin on an interim basis. Following the closing of the Arrangement, Mr. Beaudet will continue his employment with Paladin as President. Prior to his work with Paladin, Mr. Beaudet held marketing management positions at Procter & Gamble Canada and Pizza Hut Canada.

Mr. Beaudet holds a B.Comm in Marketing and Entrepreneurship from McGill University. He has been a guest lecturer in entrepreneurship and management at Concordia's John Molson School of Business. Mr. Beaudet is a member of the Board of Directors of the McGill University Health Center Foundation, the Loyola High School Foundation and Rx&D - Canada's Research Based Pharmaceutical Industry Association. From 2007 to 2010 Mr. Beaudet led the pharmaceutical division campaigns for Centraide of Greater Montréal. Mr. Beaudet was a co-recipient of the 2003 Ernst and Young Entrepreneur of the Year award in the Québec Life Sciences Sector. In 2007, the Paladin Marketing Team, under Mr. Beaudet's direction, was inducted into the Canadian Healthcare Marketing Hall of Fame in recognition for their business achievements and dynamic campaigns.

Mr. Beaudet is recognized as a Certified Market Research Professional (CMRP) by the Canadian Market Research and Intelligence Association and as an Accredited Pharmaceutical Manufacturer's Representative by the Council for Continuing Pharmaceutical Education (CCPE).

James C. Gale, Director

Mr. Gale is the founding partner of Signet Healthcare Partners. He initiates investments and provides active management oversight to a number of the portfolio companies. He is currently the Chairman of the Board of Alpeix Pharma S.A., Pfenex Inc. and Anteis S.A., and also serves on the board of directors of Paladin, Spepharm AG, Arbor Pharmaceuticals Inc. and IGI, Inc. Prior to founding Signet Healthcare Partners, Mr. Gale was head of principal investment activities and head of investment banking for Gruntal & Co., LLC ("**Gruntal**"). While at Gruntal, Mr. Gale's investment activities included Andrx Corporation, Royce Laboratories (merged with Watson Pharmaceuticals), Lifecell Corporation, Neurocrine Biosciences, and BML Pharmaceuticals (acquired by EndoPharmaceuticals). Prior to joining Gruntal, he originated and managed private equity investments for the Home Insurance Co., Gruntal's parent. Earlier in his career, Mr. Gale was a senior investment banker at E.F. Hutton & Co. Mr. Gale received his Masters of Business Administration from the University of Chicago.

Jonathan Ross Goodman, President and Chief Executive Officer, Director

Mr. Goodman founded Paladin in 1995 and has been President and Chief Executive Officer and a director of Paladin since 1995. Mr. Goodman is currently the Chairman of the board of directors of Paladin and the President and Chief Executive Officer of Paladin on medical leave. Prior to co-founding Paladin in 1995, Mr. Goodman was a consultant with Bain & Corporation and also worked in brand management for Procter & Gamble. Mr. Goodman holds a B.A. with Great Distinction from McGill University and the London School of Economics with 1st Class Honours. Additionally, Mr. Goodman holds an LL.B. and an M.B.A. from McGill University. Mr. Goodman is a member of the Bars of New York and Massachusetts, is an Accredited Pharmaceutical Manufacturing Representative and is a seasonal lecturer in pharmaceutical entrepreneurship at McGill University. Mr. Goodman is a past recipient of the Globe and Mail's Top 40 Under 40 award and was named Québec Entrepreneur of the Year in the Life Sciences by Ernst & Young in 2003.

Robert N. Lande, Director

Mr. Lande is the Chief Financial Officer of FXCM Inc., a foreign exchange broker serving retail and institutional clients publicly traded on the New York Stock Exchange, since January 2010. He has also been a member of the board of directors of Paladin since 1995. Formerly, Mr. Lande was Managing Partner and Chief Operating Officer of Riveredge Capital Partners LLC, a New York-based investment firm. Prior to Riveredge

Capital, Mr. Lande worked for over 16 years within the BCE/Bell Canada group where his last position was Chief Financial Officer of Telecom Américas Ltd., a joint venture between Bell Canada International, AT&T (then SBC Communications) and America Movil. A Chartered Financial Analyst, Mr. Lande holds an M.B.A. from Concordia University and a B.A. in Economics from McGill University in Montréal.

Hillel W. Rosen, Director

Mr. Rosen is a partner at Davies Ward Phillips & Vineberg LLP in the Mergers & Acquisitions, Commercial Real Estate, Competition & Foreign Investment Review, Energy and Life Sciences practices. He is also a member of the firm's Management Committee. Mr. Rosen has particular expertise in business acquisitions and life sciences businesses. Mr. Rosen holds B.C.L. and L.L.B degrees from McGill University and a Master of Laws from Oxford University. Mr. Rosen has been a member of the Québec Bar since 1988. Mr. Rosen is also a member of the McGill University Faculty of Law Advisory Board.

Corporate Cease Trade Orders and Bankruptcies

To Knight Therapeutics' knowledge, none of the directors or executive officers of Knight Therapeutics is, or has been, within the ten years before the date of the Circular, a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade or similar order, or an order that denied such company access to any statutory exemptions under Canadian securities legislation, which order was: (i) in effect for a period of more than 30 consecutive days, and (ii) issued either (a) when the director or executive officer was acting in the capacity as a director, chief executive officer or chief financial officer, or (b) after such person ceased to be in such capacity, but which resulted from an event that occurred while they were acting in such capacity.

To Knight Therapeutics' knowledge, none of the directors or executive officers of Knight Therapeutics is, or has been, within the ten years before the date of the Circular, a director or executive officer of any company that, while that person was acting in such capacity or within one year of that person ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that company.

Penalties and Sanctions

To Knight Therapeutics' knowledge, none of the directors or executive officers of Knight Therapeutics has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court, or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To Knight Therapeutics' knowledge, none of the directors or executive officers of Knight Therapeutics holding a sufficient number of securities of Knight Therapeutics to affect materially the control of Knight Therapeutics, or a personal holding company of any such persons has, within the ten years before the date of the Circular, been bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

Conflicts of Interest

To the best of Knight Therapeutics' knowledge, there are no existing potential conflicts of interest among Knight Therapeutics or its subsidiaries and the directors or officers of Knight Therapeutics or its subsidiaries as a

result of their outside business interests as at the date of this circular. Certain of the directors and officers serve as directors and officers of other specialty pharmaceutical companies. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of Knight Therapeutics.

Knight Therapeutics' directors and officers are required by law to act honestly and in good faith with a view to the best interests of Knight Therapeutics. Subject to any limitations in Knight Therapeutics' constating documents, no agreement or transaction would be void or voidable only because it was made between Knight Therapeutics and one or more of its directors or by reason that such director was present at the meeting of directors that approved such agreement or transaction or that the vote or consent of the director is counted for the approval of such agreement or transaction. Subject to any limitations or provisions to the contrary in Knight Therapeutics' constating documents, in order for an agreement or transaction between Knight Therapeutics and one or more of its directors to be valid, the relevant director or directors must disclose in good faith his or their interests in such agreement or transaction to the other directors not having a conflict of interest (or a sufficient number of directors to carry the resolution without counting the votes of the interested director(s)) and such other directors must vote in favour of the agreement or transaction. If all of the directors have a conflict of interest, the agreement or transaction must be authorized, approved or ratified by a resolution of shareholders in order to achieve statutory validity. An agreement or transaction between a director and Knight Therapeutics will be valid unless it can be shown that, at the time the agreement or transaction was authorized, it was unfairly prejudicial to one or more shareholders or the creditors of Knight Therapeutics. In appropriate cases, Knight Therapeutics will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. The directors and officers of Knight Therapeutics have been advised of their obligations to act at all times in good faith in the interest of Knight Therapeutics and to disclose any conflicts to Knight Therapeutics if and when they arise.

CORPORATE GOVERNANCE INFORMATION

On or before the Effective Time, it is expected that Knight Therapeutics will establish the Audit Committee, the Corporate Governance and Compensation Committee and the Nominating Committee. It is expected that all of the committees of the Knight Board of Directors will operate under written mandates to be established following completion of the Arrangement.

The following sets out information in respect of Knight Therapeutics' proposed corporate governance practices in accordance with National Instrument 58-101—*Disclosure of Corporate Governance Practices* ("NI 58-101").

Knight Therapeutics Board of Directors

The Knight Board of Directors is currently comprised of five directors, of which four are independent within the meaning of NI 58-101. Accordingly, a majority of the Knight Board of Directors is independent. The independent directors are Mark A. Beaudet, Robert N. Lande, James C. Gale and Hillel W. Rosen. Jonathan Ross Goodman is not considered independent by virtue of being the President and Chief Executive officer of Knight Therapeutics.

In order to facilitate the exercise of independent judgment, it is expected that members of the Knight Board of Directors will recuse themselves from the discussion of and voting on any matters of Knight Therapeutics which may be perceived to place them in a conflict of interest. In addition, it is anticipated that the independent directors of Knight Therapeutics will hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance, typically in conjunction with each regularly scheduled meeting of the Knight Board of Directors. Further, the Knight Board of Directors is expected to facilitate its independent supervision over management by reviewing and approving long-term strategic, business and capital plans, material contracts and business transactions, and all debt and equity financing transactions. Through the Audit Committee, the Knight Board of Directors will examine the effectiveness of Knight Therapeutics' internal control processes and information systems. Please see "*Audit Committee Information*" in this Appendix.

As of the date of the Circular, the following directors and officer of Knight Therapeutics serve as directors and/or officers of other reporting issuers as indicated in the table below:

Name	Name and Jurisdiction of Reporting Issuer	Name of Trading Market	Position	From	To
MARK A. BEAUDET Québec, Canada	Paladin Labs Inc. (Canada)	TSX	Director	1996	Present
	Paladin Labs Inc. (Canada)	TSX	Interim President and Chief Executive Officer	2011	Present
	Litha Health Care Group Limited (South Africa)	Johannesburg Stock Exchange	Director	2012	Present
JAMES C. GALE New York, USA	Paladin Labs Inc. (Canada)	TSX	Director	2008	Present
	IGI Laboratories, Inc. (Delaware)	NYSE MKT	Director	2009	Present
JONATHAN ROSS GOODMAN Québec, Canada	Paladin Labs Inc. (Canada)	TSX	Director and President and Chief Executive Officer (on medical leave)	1995	Present
	Paladin Labs Inc. (Canada)	TSX	Chairman of the Board of Directors	2012	Present
	Antibe Therapeutics Inc. (Ontario)	TSX-V	Director	2013	Present
ROBERT N. LANDE New York, U.S.A.	Paladin Labs Inc. (Canada)	TSX	Director	1995	Present
	FXCM Inc. (Delaware)	New York Stock Exchange	Chief Financial Officer	2010	Present

Board Mandate

The Knight Board of Directors has not yet implemented a board mandate. It is expected that the Knight Board of Directors will implement a mandate following completion of the Arrangement.

Position Descriptions

As the committees of the Knight Board of Directors have not been constituted as of the date of the Circular, the Knight Board of Directors has not developed written position descriptions for the chair of each committee. Further, the Knight Board of Directors and the President and Chief Executive Officer have not developed a written position description for the President and Chief Executive Officer as Knight Therapeutics was only recently incorporated. It is expected that the foregoing position descriptions will be developed following completion of the Arrangement.

Orientation and Continuing Education

Knight Therapeutics has not yet developed a formal orientation and continuing education program for new directors as Knight Therapeutics was only recently incorporated. It is anticipated that Knight Therapeutics will develop an orientation program for new directors to be set forth in a director's manual (the "**Director's Manual**"). The Director's Manual is expected to contain, among other things, information regarding the roles and responsibilities of the Knight Board of Directors and each committee of the Knight Board of Directors, any governance policies and charters adopted by the Knight Board of Directors and financial and operational information regarding Knight Therapeutics.

Ethical Business Conduct

It is anticipated that the Knight Board of Directors will adopt a code of business conduct and ethics and a whistleblower policy following completion of the Arrangement.

Corporate Governance and Compensation Committee

The proposed members of the Corporate Governance and Compensation Committee are Mark A. Beaudet and Robert N. Lande. Each member is “independent” within the meaning of National Instrument 52-110—*Audit Committees* (“NI 52-110”). The principal function of the Corporate Governance and Compensation Committee will be to address matters of corporate governance and to review and approve the compensation paid to the directors and executive officers of Knight Therapeutics, to review management’s development of the compensation philosophy and then to independently monitor Knight Therapeutics’ compensation systems and practices to ensure they encourage and reward behaviour which supports the achievement of Knight Therapeutics’ strategic goals.

The Corporate Governance and Compensation Committee will be responsible for annually determining the compensation to be received by Knight Therapeutics’ directors and executive officers. Compensation is expected to be based on the underlying philosophy that such compensation should be in line with market practice for other biotechnical or pharmaceutical public issuers of similar size and character, and should be reflective of the experience, performance and contributions of the individuals involved and the overall performance of Knight Therapeutics. With respect to directors’ compensation, the Corporate Governance and Compensation Committee will review the level and form of compensation received by the directors, members of each committee and the chair of each committee, considering the duties and responsibilities of each director, his past service and continuing duties in service to Knight Therapeutics. The compensation of directors and executive officers of competitors will be considered, to the extent publicly available, in determining compensation and the Corporate Governance and Compensation Committee will have the power to engage a compensation consultant or advisor to assist in determining appropriate compensation.

The Corporate Governance and Compensation Committee may also be appointed to administer the Knight Therapeutics Option Plan. Please see “*Options and Other Rights to Purchase Securities of Knight Therapeutics—Knight Therapeutics Option Plan*” in this Appendix.

Nominating Committee

The proposed members of the Nominating Committee are James C. Gale and Hillel W. Rosen. Each member is “independent” within the meaning of NI 52-110. The principal duties of the Nominating Committee will be to evaluate the size of the Knight Board of Directors, identify the skill sets currently available and skill sets that may be required, assess the performance of the Knight Board of Directors, its committees and committee chairs, and the contributions of individual directors on an annual basis, and recommend to the Knight Board of Directors the director nominees to be put before the shareholders at the annual meetings of Knight Therapeutics. The Nominating Committee will be responsible for identifying qualified new candidates to join the Knight Board of Directors. The Nominating Committee will be expected to objectively consider the independence of candidates, their financial acumen and other skills and the time which candidates have available to devote to the duties of the Knight Board of Directors in making their recommendations for nomination to the Knight Board of Directors. The Nominating Committee will review the composition and size of the Knight Board of Directors and tenure of directors in advance of annual meetings when directors are most commonly elected, as well as when individual directors indicate that their terms may end or that their status may change.

AUDIT COMMITTEE INFORMATION

The Audit Committee's Mandate

A copy of the proposed charter of the Audit Committee is attached as Schedule "I" to this Appendix. The Audit Committee will oversee the accounting and financial reporting practices and procedures of Knight Therapeutics, and the audits of Knight Therapeutics' financial statements. The principal responsibilities of the Audit Committee will include: (i) overseeing the quality and integrity of the internal controls and accounting procedures of Knight Therapeutics, including reviewing Knight Therapeutics' procedures for internal control with Knight Therapeutics' auditor and chief financial officer; (ii) reviewing and assessing the quality and integrity of Knight Therapeutics' annual and quarterly financial statements and related management discussion and analysis, as well as all other material continuous disclosure documents, such as Knight Therapeutics' annual information form; (iii) monitoring compliance with legal and regulatory requirements related to financial reporting; (iv) reviewing and approving the engagement of the auditor of Knight Therapeutics and independent audit fees; (v) reviewing the qualifications, performance and independence of the auditor of Knight Therapeutics, considering the auditor's recommendations and managing the relationship with the auditor, including meeting with the auditor as required in connection with the audit services provided by Knight Therapeutics; (vi) reviewing Knight Therapeutics' risk management procedures; (vii) reviewing any significant transactions outside Knight Therapeutics' ordinary course of business and any pending litigation involving Knight Therapeutics; and (viii) examining improprieties or suspected improprieties with respect to accounting and other matters that affect financial reporting.

Composition of the Audit Committee

The Audit Committee will be structured to comply with NI 52-110. The proposed members of the Audit Committee are Mark A. Beaudet, James C. Gale and Robert N. Lande. Each member of the Audit Committee is "financially literate" within the meaning of NI 52-110. In addition, each member is "independent" within the meaning of NI 52-110. For the purposes of NI 52-110, a member of an audit committee is independent if the member has no direct or indirect material relationship with a company. A material relationship means a relationship which could, in the view of a company's board of directors, reasonably interfere with the exercise of a member's independent judgment. For the purposes of NI 52-110, a member of an audit committee is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of Knight Therapeutics.

Relevant Education and Experience of Audit Committee

The following sets forth the relevant education and experience of each of the proposed members of the Audit Committee:

Mark A. Beaudet

Since 1996, Mr. Beaudet has been a co-founder, director and Vice President of Sales and Marketing for Paladin. Since August 18, 2011, Mr. Beaudet has assumed the duties of President and Chief Executive Officer of Paladin on an interim basis. Mr. Beaudet holds a B.Comm in Marketing and Entrepreneurship from McGill University. He has been a guest lecturer in entrepreneurship and management at Concordia's John Molson School of Business. Mr. Beaudet is a member of the board of directors of the McGill University Health Center Foundation, the Loyola High School Foundation and Rx&D—Canada's Research Based Pharmaceutical Industry Association. Mr. Beaudet is recognized as a Certified Market Research Professional (CMRP) by the Canadian Market Research and Intelligence Association and as an Accredited Pharmaceutical Manufacturer's Representative by the Council for Continuing Pharmaceutical Education (CCPE).

James C. Gale

Mr. Gale has been a director of Paladin since 2008. He is the founding partner of Signet Healthcare Partners. Mr. Gale initiates investments and provides active management oversight to a number of the portfolio companies. He is currently the Chairman of the Board of Alpex Pharma S.A., Pfenex Inc. and Anteis S.A., and also serves on the board of directors of Spepharm AG, Arbor Pharmaceuticals Inc. and IGI Laboratories Inc. Prior to founding Signet Healthcare Partners, Mr. Gale was head of principal investment activities and head of investment banking for Gruntal. While at Gruntal, Mr. Gale's investment activities included Andrx Corporation, Royce Laboratories (merged with Watson Pharmaceuticals), Lifecell Corporation, Neurocrine Biosciences, and BML Pharmaceuticals (acquired by EndoPharmaceuticals). Prior to joining Gruntal, he originated and managed private equity investments for the Home Insurance Co., Gruntal's parent. Earlier in his career, Mr. Gale was a senior investment banker at E.F. Hutton & Co. Mr. Gale received his MBA from the University of Chicago.

Robert N. Lande

Mr. Lande has been a director of Paladin since 1995. He has been a member of Paladin's audit committee since 2003 and has been Chairman of Paladin's audit committee since January 2004. Mr. Lande is the Chief Financial Officer of FXCM Inc., a foreign exchange broker serving retail and institutional clients, since January 2010. Formerly, Mr. Lande was Managing Partner and Chief Operating Officer of Riveredge Capital Partners LLC, a New York-based investment firm. Prior to Riveredge Capital, Mr. Lande worked for over 16 years within the BCE/Bell Canada group where his last position was Chief Financial Officer of Telecom Américas Ltd., a joint venture between Bell Canada International, AT&T (then SBC Communications) and America Movil. A Chartered Financial Analyst, Mr. Lande holds an MBA from Concordia University and a B.A. in Economics from McGill University in Montréal.

Pre-Approval Policies and Procedures

The Audit Committee is expected to adopt specific policies and procedures for the engagement of non-audit services.

External Auditor Service Fees

Since Knight Therapeutics' incorporation on November 1, 2013, no fees, audit or otherwise, have been billed to Knight Therapeutics by its auditor, Ernst & Young LLP, as all audit and related service fees in connection with the Arrangement and all transactions contemplated thereby will be borne by Paladin, including fees for the preparation of the audited, interim and pro-forma financial statements for Knight Therapeutics included in this Appendix.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

To date, Knight Therapeutics has not carried on any active business and has not completed a fiscal year of operations. No compensation has been paid by Knight Therapeutics to its executive officers or directors and none will be paid until after the Arrangement has been completed. Following completion of the Arrangement, it is anticipated that the Corporate Governance and Compensation Committee will consider and make recommendations with respect to the compensation to be paid to Jonathan Ross Goodman, President and Chief Executive Officer of Knight Therapeutics. In the interim, Mr. Goodman has agreed to act as President and Chief Executive Officer of Knight Therapeutics for an annual salary of \$1.00 until an equity financing of Knight Therapeutics is complete. Generally, it is expected that the executive officers of Knight Therapeutics will receive cash compensation and stock option grants under the Knight Therapeutics Option Plan which are in line with market practice for other biotechnological or pharmaceutical public issuers of similar size and character, and that such compensation will be reflective of the experience, performance and contributions of the individuals involved and the overall performance of Knight Therapeutics. However, no definitive determinations with respect to executive compensation have been made as of the date of the Circular.

In addition, as of the date of the Circular, there are no executive employment contracts in place between Knight Therapeutics and any of the executive officers of Knight Therapeutics and there are no provisions with Knight Therapeutics for compensation for the executive officers of Knight Therapeutics in the event of termination of employment or a change in responsibilities following a change of control of Knight Therapeutics. It is expected that Knight Therapeutics will enter into an executive employment contract with Jonathan Ross Goodman after the completion of the Arrangement and with each of the executive officers of Knight Therapeutics subsequently appointed.

Knight Therapeutics has not yet established an annual retainer fee or attendance fee for directors. However, Knight Therapeutics will reimburse directors for all reasonable expenses incurred in order to attend meetings. Following the completion of the Arrangement, it is anticipated that the Corporate Governance and Compensation Committee will recommend how directors will be compensated for their services as directors of Knight Therapeutics based on the duties and responsibilities of each director, his past service and continuing duties in service to Knight Therapeutics. It is expected that the directors of Knight Therapeutics will receive stock options under the Knight Therapeutics Option Plan as compensation.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

None of Knight Therapeutics' directors or officers nor any of their respective associates is indebted to Knight Therapeutics or has been the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by Knight Therapeutics or any of its subsidiaries.

RISK FACTORS

An investment in the Knight Shares involves risk. Shareholders should consider carefully the risks and uncertainties set forth below and the other information contained in the Circular. These are not the only risks and uncertainties that Knight Therapeutics faces. Additional risks and uncertainties not presently known to Knight Therapeutics, or that are currently considered immaterial, may also materially and adversely affect Knight Therapeutics. If any of the events identified in these risks and uncertainties were to actually occur, Knight Therapeutics' business, financial condition and results of operations could be materially harmed.

Risks Related to Knight Therapeutics' Business

Limited Business History

Knight Therapeutics is a newly incorporated company. As at the date of the Circular, Knight Therapeutics has no history of operations and no history of earnings. The likelihood of success of Knight Therapeutics must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business in the biotechnological and pharmaceutical markets. In order to properly operate its business, Knight Therapeutics will need to establish adequate operational, financial and management information systems and employ a number of key individuals in management and administrative roles. Knight Therapeutics has limited financial resources and there can be no assurance that funding over and above the funding contemplated by the Knight Therapeutics Business Separation will be available when needed. There can also be no assurance that Knight Therapeutics will be able to generate revenues, operate profitably, or provide a return on investment, or that it will successfully implement its anticipated business plans.

The Voucher may never be issued and the Voucher's value and timing of sale are uncertain

There is no assurance that Knight Therapeutics will ever receive the Voucher. Although the FDA's Anti-Infective Drugs Advisory Committee supported approval of Impavido in October 2013, there can be no assurance that the FDA will follow the recommendation of its advisory committee. To the knowledge of Paladin's management, only two priority review vouchers have been granted in the past and neither has been sold or otherwise transferred to a third party. Knight Therapeutics' current intention is to sell or otherwise transfer the Voucher to a third party, if and when received by the FDA, for either cash, rights to pharmaceutical products with existing sales or other consideration. As there is no known market value for the Voucher, the sale process for the Voucher may be lengthy with uncertain results. No assurance can be provided that a third party will purchase the Voucher or what value, if any, could be obtained therefor, given that no previous voucher has been sold. In addition, if approval for the Voucher is obtained, Knight Therapeutics may be required to undertake expensive post-marketing studies in order to maintain such approval. There can be no assurance that Knight Therapeutics will be able to conduct such expensive post-marketing studies and therefore be able to maintain the approval for the Voucher.

Collaborations or other transactions with companies may involve the lending of money to such companies putting Knight Therapeutics' capital at risk in the event of a failure to repay

Certain of Knight Therapeutics' collaborations or other transactions with pharmaceutical companies and drug developers may involve the financing of such companies including by way of loans and other forms of debt. Such loans may take different forms and will have different terms with respect to interest rate, repayment terms, security and other matters. Certain of such loans may be unsecured. There can be no assurance that any such companies will be able to repay such loans in accordance with their repayment terms or that any security in respect of such loans would be sufficient at the time of realization to cover the debt owed by such companies. Any failure to repay such loans in accordance with applicable terms, failure to realize on security or inadequacy of security upon realization could have a material adverse effect on the capital position and general financial condition of Knight.

Ability to Have Access to Additional Financing and Capital and Dilution

Knight Therapeutics may consider issuing debt or equity securities in the future to fund potential acquisitions or investments, or for general corporate purposes. If Knight Therapeutics issues equity or convertible debt securities to raise additional funds, its existing shareholders may experience dilution, and the new equity or debt securities may have advantageous rights, preferences and privileges when compared to those of Knight Therapeutics' shareholders as at the Effective Time. Such dilution may be significant. In addition, if Knight Therapeutics incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring Knight Therapeutics to pay interest expenses. Knight Therapeutics may not be able to market such issuances on favourable terms, or at all, in which case, Knight Therapeutics may not be able to develop or enhance its products, execute its business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements.

Ability to Implement Knight Therapeutics' Strategy to Grow the Business

Knight Therapeutics' business strategy is expected to focus on enhancing its competitive standing through the promotion and sale of new products through new marketing and distribution channels. Since Knight Therapeutics intends to engage in limited proprietary research activity with respect to product development, it will rely heavily on purchasing product lines from other companies.

Other companies, many of which have substantially greater financial, marketing and sales resources than Knight Therapeutics, may compete for the acquisition of products. Knight Therapeutics may not be able to acquire rights to additional products on acceptable terms, if at all, or be able to obtain future financing for acquisition on acceptable terms, if at all. The inability to effect acquisitions of additional branded products could limit the overall growth of the business. Furthermore, even if Knight Therapeutics is able to obtain rights to pharmaceutical products, Knight Therapeutics may not generate sales sufficient to create a profit or otherwise avoid a loss. For example, the marketing strategy, distribution channels and levels of competition with respect to acquired products may be different than those of Knight Therapeutics' current products, limiting its ability to compete favourably in those product categories.

Ability to Integrate New Products and Companies in Canada and Internationally

The integration of newly acquired products and companies into Knight Therapeutics' business will require significant management attention and expansion of marketing, sales and general and administrative staff that have not yet been employed by Knight Therapeutics. Knight Therapeutics' strategic direction includes becoming an international specialty pharmaceutical company. Investing and operating in international locations and possibly other emerging markets carry substantial inherent financial, legal and political risks. If Knight Therapeutics cannot integrate its acquisitions successfully, these changes and acquisitions could have a material adverse effect on the business, financial condition, results of operations and cash flows.

In addition, potential future acquisitions in international jurisdictions are subject to risks inherent in conducting business abroad, including possible nationalization or expropriation, price and currency exchange controls, fluctuations in the relative values of currencies, political instability and restrictive governmental actions.

Key Person, Ability to Hire and Retain Key Personnel

The success of Knight Therapeutics is dependent, in part, on the services of its President and Chief Executive Officer, Mr. Jonathan Ross Goodman. Mr. Goodman suffered an accident in August 2011 from which he has not yet fully recovered, with energy level and memory retrieval issues remaining outstanding at certain times. The experience of this individual will be a significant contributing factor to Knight Therapeutics' initial success and potential growth. The loss of Mr. Goodman's services on a short, medium, long term or on a

temporary basis could have a material adverse effect on Knight Therapeutics' operations and business prospects. In addition, Knight Therapeutics believes that its future success will depend in large part on its ability to attract and retain additional highly skilled technical, management and sales and marketing personnel. There can be no assurance that Knight Therapeutics will be successful in attracting and retaining such personnel and the failure to do so could have a material adverse effect on Knight Therapeutics' business, operating results and financial condition.

Generic Product Risk

In 2012, global net sales of Impavido were \$2.1 million. Under the Distribution and License Agreement to be entered into between Knight Therapeutics, or one of its affiliates, and Barbc0, Knight Therapeutics or its affiliate, as applicable, will grant Barbc0 exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbc0 shall pay to Knight Therapeutics or its affiliate, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. 22.5% of gross sales of Impavido would have been \$467,251 for the year ended December 31, 2012 and \$653,034 for the 9-month period ended September 30, 2013. No assurance can be provided that similar net sales of Impavido will be made by Barbc0 or that any sales will be made at all. It is expected that net sales of Impavido will decline due to the emergence of generic competition. Although a portion of Knight Therapeutics' future revenue may be generated by products not subject to competition from generic products, there may be no proprietary protection for many of the branded pharmaceutical products which will eventually form part of Knight Therapeutics' portfolio. The entrance into the market of a generic pharmaceutical product typically completely erodes the branded product's market share within twelve months which may have a material adverse effect on Knight Therapeutics' business, financial condition and results of operations.

Ability to Acquire License Rights to New Products

Knight Therapeutics expects that it will depend on acquisition of rights to products from other companies as the primary source for new products. Risks in acquiring new products include: a) the ability to locate new products that are attractive and complement Knight Therapeutics' business, and b) the price to acquire or obtain the license for these products may be too costly to justify the acquisition. Knight Therapeutics also foresees facing competition from other pharmaceutical companies in acquiring rights to products, which will make it more difficult for Knight Therapeutics to find attractive products on acceptable terms.

Ability to Successfully Develop New Drugs

Knight Therapeutics intends to invest substantial time, resources and capital in identifying and purchasing new drugs, dosage and delivery systems, either on its own or through possible licensors. Knight Therapeutics' growth will depend, in part, on its success in such a process. Knight Therapeutics may not be able to recover its investment in the development of new drugs, given that projects may be interrupted, unsuccessful or not as profitable as initially contemplated.

Dependence Upon Companies in which Knight Therapeutics Makes Strategic Investment

Economic, governmental, industry and external factors outside Knight Therapeutics' control may affect each of the companies in which Knight Therapeutics may invest. If these companies do not succeed, the value of Knight Therapeutics' assets and the market price or value of its Knight Shares could decline. Some of the material risks relating to the companies in which Knight Therapeutics may invest include:

- the ability of these companies to successfully develop and obtain governmental approvals for the products which serve as the basis for Knight Therapeutics' investments;
- the ability of competitors to develop similar or more effective products, making the drugs developed by the companies in which Knight Therapeutics invests difficult or impossible to market;
- the ability of the companies in which Knight Therapeutics invests to adequately secure patents for their products and protect their propriety information;

- the ability of the companies in which Knight Therapeutics invests to enter the marketplace without infringing upon competitors' patents;
- the ability of the companies in which Knight Therapeutics invests to remain technologically competitive, and the dependence of these companies upon key scientific and managerial personnel; and
- the ability of the companies in which Knight Therapeutics invests to manage cash flow in order to remain solvent and ensure that Knight Therapeutics' investment remains realizable.

Knight Therapeutics will have limited or no control over the resources that any company in which it invests may devote to developing the products for which Knight Therapeutics collaborates with them. Any company in which Knight Therapeutics intends to invest may not perform as expected. Such companies may breach or terminate their agreements with Knight Therapeutics or otherwise fail to conduct product discovery and development activities successfully or in a timely manner. If any of these events occurs, it could have a material adverse effect on Knight Therapeutics' business.

Product Liability Claims, Insurance and Recalls and Unexpected Product Safety or Efficacy Concerns

Knight Therapeutics may face an inherent business risk of exposure to product liability claims in the event that the use of its technologies or products are alleged to have resulted in adverse effects. Side effects or marketing or manufacturing problems pertaining to Impavido or any of Knight Therapeutics' future products could result in product liability claims or adverse publicity. Unexpected safety or efficacy concerns can also arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales, as well as product liability, consumer fraud and/or other claims. These risks will exist for those products in clinical development and with respect to those products that receive regulatory approval for commercial sale. In addition, clinical studies sponsored by Knight Therapeutics may also involve risks of civil liability. Although Knight Therapeutics intends to take what it believes to be appropriate precautions, including obtaining and maintaining product liability coverage (subject to certain deductibles and maximum payouts) and obtaining indemnification from its partners (subject to the terms of each specific agreement), Knight Therapeutics may not be able to avoid significant product liability exposure. Moreover, taking into consideration the present liability insurance market, there is no assurance that Knight Therapeutics will be able to obtain and to continue to maintain adequate insurance coverage in connection with its business or that the insurance coverage will be consistently available, or consistently available on economically feasible terms, to Knight Therapeutics. In addition, not all risks are covered by insurance and no assurance can be given that the insurance coverage obtained and maintained by Knight Therapeutics will be sufficient to cover losses or claims that may occur involving Knight Therapeutics' business.

Marketing and Competition

The Innovative Drug and Generic Drug industries are competitive and this competition may increase. Products compete on the basis of efficacy, safety and side effect profiles, price and brand differentiation. Some of Knight Therapeutics' competitors may have greater technical or financial resources than Knight Therapeutics and may use these resources to pursue a competitive position that threatens Impavido or Knight Therapeutics' future products. Impavido and Knight Therapeutics' future products could be rendered obsolete or uneconomical by the development of new pharmaceuticals to treat the conditions addressed by these products, as a result of technological advances affecting the cost of production, or as a result of marketing or pricing action by one or more of Knight Therapeutics' competitors.

Ability to Obtain Regulatory Approvals

The manufacture and sale of pharmaceutical products in Canada and the United States of America and other jurisdictions are highly regulated, which significantly increases the difficulty and costs involved in obtaining and maintaining regulatory approval for marketing new and existing products.

The regulatory approval process procedure can be long and may involve significant delays despite Knight Therapeutics' best efforts. Moreover, TPD regulations are rigorous, time consuming and costly and Knight Therapeutics cannot predict the extent to which it may be affected by changes in regulatory developments and its ability to meet such regulations. There is also a risk that Knight Therapeutics' future products may be withdrawn from the market and the required approvals suspended as a result of non-compliance with regulatory requirements.

In addition, there can be no assurance that the regulators will not require modification to any submissions which may result in delays or failure to obtain regulatory approvals. Any delay or failure to obtain regulatory approvals could adversely affect the ability of Knight Therapeutics to utilize its technology, thereby adversely affecting operations. Further, there can be no assurance that Knight Therapeutics' future products will prove to be safe and effective in clinical trials, or receive the requisite regulatory approval.

New Legislation or Regulatory Requirements

New legislative proposals for pharmaceutical product pricing, reimbursement levels, approval criteria and manufacturing requirements may be proposed and adopted both in Canada and in other markets in which Knight Therapeutics will sell its products. New legislation or regulatory requirements may have a material adverse effect on Knight Therapeutics' financial condition, results of operations or cash flows. Any failure to comply with applicable laws, rules and regulations in all jurisdictions in which Knight Therapeutics plans to operate may result in legal proceedings.

Ability to Obtain Product Reimbursement

The success of Impavido and of many of Knight Therapeutics' future products and, in turn, its future growth and profitability, will depend to a significant extent upon its ability to obtain competitive levels of reimbursement for those drugs from public formularies (federal, provincial and territories) and other third-party private payers.

As drug costs have increased, public formularies have become more restrictive in both the number of products they list for reimbursement and in the conditions under which they will be reimbursed. The failure to achieve listings and/or specific conditions attached to restricted listings may affect patients' and physicians' decisions regarding the use of Knight Therapeutics' future products. There can be no assurance that the current conditions and rigor of review related to listing submissions to public and private formulary listings will not change or become more onerous in future.

Furthermore, there can be no assurance that the formularies will list Knight Therapeutics' future products. If any of Knight Therapeutics' future products are not listed on the provincial formularies, this may have a material adverse effect on Knight Therapeutics' financial condition, results of operations or cash flows.

Ability to Protect and Maintain its Intellectual Property and Licensing Arrangements

Knight Therapeutics' success will depend in part on its ability to protect and maintain intellectual property rights and licensing arrangements for Impavido and its future products. Knight Therapeutics does not know whether any of its patent applications will result in the issuance of any patents. Even if issued, these patents may not provide Knight Therapeutics with a competitive advantage against competitors with similar technologies. Furthermore, competitors may design around Knight Therapeutics' patents and develop similar technologies or duplicate any technologies that Knight Therapeutics may have developed. No assurance can be given that licenses or rights to be used by Knight Therapeutics will not be challenged, invalidated, infringed or circumvented. Moreover, laws of many countries may not protect Knight Therapeutics' intellectual property to the same extent as the laws of Canada and the United States, and those countries may also lack adequate rules and procedures for defending Knight Therapeutics' intellectual property rights. Furthermore, certain countries outside the United States and Canada enforce a system of compulsory licenses whereby third parties can be

granted license to commercialize patented products if the patent is not commercially exploited by its owner or its licensees in the country within a certain number of years of the patent issuance in that specific country. Knight Therapeutics may also rely, in some circumstances, on trade secrets to protect its drug delivery technologies. However, trade secrets are difficult to protect. Knight Therapeutics intends to protect its proprietary drug delivery technologies and processes, in part, by agreements with its employees, consultants and contractors. These agreements may be breached and Knight Therapeutics may not have adequate remedies for any breach. In addition, Knight Therapeutics' trade secrets may otherwise become known or be independently discovered by competitors. To the extent that Knight Therapeutics' future employees, consultants or contractors will use intellectual property owned by others in connection with their work for Knight Therapeutics, disputes may also arise as to the rights in related or resulting knowhow and inventions. Any loss of patent protection would likely adversely affect Knight Therapeutics' operating results in those national markets. The commercial success of Knight Therapeutics will also depend in part on Knight Therapeutics not infringing patents or proprietary rights of others and not breaching the licenses to be granted to Knight Therapeutics. There can be no assurance that Knight Therapeutics will be able to obtain a license to any third-party technology that it may require to conduct its business or that such technology can be licensed at a reasonable cost. There is no certainty that Knight Therapeutics will not be challenged by its partners for non-compliance of its future licensing arrangements. Furthermore, there can be no assurance that Knight Therapeutics will be able to remain in compliance with its future licensing arrangements. Consequently, there may be a risk that these licensing arrangements will be withdrawn with no compensation or penalties to Knight Therapeutics.

Reliance on Third Parties for Supply and Manufacture of Products

Third parties will manufacture Impavido and all of Knight Therapeutics' future products. Knight Therapeutics does not have manufacturing facilities, personnel or access to raw materials to independently manufacture its products. Except for any contractual rights and remedies which Knight Therapeutics may have with its manufacturers, Knight Therapeutics will have no control over the availability of its products, their quality or cost. If for any reason, Knight Therapeutics is unable to obtain or retain third party manufacturers on commercially acceptable terms, it may not be able to distribute its products as planned. If Knight Therapeutics encounters delays or difficulties with contract manufacturers in producing or packaging its products, the distribution, marketing and subsequent sales of these products would be adversely affected, and Knight Therapeutics may have to seek alternative sources of supply or abandon or sell product lines on unsatisfactory terms. Knight Therapeutics may not be able to enter into alternative supply arrangements on commercially acceptable rates, if at all. There can be no assurance that the manufacturers that Knight Therapeutics will have engaged will be able to provide sufficient quantities of these products or that the products supplied will meet with Knight Therapeutics' specifications. In addition, production of Knight Therapeutics' future products may require raw materials for which the sources and quantities are limited. An inability to obtain adequate supplies of raw materials could significantly delay the development, regulatory approval and marketing of Knight Therapeutics' existing and future products.

Drug manufacturers are subject to ongoing periodic unannounced inspection by Health Canada, the FDA, and corresponding state and foreign agencies, including European agencies and their designees, to ensure strict compliance with GMPs and other government regulations. While Knight Therapeutics will be obligated to audit the performance of third-party contractors, it does not have complete control over its third-party manufacturers' compliance with these regulations and standards. Failure by either Knight Therapeutics' third-party manufacturers or by Knight Therapeutics to comply with applicable regulations could result in sanctions being imposed, including fines, injunctions, civil penalties, failure of the government to grant review of submissions or market approval of drugs, delays, suspension or withdrawal of approvals, product seizures or recalls, operating restrictions, facility closures and criminal prosecutions, any of which could negatively impact the business.

Knight Therapeutics intends to enter into licensing and collaboration arrangements pursuant to which Knight Therapeutics will commit itself to supplying third parties with product. In the event that Knight Therapeutics is unable to fulfill such obligations as a result of a failure of Knight Therapeutics' contract

manufacturers, Knight Therapeutics may be in breach of its obligations under those arrangements. Please see “—*Dependence on Paladin*” in this Appendix.

Dependence on Paladin

Pursuant to the terms and conditions of the Distribution and License Agreement, Barbro will be responsible for all regulatory services, product manufacturing, quality services, supply chain management and commercialization activities related to Impavido for all markets except the U.S. to Barbro, a subsidiary of Paladin which will become an indirect subsidiary of New Endo as of the Effective Time. In addition, Barbro will supply Impavido to Knight Therapeutics or its affiliate, as applicable, for the U.S. market. Should Barbro terminate the Distribution and License Agreement, Knight Therapeutics’ business may be adversely affected by the interruption in services conducted by Barbro pursuant to the Distribution and License Agreement. Please see “*Knight Therapeutics’ Business—Business Separation Agreement*”.

Disputes Regarding Ownership or Inventorship of Products and Technologies

From time to time Knight Therapeutics may become involved in disputes relating to the ownership or inventorship of its existing and future products and technologies. If Knight Therapeutics is unsuccessful in obtaining these assignments of patents or is otherwise unable to establish its ownership of the invention covered by the patents, Knight Therapeutics may face additional expense in perfecting its title to these patents and its business may be adversely affected.

Global Political and Economic Conditions

Challenging global market and economic conditions with a tighter credit environment and recession in most major economies began in fiscal 2008, developed in 2009 and continued in 2013. Despite reports of slight economic growth in 2014, it is expected that the world’s major economies will continue to face many structural flaws and challenges that will continue to impact global productivity growth in 2014. Continued concerns about the systemic impact of ongoing potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets have contributed to increased market volatility and diminished expectations for western and emerging economies. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have contributed to volatility of unprecedented levels. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in Canada and international markets and economies and prolonged declines in business consumer spending may adversely affect Knight Therapeutics’ liquidity and financial condition, and the liquidity and financial condition of Knight Therapeutics’ future customers, including Knight Therapeutics’ ability to raise further financing and access the capital markets to meet liquidity needs.

Knight Therapeutics will have no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or over the possibility of political unrest, legal and regulatory changes in jurisdictions in which Knight Therapeutics plans to operate. These factors could negatively affect Knight Therapeutics’ future results of operations in those national markets.

Agreements Relating to the Development and Distribution of Products

Knight Therapeutics will face significant competition in seeking appropriate collaborators and marketing and distribution partners. Moreover, collaboration and distribution arrangements are complex and time consuming to negotiate, document and implement. Knight Therapeutics may not be successful in establishing and

implementing collaboration or marketing and distribution arrangements upon satisfactory terms or at all. Reliance on these agreements will likely expose Knight Therapeutics to a number of risks, including the following:

- collaborators and marketing and distribution partners may not devote sufficient resources to Knight Therapeutics' products or product candidates;
- disputes may arise with respect to payments that Knight Therapeutics believes are due under such distribution and collaboration agreements;
- unwillingness on the part of collaborators and marketing and distribution partners to provide updates regarding the progress of its development, commercialization or marketing activities, or to permit public disclosure of these activities;
- collaborators and marketing and distribution partners may terminate the relationship;
- disputes may arise in the future with respect to the ownership of rights to technology developed with collaborators;
- disagreements with collaborators and marketing and distribution partners could result in litigation or arbitration;
- collaborators may elect to pursue the development of any additional product candidates and pursue technologies or products either on their own or in collaboration with other parties, including competitors which competing technologies or products;
- collaborators and marketing and distribution partners may pursue higher priority programs or change the focus of their programs, which could affect the collaborator's and distributor's commitment to their respective territories; and
- collaborators and marketing and distribution partners may develop or distribute products that compete with Knight Therapeutics' products.

The occurrence of any of these or other events may impair commercialization of Knight Therapeutics' existing and future products.

Concentration of Credit Risk: Major Customers and Strategic Relationships

Credit risk is the risk of loss associated with the inability of a third party to fulfil its payment obligations. Knight Therapeutics' trade credit risk will be of particular significance due to the concentration of its revenues at the onset on the Impavido product and the royalty revenues associated therewith and due to the expected future concentration of sales and receivables in certain major customers. Knight Therapeutics will sell its pharmaceutical products primarily to drug wholesalers, retailers and distributors, including national, provincial and independent pharmacies, retail drug and food store chains, hospitals, member of buying groups, clinics and other institutions. A significant portion of Knight Therapeutics' revenues will be derived from sales and therefore are dependent on the activities and success of a limited number of customers. Certain of these customers will comprise a significant part of the distribution network for pharmaceutical products in Canada. In recent years, this distribution network has undergone significant consolidation, marked by mergers and acquisitions among wholesale distributors and large retail drug store chains. As a result, a small number of large, wholesale distributors and large chain drug stores control a significant share of the market. Knight Therapeutics expects that consolidation of drug wholesalers and retailers may adversely impact pricing and create other competitive pressures on drug manufacturers. Any significant reduction or loss of business with one or several of these customers could have a material adverse effect on Knight Therapeutics' business, financial condition, cash flows and results of operations.

Another source of credit risk for Knight Therapeutics may arise from its future strategic investments in third-parties with whom it will have strategic commercial relationships. Knight Therapeutics intends to

continuously monitor the risks associated with the amounts invested (as debt and/or convertible investments). There can be no assurance of the financial stability of these debtors. The insolvency or operational failure of such debtors could both have an impact on the benefits that might otherwise be enjoyed by Knight Therapeutics under these strategic commercial relationships and jeopardize its ability to recover a portion or all of the credit it has extended, both of which could have an adverse impact on the financial position of Knight Therapeutics.

Policies Regarding Returns, Allowances and Chargebacks May Reduce Revenues in Future Fiscal Periods

Knight Therapeutics intends to establish reserves based on its best estimates of the impact that these policies may have in subsequent periods. Knight Therapeutics cannot ensure that such reserves will be adequate or that actual product returns, allowances and chargebacks will not exceed the estimates, which could have a material adverse effect on the results of operations, financial condition, cash flows and the market price of Knight Therapeutics' securities.

Value of Inventory

Knight Therapeutics intends to value inventory at the lower of cost determined on a first-in, first-out basis, and net realizable value. Knight Therapeutics will establish reserves for inventory to reflect situations in which the cost of the inventory is not expected to be recovered. The reserve for inventory is equal to all or a portion of the inventory which has reached its expiration or is close to expiration and not expected to be sold, based on the specific facts and circumstances. In order to determine whether the inventory is properly stated at the lower of cost or net realizable value, management plans to review the amount of inventory on hand and the remaining shelf life, and estimate the time required to sell such inventory taking into account current and expected market conditions and competition. The write-down of inventory may have a material adverse effect on the results of operations in the period in which the write-down occurs. Please see "*Management's Discussion And Analysis*" in this Appendix for additional information.

Value of Intangible Assets and Goodwill

A significant amount of Knight Therapeutics' total assets is expected be related to acquired intangible assets and goodwill. Knight Therapeutics will be required to review the carrying value of its intangible assets for impairment periodically or when there is an indication of impairment and be required to review the carrying value of its goodwill on an annual basis. Intangible assets include the net book value of product rights, trademarks and process know-how covered by certain patented and non-patented information. Goodwill is the excess of the aggregate consideration transferred in a business combination and the amount recognized for the non-controlling interests over the net identifiable assets acquired and liabilities assumed. The goodwill will be allocated to each of Knight Therapeutics' cash-generating units that expect profit from the business combination, irrespective of whether other assets or liabilities of the acquiree will be assigned to those units. Management plans to review the carrying value based on projected future results. If events such as generic competition or inability to manufacture or obtain supply of product occur that may cause sales of the related products to decline, Knight Therapeutics will adjust the projected results accordingly. Any impairment in the carrying value will result in a write-down of the intangible asset or goodwill which will be charged to income during the period in which the impairment is determined. The write-down of intangible assets or goodwill may have a material adverse effect on the results of operations in the period in which the write-down occurs. Please see "*Management's Discussion And Analysis*" in this Appendix for additional information.

Income Tax

Knight Therapeutics' income tax reporting will be subject to audit by tax authorities. The effective tax rate may change from year to year based on the mix of income, non-deductible expenses, changes in tax law and changes in the estimated values of future income tax assets and liabilities.

Knight Therapeutics' intends to base its tax provision on certain estimates and assumptions made by management. Knight Therapeutics' consolidated income tax rate will be affected by the mix and amount of net income earned in each of its subsidiaries. Knight Therapeutics may enter into many transactions and arrangements in the ordinary course of business in which the tax treatment is not entirely certain. Knight Therapeutics will therefore make estimates and judgments in determining its consolidated tax provision and the value of Knight Therapeutics' future tax assets and taxes payable. The final outcome of any audits by taxation authorities may differ from the estimates and assumptions Knight Therapeutics will use in determining its consolidated tax provisions and accruals. This could result in a material effect on Knight Therapeutics' consolidated income tax provision, financial position, cash flows and the net income for the period in which such determinations are made.

Knight Therapeutics and its affiliates will be subject to taxation in Canada, the United States, Barbados and in certain other foreign jurisdictions. Knight Therapeutics' effective tax rate and tax liability will be determined by a number of factors, including the amount of taxable income in particular jurisdictions, the tax rates in these jurisdictions, tax treaties between jurisdictions, the extent to which it transfers funds to and repatriates funds from its subsidiaries and future changes in laws. An adverse interpretation or ruling by one of the taxing authorities in a jurisdiction in which Knight Therapeutics operates or a change in law could increase its tax liability or result in the imposition of penalty payments, which could adversely impact its operating results.

PFIC Rules Related to the Ownership and Disposition of Knight Shares

Knight Therapeutics believes that it is not presently a PFIC under the Internal Revenue Code, but Knight Therapeutics has not secured an opinion of counsel to that effect and there can be no assurance that the U.S. Internal Revenue Service will agree with that conclusion. A U.S. holder of shares of a PFIC will generally be required to treat excess distributions or gain from the sale of shares as ordinary income and pay an interest charge to the extent the excess distribution or gain is allocated to prior taxable years for PFIC purposes. If Knight Therapeutics is a PFIC, U.S. holders who make a timely election could, alternatively, (a) mark their Knight Shares to market each year and treat the gain or loss (to the extent of previously recognized gain) as ordinary income or (b) include in their income annually their share of net earnings of Knight Therapeutics as income from a qualified electing fund (a "**QEF Election**"), whether or not Knight Therapeutics distributes cash to the U.S. holder. However, if Knight Therapeutics is not able to provide U.S. holders with the information required by them to make a QEF Election, such U.S. holders may not be able to avail themselves of the QEF Election. A PFIC is any foreign corporation which meets either an asset or income test. The asset test is met if at least 50% of assets of a corporation consist of passive assets; and the income test is met if at least 75% of its income is from passive assets and activities. It is possible in the future, that Knight Therapeutics will seek to raise additional capital, and if it is successful in raising such capital, Knight Therapeutics will have additional working capital that is considered a passive asset under the PFIC asset test. Therefore, even assuming that Knight Therapeutics is not currently a PFIC, it is possible that it will become a PFIC in the future.

Product Pricing Regulations on Certain Patented Drug Products

Certain patented drug products that may form part of Knight Therapeutics' portfolio of products from time to time and may be subject to product pricing regulation by the PMPRB. For new patented products, the price in Canada is limited to either the cost of existing drugs sold in Canada or the median of prices for the same drug sold in other specified industrial countries. For existing patented products, prices cannot increase by more than the Consumer Price Index. The PMPRB will monitor compliance through a review of the average transaction price of each patented drug product to be reported by Knight Therapeutics over a recurring six-month reporting period. The PMPRB may deem certain of Knight Therapeutics' patented future products to be excessively priced based on its assessment of the product and its competitors in the market and this may have a material adverse effect on Knight Therapeutics' financial condition and results of operations or cash flows.

Quarterly Fluctuations

Knight Therapeutics' results of operations, in particular, revenues, may vary from quarter to quarter due to many factors including the following: the level of acceptance of Impavido, which will affect the royalty revenues associated therewith; and the timing and number of future product launches. Each new product launch requires significant promotional investment during the first three to five years from launch. The level of patient and physician acceptance of Knight Therapeutics' existing and future products, as well as the availability of similar therapies, may impact Knight Therapeutics' revenues by driving the level and timing of prescriptions for its products. Other factors include expenditures related to the acquisition, sale and promotion of pharmaceutical products, the availability and cost of raw materials, interruptions in supply by third-party manufacturers, new products introduced by Knight Therapeutics or its competitors, the mix of products that Knight Therapeutics sells, sales and marketing expenditures and general economic and industry conditions that may affect customer demand.

Compliance with Laws and Regulations Affecting Public Companies

Any future changes to the laws and regulations affecting public companies, compliance with existing provisions of National Instrument 52-109—*Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators* ("NI 52-109") and the other applicable Canadian securities laws and regulation and related rules and policies, may cause Knight Therapeutics to incur increased costs as it evaluates the implications of new rules and responds to new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

New laws and regulations may make it more expensive for Knight Therapeutics to provide indemnities to Knight Therapeutics' officers and directors and may make it more difficult to obtain certain types of insurance, including liability insurance for directors and officers; as such, Knight Therapeutics may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for Knight Therapeutics to attract and retain qualified persons to serve on its Knight Board of Directors, or as executive officers. Knight Therapeutics may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services—all of which could cause general and administrative costs to increase beyond what Knight Therapeutics currently has planned. Knight Therapeutics intends to evaluate and monitor developments with respect to these laws, rules and regulations, and cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs. Knight Therapeutics will be required to review and report annually on the effectiveness of its internal control over financial reporting in accordance with NI 52-109.

Knight Therapeutics' President and Chief Executive Officer is expected to report on the effectiveness of Knight Therapeutics' internal control over financial reporting. Management's review will be designed to provide reasonable assurance, not absolute assurance that all material weaknesses existing within Knight Therapeutics' internal controls are identified. Material weaknesses will represent deficiencies existing in Knight Therapeutics' internal controls that may not prevent or detect a misstatement occurring which could have a material adverse effect on the quarterly or annual financial statements of Knight Therapeutics. In addition, management cannot provide assurance that the remedial actions that will be taken by Knight Therapeutics to address any material weaknesses identified will be successful, nor can management provide assurance that no further material weaknesses will be identified within its internal controls over financial reporting in future years. If Knight Therapeutics fails to maintain effective internal controls over its financial reporting, there is the possibility of errors or omissions occurring or misrepresentations in Knight Therapeutics' disclosures which could have a material adverse effect on Knight Therapeutics' business, its financial statements, and the value of the Knight Shares.

Reliance on Information Technology

Knight Therapeutics will be dependent on information technology systems, including Internet-based systems, for internal communication as well as communication with customers and suppliers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect Knight Therapeutics' operations.

Reliance on Data Obtained from IMS

Knight Therapeutics will rely on operational data obtained from IMS, an industry accepted data source. IMS data may not accurately reflect actual prescriptions. If IMS data does turn out to be inaccurate or unreliable and Knight Therapeutics' controls are not effective, there could be an adverse effect on Knight Therapeutics' ability to properly manage inventory and its financial performance.

Risks Related to the Listing of Knight Shares

No existing market for the Knight Shares

There is no public market for the Knight Shares. Knight Therapeutics has applied to list the Knight Shares on TSX-V. Listing is subject to Knight Therapeutics fulfilling all of the requirements of TSX-V. If listing approval is ultimately obtained, trading in the Knight Shares is expected to commence immediately after the Effective Time. However, there can be no assurance that TSX-V will list the Knight Shares. In addition, investor interest in Knight Therapeutics may not lead to the development of trading markets on TSX-V or otherwise, and such markets may not become liquid. If an active trading market does not develop, it may be difficult to sell Knight Shares at a profitable price, if at all. The initial price of the Knight Shares may not be indicative of prices that will prevail following the completion of the Arrangement. The market price could decline below such initial price, and shareholders may not be able to resell their Knight Shares at or above such initial price.

Qualifications under the ITA for a Registered Plan

If the Knight Shares are not listed on a designated stock exchange in Canada before the due date for Knight Therapeutics' first income tax return and Knight Therapeutics does not otherwise satisfy the conditions in the ITA to elect to be a "public corporation", the Knight Shares will not be considered to be a qualified investment for a Registered Plan (from their date of issue). Where a Registered Plan acquires a Knight Share in circumstances where the Knight Share is not a qualified investment under the ITA for the Registered Plan, adverse tax consequences may arise for the Registered Plan and the annuitant under the Registered Plan, including that the Registered Plan may become subject to penalty taxes, or the annuitant of such Registered Plan may be deemed to have received income therefrom or be subject to a penalty tax or, in the case of a registered education savings plan (as defined in the ITA), such plan may have its tax exempt status revoked.

The price of the Knight Shares is likely to fluctuate significantly

The trading price of the Knight Shares is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in the biotechnology and pharmaceuticals sectors of the market in particular;
- actual or anticipated fluctuations in its quarterly financial and operating results;
- developments or disputes concerning its intellectual property or proprietary rights;
- introduction of new technologies, products or services by Knight Therapeutics or its competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- additions or departures of key personnel;

- regulatory developments;
- litigation and governmental investigations; and
- economic and political conditions or events.

These and other factors may cause the market price and demand for the Knight Shares to fluctuate substantially, which may limit or prevent shareholders from readily selling their Knight Shares and may otherwise negatively affect the liquidity of the Knight Shares. The trading price of the Knight Shares may also decline in reaction to events that affect other companies in the pharmaceutical or related industries, even if these events do not directly affect Knight Therapeutics. In addition, as is common in the specialty drug industry, Knight Therapeutics' revenue and profitability growth may vary from one quarter to another. These fluctuations result from, among other things, the timing of TPD approvals, the timing of new product launches and the timing of the listing of the new drugs on formularies.

Influence of Securities or Industry Analysts

If securities or industry analysts do not publish research or reports about Knight Therapeutics, if they change their recommendations regarding Knight Therapeutics adversely, or if Knight Therapeutics' operating results do not meet their expectations, the share price and trading volume could decline. The trading market for the Knight Shares will be influenced by the research and reports that industry or securities analysts publish about Knight Therapeutics. If one or more of these analysts cease coverage or fail to regularly publish reports, Knight Therapeutics could lose visibility in the financial markets, which in turn could cause the share price or trading volume to decline. Moreover, if one or more of the analysts downgrade Knight Therapeutics or its shares or if Knight Therapeutics' operating results do not meet their expectations, Knight Therapeutics' share price could decline.

PROMOTERS

Jonathan Ross Goodman may be considered a promoter of Knight Therapeutics within the meaning of applicable securities legislation by reason of his initiatives in founding and organizing Knight Therapeutics' business and affairs. After the completion of the Arrangement, it is expected that Knight Therapeutics will enter into an executive employment contract with Mr. Goodman, the terms of which have not yet been determined. It is anticipated that the Corporate Governance and Compensation Committee will consider and make recommendations with respect to the compensation to be paid to Mr. Goodman. In the interim, Mr. Goodman has agreed to act as President and Chief Executive Officer of Knight Therapeutics for an annual salary of \$1.00 until an equity financing of Knight Therapeutics is completed.

After giving effect to the Arrangement and the sale and transfer immediately thereafter by the Principal Paladin Shareholders (or their affiliates that are Qualifying Holdco Shareholders), other than the Principal Knight Shareholders, of the Knight Shares they receive as of the Effective Time as the Knight Therapeutics Arrangement Consideration to the Principal Knight Shareholders (or any of their affiliates), Jonathan Ross Goodman will directly or indirectly own 7,383,836 Knight Shares, representing approximately 34% of the outstanding Knight Shares immediately following the completion of the Arrangement. Please see "*Directors and Executive Officers*" in this Appendix.

During the ten years prior to the date of the Circular, Jonathan Ross Goodman has not been subject to:

- (a) a cease trade order (including any management cease trade order which applied to directors or executive officers of a company, whether or not the person is named in the order), or
- (b) an order similar to a cease trade order, or

(c) an order that denied the relevant company access to any exemption under securities legislation; that was in effect for a period of more than 30 consecutive days; nor has Jonathan Ross Goodman been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision;

nor has Jonathan Ross Goodman become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver manager or trustee appointed to hold his assets.

On January 21, 2014, Knight Therapeutics and 3487911 Canada Inc. (a company controlled by Jonathan Ross Goodman) entered into a commitment letter whereby 3487911 Canada Inc., as lender, agreed to grant a revolving credit facility loan in the maximum amount of \$5 million and at a rate per annum equal to prime plus four percent (4%) to Knight Therapeutics.

SPONSORSHIP

Pursuant to the TSX-V Policies, the listing of the Knight Shares as of the Effective Time requires sponsorship. For this purpose Knight Therapeutics has engaged as its sponsor Cormark Securities Inc., located at 200 Bay Street, Suite 2800, Toronto, Ontario, M5J 2J2.

MATERIAL CONTRACTS

The only material contracts, which Knight Therapeutics or its subsidiaries have entered into since their incorporation, or will enter into prior to the Effective Time, other than in the ordinary course of business, are as follows: (i) Business Separation Agreement, (ii) the Barbco License, which will be transferred to an affiliate of Knight Therapeutics as part of the Knight Therapeutics Business Separation, and (iii) the Distribution and License Agreement. Please see “*Knight Therapeutics’ Business—Business Separation Agreement*” in this Appendix.

A copy of the Arrangement Agreement, which includes the current term sheet in respect of the Business Separation Agreement, has been filed on SEDAR under Paladin’s company profile and a copy is attached to the Circular as “*Appendix “C”—Arrangement Agreement*”.

Copies of the Arrangement Agreement and of the material contracts set out above may be inspected at the offices of Knight Therapeutics located at 6111 Royalmount Avenue, Suite 102, Montréal, Québec, Canada, H4P 2T4, during normal business hours from the date of the Circular until the completion of the Arrangement.

LEGAL PROCEEDINGS

Knight Therapeutics is not subject to any legal proceedings material to Knight Therapeutics to which Knight Therapeutics or any of its subsidiaries is a party or of which any of Knight Therapeutics’ properties is the subject matter and no such proceedings are known to Knight Therapeutics to be contemplated.

REGULATORY ACTIONS

Knight Therapeutics has not had since its incorporation any penalties or sanctions imposed on it by, or entered into any settlement agreements with, a court or a securities regulator relating to securities laws.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as described below and other than the interests of certain directors or executive officers of Knight Therapeutics or the Principal Knight Shareholders, as described in this Appendix, none of the directors or executive officers of Knight Therapeutics or Principal Knight Shareholders, nor any associate or affiliate of any of them, has or had a direct or indirect material interest in any transaction within the three years prior to the date of the Circular or proposed transaction which has materially affected or will materially affect Knight Therapeutics.

The Principal Knight Shareholders (including Jonathan Ross Goodman, President and Chief Executive Officer of Knight Therapeutics) are currently expected to own in aggregate approximately 34% of the Knight Shares after giving effect to the Arrangement. Please see the discussion of the Arrangement Agreement in “*Corporate Structure*” and “*Principal Knight Shareholders*” in this Appendix.

On January 21, 2014, Knight Therapeutics and 3487911 Canada Inc. (a company controlled by Jonathan Ross Goodman) entered into a commitment letter whereby 3487911 Canada Inc., as lender, agreed to grant a revolving credit facility loan in the maximum amount of \$5 million and at a rate per annum equal to prime plus four percent (4%) to Knight Therapeutics.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of Knight Therapeutics are Ernst & Young LLP, at their principal office in Montréal which is located at 800 René-Lévesque Blvd. W., Suite 1900, Montréal, Québec, H3B 1X9. The auditors are independent of Knight Therapeutics within the meaning of the Code of Ethics of the Ordre des comptables professionnels agréés du Québec.

The transfer agent and registrar for the Knight Shares will be Computershare Investor Services Inc. through its principal offices in (i) Montréal, which is located at 1500 University Street, Suite 700, Montréal, Québec, H3A 3S8, and (ii) Toronto, which is located at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1.

LEGAL MATTERS

Certain legal matters in connection with this Offering, will be passed upon on behalf of Knight Therapeutics by Davies Ward Phillips & Vineberg LLP. As of the date of the Circular the respective partners and associates of each of Davies Ward Phillips & Vineberg LLP own beneficially, directly or indirectly, less than one percent (1%) of any outstanding securities of any class of Knight Therapeutics or any associate of Knight Therapeutics. Mr. Hillel W. Rosen, one of the directors of Knight Therapeutics, is a partner at Davies Ward Phillips & Vineberg LLP.

INTEREST OF EXPERTS

The audited financial statements of Knight Therapeutics for the period from its incorporation on November 1, 2013 to November 30, 2013, audited carve-out balance sheet in respect of the Impavido product business as at December 31, 2013 and the audited carve-out financial statements in respect of the Impavido product business for the years ended December 31, 2012, 2011 and 2010, attached as Schedules “A”, “B” and “C”, respectively, to this Appendix F have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon, appearing elsewhere herein, and are included in reliance upon such reports given upon the authority of said firm as experts in accounting and auditing.

SCHEDULE “A”

**AUDITED FINANCIAL STATEMENTS OF
KNIGHT THERAPEUTICS FOR THE PERIOD FROM
INCORPORATION ON NOVEMBER 1, 2013 TO NOVEMBER 30, 2013**

INDEPENDENT AUDITORS' REPORT

To the Directors of
Knight Therapeutics Inc.

We have audited the accompanying financial statements of Knight Therapeutics Inc., which comprise the balance sheet as at November 30, 2013 and the statement of income and comprehensive income, changes in shareholder's equity and cash flows for the period from incorporation on November 1, 2013 to November 30, 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Knight Therapeutics Inc. as at November 30, 2013 and its financial performance and its cash flows for the period from incorporation on November 1, 2013 to November 30, 2013 in accordance with International Financial Reporting Standards.

/s/ Ernst & Young LLP¹

Montreal, Canada
January 15, 2014

¹ CPA auditor, CA, public accountancy permit no. A120254

Knight Therapeutics Inc.
Balance Sheet
(In Canadian dollars)

	November 30, 2013
	<u>\$</u>
ASSETS	
Current	
Receivable from parent	<u>1</u>
Total assets	<u>1</u>
SHAREHOLDER'S EQUITY	
Shareholder's equity	
Share capital (<i>note 4</i>)	<u>1</u>
Total shareholder's equity	<u>1</u>

See accompanying notes

Approved by the Board of Directors on January 15, 2014.

Knight Therapeutics Inc.

Statement of Income and Comprehensive Income

(In Canadian dollars)

	Period from Incorporation on November 1, 2013 to November 30, 2013
	<u>\$</u>
Net income and comprehensive income for the period	<u>—</u>
Basic and diluted income per common share	<u>—</u>
Weighted average number of common shares outstanding	<u>1</u>

See accompanying notes

Knight Therapeutics Inc.

Statement of Changes in Shareholder's Equity

(In Canadian dollars)

	Share capital	Total shareholder's equity
		\$
Balance on Incorporation as at November 1, 2013	—	—
Share issued on incorporation (Note 4)	<u>1</u>	<u>1</u>
Balance as at November 30, 2013	<u>1</u>	<u>1</u>

See accompanying notes

Knight Therapeutics Inc.
Statement of Cash Flows
(In Canadian dollars)

	Period from Incorporation on November 1, 2013 to November 30, 2013
	<u>\$</u>
Operating activities	
Changes in non-cash working capital	
Increase in receivable from parent	(1)
Net cash outflow from operating activities	<u>(1)</u>
Financing activities	
Share subscriptions (<i>Note 4</i>)	1
Financing activities	<u>1</u>
Increase in cash during the period	
Cash, beginning of period	—
Cash end of period	<u>—</u>

See accompanying notes

Knight Therapeutics Inc.

Notes to the financial statements

(In Canadian dollars except for share amounts)

1. NATURE OF OPERATIONS

Knight Therapeutics Inc. (“Knight” or the “Company”) was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin Labs Inc. (“Paladin”). On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the “Arrangement Agreement”) with, among others, Endo Health Solutions Inc. (“Endo”). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited (“New Endo”) and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

The Company intends to become a specialty pharmaceutical company and its principal business activity will be developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products. To date, the Company has not carried on any active business since incorporation and was created to enter into the business separation agreement described further below.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., (“Barbco”) including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation and statement of compliance**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Interpretations Committee (“IFRICs”) and the former Standing Interpretations Committee (“SICs”). These financial statements have been prepared on a historical cost basis, except for items that are required to be accounted for at fair value.

Foreign currency translation***Functional and presentation currency***

The financial statements of the Company are presented in Canadian dollars (“CAD”), which is the Company’s functional and presentation currency. Transactions arising in foreign currencies are translated at the exchange

Knight Therapeutics Inc.

Notes to the financial statements

(In Canadian dollars except for share amounts)

rate prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange. Exchange gains and losses arising from the translation of foreign currency items are recognized in the statement of income.

3. RECENT ACCOUNTING PRONOUNCEMENTS**Future changes to accounting standards:***IFRS 9 Financial Instruments (Classification and Measurement)* (“IFRS 9”)

In November 2009, the IASB issued IFRS 9 introducing new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 *Financial Instruments Recognition and Measurement* (“IAS 39”) the requirements for derecognition of financial assets and financial liabilities. In December 2011, the IASB amended IFRS 9, deferring the mandatory effective date to annual periods beginning on or after January 1, 2015. The amendment also provides relief from restating comparative information and required disclosures in IFRS 7 *Financial Instruments: Disclosures*. The Company is assessing the impact of this standard on its results and financial position.

4. SHARE CAPITAL

The Company is authorized to issue an unlimited number of Class A and B common shares and an unlimited number of Class A, B, C and D preferred shares, without par value.

On November 1, 2013, Knight issued one Class A common share to Paladin at a price of \$1.00 to facilitate its organization.

Pursuant to a certificate of amendment and the accompanying articles of amendment issued by Industry Canada on December 20, 2013, the one Class A common share issued and outstanding in the capital of Knight was re-designated as one Knight common share and the Class B common shares were eliminated.

5. MANAGEMENT OF CAPITAL

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for its shareholder and to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

The Company may depend on external financing to fund its activities subsequent to the closing of the Arrangement described in Note 1, and since incorporation, is wholly dependent upon its sole shareholder. The Company’s capital structure is composed of equity attributable to the shareholder of the Company. The basis for the Company’s capital structure is dependent on the Company’s expected growth and changes in the business environment. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares, issue debt, acquire or dispose of assets. The issuance of common shares requires approval of the Board of Directors.

SCHEDULE “B”
AUDITED CARVE-OUT BALANCE SHEET OF
THE IMPAVIDO PRODUCT BUSINESS
AS AT DECEMBER 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Directors of
Paladin Labs Inc.

We have audited the accompanying carve-out balance sheet of the Impavido product business, as at December 31, 2013, and a summary of significant accounting policies and other explanatory information (together the "financial statement").

Management's responsibility for the financial statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Impavido product business as at December 31, 2013 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to the fact that the Impavido product business' inventory is held entirely by third parties and we were unable to observe the physical inventory count as at December 31, 2012. We were unable to satisfy ourselves concerning those inventory quantities or values by alternative means. Consequently, we were unable to determine whether adjustments to inventory were necessary, and as a result we issued a qualified opinion as at and for the year ended December 31, 2012.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statement, which describes the basis of accounting. The financial statement is prepared to assist Paladin Labs Inc. to comply with the financial reporting provisions of National Instrument 51-102 — *Continuous Disclosure Obligations*. As a result, the financial statement may not be suitable for another purpose.

/s/ Ernst & Young LLP ¹

Montreal, Canada
January 15, 2014

¹ CPA auditor, CA, public accountancy permit no. A120254

The Impavido Product Business
Audited Carve-out Balance Sheets
As at December 31,
(In Canadian dollars)

	<u>2013</u>	<u>2012</u>
	\$	\$
ASSETS		
Current		
Trade and other receivables (<i>note 5</i>)	610,878	389,793
Inventories (<i>note 6</i>)	51,125	1,130,153
Other current assets (<i>note 7</i>)	5,986	1,270
Income tax receivable	29,697	13,492
Total current assets	697,686	1,534,708
Deferred income tax assets (<i>note 8</i>)	54,519	69,317
Total assets	752,205	1,604,025
LIABILITY AND OWNER'S NET INVESTMENT		
Current		
Payable, accruals and provisions (<i>note 9</i>)	638,531	685,319
Deferred revenue	445,555	9,714
Total current liabilities	1,084,086	695,033
Owner's net income		
Owner's net investment (<i>note 10</i>)	(331,881)	908,992
Total liabilities and owner's net investment	752,205	1,604,025
Commitments (<i>note 12</i>)		
<i>See accompanying notes</i>		

Approved by the Board of Directors on January 15, 2014.

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

1. PRESENTATION OF BALANCE SHEETS

Arrangement agreement

Knight Therapeutics Inc. (“Knight” or the “Company”) was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin Labs Inc. (“Paladin”). On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the “Arrangement Agreement”) with, among others, Endo Health Solutions Inc. (“Endo”). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited (“New Endo”) and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., (“Barbco”) including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

Basis of preparation and statement of compliance

The carve-out balance sheets have been prepared on a historical cost basis, except for items that are required to be accounted for at fair value. The policies set out below have been consistently applied to all the periods presented.

The preparation of the Impavido product business’ carve-out balance sheets requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Impavido product business’ accounting policies, management has made judgments and estimates disclosed in Note 3, which have the most significant effect on the amounts recognized in the carve-out balance sheets.

These carve-out balance sheets reflect the assets and liabilities of the operations of the Impavido product business which include but do not entirely represent the Impavido Property. These carve-out balance sheets have been presented using historical costs as recorded by Paladin. During the periods presented, the Impavido product

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

1. PRESENTATION OF BALANCE SHEETS (Cont'd)

business was not held in a separate legal entity, and accordingly, standalone financial information does not exist. Consequently, these carve-out balance sheets represent an aggregation of the financial information from the entities in which the Impavido product business is held.

These carve-out balance sheets may not be indicative of the Impavido product business' financial performance going forward. Furthermore, these carve-out balance sheets do not necessarily reflect what the balance sheets would have been had the Impavido product business operated as an independent entity during the years presented.

These carve-out balance sheets are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Interpretations Committee ("IFRICs"), and include the following:

- All assets and liabilities directly attributable to the Impavido product business have been extracted and aggregated in these carve-out balance sheets;
- No cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin; and
- Income taxes have been calculated as if the Impavido product business had been a separate legal entity and had filed a separate tax return for the periods presented.

Description of the business

The Impavido product business' principal business activity is researching, developing, acquiring, in-licensing, out-licensing, marketing and distributing the Impavido product.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Functional and presentation currency

The carve-out balance sheets are presented in Canadian dollars ("CAD"), which is the Impavido product business' functional and presentation currency. Transactions arising in foreign currencies are translated at the exchange rate prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange.

Trade receivables

Trade receivables are carried at original invoice amount less any provisions for product returns, credits and doubtful accounts. Provisions for returns are made where the returns or exchange of products are allowed under the Impavido product business' policy. Provisions for doubtful accounts are made where there is evidence of a risk of non-payment, taking into account aging, previous experience and general economic conditions.

Inventories

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of finished goods and work in progress includes direct costs and an allocation of overhead. Net realizable value is determined as the selling price in the ordinary course of business less applicable selling expenses.

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Payables, accruals and provisions

Payables, accruals and provisions are initially measured at fair value with subsequent measurement recorded at amortized cost using the effective interest rate method. Provisions are recognized when it is determined that a present obligation (legal or constructive) as a result of a past event exists, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recognized provisions are mostly related to product-related agreement exposures and are part of the normal course of business.

Income taxes

Income tax expense comprises current and deferred tax. Tax expenses are recognized in the statement of loss except to the extent they relate to items recognized directly in owner's net investment, in which case the related tax is recognized in owner's net investment.

Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and tax laws enacted or substantially enacted at the reporting date.

Deferred tax assets (liabilities) are recognized for all deductible (taxable) temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized except where the deferred tax asset (liability) relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Sales Tax

Revenues, expenses and assets are recognized net of amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized in the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other receivables and payables in the balance sheet.

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

In preparing the carve-out balance sheets management is required to make estimates and assumptions that affect the amounts of assets and liabilities reported in the carve-out balance sheets. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting estimates and judgments made.

Inventory valuation

The provision for obsolescence is equal to the entire inventory which has reached its expiration or is close to expiration and is not expected to be sold, based on the specific facts and circumstances. In order to determine whether the inventory is properly stated at the lower of cost and net realizable value, management reviews the amount of inventory on hand, the remaining shelf life and estimates the time required to sell such inventory taking into account current and expected market conditions and competition.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Management establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Impavido product business and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Impavido product business' domicile. As management assesses the probability for litigation and subsequent cash outflows with respect to taxes as remote, no contingent liability has been recognized.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards issued by the IASB that are not yet effective are listed below. Management is assessing the impact of these pronouncements on its results and financial position. Management intends to adopt those standards, interpretations and amendments to existing standards when they become effective.

- IAS 1 — *Presentation of Financial Statements*
- IFRS 9 — *Financial Instruments*
- IFRS 13 — *Fair Value Measurement*

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

5. TRADE AND OTHER RECEIVABLES

	2013 \$	2012 \$
Trade receivables	587,625	352,186
Other receivables ⁽ⁱ⁾	23,253	37,607
Trade and other receivables	<u>610,878</u>	<u>389,793</u>

(i) Other receivables consist primarily of commodity taxes receivable.

The following table provides details on trade receivables past due but not provisioned:

	2013 \$	2012 \$
Trade receivables not past due	11,871	—
Trade receivables past due and not provisioned		
Under 30 days	487,278	—
31 to 60 days	—	—
61 to 90 days	—	133,565
Over 90 days	88,476	218,621
Total trade receivables	<u>587,625</u>	<u>352,186</u>

6. INVENTORIES

	2013 \$	2012 \$
Raw materials	501,053	717,501
Work in progress	201,924	233,287
Finished goods	151,253	623,456
Provision for obsolescence	(803,105)	(444,091)
Total inventories at the lower of cost and net realizable value	<u>51,125</u>	<u>1,130,153</u>

7. OTHER CURRENT ASSETS

	2013 \$	2012 \$
Deferred product costs ⁽ⁱ⁾	5,986	1,270
	<u>5,986</u>	<u>1,270</u>

(i) Deferred product costs are associated with deferred revenue.

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

8. INCOME TAX

	2013 \$	2012 \$
Deferred tax asset		
Assets		
Intangible depreciable assets	43,278	54,206
Losses available to offset against future taxable income	11,241	15,111
Deferred tax assets	54,519	69,317

There is a non-capital tax loss in the Impavido product business of \$449,656 (2012: \$604,474) which will expire in 2021. This non-capital tax loss may be applied against future taxable income. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable the Impavido product business in Barbados will realize the benefit of this non-capital tax loss carried forward and has therefore recognized a related deferred tax asset.

The losses which arose in the United States of \$620,695 (2012: \$519,174) are available to reduce taxable income of future years subject to certain restrictions by the application of Section 382 of the Internal Revenue Code of the United States. None of these losses have been recognized.

The Impavido product business offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authorities.

9. PAYABLES, ACCRUALS AND PROVISIONS

	2013 \$	2012 \$
Trade payables	445,103	413,287
Accrued expenses	25,000	102,734
Provisions	165,520	165,520
Other payables	2,908	3,778
	638,531	685,319

During 2013 and 2012, the Impavido product business did not record any changes to provisions. The provision relates to the commitment in Note 12.

10. OWNER'S NET INVESTMENT

Paladin's investment in the operations of the Impavido product business is presented as Owner's Net Investment in the carve-out balance sheets. Owner's Net Investment represents Paladin's original investment offset by the accumulated net income or loss of the Impavido product business operations and by the accumulated net withdrawals by Paladin.

11. RELATED PARTY TRANSACTIONS

The Impavido product business engages Paladin and its wholly owned subsidiaries to provide various services on its behalf. All transactions with related parties are carried out in the normal course of operations.

The Impavido product business

Notes to the audited carve-out balance sheets

December 31, 2013 and 2012

(In Canadian dollars)

12. COMMITMENTS

A certain pharmaceutical product license agreement requires that the Impavido product business make royalty payments of 1.5% of the net sales of its product.

13. FINANCIAL INSTRUMENTS

(a) Fair values

Financial assets and liabilities

The carrying amounts of trade and other receivables, payables, accruals and provisions are a reasonable estimate of their fair values due to the short maturity of these instruments.

(b) Risks arising from financial instruments

Concentration of credit risk and major customers

The Impavido product business is exposed to credit risk from its customers and continually monitors its customer credit. As at December 31, 2013, one customer represented 100% of trade accounts receivable. As at December 31, 2012, two customers represented 87% of trade accounts receivable.

Liquidity risk

As at December 31, 2013, there were no restrictions on the flow of the Impavido product business' cash from operating activities nor have any of these funds been committed in any way with the exception of a letter of credit of \$134,826 (€92,000) in relation to a tender. All financial liabilities are short-term in nature.

Foreign exchange risk

The Impavido product business operates internationally and therefore current assets and liabilities are denominated mainly in Euro ("€"). This results in financial risk due to fluctuations in the value of Euro relative to the CAD. The Impavido product business does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Impavido product business' financial position. The significant balances in foreign currencies are as follows:

	December 31, 2013	December 31, 2012
	Euro (€)	Euro (€)
Trade and other receivables	410,804	268,000
Payables, accruals and provisions	(171,397)	(418,000)
	(239,407)	(150,000)

SCHEDULE “C”
AUDITED CARVE-OUT FINANCIAL STATEMENTS OF
THE IMPAVIDO PRODUCT BUSINESS
FOR THE YEARS ENDED DECEMBER 31, 2012,
DECEMBER 31, 2011 AND DECEMBER 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Directors of
Paladin Labs Inc.

We have audited the accompanying carve-out financial statements of the Impavido product business, which comprise the carve-out balance sheets as at December 31, 2012, 2011 and 2010, and the statements of loss and comprehensive loss, changes in owner's net investment and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

The Impavido product business' inventory is held entirely by third parties and we were unable to observe the physical inventory count as at December 31, 2012, 2011 and 2010. We were unable to satisfy ourselves concerning those inventory quantities or values by alternative means. Consequently, we were unable to determine whether adjustments to inventory, cost of sales, income taxes and net loss for the years ended December 31, 2012, 2011 and 2010 were necessary.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph the carve-out financial statements present fairly, in all material respects, the financial position of the Impavido product business as at December 31, 2012, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Ernst & Young LLP ¹

Montreal, Canada
January 15, 2014

¹ CPA auditor, CA, public accountancy permit no. A120254

The Impavido Product Business
Audited Carve-out Balance Sheets
As at December 31,
(In Canadian dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$
ASSETS			
Current			
Trade and other receivables (<i>note 5</i>)	389,793	946,140	296,356
Inventories (<i>note 6</i>)	1,130,153	1,228,230	444,479
Other current assets (<i>note 7</i>)	1,270	6,445	629,204
Income tax receivable	13,492	—	—
Total current assets	<u>1,534,708</u>	<u>2,180,815</u>	<u>1,370,039</u>
Intangible assets (<i>note 9</i>)	—	—	2,992,675
Property, plant and equipment (<i>note 8</i>)	—	6,881	13,762
Deferred income tax assets (<i>note 10</i>)	69,317	64,962	38,310
Total assets	<u>1,604,025</u>	<u>2,252,658</u>	<u>4,414,786</u>
LIABILITIES AND OWNER'S NET INVESTMENT			
Current			
Payables, accruals and provisions (<i>note 11</i>)	685,319	766,698	567,224
Deferred revenue	9,714	515,768	1,734,154
Income taxes payable	—	3,102	8,963
Total current liabilities	<u>695,033</u>	<u>1,285,568</u>	<u>2,310,341</u>
Owner's net investment			
Owner's net investment (<i>note 12</i>)	908,992	967,090	2,104,445
Total liabilities and owner's net investment	<u>1,604,025</u>	<u>2,252,658</u>	<u>4,414,786</u>

Commitment (*note 15*)
See accompanying notes

Approved by the Board of Directors on January 15, 2014.

The Impavido Product Business

Audited Carve-out Statements of Loss and Comprehensive Loss

Years ended December 31

(In Canadian dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$
Revenues <i>(note 14)</i>	2,062,177	4,503,963	3,762,928
Cost of sales	596,759	752,767	1,015,995
Gross income	1,465,418	3,751,196	2,746,933
Expenses			
Selling, general and administrative <i>(note 13)</i>	193,382	642,542	540,675
Research and development <i>(note 13)</i>	1,416,504	1,268,464	580,543
(Loss) earnings before under-noted items	(144,468)	1,840,190	1,625,715
Amortization of intangible assets <i>(note 9)</i>	—	2,992,675	2,992,675
Depreciation of property, plant and equipment <i>(note 8)</i>	6,881	6,881	7,988
Foreign exchange (gain) loss	(30,203)	(147,156)	275,399
Loss before income tax	(121,146)	(1,012,210)	(1,650,347)
(Recovery) provision for income taxes <i>(note 10)</i>	(4,356)	23,880	59,983
Net loss and comprehensive loss for the year	(116,790)	(1,036,090)	(1,710,330)

See accompanying notes

The Impavido Product Business

Audited Carve-out Statements of Changes in Owner's Net Investment

Years ended December 31

(In Canadian dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$
Owner's net investment, beginning of year	967,090	2,104,445	7,752,850
Net loss and comprehensive loss	(116,790)	(1,036,090)	(1,710,330)
Net contributions (withdrawals) from owner	58,692	(101,265)	(3,938,075)
Owner's net investment, end of year	<u>908,992</u>	<u>967,090</u>	<u>2,104,445</u>

See accompanying notes

The Impavido Product Business

Audited Carve-out Statements of Cash Flows

Years ended December 31

(In Canadian dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$
Operating activities			
Net loss	(116,790)	(1,036,090)	(1,710,330)
Items not affecting cash			
Amortization of intangible assets (<i>note 9</i>)	—	2,992,675	2,992,675
Depreciation of property, plant and equipment (<i>note 8</i>)	6,881	6,881	7,988
Deferred tax (<i>note 10</i>)	(4,355)	(26,652)	(26,680)
	(114,264)	1,936,814	1,263,653
Net change in non-cash working capital balances relating to operations (<i>note 18</i>)	114,264	1,562,186	3,972,347
Net cash inflows from operating activities	—	3,499,000	5,236,000
Financing activities			
Equity withdrawals from owner	—	(3,499,000)	(5,236,000)
Net cash outflow from financing activities	—	(3,499,000)	(5,236,000)
Net increase in cash during the year	—	—	—
Cash, beginning of year	—	—	—
Cash, end of year	—	—	—
Supplemental cash flow information			
Income taxes paid	15,507	21,369	10,057

Amounts paid for income taxes were reflected as operating cash flows in the statements of cash flows.

See accompanying notes

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

1. PRESENTATION OF FINANCIAL STATEMENTS

Arrangement agreement

Knight Therapeutics Inc. (“Knight” or the “Company”) was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin Labs Inc. (“Paladin”). On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the “Arrangement Agreement”) with, among others, Endo Health Solutions Inc. (“Endo”). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited (“New Endo”) and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., (“Barbco”) including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

Basis of preparation and statement of compliance

The carve-out financial statements have been prepared on a historical cost basis, except for items that are required to be accounted for at fair value. The policies set out below have been consistently applied to all the periods presented.

The preparation of the Impavido product business’ carve-out financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Impavido product business’ accounting policies, management has made judgments and estimates disclosed in Note 3, which have the most significant effect on the amounts recognized in the carve-out financial statements.

These carve-out financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the operations of the Impavido product business which include but do not entirely represent the Impavido Property. These carve-out financial statements have been presented using historical cost as recorded by Paladin. During the

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

1. PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

periods presented, the Impavido product business was not held in a separate legal entity, and accordingly, standalone financial information does not exist. Consequently, these carve-out financial statements represent an aggregation of the financial information from the entities in which the Impavido product business is held.

These carve-out financial statements may not be indicative of the Impavido product business' financial performance going forward. Furthermore, these carve-out financial statements do not necessarily reflect what the results from operations, balance sheets and cash flows would have been had the Impavido product business operated as an independent entity during the years presented.

These carve-out financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Interpretations Committee ("IFRICs"), and include the following:

- All assets and liabilities directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements;
- No cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin;
- All revenues and expenses directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements; and
- Income taxes have been calculated as if the Impavido product business had been a separate legal entity and had filed a separate tax return for the periods presented.

Description of the business

The Impavido product business' principal business activity is researching, developing, acquiring, in-licensing, out-licensing, marketing and distributing the Impavido product.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Functional and presentation currency

The carve-out financial statements are presented in Canadian dollars ("CAD"), which is the Impavido product business' functional and presentation currency. Transactions arising in foreign currencies are translated at the exchange rate prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange. Exchange gains and losses arising from the translation of foreign currency items are recognized in the statement of loss.

Trade receivables

Trade receivables are carried at original invoice amount less any provisions for product returns, credits and doubtful accounts. Provisions for returns are made where the returns or exchanges of products are allowed under the Impavido product business' policy. Provisions for doubtful accounts are made where there is evidence of a risk of non-payment, taking into account aging, previous experience and general economic conditions. When a trade receivable is determined to be uncollectible it is written off, firstly against any provision available and then to the statement of loss. Subsequent recoveries of amounts previously provided for are credited to the statement of loss.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of finished goods and work in progress includes direct costs and an allocation of overhead. Net realizable value is determined as the selling price in the ordinary course of business less applicable selling expenses.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation of property, plant and equipment is provided on the straight-line basis and at a rate assigned to amortize the cost of the assets over their estimated useful life, in this case three years. On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the carve-out financial statements and the net amount, less any proceeds, is included in the statement of loss.

Intangible assets

Intellectual property acquired is recorded at cost and consists primarily of process know-how covered by certain patented and non-patented information. Intangible assets are amortized on a straight-line basis over the least of the term of the agreement, the life of the patent or the expected useful life of the product. The terms range from 2 to 5 years. Management periodically reviews the useful lives and the carrying values of its intangible assets. As a result, the useful life of intangible assets may be reduced. In addition, management reviews its intangible assets for impairment annually and whenever events or changes in circumstances indicate that the carrying value of the intangible assets may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Payables, accruals and provisions

Payables, accruals and provisions are initially measured at fair value with subsequent measurement recorded at amortized cost using the effective interest rate method. Provisions are recognized when it is determined that a present obligation (legal or constructive) as a result of a past event exists, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recognized provisions are mostly related to product-related agreement exposures and are part of the normal course of business.

Revenue recognition

Revenue is recognized when the product is shipped to the customers, including when contracts are awarded via tendering process, provided that there is no retention of any significant risks of ownership or future obligations with respect to the product shipped. Revenue from product sales is recognized net of sales discounts, credits and allowances. In certain circumstances, returns or exchanges of products are allowed and provisions are maintained accordingly. Revenue is recorded net of these provisions. Revenue related to royalty arrangements with partners, where the Impavido product business earns a royalty fee based on certain pre-determined terms relating to the net

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

sales of products is recognized as such terms are met alongside the recording of partner product revenues. In certain situations, such as initial product launches for which there is limited comparable information or where the market or client acceptance has not been clearly established, management may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns, and as a result a deferral of the recognition of revenue for these product sales is recorded until such criteria are met.

Research and development

Research and development expenditure is charged to the statement of loss in the year in which it is incurred. Milestones and other license payments paid prior to regulatory approval of the product are generally expensed when the event requiring payment of the milestone occurs. Development expenditures are capitalized when the criteria for recognizing an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly likely. There have not been any capitalized amounts relating to any such expenditures to date. Property, plant and equipment used for research and development is depreciated in accordance with the Impavido product business' policy.

Income taxes

Income tax expense comprises current and deferred tax. Tax expenses are recognized in the statement of loss except to the extent they relate to items recognized directly in owner's net investment, in which case the related tax is recognized in owner's net investment.

Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and tax laws enacted or substantially enacted at the reporting date.

Deferred tax assets (liabilities) are recognized for all deductible (taxable) temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized except where the deferred tax asset (liability) relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Sales Tax

Revenues, expenses and assets are recognized net of amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized in the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other receivables and payables in the balance sheet.

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

In preparing the carve-out financial statements management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the carve-out financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting estimates and judgments made.

Revenue recognition

In certain situations, such as revenue recognition related to tenders, management has limited comparable information or where the market or client acceptance has not been clearly established, management may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns. As a result, management will defer the recognition of revenue for these product sales until such criteria are met.

Inventory valuation

The provision for obsolescence is equal to all of the inventory which has reached its expiration or is close to expiration and is not expected to be sold, based on the specific facts and circumstances. In order to determine whether the inventory is properly stated at the lower of cost and net realizable value, management reviews the amount of inventory on hand, the remaining shelf life and estimates the time required to sell such inventory taking into account current and expected market conditions and competition.

Intangible assets

The factors that drive the actual economic useful life of the intangible assets are inherently uncertain, and include patent protection, physician loyalty and prescribing patterns, competition by products prescribed for similar indications, introduction of competing products, the impact of promotional efforts, adverse patient reactions to products or similar products and many other issues. The terms range from 2 to 5 years. Estimated useful lives are reviewed annually and impairment tests are undertaken if events occur which call into question the carrying values of the assets. Impairment tests are based on risk-adjusted future cash flows discounted using the Impavido product business' weighted average cost of capital. These future cash flows are based on business forecasts and

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS (Cont'd)

are therefore inherently judgmental. Future events could cause the assumptions used in these impairment reviews to change with a consequential adverse effect on the future results of the Impavido product business.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Management establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Impavido product business and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Impavido product business' domicile. As management assesses the probability for litigation and subsequent cash outflows with respect to taxes as remote, no contingent liability has been recognized.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards issued by the International Accounting Standard Board that are not yet effective are listed below. Management is assessing the impact of these pronouncements on its results and financial position. Management intends to adopt those standards, interpretations and amendments to existing standards when they become effective.

- IAS 1 — *Presentation of Financial Statements*
- IFRS 9 — *Financial Instruments*
- IFRS 13 — *Fair Value Measurement*

5. TRADE AND OTHER RECEIVABLES

	2012 \$	2011 \$	2010 \$
Trade receivables	352,186	921,183	286,287
Other receivables ⁽ⁱ⁾	37,607	24,957	10,069
Trade and other receivables	<u>389,793</u>	<u>946,140</u>	<u>296,356</u>

- (i) Other receivables consist primarily of commodity taxes receivable.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

5. TRADE AND OTHER RECEIVABLES (Cont'd)

The following table provides details on trade receivables past due but not provisioned:

	2012 \$	2011 \$	2010 \$
Trade receivables not past due	—	631,414	185,933
Trade receivables past due and not provisioned			
Under 30 days	—	—	—
31 to 60 days	—	1,934	—
61 to 90 days	133,565	216,394	39,434
Over 90 days	218,621	71,441	60,920
Total trade receivables	352,186	921,183	286,287

6. INVENTORIES

	2012 \$	2011 \$	2010 \$
Raw materials	717,501	1,129,429	461,125
Work in progress	233,287	231,124	101,541
Finished goods	623,456	71,504	57,805
Provision for obsolescence	(444,091)	(203,827)	(175,992)
Total inventories at the lower of cost and net realizable value	1,130,153	1,228,230	444,479

During the year ended December 31, 2012, inventories in the amount of \$567,000 (2011—\$674,101; 2010—\$781,640) were recognized as cost of sales, including provisions for write-downs to net realizable value of \$282,798 (2011—\$15,112; 2010—\$188,015).

7. OTHER CURRENT ASSETS

	2012 \$	2011 \$	2010 \$
Deferred product costs ⁽ⁱ⁾	1,270	6,445	624,203
Prepaid expense	—	—	5,001
	1,270	6,445	629,204

(i) Deferred product costs are associated with deferred revenue.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment \$
Cost as at December 31, 2010, December 31, 2011, December 31, 2012	21,750
Accumulated depreciation as at January 1, 2010	—
Depreciation charge	7,988
Accumulated depreciation as at December 31, 2010	7,988
Depreciation charge	6,881
Accumulated depreciation as at December 31, 2011	14,869
Depreciation charge	6,881
Accumulated depreciation as at December 31, 2012	21,750
Net book value as at December 31, 2010	13,762
Net book value as at December 31, 2011	6,881
Net book value as at December 31, 2012	—

9. INTANGIBLE ASSETS

	\$
Cost as at December 31, 2010, December 31, 2011, December 31, 2012	8,655,514
Accumulated amortization as at January 1, 2010	2,670,164
Amortization charge	2,992,675
Accumulated amortization as at December 31, 2010	5,662,839
Amortization charge	2,992,675
Accumulated amortization as at December 31, 2011	8,655,514
Amortization charge	—
Accumulated amortization as at December 31, 2012	8,655,514
Net book value as at December 31, 2010	2,992,675
Net book value as at December 31, 2011	—
Net book value as at December 31, 2012	—

The intangible assets are comprised of all intellectual property rights of Paladin related to Impavido®, Paladin's product for the treatment of leishmaniasis.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

10. INCOME TAX

The major components of income tax expense for the years ended December 31, 2012, 2011 and 2010 are:

Statements of loss

	2012 \$	2011 \$	2010 \$
Current income tax:			
Current income tax charge	(1)	50,532	86,663
Deferred tax:			
Relating to origination and reversal of temporary differences	(4,355)	(26,652)	(26,680)
(Recovery) provision for income taxes	(4,356)	23,880	59,983

A reconciliation between tax expense and the product of accounting income multiplied by the Impavido product business' Barbadian domestic tax rate for the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012 \$	2011 \$	2010 \$
Loss before income tax	(121,146)	(1,012,210)	(1,650,347)
At Barbados' statutory income tax rate of 2.5% (2011: 2.5%, 2010: 2.5%)	(3,029)	(25,305)	(41,259)
Non-deductible expenses for tax purposes	(1,327)	37,326	43,010
Non creditable foreign tax	—	11,859	58,232
At the effective income tax rate of 3.3% (2011: -2.4%, 2010: -3.6%)	(4,356)	23,880	59,983

DEFERRED TAX

Deferred tax relates to the following:

	Balance Sheets			Statements of loss		
	2012 \$	2011 \$	2010 \$	Years ended December 31		
	2012 \$	2011 \$	2010 \$	2012 \$	2011 \$	2010 \$
Deferred tax asset (liability)						
Assets						
Intangible depreciable assets	54,206	64,962	38,310	(10,756)	26,652	26,680
Losses available to offset against future taxable income	15,111	—	—	15,111	—	—
Deferred tax assets—LT	69,317	64,962	38,310	4,355	26,652	26,680
Deferred tax assets	69,317	64,962	38,310			
Deferred tax in profit and loss				4,355	26,652	26,680

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

10. INCOME TAX (Cont'd)

The Impavido product business incurred a non-capital tax loss in the current year of \$604,474 (2011: \$nil; 2010: \$nil) which will expire in 2021. This non-capital loss may be applied against future taxable income. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable the Impavido product business will realize the benefit of this non-capital tax loss carried forward and has therefore recognized a related deferred tax asset.

The losses which arose in the United States of \$519,174 (2011: \$412,296; 2010: \$315,011) are available to reduce taxable income of future years subject to certain restrictions by the application of Section 382 of the Internal Revenue Code of the United States. None of these losses have been recognized.

The Impavido product business offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authorities.

11. PAYABLES, ACCRUALS AND PROVISIONS

	<u>2012</u> <u>\$</u>	<u>2011</u> <u>\$</u>	<u>2010</u> <u>\$</u>
Trade payables	413,287	438,622	356,748
Accrued expenses	102,734	60,537	44,956
Provisions	165,520	165,520	165,520
Other payables	3,778	102,019	—
	<u>685,319</u>	<u>766,698</u>	<u>567,224</u>

During 2012, 2011 and 2010, the Impavido product business did not record any changes to provisions. The provision relates to the commitment in Note 15.

12. OWNER'S NET INVESTMENT

Paladin's investment in the operations of the Impavido product business is presented as Owner's Net Investment in the carve-out financial statements. Owner's Net Investment represents Paladin's original investment offset by the accumulated net loss of the Impavido product business operations and by the accumulated net withdrawals by Paladin.

Net financing transactional activity with Paladin as presented on the carve-out statements of cash flows represent the net withdrawals by Paladin.

13. RELATED PARTY TRANSACTIONS

The Impavido product business engages Paladin and its wholly owned subsidiaries to provide various services on its behalf, and \$84,000 (2011: \$84,000; 2010: \$84,000) have been charged to selling, general and administrative expenses and \$84,000 (2011: \$84,000; 2010: \$84,000) have been charged to research and development expenses on the carve-out statements of loss and comprehensive loss. All transactions with related parties are carried out in the normal course of operations.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

14. REVENUES

	2012 \$	2011 \$	2010 \$
Product revenues	2,062,177	4,399,466	3,537,197
Royalties and license revenue	—	104,497	225,731
	<u>2,062,177</u>	<u>4,503,963</u>	<u>3,762,928</u>

15. COMMITMENTS

A certain pharmaceutical product license agreement requires that the Impavido product business make royalty payments of 1.5% of the net sales of its product.

16. FINANCIAL INSTRUMENTS

(a) Fair values

Financial assets and liabilities

The carrying amounts of trade and other receivables, payables, accruals and provisions are a reasonable estimate of their fair values due to the short maturity of these instruments.

(b) Risks arising from financial instruments

Concentration of credit risk and major customers

The Impavido product business is exposed to credit risk from its customers and continually monitors its customer credit. For the year ended December 31, 2012, two unrelated customers represented 75% of revenues, (2011—two unrelated customers represented 75% of revenues, 2010—two unrelated customers represented 81% of revenues). As at December 31, 2012, two customers represented 87% of trade accounts receivable (2011—76%, 2010—94%).

Liquidity risk

As at December 31, 2012, there were no restrictions on the flow of the Impavido product business' cash from operating activities nor have any of these funds been committed in any way with the exception of a letter of credit of \$102,000 (€92,000) in relation to a tender. All financial liabilities are short-term in nature.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

16. FINANCIAL INSTRUMENTS (Cont'd)

Foreign exchange risk

The Impavido product business operates internationally and therefore its revenues, expenses, and current assets and liabilities, are incurred in Euro ("€"), Great British Pounds ("GBP") and United States dollar ("USD"). This results in financial risk due to fluctuations in the value of Euro, GBP and USD relative to the CAD. The Impavido product business does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Impavido product business' operating results, financial position or cash flows. The significant balances in foreign currencies are as follows:

	December 31, 2012		December 31, 2011		December 31, 2010	
	Euro €	GBP £	Euro €	GBP £	Euro €	GBP £
Trade and other receivables	268,000	—	699,000	—	214,000	—
Payables, accruals and provisions	(418,000)	—	(322,000)	(22,000)	(344,000)	—
	<u>(150,000)</u>	<u>—</u>	<u>377,000</u>	<u>(22,000)</u>	<u>(130,000)</u>	<u>—</u>

The Impavido product business has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark. Based on the aforementioned net exposure as at December 31, 2012, and assuming that all other variables remain constant, a ten-point increase or decrease in the CAD/Euro and CAD/GBP exchange rate would have an effect of \$19,700 (2011: \$46,200, and in 2010: \$17,300) on net loss.

17. SEGMENT INFORMATION

The Impavido product business operates in a single business segment focused on the researching, developing, acquiring, in-licensing, marketing and distributing innovative pharmaceutical products internationally. The Impavido product business carries out business in Europe, India, Nepal and Bangladesh and all of the Impavido product business' intangible assets and property, plant and equipment are located in Europe.

Revenues by geographic region are detailed as follows:

	2012 \$	2011 \$	2010 \$
Europe	2,062,177	2,335,369	2,026,205
Asia	—	2,168,594	1,736,723
	<u>2,062,177</u>	<u>4,503,963</u>	<u>3,762,928</u>

Revenues have been allocated to geographic regions based on the country of residence of the related customer.

The Impavido Product Business

Notes to the audited carve-out financial statements

December 31, 2012, 2011 and 2010

(In Canadian dollars)

18. CASH FLOW STATEMENT INFORMATION**Net change in non-cash working capital balances relating to operations**

	2012	2011	2010
	\$	\$	\$
Decrease (increase) in Trade and other receivables	556,347	(649,784)	1,794,409
Decrease (increase) in Inventories	98,077	(783,751)	768,822
Decrease (increase) in Other current assets	5,175	622,759	(147,138)
Increase in Income taxes receivable	(13,492)	—	—
(Decrease) increase in Payables, accruals, and provisions	(81,379)	199,474	300,084
Decrease in Deferred revenue	(506,054)	(1,218,386)	(41,849)
(Decrease) increase in Income tax payable	(3,102)	(5,861)	94
	55,572	(1,835,549)	2,674,422
Other non-cash transactions included in the net change in non-cash working capital balances related to operations			
Increase in owner's net investment	58,692	3,397,735	1,297,925
	114,264	1,562,186	3,972,347

SCHEDULE “D”
CARVE-OUT CONDENSED INTERIM FINANCIAL STATEMENTS OF
THE IMPAVIDO PRODUCT BUSINESS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS
ENDED SEPTEMBER 30, 2013 AND SEPTEMBER 30, 2012

The Impavido Product Business

Carve-out Condensed Interim Balance Sheets

(In Canadian dollars)

(Unaudited)

	September 30, 2013	December 31 2012
	\$	\$
ASSETS		
Current		
Trade and other receivables	582,716	389,793
Inventories	202,617	1,130,153
Other current assets	2,458	1,270
Income tax receivable	29,696	13,492
Total current assets	817,487	1,534,708
Deferred income tax assets	49,929	69,317
Total assets	867,416	1,604,025
LIABILITY AND OWNER'S NET INVESTMENT		
Current		
Payable, accruals and provisions	612,693	685,319
Deferred revenue	115,485	9,714
Total current liabilities	728,178	695,033
Owner's net investment		
Owner's net investment (<i>note 3</i>)	139,238	908,992
Total liabilities and owner's net investment	867,416	1,604,025

See accompanying notes

Approved by the Board of Directors on January 15, 2014.

The Impavido Product Business

Carve-out Condensed Interim Statements of Income and Comprehensive Income

(In Canadian dollars)

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Revenues	1,562,419	463,129	2,893,460	1,803,988
Cost of sales	604,607	69,881	958,262	497,045
Gross income	957,812	393,248	1,935,198	1,306,943
Expenses				
Selling, general and administrative (<i>note 4</i>)	305,161	46,225	427,322	128,704
Research and development (<i>note 4</i>)	277,453	283,663	720,190	999,853
Earnings before under-noted items	375,198	63,360	787,686	178,386
Depreciation of property, plant and equipment	—	1,720	—	5,161
Interest expense	2,950	—	2,950	—
Foreign exchange (gain) loss	(37,404)	3,422	(91,340)	(16,308)
Income before income tax	409,652	58,218	876,076	189,533
Provision for income taxes	9,218	1,290	19,389	3,803
Net income and comprehensive income for the period	400,434	56,928	856,687	185,730

See accompanying notes

The Impavido Product Business

Carve-out Condensed Interim Statements of Owner's Net Investment

(In Canadian dollars)

(Unaudited)

	2013 \$	2012 \$
Owner's net investment, January 1	908,992	967,090
Net income and comprehensive income for the period	856,687	185,730
Net withdrawals from owner	(1,626,441)	(300,120)
Owner's net investment, September 30	139,238	852,700

See accompanying notes

The Impavido Product Business

Carve-out Condensed Interim Statements of Cash Flows

(In Canadian dollars)

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Operating activities				
Net income for the period	400,434	56,928	856,687	185,730
Items not affecting cash				
Depreciation of property, plant and equipment	—	1,720	—	5,161
Deferred tax	9,218	1,290	19,389	3,803
	409,652	59,938	876,076	194,694
Net change in non-cash working capital balances relating to operations (<i>note 5</i>)	1,069,348	(59,938)	602,924	(194,694)
Net cash inflows from operating activities	1,479,000	—	1,479,000	—
Financing activities				
Equity withdrawals from owner	(1,479,000)	—	(1,479,000)	—
Net cash outflow from financing activities	(1,479,000)	—	(1,479,000)	—
Change in cash during the period	—	—	—	—
Cash, beginning of period	—	—	—	—
Cash, end of period	—	—	—	—
Supplemental cash flow information				
Income taxes paid	—	15,507	—	15,507

Amounts paid for interest and income taxes were reflected as operating cash flows in the statements of cash flows.

See accompanying notes

The Impavido Product Business

Notes to the Carve-out Condensed Interim Financial Statements

(In Canadian dollars)

(Unaudited)

1. PRESENTATION OF FINANCIAL STATEMENTS

Arrangement agreement

Knight Therapeutics Inc. (“Knight” or the “Company”) was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin Labs Inc. (“Paladin”). On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the “Arrangement Agreement”) with, among others, Endo Health Solutions Inc. (“Endo”). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited (“New Endo”) and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., (“Barbco”) including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

Basis of preparation and statement of compliance

These carve-out interim financial statements (“financial statements”) reflect the assets, liabilities, revenues, expenses and cash flows of the operations of the Impavido product business which include but do not entirely represent the Impavido Property. These financial statements have been presented using historical cost as recorded by Paladin. During the periods presented, the Impavido product business was not held in a separate legal entity, and accordingly, standalone financial information does not exist. Consequently, these financial statements represent an aggregation of the financial information from the entities in which the Impavido product business is held.

These financial statements may not be indicative of the Impavido product business’ financial performance going forward. Furthermore, these financial statements do not necessarily reflect what the results from operations, balance sheets and cash flows would have been had the Impavido product business operated as an independent entity during the years presented.

These financial statements were prepared using the same accounting policies and methods as those used in the Impavido product business carve-out financial statements for the year ended December 31, 2012 which are based

The Impavido Product Business

Notes to the Carve-out Condensed Interim Financial Statements

(In Canadian dollars)

(Unaudited)

1. PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

on International Financial Regulatory Standards ("IFRS") as issued by the international Accounting Standards Board ("IASB") and International Financial Reporting Interpretations ("IFRICs"). These carve-out financial statements are prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the IASB and include the following:

- All assets and liabilities directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements;
- No cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin;
- All revenues and expenses directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements; and
- Income taxes have been calculated as if the Impavido product business had been a separate legal entity and had filed a separate tax return for the periods presented.

Description of the business

The Impavido product business' principal business activity is researching, developing, acquiring, in-licensing, out-licensing, marketing and distributing the Impavido product.

2. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 — Financial Instruments is not yet effective up to the date of issuance of the Impavido product business interim financial statements. Management is assessing the impact of this pronouncement on its results and financial position. Management intends to adopt this standard when it becomes effective.

3. OWNER'S NET INVESTMENT

Paladin's investment in the operations of the Impavido product business is presented as Owner's Net Investment in the financial statements. Owner's Net Investment represents Paladin's original investment increased by the accumulated net income of the Impavido product business operations and net of the accumulated net withdrawals by Paladin.

Net financing transactions with Paladin are presented on the carve-out condensed interim statement of cash flows represent the net withdrawals by Paladin.

4. RELATED PARTY TRANSACTIONS

The Impavido product business engages Paladin and its wholly owned subsidiaries to provide various services on its behalf resulting in a charge to selling, general and administrative expenses on the carve-out condensed interim statements of income and comprehensive income of \$85,000 and \$127,000 for the three months and nine months ended September 30, 2013, respectively (2012: \$21,000 and \$63,000). In addition, the services provided resulted in a charge to research and development expenses on the carve-out statements of income and comprehensive income of \$19,000 and \$61,000 for the three months and nine months ended September 30, 2013, respectively (2012: \$21,000 and \$63,000). All transactions with related parties are carried out in the normal course of operations.

The Impavido Product Business

Notes to the Carve-out Condensed Interim Financial Statements

(In Canadian dollars)

(Unaudited)

5. CASH FLOW STATEMENT INFORMATION

Net change in non-cash working capital balances relating to operations

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Decrease (increase) in Trade and other receivables	1,235,636	153,528	(192,923)	397,861
Decrease (increase) in Inventories (note ⁽ⁱ⁾)	177,116	(43,922)	927,536	359,460
Decrease (increase) in Other current assets	689,202	(14,386)	(1,188)	2,169
Decrease (increase) in Income taxes receivable	6,657	9,245	13,653	(19,198)
Increase (decrease) in Payables, accruals, and provisions	(52,274)	342,752	(72,626)	(336,610)
(Decrease) increase in Deferred revenue	(1,512,773)	(181,989)	105,771	(271,004)
	543,564	265,228	780,223	132,678
Other non-cash transactions included in the net change in non-cash working capital balances related to operations				
Increase (decrease) in owner's net investment	525,784	(325,166)	(177,299)	(327,372)
	1,069,348	(59,938)	602,924	(194,694)

- (i) During the three and nine months ended September 30, 2013, provisions for write-downs to net realizable value of \$150,000 and \$251,463, respectively, (2012—\$nil and \$187,898) were recognized as cost of sales.

SCHEDULE “E”
UNAUDITED PRO-FORMA
CONSOLIDATED FINANCIAL STATEMENTS OF
KNIGHT THERAPEUTICS INC.
FOR THE YEAR ENDED DECEMBER 31, 2012
AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2013

Knight Therapeutics Inc.

Pro Forma Consolidated Balance Sheet

As at September 30, 2013

(Unaudited—prepared by management)

(In Canadian dollars)

	Knight Therapeutics Inc. \$	The Impavido Product Business \$	Pro Forma Adjustments \$	Pro Forma Notes	Pro Forma Balance \$
Assets					
Current assets					
Cash	—	—	1,000,000	2(a)	1,000,000
Trade and other receivables	1	582,716	(582,716)	2(b)	1
Inventories	—	202,617	(202,617)	2(b)	—
Other current assets	—	2,458	(2,458)	2(b)	—
Income tax receivable	—	29,696	(29,696)	2(b)	—
Total current assets	1	817,487	182,513		1,000,001
Intangible assets	—	—	11,000,000	2(a)	11,000,000
Deferred income tax assets	—	49,929	(49,929)	2(b)	—
Total assets	1	867,416	11,132,584		12,000,001
Liabilities					
Current liabilities					
Payables, accruals and provisions	—	612,693	(612,693)	2(b)	—
Deferred revenue	—	115,485	(115,485)	2(b)	—
Total liabilities	—	728,178	(728,178)		—
Shareholder's equity					
Share capital	1	—	12,000,000	2(a)	12,000,001
Owner's net investment	—	139,238	(139,238)	2(b)	—
Total shareholder's equity	1	139,238	11,860,762		12,000,001
Total liabilities and shareholder's equity	1	867,416	11,132,584		12,000,001

See accompanying notes

Approved by the Board of Directors on January 15, 2014.

Knight Therapeutics Inc.

Pro Forma Consolidated Statement of Income and Comprehensive Income

Nine months ended September 30, 2013

(Unaudited—prepared by management)

(In Canadian dollars except for share and per share amounts)

	Knight Therapeutics Inc. \$	The Impavido Product Business \$	Pro Forma Adjustments \$	Pro Forma Notes	Pro Forma Balance \$
Revenues	—	2,893,460	(2,240,426)	2(c)	653,034
Cost of sales	—	958,262	(958,262)	2(d)	—
Gross profit	—	1,935,198	(1,282,164)		653,034
Selling, general and administrative	—	427,322	(427,322)	2(d)	—
Research and development	—	720,190	(255,716)	2(e)	464,474
Earnings before under-noted items	—	787,686	(599,126)		188,560
Amortization of intangible assets	—	—	122,775	2(f)	122,775
Interest expense	—	2,950	(2,950)	2(d)	—
Foreign exchange gain	—	(91,340)	91,340	2(d)	—
Income (loss) before income tax	—	876,076	(810,291)		65,785
Provision for income taxes	—	19,389	(19,389)	2(g)	—
Net income (loss) and comprehensive income (loss) for the period	—	856,687	(790,902)		65,785
Basic and diluted net income per share	—	—	—		0.00
Weighted average number of common shares outstanding	1	—	22,036,059		22,036,060

See accompanying notes

Knight Therapeutics Inc.

Pro Forma Consolidated Statement of Loss and Comprehensive Loss

Year ended December 31, 2012

(Unaudited—prepared by management)

(In Canadian dollars except for share and per share amounts)

	Knight Therapeutics Inc. \$	The Impavido Product Business \$	Pro Forma Adjustments \$	Pro Forma Notes	Pro Forma Balance \$
Revenues	—	2,062,177	(1,594,926)	2(c)	467,251
Cost of sales	—	596,759	(596,759)	2(h)	—
Gross profit	—	1,465,418	(998,167)		467,251
Selling, general and administrative	—	193,382	(193,382)	2(h)	—
Research and development	—	1,416,504	(660,380)	2(e)	756,124
Loss before under-noted items	—	(144,468)	(144,405)		(288,873)
Amortization of intangible assets	—	—	163,700	2(f)	163,700
Depreciation of property, plant and equipment	—	6,881	(6,881)	2(h)	—
Foreign exchange gain	—	(30,203)	30,203	2(h)	—
Loss before income tax	—	(121,146)	(331,427)		(452,573)
Provision for income taxes	—	(4,356)	4,356	2(g)	—
Net loss and comprehensive loss for the year	—	(116,790)	(335,783)		(452,573)
Basic and diluted net loss per share	—	—	—		(0.02)
Weighted average number of common shares outstanding	1	—	22,036,059		22,036,060

See accompanying notes

Knight Therapeutics Inc.

Notes to the Pro Forma Consolidated Financial Statements

(Unaudited—prepared by management)

(In Canadian dollars except for share and per share amounts)

1. PRESENTATION OF FINANCIAL STATEMENTS

These unaudited pro forma consolidated financial statements have been compiled for the purposes of inclusion in the information circular of Paladin Labs Inc. (“Paladin”) dated January 21, 2014.

Knight Therapeutics Inc. (“Knight” or the “Company”) was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin Labs Inc. (“Paladin”). On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the “Arrangement Agreement”) with, among others, Endo Health Solutions Inc. (“Endo”). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited (“New Endo”) and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

The Company intends to become a specialty pharmaceutical company and its principal business activity will be developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products. To date, the Company has not carried on any active business since incorporation and was created to enter into the business separation agreement described further below.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., (“Barbco”) including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

Basis of presentation and statement of compliance

These pro forma consolidated financial statements have been prepared by management of Paladin in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Canadian securities regulations, and give effect to the proposed business separation agreement. These pro forma consolidated financial statements include:

1. An unaudited pro forma consolidated balance sheet giving effect to the Arrangement and the transactions provided for under the business separation agreement as if they occurred on September 30, 2013 by combining the balance sheets of Knight as at November 30, 2013 and the Impavido product business as of September 30, 2013, and giving effect to the assumptions as described in Note 2;

Knight Therapeutics Inc.

Notes to the Pro Forma Consolidated Financial Statements

(Unaudited—prepared by management)

(In Canadian dollars except for share and per share amounts)

1. PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2. An unaudited pro forma consolidated statement of income and comprehensive income for the nine months ended September 30, 2013, giving effect to the Arrangement and the transactions provided for under the business separation agreement as if they occurred on January 1, 2012 and giving effect to the assumptions as described in Note 2; and
3. An unaudited pro forma consolidated statement of loss and comprehensive loss for the year ended December 31, 2012, giving effect to the Arrangement and the transactions provided for under the business separation agreement as if they occurred on January 1, 2012 and giving effect to the assumptions as described in Note 2.

These pro forma consolidated financial statements are provided for illustrative purposes only, and do not purport to represent the balance sheet that would have resulted had the Arrangement and the transactions provided for under the business separation agreement actually occurred on September 30, 2013 or the results of operations that would have resulted had the Arrangement and the transactions provided for under the business separation agreement actually occurred on January 1, 2012. Further, these pro forma consolidated financial statements are not necessarily indicative of the future financial position or results of operations of Knight as a result of the Arrangement and the transactions provided for under the business separation agreement.

2. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

The following pro forma adjustments are preliminary and subject to change. Detailed plans for the operations of Knight, upon completion of the Arrangement and the transactions provided for under the business separation agreement, have yet to be finalized. Additional costs may be incurred due to these efforts and have not been reflected in these pro forma consolidated financial statements. The pro forma consolidated balance sheet and statements of income (loss) and comprehensive income (loss) are based on the following assumptions:

- (a) In accordance with the business separation agreement, Paladin will transfer the Impavido Property, including \$1,000,000 in cash and certain intangible assets having an estimated preliminary fair value of \$11,000,000, in exchange for 22,036,060 common shares of Knight.
- (b) Representing certain adjustments to the assets, liabilities and owner's net investment of the Impavido product business which will not be transferred to Knight in accordance with the transactions provided for under the business separation agreement.
- (c) Represents certain adjustments to remove the revenues of the Impavido product business net of the 22.5% gross sales royalty stream from Barbco for the twelve month period ended December 31, 2012 and the nine month period ended September 30, 2013 as if the transactions provided for under the business separation agreement had occurred on January 1, 2012.
- (d) Represents certain adjustments to remove the cost of sales, selling, general and administrative expenses, interest expense and foreign exchange gain of the Impavido product business as these are not expected to be incurred by Knight after the transactions provided for under business separation agreement; as if the transactions provided for under the business separation agreement had occurred on January 1, 2012.

Knight Therapeutics Inc.

Notes to the Pro Forma Consolidated Financial Statements

(Unaudited—prepared by management)

(In Canadian dollars except for share and per share amounts)

2. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS (Cont'd)

- (e) Represents certain adjustments to remove the research and development expenses of the Impavido product business net of the research and development expenses related to the Voucher, which Knight would be expected to incur after the transactions provided for under the business separation agreement for the twelve month period ended December 31, 2012 and the nine month period ended September 30, 2013 as if the transactions provided for under the business separation agreement had occurred on January 1, 2012.
- (f) Represents amortization of certain definite life intangible assets relating to the Impavido Property over an estimated useful life of 13 years as if the transactions provided for under the business separation agreement had occurred on January 1, 2012.
- (g) Tax provision (recovery) is calculated at a Barbadian tax rate of 2.5%. Management has determined that it is not probable that taxable profit will be available against which the non-capital tax losses could be utilized before they expire and therefore, none of the benefit on the non-capital tax losses has been recognized.
- (h) Represents certain adjustments to remove the cost of sales, selling, general and administrative expenses, depreciation of property, plant and equipment and foreign exchange gain of the Impavido product business as these are not expected to be incurred by Knight after the transactions provided for under business separation agreement; as if the transactions provided for under the business separation agreement had occurred on January 1, 2012.

3. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares and an unlimited number of Class A, B, C and D preferred shares, without par value. After giving effect to the pro forma adjustments described in Note 2, the issued and outstanding share capital of Knight will be as follows:

	Number of common shares	\$
Balance at September 30, 2013	1	1
Net issued under the proposed Arrangement (see Note 2 (a))	22,036,059	12,000,000
Pro forma balance at September 30, 2013	<u>22,036,060</u>	<u>12,000,001</u>

4. SUBSIDIARIES

The following table presents the principal subsidiaries of the Company giving effect to the transactions provided for under the business separation agreement:

<u>Name</u>	<u>Country of registration</u>	<u>%</u>	<u>Nature of business</u>
Knight Therapeutics (Barbados) Inc.	Barbados	100	Research, develop, acquire, in-license, out-license, market and distribute innovative pharmaceutical products internationally
Paladin Therapeutics Inc.	USA	100	Research, develop, acquire, in-license, out-license, market and distribute innovative pharmaceutical products internationally

SCHEDULE “F”

**MANAGEMENT’S DISCUSSION AND ANALYSIS IN RESPECT OF THE PERIOD
FROM INCORPORATION ON NOVEMBER 1, 2013 TO NOVEMBER 30, 2013**

MANAGEMENT'S DISCUSSION AND ANALYSIS:

In Canadian dollars

This management's discussion and analysis ("MD&A") provides our overview of the Knight Therapeutics Inc. ("Knight" or the "Company") operations, performance and financial condition for the period from incorporation, being November 1, 2013, to November 30, 2013. This MD&A relates and should be read in conjunction with the audited financial statements of Knight and the notes thereto, which are attached as Schedule "A" to this Appendix "F". This management's discussion and analysis is current as at January 15, 2014.

OVERVIEW AND OVERALL PERFORMANCE

Knight was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin Labs Inc. ("Paladin"). On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the "Arrangement Agreement") with, among others, Endo Health Solutions Inc. ("Endo"). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited ("New Endo") and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the "Arrangement"). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

The Company intends to become a specialty pharmaceutical company and its principal business activity will be developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products. To date, the Company has not carried on any active business since incorporation and was created to enter into the business separation agreement described further below.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., ("Barbco") including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) ("Impavido"), which is Paladin's product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration ("FDA") upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the "Voucher") or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the "Impavido Property"). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

RESULTS OF OPERATIONS

For the period from November 1, 2013 to November 30, 2013, the Company has not carried on any active business and was created to enter into the business separation agreement described above. To date, the Company's sole business focus has been to make an application to list the Knight common shares on the TSX Venture Exchange ("TSX-V") and to enter into a business separation agreement with Paladin, its sole shareholder, as described above (see Appendix "F"). Knight has made no significant acquisitions or dispositions since incorporation.

Upon the completion of the Arrangement, Knight will commence business activities involving researching, developing, acquiring, in-licensing, marketing and distributing innovative pharmaceutical products.

LIQUIDITY AND CAPITAL RESOURCES

Pending the completion of the Arrangement and transactions contemplated by the business separation agreement, Knight has no current source of revenues, income or cash flow for the period from November 1, 2013 to November 30, 2013. It is, as of the date of this MD&A, wholly dependent upon its sole shareholder, Paladin, for the advancing of any operating funds required. Pursuant to the Arrangement Agreement and proposed business separation agreement, the Company will receive certain funding and can raise funding through public markets subsequent to the transaction to finance its business operations.

The financial statements have been prepared on the basis of accounting principles applicable for a going concern which assumes that Knight will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of Knight are dependant of its ability to receive continued financial support, materialize on the development of its intangible assets, complete equity financings, or generate profitable operations in the future.

RELATED PARTY TRANSACTIONS

As at the date of this MD&A, Knight is a wholly owned subsidiary of Paladin and certain directors of Knight are also directors and/or officers of Paladin.

SCHEDULE “G”
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

In Canadian dollars

This management's discussion and analysis ("MD&A") provides an overview of the Impavido product business' operations, performance and financial condition for the year ended December 31, 2012, and compares the 2012 results to those of 2011 prepared in accordance with International Financial Reporting Standards ("IFRS"), and include the following:

- All assets and liabilities directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements;
- No cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin Labs Inc. ("Paladin");
- All revenues and expenses directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements; and
- Income taxes have been calculated as if the Impavido product business had been a separate legal entity and had filed a separate tax return for the periods presented.

The carve-out financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the operations of the Impavido product business which include but do not entirely represent the Impavido Property, as defined under the heading "Arrangement Agreement" below. The carve-out financial statements have been presented using historical cost as recorded by Paladin. During the periods presented, the Impavido product business was not held in a separate legal entity, and accordingly, standalone financial information does not exist. Consequently, the carve-out financial statements represent an aggregation of the financial information from the entities in which the Impavido product business is held.

The carve-out financial statements may not be indicative of the Impavido product business' financial performance going forward. Furthermore, the carve-out financial statements do not necessarily reflect what the results from operations, balance sheets and cash flows would have been had the Impavido product business operated as an independent entity during the years presented.

This MD&A relates and should be read in conjunction with the annual carve-out audited financial statements and related notes which are attached as Schedule "C" to this Appendix "F". This MD&A is current as at January 15, 2014.

ARRANGEMENT AGREEMENT

Knight Therapeutics Inc. ("Knight" or the "Company") was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin. On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the "Arrangement Agreement") with, among others, Endo Health Solutions Inc. ("Endo"). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited ("New Endo") and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight in exchange for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the "Arrangement"). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., ("Barbco") including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as

Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements for the Impavido product business. These forward looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Impavido product business, may ultimately prove to be incorrect. Factors which could cause actual results to differ materially from current expectations are discussed in this management discussion and analysis. Management disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, except as required by law.

OVERVIEW

The Impavido product business’ principal business activity is researching, developing, acquiring, in-licensing, out-licensing, marketing and distributing the Impavido product.

2012 FINANCIAL HIGHLIGHTS

- Revenues reached \$2,062,177, a decrease of 54% over the prior year
- EBITDA¹ was (\$144,468), a decrease of \$1,984,658 over the prior year
- Net loss was \$116,790, a decrease of 89% over the prior year
- Cash flows from operations were \$nil, compared to \$3,499,000 in the prior year

¹ EBITDA—Non-IFRS Financial Measures

The term EBITDA (earnings (loss) before interest, taxes, depreciation and amortization) does not have any standardized meaning under International Financial Reporting Standards (“IFRS”) and therefore may not be comparable to similar measures presented by other companies. The Impavido product business defines EBITDA as earnings before taxes, depreciation and amortization and foreign exchange gains (losses). EBITDA is calculated and presented consistently from period to period and agrees with the amount disclosed as “Earnings before under-noted items” on the carve-out statements of loss. Management of the Impavido product business believes EBITDA to be an important measurement that allows it to assess the operating performance of its ongoing business on a consistent basis without the impact of amortization expenses. The Impavido product business excludes amortization expenses because their level depends substantially on non-operating factors such as the historical cost of intangible assets. The Impavido product business’ method for calculating EBITDA may differ from that used by others and, accordingly, this measure may not be comparable to EBITDA used by others.

The business activities of the Impavido product business are described as follows:

The Impavido product business' revenues are principally derived from sales of its pharmaceutical product, Impavido, to pharmaceutical wholesalers and licensees worldwide.

The Impavido product business' expenses are comprised primarily of cost of goods sold (including royalty payments to a company from which it licenses its product), selling, marketing, general and administrative expenses. In addition, a substantial portion of the Impavido product business' expenses are related to the amortization of the intangible asset the Impavido product business acquired incurred during the year ended December 31, 2011.

The Impavido product business' annual and quarterly operating results are primarily affected by the level of acceptance of the Impavido product business' product by physicians, pharmacies, hospitals and their patients. The level of patient and physician acceptance of the product, market access, as well as the availability of similar products, impact the Impavido product business' revenues by driving the level and timing of prescriptions for its product.

CRITICAL ACCOUNTING ESTIMATES

In preparing the carve-out audited financial statements of the Impavido product business, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the carve-out financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting estimates and judgments made.

Revenue recognition

In certain situations, such as revenue recognition related to tenders, management has limited comparable information or where the market or client acceptance has not been clearly established, management may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns. As a result, management will defer the recognition of revenue for these product sales until such criteria are met.

Inventory valuation

The provision for obsolescence is equal to all of the inventory which has reached its expiration or is close to expiration and is not expected to be sold, based on the specific facts and circumstances. In order to determine whether the inventory is properly stated at the lower of cost and net realizable value, management reviews the amount of inventory on hand, the remaining shelf life and estimates the time required to sell such inventory taking into account current and expected market conditions and competition.

Intangible assets

The factors that drive the actual economic useful life of the intangible assets are inherently uncertain, and include patent protection, physician loyalty and prescribing patterns, competition by products prescribed for similar indications, introduction of competing products, the impact of promotional efforts, adverse patient reactions to products or similar products and many other issues. The terms generally range from 2 to 5 years. Estimated useful lives are reviewed annually and impairment tests are undertaken if events occur which call into question the carrying values of the assets. Impairment tests are based on risk-adjusted future cash flows discounted using the Impavido product business' weighted average cost of capital. These future cash flows are based on business forecasts and are therefore inherently judgmental. Future events could cause the assumptions used in these impairment reviews to change with a consequential adverse effect on the future results of the Impavido product business.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Management establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Impavido product business' domicile. As management assesses the probability for litigation and subsequent cash outflows with respect to taxes as remote, no contingent liability has been recognized.

RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards issued by the International Accounting Standard Board that are not yet effective are listed below. Management is assessing the impact of these pronouncements on its results and financial position. Management intends to adopt those standards, interpretations and amendments to existing standards when they become effective.

- IAS 1 — *Presentation of Financial Statements*
- IFRS 9 — *Financial Instruments*
- IFRS 13 — *Fair Value Measurement*

RESULTS OF OPERATIONS

Year ended December 31, 2012 compared to year ended December 31, 2011.

Revenues

Revenues decreased \$2,441,786 or 54% to \$2,062,177 for the year ended December 31, 2012 from \$4,503,963 for the year ended December 31, 2011. The 2011 revenues included \$2,168,594 related to an international tender. No such tender was awarded in 2012 as such tenders are procured by international agencies contractually on an as-needed basis, at their discretion, historically occurring over a 2 year cycle.

Gross Income

Total gross income decreased \$2,285,778 or 61% to \$1,465,418 for the year ended December 31, 2012 from \$3,751,196 for the same period last year. Gross income, as a percentage of revenues, decreased 12 percentage points to 71% for the year ended December 31, 2012 from 83% in 2011. The decrease in the gross income as a percentage of revenue is attributable to the higher margins recorded on the tender awarded in 2011.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased \$449,160 or 70% to \$193,382 for the year ended December 31, 2012 from \$642,542 for the same period last year. Selling, general and administrative expense, as a percentage of revenues decreased by 5 percentage points to 9% for the year ended December 31, 2012 from 14% for the same period last year. The decrease in selling, general and administrative expenses, both in dollars and percentage of revenues, is the result of incremental tender-related selling expenses in 2011.

Research and Development Expense

Research and development expense increased \$148,040 or 12% to \$1,416,504 for the year ended December 31, 2012 from \$1,268,464 for the same period last year. Research and development expense, as a percentage of

revenues, increased by 41% percentage points to 69% for the year ended December 31, 2012 from 28% for the same period last year. The increase in research and development expenses is mainly due to incremental registration and advisory charges related to the United States' Food and Drug Administration priority review voucher.

Amortization of Intangible Assets

Amortization expense decreased by \$2,992,675 to \$nil for the year ended December 31, 2012 from \$2,292,675 for the same period last year. The decrease is the result of the Impavido intangible asset having been fully amortized during 2011.

Depreciation of Property, Plant and Equipment

Depreciation expense remained steady at \$6,881 for the year ended December 31, 2012 compared to the same period last year.

Foreign Exchange Gain

During the year ended December 31, 2012, the Impavido product business recorded a foreign exchange gain of \$30,203 mainly as a result of the strengthening of the Canadian dollar ("CAD") relative to the Euro impacting the Impavido product business' net monetary position held in these currencies during the year ended December 31, 2012.

During the year ended December 31, 2011, the Impavido product business recorded a foreign exchange gain of \$147,156 on the Impavido product business' foreign operating results, mainly as a result of the strengthening of the CAD relative to the Euro, and its impact on the Impavido product business' net monetary position held in these currencies.

Provision for Income Taxes

The provision for income taxes decreased \$28,236 or 118% to (\$4,356) for the year ended December 31, 2012 from \$23,880 for the year ended December 31, 2011. For 2012, the effective tax rate was 3.6% compared to (2.4%) for 2011. The increase in effective rates in the current year is principally due to an increase in permanent differences as a portion of net income in comparison to the previous year.

The Impavido product business has the following tax pools detailed below which may be applied against taxable income:

	Available		Recognized		Expires in
	2012 \$	2011 \$	2012 \$	2011 \$	
Non-capital tax losses					
Barbados	604,474	—	604,474	—	2021
United States	519,174	412,296	—	—	2027-2032⁽ⁱ⁾

- (i) The major portion of the US non-capital tax losses are subject to certain restrictions by the application of Section 382 of the Internal Revenue Code of the United States

The amount of the tax benefit claimed in the current and prior years, is subject to audit by the taxation authorities and could be reduced by a material amount in the future.

Net loss and comprehensive loss

Due to the factors set forth above, net loss and comprehensive loss was \$116,790 for the year ended December 31, 2012 compared to \$1,036,090 for the year ended December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

In the preparation of the carve-out audited financial statements no cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin. Owner's Net Investment represents Paladin's original cash investment offset by the accumulated net loss of the Impavido product business' operations further offset by the accumulated net cash withdrawals by Paladin. Working capital (current assets less current liabilities) decreased \$55,572 to \$839,675 at December 31, 2012 from \$895,247 at December 31, 2011.

As at December 31, 2012, approximately \$102,000 (€92,000) is being utilized for a certain letter of credit related to a tender.

Cash flows from operating activities decreased by \$3,499,000 to \$nil for the year ended December 31, 2012 from \$3,499,000 for the same period last year. Cash flows from operating activities represent the cash flows from net loss, excluding revenues and expenses not affecting cash, principally amortization, depreciation and deferred taxes in addition to net changes in non-cash balances relating to operations.

During 2011, the Impavido product business transferred \$3,499,000 to its owner, Paladin.

These financial statements have been prepared on the basis of accounting principles applicable for a going concern which assumes that the Impavido product business will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Impavido product business are dependant of its ability to receive continued financial support, materialize on the development of its intangible assets, complete equity financings, or generate profitable operations in the future. The financial statements do not include any adjustments to assets and liabilities should the Impavido product business be unable to continue as a going concern.

RELATED PARTY TRANSACTIONS

The Impavido product business engages Paladin and its wholly owned subsidiaries to provide various services on its behalf, and \$84,000 (2011: \$84,000) have been charged to selling, general and administrative expenses and \$84,000 (2011: \$84,000) have been charged to research and development expenses on the carve-out statements of loss and comprehensive loss. All transactions with related parties are carried out in the normal course of operations.

COMMITMENTS

A certain pharmaceutical product license agreement requires that the Impavido product business make royalty payments of 1.5% of the net sales of its product.

SEGMENT INFORMATION

The Impavido product business operates in a single business segment focused on the researching, developing, acquiring, in-licensing, out-licensing, marketing and distributing the Impavido product internationally. The Impavido product business carries out business in Europe, India, Nepal and Bangladesh and all of the Impavido product business' tangible assets are located in Europe.

Revenues by geographic region are detailed as follows:

	<u>2012</u> <u>\$</u>	<u>2011</u> <u>\$</u>
Europe	<u>2,062,177</u>	2,335,369
Asia	<u>—</u>	2,168,594
	<u><u>2,062,177</u></u>	<u><u>4,503,963</u></u>

Revenues have been allocated to geographic regions based on the country of residence of the related customer. Long-term assets are comprised of property, plant and equipment and are all located in Europe.

FINANCIAL INSTRUMENTS

Concentration of credit risk and major customers

The Impavido product business is exposed to credit risk from its customers and continually monitors its customer credit. For the year ended December 31, 2012, two unrelated customers represented 75% of revenues, (2011—two unrelated customers 75% of revenues). As at December 31, 2012, two customers represented 87% of trade accounts receivable (2011—76%).

Liquidity risk

As at December 31, 2012, there were no restrictions on the flow of the Impavido product business' cash from operating activities nor have any of these funds been committed in any way with the exception of a letter of credit of \$102,000 (€92,000) in relation to a tender. All financial liabilities are short-term in nature.

Foreign exchange risk

The Impavido product business operates internationally and therefore its revenues, expenses, and current assets and liabilities, are incurred in Euro ("€"), Great British Pounds ("GBP") and United States dollar ("USD"). This results in financial risk due to fluctuations in the value of Euro, GBP and USD relative to the CAD. The Impavido product business does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Impavido product business' operating results, financial position or cash flows. The Impavido product business has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark. Based on the aforementioned net exposure as at December 31, 2012, and assuming that all other variables remain constant, a ten-point increase or decrease in the CAD/Euro and CAD/GBP exchange rate would have an effect of \$19,700 (2011: \$46,200, and in 2010: \$17,300) on net loss.

OFF BALANCE SHEET ARRANGEMENT

The Impavido product business has one off balance sheet arrangement consisting of a product license agreement. Please refer to the Commitments section above for additional details. Other than this contractual obligation and commitment, the Impavido product business does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Impavido product business' financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

The Impavido product business does not issue guarantees contemplated by the applicable IFRS standards.

SCHEDULE “H”
MANAGEMENT’S DISCUSSION AND ANALYSIS FOR
THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS:

In Canadian dollars

This management's discussion and analysis ("MD&A") provides our overview of the Impavido product business' operations, performance and financial condition for the quarter and nine months ended September 30, 2013 and compares these unaudited quarterly results to those of the quarter and nine months ended September 30, 2012 prepared in accordance with IAS 34, Interim Financial Reporting and include:

- All assets and liabilities directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements;
- No cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin Labs Inc. ("Paladin");
- All revenues and expenses directly attributable to the Impavido product business have been extracted and aggregated in these carve-out financial statements; and
- Income taxes have been calculated as if the Impavido product business had been a separate legal entity and had filed a separate tax return for the periods presented.

The carve-out financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the operations of the Impavido product business which include but do not entirely represent the Impavido Property, as defined under the heading "Arrangement Agreement" below. The financial statements have been presented using historical cost as recorded by Paladin. During the periods presented, the Impavido product business was not held in a separate legal entity, and accordingly, standalone financial information does not exist. Consequently, the carve-out financial statements represent an aggregation of the financial information from the entities in which the Impavido product business is held.

The carve-out financial statements may not be indicative of the Impavido product business' financial performance going forward. Furthermore, the carve-out financial statements do not necessarily reflect what the results from operations, balance sheets and cash flows would have been had the Impavido product business operated as an independent entity during the years presented.

This MD&A relates and should be read in conjunction with the unaudited carve-out condensed interim financial statements and related notes which are attached as Schedule "D" to this Appendix "F". This MD&A is current as at January 15, 2014.

ARRANGEMENT AGREEMENT

Knight Therapeutics Inc. ("Knight" or the "Company") was incorporated on November 1, 2013 under the *Canada Business Corporations Act* and is currently a subsidiary of Paladin. On November 5, 2013 Paladin announced that it had entered into a definitive agreement (the "Arrangement Agreement") with, among others, Endo Health Solutions Inc. ("Endo"). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin will become indirect wholly-owned subsidiaries of Endo International Limited ("New Endo") and all of the issued and outstanding common shares of Paladin will be exchanged for 1.6331 ordinary shares of New Endo, \$1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court approved plan of arrangement under the *Canada Business Corporations Act* (the "Arrangement"). In addition, each holder of a Paladin option that has a positive in-the-money amount per share as defined in the plan arrangement will be entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, Paladin and Knight will enter into a business separation agreement providing for the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., ("Barbco")

including; \$1,000,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) (“Impavido”), which is Paladin’s product for the treatment of leishmaniasis, and a priority review voucher that, if issued by the U.S. Food and Drug Administration (“FDA”) upon the approval of Impavido by the FDA, will be issued in the name of Paladin Therapeutics, Inc. (currently a subsidiary of Paladin) (the “Voucher”) or, if not yet issued at the time of the consummation of the transactions contemplated by the business separation agreement, any rights to the Voucher (collectively, the “Impavido Property”). The business separation agreement will also provide that Knight, or one of its affiliates, as licensor, will enter into a distribution and license agreement granting a subsidiary of Paladin the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbc0 shall pay to Knight or its affiliates, as applicable, a fee of 22.5% of gross sales of Impavido worldwide, other than the United States. The Arrangement is subject to certain regulatory approvals and Paladin and Endo shareholder approval and is expected to be completed in the first quarter of 2014.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements for the Impavido product business. These forward looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Impavido product business, may ultimately prove to be incorrect. Factors which could cause actual results to differ materially from current expectations are discussed in this Business Property’s management discussion and analysis. Management disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, except as required by law.

OVERVIEW

The Impavido product business’ principal business activity is researching, developing, acquiring, in-licensing, out-licensing, marketing and distributing the Impavido product.

THIRD QUARTER FINANCIAL HIGHLIGHTS

- Revenues reached \$1,562,419, an increase of 237% over the same period last year.
- EBITDA¹ was \$375,198, an increase of 492% over the same period last year.
- Net income was \$400,434, an increase of 603% over the same period last year.
- Cash flows from operations were \$1,479,000, compared to \$nil over the same period last year.

¹ EBITDA—Non-IFRS Financial Measures

The term EBITDA (earnings (loss) before interest, taxes, depreciation and amortization) does not have any standardized meaning under International Financial Reporting Standards (“IFRS”) and therefore may not be comparable to similar measures presented by other companies. The Impavido product business defines EBITDA as earnings before taxes, depreciation and amortization and foreign exchange gains (losses). EBITDA is calculated and presented consistently from period to period and agrees with the amount disclosed as “Earnings before under-noted items” on the carve-out statements of income. The Impavido product business believes EBITDA to be an important measurement that allows it to assess the operating performance of its ongoing business on a consistent basis without the impact of amortization expenses. The Impavido product business excludes amortization expenses because their level depends substantially on non-operating factors such as the historical cost of intangible assets. The Impavido product business’ method for calculating EBITDA may differ from that used by others and, accordingly, this measure may not be comparable to EBITDA used by others.

The business activities of the Impavido product business are described as follows:

The Impavido product business' revenues are principally derived from sales of its pharmaceutical product, Impavido, to pharmaceutical wholesalers and licensees worldwide.

The Impavido product business' expenses are comprised primarily of cost of goods sold (including royalty payments to a company from which the Company licenses its product), selling, marketing, general and administrative expenses. In addition, a substantial portion of the Impavido product business' expenses are related to the amortization of the intangible asset the Company acquired incurred during the year ended December 31, 2011.

The Impavido product business' annual and quarterly operating results are primarily affected by the level of acceptance of the Impavido product business' product by physicians, pharmacies, hospitals and their patients. The level of patient and physician acceptance of the product, market access, as well as the availability of similar products, impact the Impavido product business' revenues by driving the level and timing of prescriptions for its product.

CRITICAL ACCOUNTING ESTIMATES

In preparing the carve-out audited financial statements of the Impavido product business, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the carve-out financial statements. Actual amounts and results could differ from those estimates. The Impavido product business' significant accounting estimates and judgments include revenue recognition, inventory valuation and income taxes. For a more detailed discussion of the Impavido product business' critical accounting estimates, please refer to the management discussion & analysis for the year ended December 31, 2012. There have been no material changes to accounting estimates since December 31, 2012.

RESULTS OF OPERATIONS

Three months ended September 30, 2013 compared to three months ended September 30, 2012, and nine months ended September 30, 2013 compared to nine months ended September 30, 2012.

Revenues

Revenues increased \$1,099,290 or 237% to \$1,562,419 for the quarter ended September 30, 2013 from \$463,129 for the comparative quarter last year. For the nine months ended September 30, 2013, revenues increased \$1,089,472 or 60% to \$2,893,460 from \$1,803,988 for the same nine-month period last year. The increase in revenues for the quarter and nine months ended September 30, 2013 is mainly due to the revenue recognition of an international tender of \$1,215,532 during the quarter ended September 30, 2013. No such tender was awarded during the nine months ended September 30, 2012 as such tenders are procured by international agencies contractually on an as-needed basis, at their discretion, historically occurring over a 2 year cycle.

Gross Income

Gross income increased \$564,564 or 144% to \$957,812 for the quarter ended September 30, 2013 from \$393,248 for the same comparative quarter last year. For the nine months ended September 30, 2013, gross income increased \$628,255 or 48% to \$1,935,198 from \$1,306,943 for the same period last year. Gross income, as a percentage of revenues, decreased by 24% to 61% for the quarter ended September 30, 2013 from 85% from the same comparative period last year. Gross income, as a percentage of revenues, decreased by 5% to 67% for the nine months ended September 30, 2013 from 72% from the same comparative period last year. The decrease in gross income as a percentage of revenues for the quarter and nine months ended September 30, 2013 relative to the comparative periods last year is mainly attributable to decreased margins recorded on the tender awarded in 2013 and margin fluctuation as a result of European product sales mix.

Selling, General and Administrative Expense

Selling, general and administrative expense increased \$258,936 or 560% to \$305,161 for the quarter ended September 30, 2013 from \$46,225 for the same comparative period last year. For the nine months ended September 30, 2013, selling, general and administrative expense increased \$298,618 or 232% to \$427,322 from \$128,704. For the three months ended September 30, 2013, selling, general and administrative expense, as a percentage of revenues increased to 20% compared to 10% for the same period last year. For the nine months ended September 30, 2013, selling, general and administrative expense, as a percentage of revenues slightly increased to 15% from 7% compared to the same period last year. The increase in selling, general and administrative expenses is mainly the result of incremental tender related selling expenses in the three and nine months ended September 30, 2013 compared to the same comparative period in 2012.

Research and Development Expense

Research and development expense decreased \$6,210 or 2% to \$277,453 for the quarter ended September 30, 2013 from \$283,663 for the same comparative quarter last year. For the nine months ended September 30, 2013, research and development expense decreased \$279,663 or 28% to \$720,190 from \$999,853 for the nine months ended September 30, 2012. Research and development expense, as a percentage of revenues, decreased by 43% to 18% for the quarter ended September 30, 2013 from 61% for the same quarter last year. Research and development expense, as a percentage of revenues, decreased by 30% to 25% for the nine months ended September 30, 2013 from 55% for the same period last year. The decrease in research and development expenses is mainly due to a decrease in the registration and advisory charges related to the United States' Food and Drug Administration priority review voucher for the nine months ended September 30, 2013 compared to the same period last year.

Depreciation of Property, Plant and Equipment

Depreciation expense decreased \$1,720 to \$nil for the quarter ended September 30, 2013 from \$1,720 for the same period last year. For the nine months ended September 30, 2013, depreciation expense decreased \$5,161 to \$nil from \$5,161 for the same period last year. The decrease in depreciation expense is attributable to property, plant and equipment assets having been fully amortized during 2012.

Foreign Exchange (Gain) Loss

During the quarter ended September 30, 2013, the Impavido product business recorded a foreign exchange gain of \$37,404 mainly as a result of the strengthening of the Euro relative to the Canadian dollar ("CAD") impacting the Impavido product business' net monetary position held in this currency during the quarter ended September 30, 2013.

During the quarter ended September 30, 2012, the Impavido product business recorded a foreign exchange loss of \$3,422 mainly as a result of the weakening of the Euro relative to the CAD impacting the Impavido product business' net monetary position held in this currency during the quarter ended September 30, 2012.

During the nine months ended September 30, 2013, the Impavido product business recorded a foreign exchange gain of \$91,340 mainly as a result of the strengthening of the Euro relative to CAD impacting the Impavido product business' net monetary position held in this currency during the nine months ended September 30, 2013.

During the nine months ended September 30, 2012, the Impavido product business recorded a foreign exchange gain of \$16,308 mainly as a result of the strengthening of the CAD relative to the Euro impacting the Impavido product business' net monetary position held in this currency during the nine months ended September 30, 2012.

Provision for Income Taxes

The provision for income taxes increased \$7,928 or 615% to \$9,218 for the quarter ended September 30, 2013 from \$1,290 for the same comparative quarter last year. For the quarter ended September 30, 2013, the effective tax rate was 2.3% compared to 2.2%, for the quarter ended September 30, 2012.

The provision for income taxes increased \$15,586 or 410% to \$19,389 for the nine months ended September 30, 2013 from \$3,803 for the same comparative period last year. For the nine months ended September 30, 2013, the effective tax rate was 2.2% compared to 2.0%, for the nine months ended September 30, 2012.

The Impavido product business has the following tax pools detailed below which may be applied against taxable income:

	<u>Available \$</u>	<u>Recognized \$</u>	<u>Expiration</u>
Non-capital tax losses			
Barbados	156,772	156,772	2021
United States	<u>576,262</u>	<u>—</u>	<u>2027-2033⁽ⁱ⁾</u>

- (i) The major portion of the US non-capital tax losses are subject to certain restrictions by the application of Section 382 of the Internal Revenue Code of the United States

The amount of the tax benefit claimed in the current and prior years, is subject to audit by the taxation authorities and could be reduced by a material amount in the future.

Net income and comprehensive income

Due to the factors set forth above, net income and comprehensive income increased \$343,506 or 604% to \$400,434 for the quarter ended September 30, 2013 from \$56,928 for the same comparative quarter last year. For the nine months ended September 30, 2013, net income and comprehensive income increased \$670,957 or 361% to \$856,687 from \$185,730 for the nine months ended September 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

In the preparation of the carve-out interim financial statements no cash is allocated to the Impavido product business as the cash position is distributed to / from Paladin. Owner's Net Investment represents Paladin's original cash investment offset by the accumulated net income of the Impavido product business' operations further offset by the accumulated net cash withdrawals by Paladin. Working capital (current assets less current liabilities) decreased \$780,224 to \$89,309 at September 30, 2013 from \$869,533 at December 31, 2012.

Cash flows from operating activities increased by \$1,479,000 to \$1,479,000 for the nine months ended September 30, 2013 from \$nil for the same period last year. Cash flows from operating activities represent the cash flows from net income, excluding revenues and expenses not affecting cash, principally depreciation and deferred taxes in addition to net changes in non-cash balances relating to operations.

During the quarter ended September 30, 2013, the Impavido product business transferred \$1,479,000 to its owner, Paladin.

These financial statements have been prepared on the basis of accounting principles applicable for a going concern which assumes that the Impavido product business will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Impavido product business are dependant of its ability to receive continued financial support, materialize on the development of its intangible assets, complete equity financings, or generate profitable operations in the future. The financial statements do not include any adjustments to assets and liabilities should the Impavido product business be unable to continue as a going concern.

RELATED PARTY TRANSACTIONS

The Impavido product business engages Paladin and its wholly owned subsidiaries to provide various services on its behalf resulting in a charge to selling, general and administrative expenses on the carve-out statements of income and comprehensive income of \$85,000 and \$127,000 for the three months and nine months ended September 30, 2013, respectively (2012: \$21,000 and \$63,000). In addition, the services provided resulted in a charge to research and development expenses on the carve-out statements of income and comprehensive income of \$19,000 and \$61,000 for the three months and nine months ended September 30, 2013, respectively (2012: \$21,000 and \$63,000). All transactions with related parties are carried out in the normal course of operations.

COMMITMENTS

A certain pharmaceutical product license agreement requires that the Impavido product business make royalty payments of 1.5% of the net sales of its product.

SCHEDULE “T”
PROPOSED KNIGHT THERAPEUTICS STOCK OPTION PLAN

ARTICLE 1

GENERAL

1.1 Purpose

The purpose of this Plan is to advance the interests of the Company and/or its Affiliates by (a) providing Eligible Persons with additional performance incentives; (b) encouraging Share ownership by Eligible Persons; (c) increasing the proprietary interest of Eligible Persons in the success of the Company and/or its Affiliates; (d) encouraging Eligible Persons to remain with the Company and/or its Affiliates; and (e) attracting new Directors, Officers, Employees and Consultants to the Company and/or its Affiliates.

1.2 Definitions

For the purposes of this Plan, the following terms have the respective meanings set forth below:

“Affiliate” has the meaning ascribed thereto in the TSXV Policies;

“Associate” has the meaning ascribed thereto in the TSXV Policies;

“Blackout Period” means any period of time during which the Company has determined that one or more Optionees may not trade in any securities of the Company, including exercising any Options held by such Optionees, because they may be in possession of material undisclosed information pertaining to the Company;

“Board” means the board of directors of the Company;

“Change of Control” means the occurrence of any one or more of the following:

- (a) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or entity, as a result of which the holders of Shares prior to the completion of the transaction hold less than 50% of the outstanding shares or interests of the successor Legal Person after completion of the transaction;
- (b) the sale, lease, exchange or other disposition, in a single transaction or a series of related transactions, of assets, rights or property of the Company and/or any of its subsidiaries which have an aggregate book value greater than 50% of the book value of the assets, rights and property of the Company and its subsidiaries on a consolidated basis to any other person or entity, other than a disposition to a wholly-owned subsidiary of the Company in the course of a reorganization of the assets of the Company and its subsidiaries;
- (c) a resolution is adopted to wind up, dissolve or liquidate the Company;
- (d) any person, entity or group of persons or entities acting jointly or in concert, other than an Insider (an **“Acquiror”**) acquires, or acquires control (including, without limitation, the right to vote or direct the voting of) of voting securities of the Company which, when added to the voting securities owned of record or beneficially by the Acquiror or which the Acquiror has the right to vote or in respect of which the Acquiror has the right to direct the voting, would entitle the Acquiror (or its Associates or Affiliates) to cast or to direct the casting of 50% or more of the votes attached to all of the Company’s outstanding voting securities which may be cast to elect directors of the Company or the successor corporation (regardless of whether a meeting has been called to elect directors);
- (e) as a result of in connection with: (i) a contested election of directors; (ii) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Company or any of its Affiliates and another corporation or entity, the nominees named in the most recent management information circular of the Company for election to the Board shall not constitute a majority of the Board; or
- (f) the Board adopts a resolution to the effect that a Change of Control (as defined herein) has occurred or is imminent;

“Charitable Options” has the meaning ascribed thereto in Section 3.4(a);

“Committee” has the meaning ascribed thereto in Section 2.1;

“Company” means Knight Therapeutics Inc., a company incorporated under the *Canada Business Corporations Act* and its successor corporations;

“Consultant” means an individual (other than an Employee or a Director of the Company) or Legal Person that:

- (a) is engaged to provide, on an ongoing bona fide basis, consulting, technical, management or other services to the Company or to an Affiliate of the Company, other than services provided in relation to a Distribution;
- (b) provides the services under a written contract between the Company or an Affiliate and the individual or the Legal Person, as the case may be;
- (c) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the affairs and business of the Company or an Affiliate of the Company; and
- (d) has a relationship with the Company or an Affiliate of the Company that enables the individual to be knowledgeable about the business and affairs of the Company;

“Consultant Company” means a Consultant that is a Legal Person;

“Director” means a member of the Board;

“Discounted Market Price” has the meaning ascribed thereto in the TSXV Policies;

“Disinterested Shareholder Approval” means approval by a majority of the votes cast by all the Company’s shareholders at a duly constituted shareholders’ meeting, excluding votes attached to shares beneficially owned by Insiders to whom Options may be granted under this Plan and their Associates;

“Distribution” has the meaning ascribed thereto in the TSXV Policies;

“Eligible Person” means (a) a Director, Officer, Employee or Consultant of the Company or of an Affiliate of the Company, (b) a Management Company Employee, (c) a company wholly-owned by individuals who are Eligible Persons, (d) Consultant Companies; and (e) Eligible Charitable Organizations.

“Eligible Charitable Organizations” has the meaning ascribed thereto in the TSXV Policies;

“Employee” has the meaning ascribed thereto in the TSXV Policies;

“Insider” means:

- (a) an insider as defined under the TSXV Policies; and
- (b) an Associate of any person who is an Insider by virtue of paragraph (a) above;

“Legal Person” unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

“Investor Relations Activities” has the meaning ascribed thereto in the TSXV Policies;

“Management Company Employee” means an individual employed by a person providing management services to the Company or an Affiliate of the Company, which are required for the ongoing successful operation of the Company or an Affiliate, but excluding a person engaged in Investor Relations Activities;

“Market Price” has the meaning ascribed thereto in the TSXV Policies;

“Officer” means an officer of the Company or of an Affiliate of the Company;

“Option” means an option granted to an Eligible Person in accordance with the terms of this Plan to purchase Shares from the Company upon the exercise of the Option and upon payment of the exercise price;

“Option Agreement” means a written agreement between the Company and an Optionee that sets forth the terms, conditions and limitations applicable to an Option;

“Option Period” means the period during which an Option may be exercised;

“Optioned Shares” means the Shares for which an Option is or may become exercisable;

“Optionee” means an Eligible Person to whom an Option has been granted under the terms of the Plan or who holds an Option that is otherwise subject to the terms of the Plan;

“Outstanding Shares” means, at any particular time, the number of Shares then issued and outstanding, calculated on a non-diluted basis;

“Plan” means this Stock Option Plan of the Company, as amended, supplemented or replaced from time to time;

“Retirement” means, in respect of an Employee, Officer or Consultant of the Company or its Affiliate, ceasing to be an Employee, Officer or Consultant of the Company or its Affiliate, as the case may be, after attaining a stipulated age in accordance with the Company’s retirement policy in effect from time to time or earlier with the Company’s consent;

“Shares” means the common shares in the capital of the Company as constituted on the date hereof and any shares of the Company into which such common shares may be changed, reclassified, subdivided, consolidated or converted, whether by reason or an amalgamation, merger or other capital reorganization;

“Termination” means: (a) in the case of an Employee, the termination of the employment of the Employee by the Company or its Affiliate or cessation of employment of the employee with the Company or its Affiliate as a result of resignation or otherwise (other than through the Retirement of the Employee); (b) in the case of a Management Company Employee, the termination of the employment of the Management Company Employee by his or her employer or cessation of employment of the employee with his or his employer for any reason; (c) in the case of an Officer, the removal of or failure to re-appoint the individual as an Officer of the Company or its Affiliate (other than through Retirement of an Officer); and (iii) in the case of a Consultant, the termination of the services of a Consultant by the Company or its Affiliate (other than through the Retirement of a Consultant);

“TSXV” means the TSX Venture Exchange or any successor thereto;

“TSXV Policies” means the rules and policies of the TSXV, as amended, supplemented or replaced from time to time; and

“Withholding Tax Amount” has the meaning ascribed thereto in Section 6.1(b).

ARTICLE 2

ADMINISTRATION

2.1 Establishment of Committee

The Plan will be administered by the Board or, if appointed, by a special committee consisting of two or more Directors appointed or designated from time to time by the Board (such committee or, if no such committee is appointed or designated, the Board, is hereinafter referred to as the **“Committee”**).

2.2 Power and Authority of Committee

Subject to the provisions of the Plan, the Committee shall have authority to, among other things, (a) grant Options to purchase Shares to Eligible Persons; (b) determine the terms, including the limitations, restrictions and conditions, if any, upon such grants; (c) construe and interpret the Plan and all Option Agreements entered into thereunder, (d) define the terms used in the Plan and in all Option Agreements entered into thereunder, and (e) prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations necessary or advisable for the administration of the Plan. All determinations and interpretations made by the Committee shall be binding and conclusive on all parties, including, without limitation, all participants under the Plan and their heirs, successors, personal representatives and beneficiaries. No member of the Committee shall be liable for anything done or omitted to be done by such member, by any other member of the Committee or by any Officer of the Company, in connection with the performance of any duties under the Plan, except those which arise from wilful misconduct or as expressly provided by statute.

2.3 Costs of Administration

The Company shall pay all administrative costs of the Plan.

ARTICLE 3 **STOCK OPTION PLAN**

3.1 Eligibility

(a) Subject to the provisions of this Plan, the Committee may from time to time grant Options to purchase Shares to Eligible Persons. The granting of Options is entirely at the discretion of the Committee and nothing in this Plan shall be interpreted so as to give any person any right to participate in this Plan or to be granted Options hereunder. The granting of Options to any Eligible Person at any time does not guarantee such Eligible Person the right to receive additional Options in the future. The Committee shall consider such factors as it deems pertinent in determining which Eligible Persons shall be entitled to participate in the Plan, to be granted Options hereunder and the amounts and terms of such Options.

(b) Subject to any applicable regulatory approvals, Options may also be granted under the Plan:

- (i) in exchange for outstanding Options granted by the Company or any predecessor Company thereof or any Affiliate thereof, whether such outstanding options were granted under the Plan, under any other stock option plan of the Company or any predecessor Company or any Affiliate thereof, or under any stock option agreement with the Company or any predecessor Company or Affiliate thereof; and
- (ii) in substitution for outstanding options of one or more other companies in connection with a plan of arrangement or exchange, amalgamation, merger, consolidation, acquisition of property or shares, or other reorganization between or involving such other companies and the Company or any of its Affiliates.

3.2 Number of Shares Reserved under the Plan

(a) The aggregate maximum number of Shares reserved for issuance under this Plan at any given time shall not exceed 10% of the Outstanding Shares as of the grant date of an Option hereunder, subject to adjustment in accordance with Section 3.3. If any Option granted pursuant to the Plan expires, is forfeited, terminated or otherwise lawfully cancelled for any reason whatsoever without having been exercised in full, the Optioned Shares that were issuable thereunder shall be returned to the Plan and will be available again for an Option grant under the Plan.

(b) The aggregate number of Shares reserved for issuance pursuant to Options granted to Insiders at any given time, or within a 12-month period, shall not exceed 10% of the Outstanding Shares, unless Disinterested Shareholder Approval is obtained. The aggregate number of Shares reserved for issuance pursuant to Options granted to any one person or entity within any 12-month period shall not exceed 5% of the Outstanding Shares, unless Disinterested Shareholder Approval is obtained.

(c) The aggregate number of Options granted to any one Consultant in any 12-month period must not exceed 2% of the Outstanding Shares, calculated at the date the Option is granted.

(d) The aggregate number of Options granted to persons employed to provide Investor Relations Activities in any 12-month period must not exceed 2% of the Outstanding Shares, calculated at the date the Option is granted.

3.3 Adjustment in Shares Subject to the Plan

(a) Following the date an Option is granted, the exercise price for and the number of Optioned Shares which are subject to an Option will be adjusted, with respect to the then unexercised portion thereof, by the Committee from time to time (on the basis of such advice as the Committee considers appropriate, including, if considered appropriate by the Committee, a certificate of the auditor of the Company) in the events and in accordance with the provisions and rules set out in this Section 3.3, with the intent that the rights of Optionees under their Options are, to the extent possible, preserved notwithstanding the occurrence of such events. The Committee will conclusively determine any dispute that arises at any time with respect to any adjustment pursuant to such provisions and rules, and any such determination will be binding on the Company, the Optionee and all other affected parties.

(b) The number of Optioned Shares to be issued on the exercise of an Option shall be adjusted from time to time to account for each dividend of Shares (other than a dividend in lieu of cash dividends paid in the ordinary course), so that upon exercise of the Option for an Optioned Share the Optionee shall receive, in addition to such Optioned Share, an additional number of Shares (“**Additional Shares**”), at no further cost, to adjust for each such dividend of Shares. The adjustment shall take into account every dividend of Shares that occurs between the date of the grant of the Option and the date of exercise of the Option for such Optioned Share. If there has been more than one such dividend, the adjustment shall also take into account that the dividends that are later in time would have been distributed not only on the Optioned Share had it been outstanding, but also on all Additional Shares which would have been outstanding as a result of previous dividends.

(c) If the Shares are changed into or exchanged for a different number of Shares or into or for other securities of the Company or securities of another corporation or entity, whether through an arrangement, amalgamation or other similar procedure or otherwise, or a share recapitalization, subdivision or consolidation, then on each exercise of the Option which occurs following such events, for each Optioned Share for which the Option is exercised, the Optionee shall instead receive the number and kind of shares or other securities of the Company or other corporation or entity into which such Optioned Share would have been changed or for which such Optioned Share would have been exchanged if it had been outstanding on the date of such event.

(d) If the Shares are changed into or exchanged for a different number of Shares or into or for other securities of the Company or securities of another corporation or entity, in a manner other than as specified in Sections 3.3(b) or 3.3(c), then the Committee, in its sole discretion, may make such adjustment to the securities to be issued pursuant to any exercise of the Option and the exercise price to be paid for each such security following such event as the Committee in its sole and absolute discretion determines to be equitable to give effect to the principle described in Section 3.3(a), and such adjustments shall be effective and binding upon the Company and the Optionee for all purposes.

(e) If the Company distributes, by way of a dividend or otherwise, to all or substantially all holders of Shares, property, evidences of indebtedness or shares or other securities of the Company (other than Shares) or rights, options or warrants to acquire Shares or securities convertible into or exchangeable for Shares or other securities or property of the Company, other than as a dividend in the ordinary course, then, if the Committee, in its sole discretion, determines that such action equitably requires an adjustment in the exercise price under any outstanding Option or in the number(s) of Optioned Shares subject to any such Option, or both, such adjustment may be made by the Committee and shall be effective and binding on the Company and the Optionee for all purposes.

(f) No adjustment or substitution provided for in this Section 3.3 shall require the Company to issue a fractional Share in respect of any Option, and the total adjustment with respect to each Option shall be limited accordingly.

(g) The grant or existence of an Option shall not in any way limit or restrict the right or power of the Company to effect adjustments, reclassifications, reorganizations, arrangements or changes of its capital or business structure, or to amalgamate, merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

3.4 Charitable Options

(a) The aggregate number of Options granted and outstanding to Eligible Charitable Organizations (“**Charitable Options**”) shall not at any time exceed 1% of the issued Shares of the Company, as calculated immediately subsequent to the grant of any Options to Eligible Charitable Organizations.

(b) A Charitable Option may contain anti-dilution provisions to cover stock splits or consolidations, share reclassifications, payment of stock dividends and other distributions; however, the terms and conditions of a Charitable Option may not be amended or made subject to amendment after its grant other than to give effect to such anti-dilution provisions or to provide for the cancellation of the Charitable Option in order to enable the Company to comply with the limitations set forth in the TSXV Policies.

(c) A Charitable Option must expire after the earlier of:

- (i) a date that is not more than 10 years from the grant date of the option; and
- (ii) the 90th day following the date that the holder of the Charitable Option ceases to be an Eligible Charitable Organization.

ARTICLE 4

TERMS OF OPTIONS

4.1 Option Period

(a) The Option Period for an Option shall be determined by the Committee at the time the Option is granted and may be up to ten (10) years from the date the Option is granted. Subject to the applicable maximum Option Period provided for in this Section 4.1(a) and subject to applicable regulatory requirements and approvals, the Committee may extend the Option Period of an outstanding Option beyond its original expiration date (whether or not such Option is held by an Insider). Any Option not exercised within the Option Period fixed for its exercise shall terminate and become void and of no effect.

(b) Notwithstanding paragraph (a) above, where the expiry date for an Option occurs during a Blackout Period, the expiry date for such Option shall be extended to the date that is ten business days following the end of such Blackout Period, subject to the conditions set forth in the TSXV Policies.

4.2 Vesting of Options

(a) Subject to the provisions of this Plan, TSXV Policies, the rules of any securities regulatory authority having jurisdiction over the Company and all applicable laws, the Committee may determine when an Option will become exercisable and may determine that the Option will be exercisable immediately upon the date of grant, in instalments or pursuant to a vesting schedule.

(b) Notwithstanding paragraph (a) above, Options granted to persons performing Investor Relations Activities must, at the very least, vest in stages over 12 months, with no more than 25% of the Options vesting in any three-month period.

(c) In the event that no specific determination is made by the Committee with respect to the vesting of any particular Options, all Options shall vest in equal tranches of 25% per annum on each anniversary of grant.

4.3 Exercise of Options

(a) An Optionee may exercise, in whole or in part, any Option that has vested in accordance with its terms by delivering to the Company a notice of exercise, in a form to be determined by the Committee in its discretion, specifying the number of Optioned Shares being acquired pursuant to the Option. The exercise of any Option will be contingent upon receipt by the Company of payment in full for the exercise price of the Optioned Shares being purchased in cash by way of certified cheque, bank draft or electronic transfer of immediately available funds.

(b) If an Option is exercised for fewer than all of the Optioned Shares for which the Option has then vested, the Option shall remain in force and exercisable for the remaining Optioned Shares for which the Option has then vested, according to the terms of such Option.

(c) As soon as practicable following the receipt by the Company of the notice of exercise and payment in full for the Optioned Shares being acquired, the Company will, or will cause its transfer agent to, issue a certificate to the Optionee for the appropriate number of Optioned Shares acquired by such Optionee. If required by applicable securities laws or TSXV Policies, such certificate will bear the legend referred to in Section 4.4(a)(ii).

4.4 Exercise Price

The Committee shall establish the exercise price of an Option at the time each Option is granted, subject to the following conditions:

- (a) If the Shares are listed on the TSXV,
 - (i) then the exercise price shall not be less than the minimum prevailing price permitted by TSXV Policies;
 - (ii) if the exercise price of any Option granted is based on the Discounted Market Price rather than the Market Price, all such Options and any Optioned Shares issuable upon the exercise thereof will be subject to a four-month hold period commencing on the grant date, and the certificates representing any Optioned Shares issued prior to the expiry of the hold period will bear the legend required by TSXV Policies;
 - (iii) if an Option is granted within 90 days of a Distribution by a prospectus, the exercise price shall not be less than the price that is the greater of the minimum prevailing price permitted by TSXV Policies and the per Share price paid by the public investors for Shares acquired under the Distribution by the prospectus, with such 90-day period beginning on the date a final receipt is issued for the prospectus;

- (b) If the Shares are listed on a stock exchange other than the TSXV, the exercise price shall not be less than the minimum prevailing price permitted by the rules of the stock exchange on which the Shares are listed at the time the Option is granted.

4.5 Option Agreement

(a) Upon the grant of an Option to an Optionee, the Company and the Optionee shall enter into an Option Agreement, in form and substance satisfactory to the Committee, setting out, among other things, the number of Optioned Shares subject to the Option, the exercise price per Optioned Share, the Option Period and, if applicable, the vesting schedule for the Option, and incorporating the terms and conditions of the Plan and any other requirements of regulatory authorities and stock exchanges having jurisdiction over the securities of the Company, together with such other terms and conditions as the Committee may determine in accordance with the Plan.

(b) In the case of an Option granted to an Eligible Person who is an Employee, Consultant or Management Company Employee of the Company or any of its Affiliates, the Option Agreement pertaining to such Option shall contain a representation by both the Company and the Optionee that the Optionee is a bona fide Employee, Consultant or Management Company Employee, as the case may be, of the Company or one or more of its Affiliates. In the case of an Option granted to an Eligible Charitable Organization, the Option Agreement pertaining to such Option shall contain a representation by such Eligible Charitable Organization that it meets the definition of Eligible Charitable Organization prescribed by the TSXV Policies.

4.6 Termination, Retirement or Death

Unless otherwise determined by resolution of the Committee, any Options granted under this Plan shall terminate and shall cease to be exercisable in the following circumstances:

- (a) in the case of an Optionee who is an Officer, Employee, Management Company Employee or Consultant of the Company or of an Affiliate of the Company, such Optionee,
 - (i) is Terminated for cause, in which case all Options granted to such Optionee, whether vested or unvested, shall immediately terminate and cease to be exercisable on the effective date of such Optionee's Termination; or
 - (ii) is Terminated for any reason other than cause, Retirement or death, in which case such Optionee may exercise any Option granted hereunder, to the extent that such Option was exercisable and had vested on the date of Termination, until the date that is the earlier of (i) the expiry date of the Option and (ii) the date that is 30 days after the effective date of such Optionee's Termination;
- (b) in the case of an Optionee who is a Director of the Company or of an Affiliate of the Company, such Optionee,
 - (i) is removed or is not re-elected as a Director of the Company or of an Affiliate of the Company, in which case all Options granted to such Optionee, whether vested or unvested, shall immediately terminate and cease to be exercisable on the effective date of such Optionee's removal or failure to be re-elected; or
 - (ii) resigns as a Director of the Company or of an Affiliate of the Company, in which case such Optionee may exercise any Option granted hereunder, to the extent that such Option was exercisable and had vested on the date of resignation, until the date that is the earlier of (i) the expiry date of the Option and (ii) the date that is 30 days after the effective date of such Optionee's resignation;
- (c) in the case of an Optionee who is an Officer, Employee or Consultant of the Company or of an Affiliate of the Company and such Optionee Retires, such Optionee may exercise any Option granted hereunder, to the extent that such Option was exercisable and had vested on the date of Retirement, until the date that is the earlier of (i) the expiry date of the Option and (ii) the date that is 30 days after the effective date of such Optionee's Retirement; and

- (d) if an Optionee dies, such Optionee's legal personal representatives, heirs, executors or administrators may exercise any Option granted hereunder, to the extent that such Option was exercisable and had vested on the date of death, until the date that is the earlier of (i) the expiry date of the Option and (ii) the date that is six months after the date of death.

4.7 Acceleration of Vesting

Upon the occurrence of a Change of Control or if a take-over bid is made for any or all of the outstanding Shares, the Board may, in its sole and absolute discretion and if permitted by TSXV Policies and applicable securities laws, determine by resolution that all outstanding Options shall immediately become exercisable in full by the holders thereof, notwithstanding any vesting provisions or other restrictions or conditions that would otherwise attach to such Options, provided however that the expiry date of any outstanding Option may not be extended beyond the 10-year maximum term prescribed by Section 4.1. For greater certainty and without limiting the generality of the foregoing, the Board may, in its sole and absolute discretion, determine by resolution that any Options that remain unexercised upon the occurrence of a Change of Control shall terminate and cease to be exercisable immediately, without payment of any consideration of any nature or kind to the holder(s) thereof. All determinations made by the Board pursuant to this Section 4.7 shall be binding for all purposes of the Plan and on all parties concerned.

4.8 Non-Assignability

Neither the Options nor the benefits and rights of any Optionee under any Option or under the Plan or any Option Agreement shall be assignable or otherwise transferable, except as specifically provided in Section 4.6(d) in the event of the death of the Optionee. During the lifetime of the Optionee, all such Options, benefits and rights may only be exercised by the Optionee.

4.9 Employment

Nothing contained in the Plan shall confer upon any Optionee, or any person employing a Management Company Employee, any right with respect to employment or continuance of employment with, or the provision of services to, the Company or any of its Affiliates, or interfere in any way with the right of the Company or any of its Affiliates to terminate the Optionee's employment or the services of any such person at any time. Participation in the Plan by an Optionee is voluntary.

4.10 No Rights as Shareholder

Nothing contained in this Plan, in any Option Agreement or in any Option granted hereunder shall be deemed to give any Optionee any interest in or title to any Shares or any rights as a shareholder of the Company or any other legal or equitable right against the Company whatsoever other than as set forth in this Plan and pursuant to the exercise of any Option in accordance with the provisions of the Plan and the applicable Option Agreement.

ARTICLE 5 **AMENDMENT AND TERMINATION**

5.1 Amendment or Termination of Plan

The Committee reserves the right to amend or terminate the Plan at any time if and when it is deemed advisable in the absolute discretion of the Committee; provided, however, that no such amendment or termination shall adversely affect any outstanding Options granted under the Plan without the consent of the affected Optionee(s). Any amendment to the Plan shall also be subject to acceptance of such amendment or amended Plan for filing by the TSXV, if applicable, and, where required by the TSXV, the approval of the shareholders of the Company.

5.2 Amendment of Outstanding Options

The Committee may amend any outstanding Option granted under the Plan with the consent of the affected Optionee(s) and the TSXV, if required, subject to the following conditions:

- (a) if the Optionee is an Insider at the time of the amendment, the Company must obtain Disinterested Shareholder Approval, unless the amendment relates to extending the length of the term of the Option;
- (b) where an amendment is made to reduce the exercise price of an outstanding Option,
 - (i) if the exercise price is reduced to less than the Discounted Market Price, the hold period referred to in Section 4.4(a)(ii) shall apply from the date of amendment;
 - (ii) at least six months shall have elapsed since the later of:
 - (A) the commencement of the term of the Option;
 - (B) the date the Shares commenced trading on the TSXV; and
 - (C) the date the Option exercise price was last amended; and
- (c) if the length of the Option Period of any Option is extended, any such extension shall be treated as a grant of a new Option and must comply with the pricing and other requirements of the TSXV Policies and the Option must have been outstanding for at least one year prior to the extension of the Option Period.

ARTICLE 6 **MISCELLANEOUS**

6.1 Securities Regulation and Tax Withholding

(a) Where necessary to enable the Company to rely on an exemption from the requirement to register the Optioned Shares or to file a prospectus or use a registered dealer to distribute the Optioned Shares under securities laws applicable to the securities of the Company in any jurisdiction, an Optionee, upon the acquisition of any Optioned Shares by the exercise of an Option and as a condition to such exercise, shall provide to the Committee such evidence as the Committee requires to demonstrate that the Optionee or recipient will acquire such Optioned Shares with investment intent (i.e., for investment purposes) and not with a view to their Distribution, including an undertaking to that effect in a form acceptable to the Committee. The Committee may cause a legend or legends to be placed upon any certificates for the Optioned Shares to make appropriate reference to applicable resale restrictions and the Optionee or recipient shall be bound by such restrictions. The Committee may also take such other action or require such other action or agreement by such Optionee or proposed recipient as may from time to time be necessary to comply with applicable securities laws. This provision shall in no way obligate the Company to undertake the registration or qualification of any Options or the Optioned Shares under any securities laws applicable to the securities of the Company.

(b) Upon the exercise of an Option, the Optionee shall prior to or concurrently with the delivery by the Company of any certificates representing Optioned Shares issuable pursuant to the exercise of the Option, make arrangements satisfactory to the Company regarding payment of any federal, state, provincial, local or other taxes of any kind required by law to be paid in connection with the exercise of the Option. In order to satisfy the Company's or any Affiliate's obligation to remit an amount to a taxation authority on account of such taxes in respect of the exercise, transfer or other disposition of an Option (the "**Withholding Tax Amount**"), each of the Company and such Affiliate shall have the right, at its discretion, to:

- (i) retain and withhold amounts from any amount or amounts owing to the Optionee, whether under this Plan or otherwise;
- (ii) require the Optionee to pay to the Company the Withholding Tax Amount as a condition of exercise of the Option by the Optionee; and/or

- (iii) withhold from the Optioned Shares otherwise deliverable to the Optionee on exercise of the Option such number of Optioned Shares as have a market value not less than the Withholding Tax Amount and cause such withheld Optioned Shares to be sold on the Optionee's behalf to fund the Withholding Tax Amount, provided that any proceeds from such sale in excess of the Withholding Tax Amount shall be promptly paid over to the Optionee.

(c) Issuance, transfer or delivery of certificates for Optioned Shares acquired pursuant to the Plan may be delayed, at the discretion of the Committee, until the Committee is satisfied that the requirements of applicable laws and regulations, and applicable rules of regulatory authorities, have been met.

6.2 Regulatory Acceptances

(a) Upon listing of the Shares on the TSXV, the Plan is subject to the acceptance of the Plan for filing by the TSXV, and the Committee is authorized to amend the Plan from time to time in order to comply with any changes required from time to time by such applicable regulatory authorities, whether as conditions to the acceptance for filing of the Plan or otherwise, provided that no such amendment will in any way derogate from the rights held by Optionees holding Options (vested or unvested) at the time thereof without the consent of such Optionees.

(b) The obligation of the Company to issue and deliver Optioned Shares pursuant to the exercise of any Options granted under the Plan is subject to the acceptance of the Plan for filing by the TSXV. If any Optioned Shares cannot be issued to any Optionee for any reason, including, without limitation, the failure to obtain such acceptance for filing, then the obligation of the Company to issue such Optioned Shares shall terminate and any amounts paid to the Company for such Optioned Shares shall be returned to the Optionee as soon as practicable without interest or deduction.

6.3 No Representation or Warranty

The Company makes no representation or warranty as to the future market value of Optioned Shares issued in accordance with the provisions of this Plan or to the effect of the *Income Tax Act* (Canada) or any other taxing statute governing the Options or the Optioned Shares issuable thereunder or the tax consequences to an Optionee. Compliance with applicable securities laws as to the disclosure and resale obligations of each Optionee is the responsibility of such Optionee and not the Company.

6.4 Other Compensation Arrangements

Nothing contained in the Plan shall prevent the Company or any of its Affiliates from adopting or continuing in effect other compensation arrangements (subject to shareholder approval if such approval is required by the TSXV) and such arrangements may be either generally applicable or applicable only in specific cases.

6.5 Financial Assistance

The Company is authorized, in its sole discretion, to provide financial assistance to Optionees to purchase Optioned Shares under this Plan, subject to applicable laws and the rules and policies of any securities regulatory authority, stock exchange or quotation system with jurisdiction over the Company or a trade in securities of the Company. Any financial assistance so provided will be repayable with full recourse and the term of any such financial assistance shall not exceed the term of the Option to which the financial assistance applies.

6.6 Governing Law

The validity, construction and effect of the Plan, the grants of Options, the issue of Optioned Shares, any rules and regulations relating to the Plan or any Option Agreement, and all determinations made and actions taken pursuant to the Plan, shall be governed by and determined in accordance with the laws of the Province of Quebec and the laws of Canada applicable therein.

6.7 Severability

If any provision of the Plan or any Option Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any person or Option, or would disqualify the Plan or any Option under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Option, such provision shall be stricken as to such jurisdiction, person or Option and the remainder of the Plan and any such Option Agreement shall remain in full force and effect.

6.8 Headings

Headings are given to the sections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

6.9 Effective Date of Plan

The Plan shall be effective as of ●, 2014, subject to its approval by the shareholders of the Company and, at the relevant time, acceptance for filing by the TSXV pursuant to Section 6.2(a).

Adopted by the Board: [insert date]

Accepted for filing by the TSXV: [insert date]

Approved by the Shareholders: [insert date]

SCHEDULE “J”

PROPOSED KNIGHT THERAPEUTICS EMPLOYEE SHARE PURCHASE PLAN

KNIGHT THERAPEUTICS INC.
EMPLOYEE AND DIRECTOR SHARE PURCHASE PLAN

1. DEFINITIONS

The following words and phrases shall have the following meanings unless there is something in the context inconsistent therewith:

- 1.1 “**Annual Income**” shall mean for a salaried Employee the annualized base salary of such Employee at the date of enrolment in the Plan or at such subsequent date as the Employee changes the amount of his or her Contributions to the Plan pursuant to Section 13 hereof, but excluding overtime, bonuses, travelling expenses, any special payments for extraordinary services and the cost of employee benefits paid for by the Corporation and shall mean for a non-salaried Employee the regular hourly base rate of such Employee at such date multiplied by two thousand and eighty (2,080);
- 1.2 “**Available Participation Amount**” shall mean in respect of any Participant or Former Participant, the Contributions accumulated and paid over to the Corporation for the account of the Participant or Former Participant during the relevant Contribution Period and not yet invested in Plan Common Shares by the Corporation on behalf of the Participant;
- 1.3 “**Board**” shall mean the Board of Directors of the Corporation or any authorized committee thereof as the same may be constituted from time to time;
- 1.4 “**Committee**” shall mean the Remuneration or Compensation Committee of the Board as the same may be constituted from time to time;
- 1.5 “**Common Shares**” shall mean common shares of the Corporation;
- 1.6 “**Contributions**” shall mean in respect of any Participant employed by the Corporation or any of its wholly-owned subsidiaries only the sums deducted by the Corporation or any of its wholly-owned subsidiaries from the payroll of such Participant for the account of such Participant and sums paid by such Participant for his other account;
- 1.7 “**Contribution Period**” shall mean the period beginning on any Purchase Date and ending on the day previous to the next Purchase Date;
- 1.8 “**Corporation**” shall mean Knight Therapeutics Inc. and, where applicable, includes its subsidiaries;
- 1.9 “**Employee**” shall mean any regular permanent employee of the Corporation and, at the date of enrolment in the Plan, has three (3) months of service with the Corporation;
- 1.10 “**Employer Contribution**” shall mean the contribution referred to in Section 7 hereof;
- 1.11 “**Enrolment Form**” shall mean the form with which a Participant may enrol in the Plan;
- 1.12 “**Former Participant**” shall mean a Participant who retires from the Corporation or dies;
- 1.13 “**Insider**” shall have the meaning ascribed to such term in the *Securities Act* (Quebec);
- 1.14 “**Market Price**” on any Purchase Date (or other specified date) means the five (5) day volume weighted average trading price of the Common Shares on the TSX-V ending on the last trading day immediately preceding the applicable Purchase Date (or other specified date);
- 1.15 “**Participant**” shall mean any (i) Employee or (ii) current member of the Board participating in the Plan;
- 1.16 “**Participation Amount**” shall mean the aggregate amount of contributions a Participant agrees to make to the Plan on a yearly basis as so indicated on the Participant’s Enrolment Form;
- 1.17 “**Plan**” shall mean this Employee Share Purchase Plan;

- 1.18 “**Plan Common Shares**” shall mean Common Shares and any fractions thereof purchased and held by the Corporation for the account of each Participant or Former Participant pursuant to the Plan;
- 1.19 “**Purchase Date**” shall mean on or about, but in any event as of, each of March 15th, June 15th, September 15th and December 15th in every calendar year;
- 1.20 “**Retention Period**” shall mean the period referred to in Section 8 hereof;
- 1.21 “**Subscription Period**” shall mean March 1st to March 14th, June 1st to June 14th, September 1st to September 14th, and December 1st to December 14th; and
- 1.22 “**TSX-V**” shall mean the TSX Venture Exchange.

Words importing the masculine gender shall include the feminine gender.

2. PURPOSE OF THE PLAN

The Plan is established for Employees and current members of the Board who desire to participate in the ownership of the Corporation through the purchase of Common Shares.

3. SHARES SUBJECT TO PLAN

- 3.1 The shares offered shall be Common Shares of the Corporation. The total number of Common Shares reserved for issuance under this Plan shall not exceed two hundred thousand (200,000) Common Shares of the Corporation.
- 3.2 In order to assist eligible employees to purchase Common Shares under the Plan, arrangements have been made with the Corporation to provide the eligible employees with means to accumulate, by way of at-source deductions, the necessary savings for the purchase of the Common Shares, up to the amount of the purchase.

4. ADMINISTRATION OF THE PLAN

- 4.1 The Plan is under the direction of the Board or the Committee, as the case may be, which, in addition to the specific powers conferred upon it hereunder, has full and complete authority to interpret the Plan and, subject to Section 15, to prescribe such rules and regulations and make such other determinations as it deems necessary or desirable to meet the objectives of and administer the Plan.
- 4.2 Subject to Section 8.2 hereof, the Corporation shall pay all administrative costs of the Plan.

5. PARTICIPATION

- 5.1 An Employee and current member of the Board becomes a Participant in the Plan by completing and filing the Enrolment Form with the Corporation during any Subscription Period.
- 5.2 The Participation Amount must not exceed a maximum of ten percent (10%) of the Employee’s Annual Income, calculated *pro rata* in respect of each Contribution Period. A current member of the Board’s Participation Amount shall be limited to \$10,000 per year.
- 5.3 The Contributions will commence with the first Purchase Date after the filing of the Enrolment Form and will be deducted from the Employee’s periodic payroll as nearly as possible in equal instalments based upon the Participation Amount. Notwithstanding the foregoing, Participants may, at any time during a Subscription Period, but only once in a given Subscription Period and no later than seven days prior to the end of the Subscription Period, make a cash payment for the purchase of Common Shares to be included as Plan Common Shares.

- 5.4 Participants may revise, subject to Section 5.2 hereof, their Participation Amounts during any Subscription Period by filing the appropriate form with the Corporation.
- 5.5 Notwithstanding the foregoing, Insiders of the Corporation may not purchase Plan Common Shares in excess of an amount which, when combined with all of the Corporation's other share compensation arrangements, could result in, at any time (i) the issuance to Insiders, within a one-year period, of a number of Common Shares exceeding ten percent (10%) of the outstanding Common Shares of the Corporation; or (ii) the issuance to any one Insider and such Insider's associates, within a one-year period, of a number of Common Shares exceeding five percent (5%) of the outstanding Common Shares.
- 5.6 The maximum number of Common Shares issuable to Insiders at any time under the Plan and any other share compensation arrangements shall be 10% of the outstanding Common Shares of the Corporation.

6. INVESTMENT OF AVAILABLE PARTICIPATION AMOUNT

- 6.1 The Contributions will be held by the Corporation during the Contribution period.
- 6.2 The Corporation will issue on each Purchase Date for and on behalf of each Participant the number of Common Shares equal to the quotient obtained by dividing the Available Participation Amount by the Market Price.
- 6.3 Any amounts resulting in fractional shares will either be added to the subsequent purchase period or in the case of Participant's withdrawal from the Plan will be remitted to the Participant.

7. EMPLOYER CONTRIBUTION

- 7.1 On each Purchase Date, for and on behalf of each Participant who is employed by the Corporation or Former Participant who so elects pursuant to Section 14.2 hereof,
- a) if the Market Price of the Common Shares on the Purchase Date is higher than the Market Price for the Contribution Period immediately preceding the eighth previous Purchase Date (the "**Relevant Contribution Period**"), the Corporation will contribute such amount that is sufficient to purchase twenty-five percent of the number of Common Shares purchased by the Participant during the Relevant Contribution Period;
 - b) if the Market Price of the Common Shares on the Purchase Date is lower than the Market Price during the Relevant Contribution Period, the Corporation will contribute such amount that is twenty-five percent of the Contribution made to the Plan by such Participant or Former Participant in the Relevant Contribution Period.

(collectively, the "**Employer Contribution**")

- 7.2 On such Purchase Date, the Corporation will use all of the Employer Contribution to purchase additional Common Shares for and on behalf of such Participant or Former Participant.

8. PLAN COMMON SHARES

- 8.1 The Common Shares issued by the Corporation under the Plan for and on behalf of a Participant or Former Participant will be registered in the name of the Participant or Former Participant and held by the Corporation or the Corporation for and on behalf of the Participant or Former Participant, as the case may be, as such person's personal representative. A Participant may request from the Corporation a certificate representing any number of the Plan Common Shares which are eligible for withdrawal pursuant to the terms of the Plan and any such request affecting Plan Common Shares which have been issued with Contributions shall first be applied to the Plan Common Shares which have been held in the Plan for the longest period of time. A request which results in the withdrawal of any of the Plan Common Shares issued less than eight consecutive Contribution Periods prior to such withdrawal request will result in all of the Plan Common Shares purchased in such Contribution Period or Contribution Periods, as the case may be, becoming ineligible for the Employer Contribution.

- 8.2 A Participant may request a certificate referred to in Section 8.1 hereof free of charge only once during any twelve (12) full months of participation in the Plan. Any additional request during such period will be subject to reasonable administration fees payable to the Corporation by the Participant.

9. STATEMENTS TO PARTICIPANTS

- 9.1 Each Participant will receive a statement (the “**Statement**”) from the Corporation as soon as practicable after each Purchase Date indicating:
- 9.1.1. the Contributions received by the Corporation during the preceding Contribution Period;
 - 9.1.2. the Available Participation Amount used by the Corporation to purchase Common Shares on the last Purchase Date;
 - 9.1.3. the Market Price of the Common Shares purchased on the last Purchase Date;
 - 9.1.4. the purchase price of the Common Shares purchased on the last Purchase Date;
 - 9.1.5. the number of Common Shares purchased on the last Purchase Date with the Available Participation Amount;
 - 9.1.6. the number of Common Shares purchased with reinvested cash dividends on the last Purchase Date;
 - 9.1.7. the Employer Contributions paid on the last Purchase Date;
 - 9.1.8. the number of Common Shares purchased with the Employer Contribution on the last Purchase Date;
 - 9.1.9. the cumulative number of Plan Common Shares eligible for Employer Contributions; and
 - 9.1.10. the market value of the Plan Common Shares being held for the Participant.
- 9.2 Notwithstanding Section 9.1 hereof, the Corporation may, with the prior consent of the Committee, revise the form and content of the Statement.

10. VOTING OF SHARES

All voting rights with respect to whole Plan Common Shares may be exercised by Participants or Former Participants and the Corporation shall execute and deliver, or cause to be executed and delivered, suitable proxies or voting powers to permit Participants or Former Participants to vote and shall otherwise facilitate the voting of such Plan Common Shares by Participants or Former Participants.

11. OFFER FOR SHARES OF THE CORPORATION

In the event that, at any time, an offer to purchase is made to all holders of Common Shares, notice of such offer shall be given by the Corporation to each Participant or Former Participant. A Participant or Former Participant who tenders Plan Common Shares which have not been held in the Plan for four consecutive Contribution Periods following their purchase shall forfeit the Employer Contribution with respect to such tendered Plan Common Shares, provided such tendered shares are taken up and paid for pursuant to such offer to purchase.

12. SUBDIVISION, CONSOLIDATION, CONVERSION OR RECLASSIFICATION

In the event that the common shares of the Corporation are subdivided, consolidated, converted or reclassified by the Corporation, or any other action of a similar nature affecting such common shares shall be taken by the Corporation, then the Plan Common Shares held by the Corporation for the benefit of the Participants or Former Participants shall be appropriately adjusted, and the maximum number of common shares reserved for issuance under the Plan shall be adjusted in the same manner

13. CHANGE, TERMINATION AND SUSPENSION OF CONTRIBUTIONS

- 13.1 Subject to Section 14 hereof, a Participant may not change the amount of or terminate his or her Contributions to the Plan otherwise than by completing and filing the appropriate form with the Corporation during a Subscription Period.

- 13.2 With the exception of Participants on maternity leave, in the event that a Participant, while remaining an Employee, is no longer being paid by the Corporation due to an authorized period of absence such as, but not limited to, leave of absence, temporary lay-off or disability, the Contributions of such Participant will be suspended until the Participant resumes employment with the Corporation. Notwithstanding the foregoing, such Participants may still benefit from employer contributions in respect of periods of time before such leave. Participants who temporarily cease being paid by the Corporation as a result of being on maternity leave may continue participation in the Plan during such period of maternity leave provided they furnish the Corporation with cash payments equivalent to the Contributions which would normally be deducted from such Participant's payroll.

14. DEATH, TERMINATION OF EMPLOYMENT AND FORMER PARTICIPANT

- 14.1 In the event of termination of employment of a Participant and in the event a Participant becomes a Former Participant, participation in the Plan will automatically terminate and the Corporation will, unless otherwise instructed, remit to the Participant or to the Former Participant or his/her estate, as the case may be, a certificate registered in the Participant's or Former Participant's name, as the case may be, representing the number of whole Plan Common Shares standing to the credit of such Participant or Former Participant, as the case may be, together with a cash payment for any fraction of a Plan Common Share (calculated in accordance with Section 6.3 hereof) and any Available Participation Amount.
- 14.2 Notwithstanding Section 14.1 hereof, a Former Participant may elect to retain the Plan Common Shares in the Plan which are eligible for the Employer Contribution. As soon as the Former Participant has benefited from the Employer Contribution to which the Former Participant is entitled, the Corporation will, unless otherwise instructed, remit to the Former Participant a share certificate registered in the Former Participant's name representing the number of whole Plan Common Shares standing to the credit of such Former Participant together with a cash payment for any fraction of a Plan Common Share (calculated in accordance with Section 6.3 hereof) and thereupon such Former Participant's participation in the Plan will be terminated for all purposes whatsoever.

15. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION OF THE PLAN

- 15.1 The Board may amend or modify the Plan at any time without the consent of Participants, provided, however, that such amendment shall:
- 15.1.1. not adversely alter or impair any Plan Common Shares except as permitted by the provisions of sections 11 and 12 hereof;
- 15.1.2. be subject to any regulatory approvals including, where required, the approval of the TSX-V; and
- 15.1.3. be subject to shareholder approval, where required by law or the requirements of the TSX-V, provided that shareholder approval shall not be required for the following amendments and the Board may make any changes which may include but are not limited to:
- 15.1.3.1 amendments of a "housekeeping" nature, such as those of a typographical, clerical or grammatical nature;
- 15.1.3.2 the addition of a form of financial assistance and any amendment to a financial assistance provision which is adopted;
- 15.1.3.3 a change to the eligible Participants of the Plan.
- 15.2 Any suspension, termination, material amendment or material modification to the Plan (including an increase in the maximum number of shares issuable under the Plan) or a reduction in the Market Price of a Common Share (other than for standard anti-dilution purposes), shall be approved by the holders of a majority of the shares present and voting in person or by proxy at a meeting of shareholders of the Corporation.

- 15.3 In addition to the above, any material amendment to an entitlement granted under the Plan to an Insider or an associate of an Insider, including a change in the Market Price, shall be approved by a majority of votes cast at a meeting of shareholders, other than votes attaching to shares beneficially owned by Participants or Former Participants. In the event that an amendment is made, other than on a non-isolated basis, to an entitlement under the Plan granted to a non-insider, the approval of a majority of votes cast at a meeting of shareholders shall be obtained only if required by the TSX-V.
- 15.4 For the purposes of this Section 15, an amendment includes any change relating to financial assistance provided by the Corporation, directly or indirectly, in connection with a share purchase and does not include an accelerated expiry of an entitlement due to the Participant or Former Participant ceasing to be an Employee or current member of the Board.
- 15.5 The approval of shareholders of an amendment may be given by way of confirmation at the next meeting of shareholders after the amendment is made, provided that no shares are issued pursuant to the amended terms prior thereto.
- 15.6 All Participants and Former Participants will be sent written notice of any such amendment, modification, suspension or termination. If the Plan or participation therein is terminated in whole or in part by the Corporation, the Corporation will remit to each affected Participant and Former Participant certificates registered in their names representing the whole Plan Common Shares standing to the credit of such Participants or Former Participants together with a cash payment for any fraction of a Plan Common Share (calculated in accordance with Section 6.3) and any Available Participation Amount.

16. LEGAL REQUIREMENTS

No Common Shares may be purchased under the Plan if such purchase would be contrary to or violate any applicable law or any applicable regulation adopted thereunder.

17. GOVERNING LAW

The Provisions of the Plan will be interpreted in accordance with the laws of the Province of Quebec.

18. PARTICIPATION VOLUNTARY

- 18.1 The participation of a Participant in the Plan is entirely voluntary and not obligatory and shall not be interpreted as conferring upon any such Participant any rights or privileges other than those rights and privileges expressly provided in the Plan. In particular, participation in the Plan does not constitute a condition of employment nor a commitment on the part of the Corporation or any of its wholly-owned subsidiaries to ensure the continued employment of such Participant.
- 18.2 The plan does not provide any guarantee against any loss or profit which may result from fluctuations in the market value of the common shares.
- 18.3 The Corporation assumes no responsibility for the income or other tax consequences for the Participants or Former Participants in the Plan and Participants and Former Participants are advised to consult with their own tax advisors with respect to such matters.

19. RIGHTS NON-ASSIGNABLE

The rights of a Participant pursuant to the provisions of this Plan are non-assignable.

20. COMING INTO EFFECT

The Plan shall come into effect upon approval or at such other time as may be determined by the Board.

SCHEDULE “K”

PROPOSED AUDIT COMMITTEE CHARTER OF KNIGHT THERAPEUTICS

The Audit Committee (the “**Committee**”) is created by the board of directors (the “**Board**”) of Knight Therapeutics Inc. (the “**Corporation**”) with the purpose, composition, duties and responsibilities that follow:

Purpose of the Committee: The Committee represents and assists the Board in discharging its oversight responsibility relating to: (i) the accounting, reporting, and financial practices of the Corporation and any subsidiaries, including the integrity of the Corporation’s financial statements; (ii) the surveillance of administration and financial controls and the Corporation’s compliance with legal and regulatory requirements; (iii) the External Auditor’s qualifications and independence; (iv) the performance of the External Auditor; and (v) prepares the report required to be included in the Corporation’s annual information form pursuant to the rules of the governing regulatory bodies including *National Instrument 52-110—Audit Committees* (“**52-110**”).

Definitions and Interpretation:

In this Charter:

- (i) “Board” means the board of directors of the Corporation;
- (ii) “Chairman” means the chairman of the Committee;
- (iii) “Committee” means the audit committee of the Board;
- (iv) “Corporation” means Knight Therapeutics Inc.;
- (v) “Director” means a member of the Board; and
- (vi) “External Auditor” means the Corporation’s independent auditor.

Composition: The members of the Committee shall be appointed by the Board. The Committee shall be composed of at least three **Directors**. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors. If a vacancy exists on the Committee, the remaining members shall exercise all of their powers so long as a quorum remains in office. Any member of the Committee may be removed from the Committee by a resolution of the Board.

Independence and Financial Literacy of the Members: Each member shall be “independent” within the meaning of 52-110. Each member of the Committee must be “financially literate” as defined in 52-110 and at least one member must have accounting or related financial management expertise, as determined by the Board.

Committee Chairman: The Chairman of the Committee (the “**Chairman**”) shall be designated by the Board. The designation of the Committee’s Chairman shall take place annually at the first meeting of the Board after a meeting of the members at which Directors are elected, provided that if the designation of Chairman is not so made, the Director who is then serving as Chairman shall continue as Chairman until his or her successor is appointed.

Meetings: Any of the Chairman of the Board, any member of the Committee, the Chief Financial Officer, the Secretary of the Corporation or the auditor (either internal or the External Auditor), may, acting alone, require that the Chairman call a meeting of the Committee within a reasonable time. The Committee shall meet at least four times per year, either in person or telephonically, and at such times and places as the Committee shall determine. The External Auditor shall receive notice of each meeting of the Committee and shall be entitled to

attend any such meetings at the Corporation's expense. The Committee shall meet separately in executive session, at least once per year, with the External Auditor. The Committee shall report regularly to the full Board with respect to its activities. The majority of the members of the Committee shall constitute a quorum.

External Advisors: The Committee shall have the authority to retain such external counsel, accountants, experts and other advisors as it determines appropriate to assist it in the performance of its functions and shall receive appropriate funding, as determined by the Committee, from the Corporation for payment of compensation to any such advisors.

Remuneration of Committee Members: Members of the Committee and the Chairman shall receive such remuneration for their service on the Committee as the Board may determine from time to time. No member of the Committee may earn fees from the Corporation or any of its subsidiaries other than directors' fees. For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation.

Duties and Responsibilities:

Among its specific duties and responsibilities, the Committee shall:

- (i) Recommend to the Board the appointment and compensation of the External Auditor and oversee the External Auditor's work. The Board shall appoint and retain, subject to ratification by the Corporation's shareholders, compensate, evaluate, and terminate, when appropriate, the External Auditor, which shall report to the Board.
- (ii) Obtain and review, at least annually, a report by the External Auditor describing: the External Auditor's internal quality-control procedures and any material issues raised by the most recent internal quality-control review, or peer review.
- (iii) Approve in advance all audit services to be provided by the External Auditor. (By approving the audit engagement, the audit services within the scope of the engagement shall be deemed to have been pre-approved.)
- (iv) Establish policies and procedures for the engagement of the External Auditor to provide audit and permissible non-audit services, which shall include pre-approval of all permissible non-audit services to be provided by the External Auditor.
- (v) Consider, at least annually, the independence of the External Auditor, including whether the External Auditor's performance of permissible non-audit services is compatible with the auditor's independence, and obtain and review a report by the External Auditor describing any relationships between the External Auditor and the Corporation or any other relationships that may adversely affect the independence of the auditor.
- (vi) Review and discuss with the External Auditor:
 - (a) the scope of the audit, the results of the annual audit examination by the auditor, and any difficulties the auditor encountered in the course of their audit work, including any restrictions on the scope of the External Auditor's activities or on access to requested information and any significant disagreements with management; and
 - (b) the reports of the External Auditor with respect to interim periods.
- (vii) Review, analyse and discuss with management and the External Auditor the annual audited financial statements of the Corporation, and, in relation thereto, if any:
 - (a) the auditor's judgment as to the quality of the Corporation's accounting principles, setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;

- (b) the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," including accounting policies that may be regarded as critical;
- (c) major issues regarding the Corporation's accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles and financial statement presentations;
- (d) the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented;
- (e) reports from the External Auditor as required by applicable securities rules; and
- (f) review earnings press releases.

These reviews must be completed before any of the above items are publicly disclosed.

- (viii) Recommend to the Board based on the review and discussion described in paragraphs (v) to (vii) above, whether the annual financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" relating thereto should be approved.
- (ix) Review, analyse and discuss with management and (if and where applicable) the External Auditor the interim financial statements of the Corporation, and, in relation thereto, if any:
 - (a) an analysis of the auditor's judgment as to the quality of the Corporation's accounting principles, setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
 - (b) the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," including accounting policies that may be regarded as critical;
 - (c) major issues regarding the Corporation's accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles and financial statement presentations;
 - (d) the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented;
 - (e) reports from the External Auditor as required by applicable securities rules; and
 - (f) review earnings press releases.

These reviews must be completed before any of the above items are publicly disclosed.

- (x) Approve, on behalf and in the name of the Board, based on the review and discussion described in paragraph (ix) above, the interim financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" relating thereto.
- (xi) Resolve disagreements, if any, between management and the External Auditor with respect to issues relating to financial reporting.
- (xii) Review and discuss the adequacy and effectiveness of the Corporation's internal controls, including any significant deficiencies in internal controls and significant changes in such controls reported to the Committee by the External Auditor or management.
- (xiii) Periodically review and discuss the adequacy and effectiveness of the Corporation's disclosure controls over financial information, procedures, and management reports thereon.
- (xiv) Review and discuss with the principal internal auditor of the Corporation the scope and results of the internal audit program.

- (xv) Review and discuss corporate policies with respect to earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies.
- (xvi) Review and discuss the Corporation's policies with respect to risk assessment and risk management.
- (xvii) Oversee the Corporation's compliance systems with respect to legal and regulatory requirements.
- (xviii) Establish procedures for handling complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.
- (xix) Establish policies for the hiring of employees and former employees of the External Auditor and any former external auditor.
- (xx) Annually evaluate the performance of the Committee and assess the adequacy of the Committee's charter.

Approved by the Board of Directors on ●, 2014

APPENDIX “G”

AUDITED FINANCIAL STATEMENTS OF ENDO

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Endo Health Solutions Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Endo Health Solutions Inc.'s internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of its published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Endo Health Solutions Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2012, the Company's internal control over financial reporting is effective based on those criteria.

Endo Health Solutions Inc.'s independent registered public accounting firm has issued its report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. This report appears on page F-4.

/S/ DAVID P. HOLVECK

David P. Holveck

President and Chief Executive Officer

/S/ ALAN G. LEVIN

Alan G. Levin

Executive Vice President, Chief Financial Officer

March 1, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Endo Health Solutions Inc.

Malvern, Pennsylvania

We have audited the accompanying consolidated balance sheets of Endo Health Solutions Inc. (formerly known as Endo Pharmaceuticals Holdings Inc.) and subsidiaries (the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Endo Health Solutions Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/S/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 1, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Endo Health Solutions Inc.
Malvern, Pennsylvania

We have audited the internal control over financial reporting of Endo Health Solutions Inc. (formerly known as Endo Pharmaceuticals Holdings Inc.) and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2012 of the Company and our report dated March 1, 2013 expressed an unqualified opinion on those financial statements and financial statement schedule.

/S/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 1, 2013

ENDO HEALTH SOLUTIONS INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(In thousands, except share and per share data)

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 547,916	\$ 547,620
Accounts receivable, net of allowance of \$5,858 and \$4,208 at December 31, 2012 and 2011, respectively	690,850	733,222
Inventories, net	357,638	262,419
Prepaid expenses and other current assets	27,750	29,732
Income taxes receivable	36,489	—
Deferred income taxes	308,591	215,103
Total current assets	<u>\$ 1,969,234</u>	<u>\$ 1,788,096</u>
MARKETABLE SECURITIES	1,746	19,105
PROPERTY, PLANT AND EQUIPMENT, NET	385,668	297,731
GOODWILL	2,014,351	2,558,041
OTHER INTANGIBLES, NET	2,098,973	2,504,124
OTHER ASSETS	98,587	125,486
TOTAL ASSETS	<u>\$ 6,568,559</u>	<u>\$ 7,292,583</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 416,882	\$ 260,385
Accrued expenses	1,170,945	732,831
Current portion of long-term debt	133,998	88,265
Acquisition-related contingent consideration	6,195	4,925
Income taxes payable	—	35,372
Total current liabilities	<u>\$ 1,728,020</u>	<u>\$ 1,121,778</u>
DEFERRED INCOME TAXES	516,565	617,677
ACQUISITION-RELATED CONTINGENT CONSIDERATION	2,729	3,762
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,037,947	3,424,329
OTHER LIABILITIES	150,092	85,446
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 40,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 350,000,000 shares authorized; 140,040,882 and 138,337,002 shares issued; 110,793,855 and 117,158,880 shares outstanding at December 31, 2012 and 2011, respectively	1,400	1,383
Additional paid-in capital	1,035,115	952,325
Retained earnings	811,573	1,551,910
Accumulated other comprehensive loss	(6,802)	(9,436)
Treasury stock, 29,247,027 and 21,178,122 shares at December 31, 2012 and 2011, respectively	(768,430)	(518,492)
Total Endo Health Solutions Inc. stockholders' equity	<u>\$ 1,072,856</u>	<u>\$ 1,977,690</u>
Noncontrolling interests	60,350	61,901
Total stockholders' equity	<u>\$ 1,133,206</u>	<u>\$ 2,039,591</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 6,568,559</u>	<u>\$ 7,292,583</u>

See Notes to Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands, except per share data)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES:			
Net pharmaceutical product sales	\$ 2,297,685	\$ 2,209,089	\$ 1,601,192
Devices revenues	504,487	300,299	—
Service and other revenues	225,191	220,733	115,037
TOTAL REVENUES	<u>\$ 3,027,363</u>	<u>\$ 2,730,121</u>	<u>\$ 1,716,229</u>
COSTS AND EXPENSES:			
Cost of revenues	1,261,093	1,065,208	504,757
Selling, general and administrative	898,847	813,271	547,605
Research and development	226,120	182,286	144,525
Patent litigation settlement, net	85,123	—	—
Litigation-related and other contingencies	316,425	11,263	—
Asset impairment charges	768,467	116,089	35,000
Acquisition-related and integration items, net	23,015	33,638	18,976
OPERATING (LOSS) INCOME	<u>\$ (551,727)</u>	<u>\$ 508,366</u>	<u>\$ 465,366</u>
INTEREST EXPENSE, NET	182,834	148,024	46,601
NET LOSS ON EXTINGUISHMENT OF DEBT	7,215	11,919	—
OTHER INCOME, NET	(193)	(3,268)	(1,933)
(LOSS) INCOME BEFORE INCOME TAX	<u>\$ (741,583)</u>	<u>\$ 351,691</u>	<u>\$ 420,698</u>
INCOME TAX	(53,562)	109,626	133,678
CONSOLIDATED NET (LOSS) INCOME	<u>\$ (688,021)</u>	<u>\$ 242,065</u>	<u>\$ 287,020</u>
Less: Net income attributable to noncontrolling interests	52,316	54,452	28,014
NET (LOSS) INCOME ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	<u>\$ (740,337)</u>	<u>\$ 187,613</u>	<u>\$ 259,006</u>
NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.			
Basic	\$ (6.40)	\$ 1.61	\$ 2.23
Diluted	\$ (6.40)	\$ 1.55	\$ 2.20
WEIGHTED AVERAGE SHARES:			
Basic	115,719	116,706	116,164
Diluted	115,719	121,178	117,951

See Notes to Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
CONSOLIDATED NET (LOSS) INCOME.....	\$ (688,021)	\$ 242,065	\$ 287,020
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Net unrealized gain (loss) on securities:			
Unrealized gains (losses) arising during the period	\$ 1,403	\$ (2,334)	\$ 720
Less: reclassification adjustments for losses realized			
in net (loss) income	<u>—</u> 1,403	<u>1,915</u> (419)	<u>—</u> 720
Foreign currency translation gain (loss).....	2,164	(8,071)	—
Fair value adjustment on derivatives designated as cash			
flow hedges:			
Fair value adjustment on derivatives designated as			
cash flow hedges arising during the period	\$ (1,212)	\$ 216	\$ —
Less: reclassification adjustments for cash flow hedges			
settled and included in net (loss) income	<u>279</u> (933)	<u>(1)</u> 215	<u>—</u> —
OTHER COMPREHENSIVE INCOME (LOSS)	<u>\$ 2,634</u>	<u>\$ (8,275)</u>	<u>\$ 720</u>
CONSOLIDATED COMPREHENSIVE (LOSS) INCOME.....	<u>\$ (685,387)</u>	<u>\$ 233,790</u>	<u>\$ 287,740</u>
Less: Comprehensive income attributable to noncontrolling			
interests	<u>52,316</u>	<u>54,452</u>	<u>28,014</u>
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO			
ENDO HEALTH SOLUTIONS INC.	<u>\$ (737,703)</u>	<u>\$ 179,338</u>	<u>\$ 259,726</u>

See Notes to Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands, except share data)

	Endo Health Solutions Inc. Shareholders									
	Common Stock			Treasury Stock			Accumulated Other Comprehensive (Loss) Income			Total Endo Health Solutions Inc. Stockholders' Equity
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Number of Shares	Amount				
BALANCE, JANUARY 1, 2010	134,986,612	\$ 1,350	\$ 817,467	\$ 1,105,291	(17,716,303)	\$ (424,816)	\$ 1,497,411	\$ 259,006	28,014	\$ 1,497,411
Net income	—	—	—	259,006	—	—	—	720	—	287,020
Other comprehensive income	—	—	—	—	—	—	—	720	—	720
Compensation related to stock-based awards	—	—	22,909	—	—	—	—	22,909	—	22,909
Exercise of options	965,013	9	20,874	—	—	—	—	20,883	—	20,883
Tax benefits of stock awards	—	—	(805)	—	—	—	—	(805)	—	(805)
Common stock issued	358,292	4	437	—	—	—	—	441	—	441
Treasury stock acquired	—	—	—	—	(2,535,719)	(58,974)	—	(58,974)	—	(58,974)
Noncontrolling interests acquired in business combinations	—	—	—	—	—	—	—	—	63,227	63,227
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(28,870)	(28,870)
Buy-out of noncontrolling interests, net	—	—	—	—	—	—	—	—	(633)	(633)
BALANCE, DECEMBER 31, 2010	136,309,917	\$ 1,363	\$ 860,882	\$ 1,364,297	(20,252,022)	\$ (483,790)	\$ 1,741,591	\$ 61,738	54,452	\$ 1,803,329
Net income	—	—	—	187,613	—	—	—	187,613	—	242,065
Other comprehensive loss	—	—	—	—	—	—	(8,275)	(8,275)	—	(8,275)
Compensation related to stock-based awards	—	—	46,013	—	—	—	—	46,013	—	46,013
Forfeiture of restricted stock awards	(8,009)	—	—	—	—	—	—	—	—	—
Exercise of options	1,274,280	12	28,946	—	—	—	—	28,958	—	28,958
Tax benefits of stock awards, net	—	—	3,780	—	—	—	—	3,780	—	3,780
Common stock issued	760,814	8	479	—	—	—	—	487	—	487
Treasury stock acquired	—	—	—	—	(926,100)	(34,702)	—	(34,702)	—	(34,702)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(53,997)	(53,997)
Buy-out of noncontrolling interests, net	—	—	—	—	—	—	—	—	(292)	(292)
Replacement equity issued in connection with the AMS acquisition	—	—	12,220	—	—	—	—	12,220	—	12,220
Other	—	—	5	—	—	—	—	5	—	5

	Endo Health Solutions Inc. Shareholders									
	Common Stock			Accumulated Other			Treasury Stock		Total Endo Health Solutions Inc. Stockholders' Equity	
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive (Loss) Income	Number of Shares	Amount	Noncontrolling Interests	Total Stockholders' Equity	
BALANCE, DECEMBER 31, 2011	138,337,002	\$ 1,383	\$ 952,325	\$ 1,551,910	\$ (9,436)	(21,178,122)	\$ (518,492)	\$ 61,901	\$ 2,039,591	
Net (loss) income	—	—	—	(740,337)	—	—	—	52,316	(688,021)	
Other comprehensive income.....	—	—	—	—	2,634	—	—	—	2,634	
Compensation related to stock-based awards	—	—	59,395	—	—	—	—	—	59,395	
Forfeiture of restricted stock awards	(19,624)	—	—	—	—	—	—	—	—	
Exercise of options	853,794	8	19,350	—	—	—	—	—	19,358	
Tax benefits of stock awards, net.....	—	—	2,537	—	—	—	—	—	2,537	
Common stock issued.....	869,710	9	469	—	—	—	—	—	478	
Treasury stock acquired	—	—	—	—	—	(8,304,330)	(256,000)	—	(256,000)	
Issuance of common stock from treasury	—	—	—	—	—	235,425	6,062	—	6,062	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(53,269)	(53,269)	
Buy-out of noncontrolling interests, net.....	—	—	—	—	—	—	—	(598)	(598)	
Other.....	—	—	1,039	—	—	—	—	—	1,039	
BALANCE, DECEMBER 31, 2012	140,040,882	\$ 1,400	\$ 1,035,115	\$ 811,573	\$ (6,802)	(29,247,027)	\$ (768,430)	\$ 60,350	\$ 1,133,206	

See Notes to Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES:			
Consolidated net (loss) income	\$ (688,021)	\$ 242,065	\$ 287,020
Adjustments to reconcile consolidated net (loss) income to Net cash provided by operating activities			
Depreciation and amortization.....	285,524	237,414	108,404
Stock-based compensation	59,395	46,013	22,909
Amortization of debt issuance costs and premium / discount	36,699	32,788	22,013
Provision for bad debts	3,402	—	855
Selling, general and administrative expenses paid in shares of common stock.....	478	234	220
Deferred income taxes	(193,960)	(75,877)	(15,420)
Net loss on disposal of property, plant and equipment.....	50	76	154
Change in fair value of acquisition-related contingent consideration.....	237	(7,363)	(51,420)
Loss on auction-rate securities rights	—	—	15,659
Gain on trading securities.....	—	—	(15,420)
Net loss on extinguishment of debt.....	7,215	11,919	—
Asset impairment charges	768,467	116,089	35,000
Gain on sale of business.....	—	(824)	—
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable.....	40,395	(107,609)	(84,659)
Inventories	(95,438)	(8,703)	13,894
Prepaid and other assets	18,227	(2,156)	(4,003)
Accounts payable	142,609	(30,269)	30,145
Accrued expenses	424,340	205,020	93,346
Other liabilities	(809)	(3,029)	(5,612)
Income taxes payable/receivable	(74,931)	46,327	561
Net cash provided by operating activities	<u>\$ 733,879</u>	<u>\$ 702,115</u>	<u>\$ 453,646</u>
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment.....	(99,818)	(59,383)	(19,891)
Proceeds from sale of property, plant and equipment	1,426	1,626	356
Acquisitions, net of cash acquired	(3,175)	(2,393,397)	(1,105,040)
Proceeds from investments	18,800	85,025	—
Proceeds from sales of trading securities	—	—	231,125
Purchases of investments	—	(14,025)	—
Other investments.....	—	(4,628)	(2,473)
License fees.....	(5,700)	(2,300)	(400)
Proceeds from sale of business.....	—	12,990	—
Net cash used in investing activities	<u>\$ (88,467)</u>	<u>\$ (2,374,092)</u>	<u>\$ (896,323)</u>

	2012	2011	2010
FINANCING ACTIVITIES:			
Capital lease obligations repayments	(859)	(1,444)	(313)
Proceeds from issuance of 2019 and 2022 Notes	—	900,000	—
Proceeds from issuance of 2020 Notes	—	—	386,576
Proceeds from issuance of Term Loans	—	2,200,000	400,000
Proceeds from other indebtedness	—	500	1,696
Principal payments on Term Loans	(362,075)	(689,876)	—
Payment on AMS Convertible Notes	(66)	(519,040)	—
Principal payments on HealthTronics, Inc. senior credit facility	—	—	(40,000)
Principal payments on Qualitest Pharmaceuticals debt	—	—	(406,758)
Principal payments on other indebtedness	(899)	—	(61,559)
Deferred financing fees	—	(82,504)	(13,563)
Payment for contingent consideration	—	(827)	—
Tax benefits of stock awards	4,949	5,909	1,944
Exercise of Endo Health Solutions Inc. stock options	19,358	28,954	20,883
Purchase of common stock	(256,000)	(34,702)	(58,974)
Issuance of common stock from treasury	6,062	—	—
Cash distributions to noncontrolling interests	(53,269)	(53,997)	(28,870)
Cash buy-out of noncontrolling interests, net of cash contributions	(2,748)	(292)	(633)
Net cash (used in) provided by financing activities	<u>\$ (645,547)</u>	<u>\$ 1,752,681</u>	<u>\$ 200,429</u>
Effect of foreign exchange rate	431	702	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 296</u>	<u>\$ 81,406</u>	<u>\$ (242,248)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>547,620</u>	<u>466,214</u>	<u>708,462</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 547,916</u></u>	<u><u>\$ 547,620</u></u>	<u><u>\$ 466,214</u></u>
SUPPLEMENTAL INFORMATION:			
Cash paid for interest	\$ 152,097	\$ 81,458	\$ 22,187
Cash paid for income taxes	\$ 192,647	\$ 150,299	\$ 143,529
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Purchases of property, plant and equipment financed by capital leases	\$ 1,373	\$ 4,279	\$ 689
Purchases of property, plant and equipment financed by direct financing arrangement	\$ 57,008	\$ —	\$ —
Accrual for purchases of property, plant and equipment	\$ 12,237	\$ 11,704	\$ 6,793

See Notes to Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

NOTE 1. DESCRIPTION OF BUSINESS

On May 23, 2012, we changed our name from Endo Pharmaceuticals Holdings Inc. to Endo Health Solutions Inc., which we refer to herein as the Company, we, our, us, or Endo. Endo Health Solutions Inc., together with its subsidiaries is a U.S. based, specialty healthcare solutions company focused on branded and generic pharmaceuticals, devices and services. We aim to partner with healthcare professionals and payment providers to deliver a suite of complementary branded and generic drugs, devices and clinical data to meet the needs of patients in areas such as pain management, urology, oncology and endocrinology. The Company was incorporated on November 18, 1997 under the laws of the State of Delaware.

On July 2, 2010, we acquired HealthTronics, Inc. a provider of healthcare services and manufacturer of certain related medical devices, primarily for the urology community. On September 20, 2010, we acquired Penwest, a drug development company. On November 30, 2010, we acquired Qualitest Pharmaceuticals, a privately-held generics company in the U.S. On June 17, 2011, we acquired AMS, Inc., a worldwide developer and provider of technology solutions to physicians treating men's and women's pelvic health conditions.

In the fourth quarter of 2011, as a result of our strategic planning process, the Company's executive leadership team reorganized the manner in which it views our various business activities. Management's intention was to enhance its level of understanding of the entity's performance, better assess its prospects and future cash flow potential and ultimately make more informed operating decisions about resource allocation and the enterprise as a whole. Based on this change, we reassessed our reporting structure under the applicable accounting guidance and determined that the Company had four reportable segments. We have retrospectively revised the segment presentation for all periods presented reflecting the change from three to four reportable segments. This change in our segments had no impact on the Company's Consolidated Financial Statements for all years presented. For a complete description of our segment results, see Note 6. Segment Results.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation—The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The Consolidated Financial Statements include the accounts of wholly owned subsidiaries, after elimination of intercompany accounts and transactions. Certain prior period amounts have been reclassified to conform to the current period presentation.

As a result of the HealthTronics, Inc. acquisition, we now own interests in various partnerships and limited liability corporations, or LLCs. We consolidate our investments in these partnerships or LLCs, where we, as the general partner or managing member, exercise effective control, even though our ownership is less than 50%. The related governing agreements provide us with broad powers, and the other parties do not participate in the management of the entity and do not have the substantial ability to remove us. We have reviewed each of the underlying agreements and determined we have effective control. If circumstances changed and it was determined this control did not exist, these investments would be reflected using the equity method of accounting. Although this would change individual line items within our Consolidated Financial Statements, it would have no effect on our net income attributable to Endo Health Solutions Inc. and/or total stockholders' equity attributable to Endo Health Solutions Inc.

Use of Estimates—The preparation of our Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are required in the determination of revenue recognition and sales deductions for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances. Significant estimates and assumptions are also required when determining the fair value of marketable securities and other financial instruments, the valuation of long-lived and indefinite-lived assets, income taxes, contingencies and stock-based compensation. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. Our estimates often are based on complex judgments, probabilities and assumptions that we believe to be reasonable but that are inherently uncertain and unpredictable. For any given individual estimate or assumption made by us, there may also be other estimates or assumptions that are reasonable.

We regularly evaluate our estimates and assumptions using historical experience and other factors, including the economic environment. As future events and their effects cannot be determined with precision, our estimates and assumptions may prove to be incomplete or inaccurate, or unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. Market conditions, such as illiquid credit markets, volatile equity markets, dramatic fluctuations in foreign currency rates and economic downturn, can increase the uncertainty already inherent in our estimates and assumptions. We adjust our estimates and assumptions when facts and circumstances indicate the need for change. Those changes generally will be reflected in our consolidated financial statements on a prospective basis unless they are required to be treated retrospectively under the relevant accounting standard. It is possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. We also are subject to other risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in the healthcare environment, competition, litigation, legislation and regulations.

Customer, Product and Supplier Concentration—We primarily sell our products directly to a limited number of large pharmacy chains and through a limited number of wholesale drug distributors who, in turn, supply products to pharmacies, hospitals, governmental agencies and physicians. Total revenues from customers who accounted for 10% or more of our total consolidated revenues during the years ended December 31 are as follows:

	2012	2011	2010
Cardinal Health, Inc.	23%	25%	33%
McKesson Corporation	25%	24%	28%
AmerisourceBergen Corporation	11%	13%	15%

Revenues from these customers are included within our Endo Pharmaceuticals and Qualitest segments.

The Company derives a majority of its total revenues from a limited number of products. Products that accounted for 10% or more of our total revenues during the years ended December 31 were as follows:

	2012	2011	2010
Lidoderm®	31%	30%	46%
Opana® ER	10%	14%	14%

We have agreements with Novartis Consumer Health, Inc., Novartis Consumer Health, Inc. and Novartis AG, Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc., Grünenthal GMBH and Sharp Corporation for the manufacture and supply of a substantial portion of our existing pharmaceutical products. Additionally, we utilize UPS Supply Chain Solutions, Inc. for certain customer service support, warehouse and distribution services, see Note 15. Commitments and Contingencies.

Revenue Recognition—

Pharmaceutical Products

Our net pharmaceutical product sales consist of revenues from sales of our pharmaceutical products, less estimates for chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances. We recognize revenue for product sales when title and risk of loss has passed to the customer, which is typically upon delivery to the customer, when estimated provisions for chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances are reasonably determinable, and when collectability is reasonably assured. Revenue from the launch of a new or significantly unique product, for which we are unable to develop the requisite historical data on which to base estimates of returns and allowances due to the uniqueness of the therapeutic area or delivery technology as compared to other products in our portfolio and in the industry, may be deferred until such time that an estimate can be determined and all of the conditions above are met and when the product has achieved market acceptance, which is typically based on dispensed prescription data and other information obtained during the period following launch.

Devices

For inventory on consignment or with field representatives, revenue is recognized at the time the product has been used or implanted. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to our customers providing there are no remaining performance obligations required from us or any matters requiring customer acceptance. In cases where we utilize distributors or ship product directly to the end user, we recognize revenue upon shipment provided all revenue recognition criteria have been met.

Services

Our fees for the urology and pathology services performed by our HealthTronics segment are recorded when the procedure is performed and are based on contracted rates. Management fees from our HealthTronics, Inc. limited partnerships are recorded monthly when earned.

Sales Deductions—When we recognize net sales from the sale of our pharmaceutical products, we simultaneously record an adjustment to revenue for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances. These provisions, are estimated based on historical experience, estimated future trends, estimated customer inventory levels, current contract sales terms with our wholesale and indirect customers and other competitive factors. If the assumptions we used to calculate these adjustments do not appropriately reflect future activity, our financial position, results of operations and cash flows could be materially impacted.

Research and Development—Expenditures for research and development are expensed as incurred. Property, plant and equipment that are acquired or constructed for research and development activities and that have alternate future uses are capitalized and depreciated over their estimated useful lives on a straight-line basis. Upfront and milestone payments made to third parties in connection with agreements with third parties are generally expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are generally capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in Other intangibles, net on the Consolidated Balance Sheets.

Cash and Cash Equivalents—The Company considers all highly liquid money market instruments with an original maturity of three months or less when purchased to be cash equivalents. At December 31, 2012, cash equivalents were deposited in financial institutions and consisted of immediately available fund balances. The Company maintains its cash deposits and cash equivalents with well-known and stable financial institutions.

Cost of Revenues—Cost of revenues includes all costs directly related to bringing both purchased and manufactured products to their final selling destination, as well as providing our services to our customers. It includes purchasing and receiving costs, direct and indirect costs to manufacture products, including direct materials, direct labor, and direct overhead expenses necessary to acquire and convert purchased materials and supplies into finished goods. Cost of revenues also includes royalties on certain licensed products, inspection costs, depreciation, amortization of intangible assets, warehousing costs, freight charges, costs to operate our equipment, and other shipping and handling activity.

Concentrations of Credit Risk—Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, marketable debt securities and accounts receivable. We invest our excess cash in high-quality, liquid money market instruments maintained by major U.S. banks and financial institutions. We have not experienced any losses on our cash equivalents.

We perform ongoing credit evaluations of our customers and generally do not require collateral. We have no history of significant losses from uncollectible accounts. Approximately 64% and 62% of our trade accounts receivable balance represent amounts due from three customers at December 31, 2012 and 2011, respectively.

We do not expect our current or future credit risk exposures to have a significant impact on our operations. However, there can be no assurance that our business will not experience any adverse impact from credit risk in the future.

Inventories—Inventories consist of finished goods held for distribution, raw materials and work-in-process. Our inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. We write-down inventories to net realizable value based on forecasted demand and market conditions, which may differ from actual results.

Property, plant and equipment—Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful life of the related assets, ranging from 1 year to 35 years, on a straight-line basis. Leasehold improvements and capital lease assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the terms of their respective leases.

Lease Accounting—The Company accounts for operating lease transactions by recording rent expense on a straight-line basis over the expected life of the lease, commencing on the date it gains possession of leased property. The Company includes tenant improvement allowances and rent holidays received from landlords and the effect of any rent escalation clauses as adjustments to straight-line rent expense over the expected life of the lease.

Capital lease transactions are reflected as a liability at the inception of the lease based on the present value of the minimum lease payments or, if lower, the fair value of the property. Assets under capital leases are recorded in Property, plant and equipment, net on the Consolidated Balance Sheets and depreciated in a manner similar to other Property, plant and equipment.

Certain construction projects may be accounted for as direct financing arrangements, whereby the Company records, over the construction period, the full cost of the asset in Property, plant and equipment, net on the Consolidated Balance Sheets. A corresponding liability is also recorded, net of leasehold improvements paid for by the Company, and is amortized over the expected lease term through monthly rental payments using an effective interest method. Assets recorded under direct financing arrangements are depreciated in the same manner as owned property.

License Rights—The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from 1 year to 15 years, with a weighted average useful life of approximately 9 years. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms.

Customer Relationships—Acquired customer relationships are recorded at fair value upon acquisition and are amortized using estimated useful lives ranging from 13 years to 17 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for customer relationships based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the customer relationships, contractual terms and our plans regarding our future relations with our customers. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease.

Tradenames—Acquired tradenames are recorded at fair value upon acquisition and, if deemed to have definite lives, are amortized using estimated useful lives ranging from 15 years to 30 years, with a weighted average useful life of approximately 22 years. We determine amortization periods for tradenames based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the tradename and our plans regarding the future use of the tradename. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease.

Developed Technology—Acquired developed technology is recorded at fair value upon acquisition and amortized using estimated useful lives ranging from 3 years to 20 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for developed technology based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired assets. Such factors include the strength of the intellectual property protection of the product and various other competitive and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. The value of these assets is subject to continuing scientific, medical and marketplace uncertainty.

Long-Lived Asset Impairment Testing—Long-lived assets, which includes property, plant and equipment, and definite-lived intangible assets, are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. The impairment testing involves comparing the carrying amount of the asset to the forecasted undiscounted future cash flows generated by that asset. In the event the carrying amount of the asset exceeds the undiscounted future cash flows generated by that asset and the carrying amount is not considered recoverable, an impairment exists. An impairment loss is measured as the excess of the asset's carrying amount over its fair value. An impairment loss is recognized in net income in the period that the impairment occurs.

In-Process Research and Development Assets (IPR&D)—The fair value of IPR&D acquired in a business combination is determined based on the present value of each research project's projected cash flows using an income approach. Future cash flows are predominately based on the net income forecast of each project, consistent with historical pricing, margins and expense levels of similar products. Revenues are estimated based on relevant market size and growth factors, expected industry trends, individual project life cycles and the life of each research project's underlying patent. In determining the fair value of each research project, expected cash flows are adjusted for the technical and regulatory risk of completion.

IPR&D is initially capitalized and considered indefinite-lived intangible assets subject to impairment reviews. The reviews, which occur annually on October 1st of each year or more frequently upon the occurrence of certain events, requires the determination of the fair value of the respective intangible assets. If the fair value of the intangible assets is less than its carrying amount, an impairment loss is recognized for the difference. For those assets that reach commercialization, the assets are amortized over the expected useful lives.

Goodwill—Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is carried at cost. Goodwill is not amortized; rather, it is subject to a periodic assessment for impairment by applying a fair value based test. Goodwill is assessed for impairment on an annual basis as of October 1st of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment model permits, and we utilize, a two-step method for determining goodwill impairment. In the first step, we determine the fair value of our seven reporting units ((1) Pain, (2) Generics, (3) Urology, Endocrinology and Oncology (UEO), (4) Anatomical Pathology Services, (5) Urology Services, (6) HealthTronics Information Technology Solutions (HITS) and (7) American Medical Systems (AMS)) using a discounted cash flow analysis. If the net book values of a reporting unit exceeds the fair value, we would then perform the second step of the impairment test which requires allocation of our reporting units' fair value to all of its assets and liabilities using the acquisition method prescribed under authoritative guidance for business combinations with any residual fair value being allocated to goodwill. An impairment charge is recognized only when the implied fair value of our reporting unit's goodwill is less than its carrying amount.

Advertising Costs—Advertising costs are expensed as incurred and included in Selling, general and administrative expenses and amounted to \$43.5 million, \$55.1 million and \$44.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Income Taxes—Provisions for income taxes are calculated on reported pre-tax income based on current tax laws, statutory tax rates and available tax incentives and planning opportunities in various jurisdictions in which we operate. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

Contingencies—The Company is subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses. Contingent accruals are recorded with a corresponding charge to Litigation-related and other contingencies in the Consolidated Statements of Operations when the Company determines that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgment regarding future events.

Stock-Based Compensation—The Company accounts for its stock-based compensation plans in accordance with FASB Codification Topic 718, Stock Compensation. Accordingly, stock-based compensation for employees and non-employee directors is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the requisite service period. Stock-based compensation expense is reduced for estimated future forfeitures. These estimates are revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation expense in the period in which the change in estimate occurs.

Segment Information— The Company operates in four reportable segments. These segments are: (1) Endo Pharmaceuticals (formerly Branded Pharmaceuticals), (2) Qualitest (formerly Generics), (3) AMS (formerly Devices) and

(4) HealthTronics (formerly Services). A summary of our total revenues to external customers and adjusted income before income tax for each of our segments is found in Note 6. Segment Results.

Comprehensive Income—Comprehensive income includes all changes in equity during a period except those that resulted from investments by or distributions to a company's stockholders. Other comprehensive income or loss refers to revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity.

Treasury Stock—Treasury stock consists of shares of Endo Health Solutions Inc. that have been issued but subsequently reacquired. We account for treasury stock purchases under the cost method. In accordance with the cost method, we account for the entire cost of acquiring shares of our stock as treasury stock, which is a contra equity account. When these shares are reissued, we use an average cost method for determining cost. Proceeds in excess of cost are then credited to Additional paid-in capital.

Foreign Currency Translation—The financial statements for operations outside the U.S. are maintained primarily in their local currency. All assets and liabilities of our international subsidiaries are translated to U.S. dollars at year-end exchange rates, while elements of the statement of operations are translated at average exchange rates in effect during the year. Translation adjustments arising from the use of differing exchange rates are included in accumulated other comprehensive income in stockholders' equity with the exception of inter-company balances not considered permanently invested which are included in Other income, net. The balance of cumulative translation adjustments included in accumulated other comprehensive income was a loss of \$6.2 million at December 31, 2012 and a loss of \$8.1 million at December 31, 2011. Gains and losses on foreign currency transactions are also included in Other income, net.

Derivatives and Hedging Activities—All derivatives are recorded in the Consolidated Balance Sheets at fair value. Changes in the fair value of derivatives are recorded each period in earnings or other comprehensive income depending on the type of hedging instrument and the effectiveness of those hedges. See Note 20. Derivative Instruments and Hedging Activities for a description of our derivative instruments and hedging activities.

Convertible Senior Subordinated Notes—We accounted for the issuance of our 1.75% Convertible Senior Subordinated Notes due April 2015 (the Convertible Notes) in accordance with the guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion, which among other items, specifies that contracts issued or held by an entity that are both (1) indexed to the entities own common stock and (2) classified in stockholders' equity in its statement of financial position are not considered to be derivative financial instruments if the appropriate provisions are met. Accordingly, we have recorded the Convertible Notes as long-term debt in the accompanying Consolidated Balance Sheets.

Concurrent with the issuance of the Convertible Notes we entered into privately negotiated common stock call options with affiliates of the initial purchasers. In addition, we sold warrants to affiliates of certain of the initial purchasers. In addition to entering into the convertible note hedge transaction and the warrant transaction, we entered into a privately-negotiated accelerated share repurchase agreement with the same counterparty, as part of our broader share repurchase program described in Note 14. Stockholders' Equity. We accounted for the call options, warrants, and accelerated share repurchase agreement in accordance with the guidance regarding the accounting derivative financial instruments indexed to, and potentially settled in, a company's own stock. The call options, warrants, and accelerated share repurchase agreement meet the requirements to be accounted for as equity instruments. The cost of the call options and the proceeds related to the sale of the warrants are included in additional paid-in capital in the accompanying Consolidated Balance Sheets.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB or the Board) issued Accounting Standards Update (ASU) 2011-05 on the presentation of comprehensive income. This ASU amends FASB Codification Topic 220, Comprehensive Income, to require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011 and early adoption is permitted. In December 2011, the FASB issued ASU 2011-12 which amends ASU 2011-05 to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the Board time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The Company has adopted all current required provisions of ASU 2011-05 and ASU 2011-12.

In July 2012, the FASB issued ASU 2012-02 on impairment testing for indefinite-lived intangible assets. This ASU amends FASB Codification Topic 350, Intangibles-Goodwill and Other to allow, but not require, an entity, when performing its annual or more frequent indefinite-lived intangible asset impairment test, to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company has adopted ASU 2012-02 and determined that the adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, which established the effective date for the requirement to present components of reclassifications out of accumulated other comprehensive income on the face of the income statement. The standard is effective for reporting periods beginning after December 15, 2012. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

NOTE 3. FAIR VALUE MEASUREMENTS

The financial instruments recorded in our Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, marketable securities, equity and cost method investments, accounts payable and accrued expenses, acquisition-related contingent consideration, debt obligations, and derivative instruments. Included in cash and cash equivalents are money market funds representing a type of mutual fund required by law to invest in low-risk securities (for example, U.S. government bonds, U.S. Treasury Bills and commercial paper). Money market funds are structured to maintain the fund's net asset value at \$1 per unit, which assists in ensuring adequate liquidity upon demand by the holder. Money market funds pay dividends that generally reflect short-term interest rates. Thus, only the dividend yield fluctuates. Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair values.

The following table presents the carrying amounts and estimated fair values of our other financial instruments (in thousands):

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current assets:				
Derivative instruments	\$ —	\$ —	\$ 1,471	\$ 1,471
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,471</u>	<u>\$ 1,471</u>
Long-term assets:				
Auction-rate securities	\$ —	\$ —	\$ 17,463	\$ 17,463
Equity securities.....	1,746	1,746	1,642	1,642
Equity and cost method investments.....	15,195	N/A	20,661	N/A
	<u>\$ 16,941</u>		<u>\$ 39,766</u>	
Current liabilities:				
Acquisition-related contingent consideration—short-term	\$ 6,195	\$ 6,195	\$ 4,925	\$ 4,925
Current portion of Term Loan A Facility Due 2016	131,250	131,250	84,375	84,375
3.25% AMS Convertible Notes due 2036.....	795	795	841	841
4.00% AMS Convertible Notes due 2041	111	111	131	131
Current portion of other long-term debt.....	1,842	1,842	2,918	2,918
Derivative instruments	602	602	119	119
Minimum Voltaren® Gel royalties due to Novartis—short-term	31,878	31,878	30,000	30,000
Other	1,000	1,000	—	—
	<u>\$ 173,673</u>	<u>\$ 173,673</u>	<u>\$ 123,309</u>	<u>\$ 123,309</u>
Long-term liabilities:				
Acquisition-related contingent consideration—long-term.....	\$ 2,729	\$ 2,729	\$ 3,762	\$ 3,762
1.75% Convertible Senior Subordinated Notes Due 2015, net.....	321,332	364,444	299,222	330,950
Term Loan A Facility Due 2016, less current portion	1,256,250	1,259,094	1,387,500	1,372,119
Term Loan B Facility Due 2018	160,550	162,260	438,250	439,017
7.00% Senior Notes Due 2019	500,000	536,563	500,000	532,500
7.00% Senior Notes Due 2020, net	396,899	429,000	396,618	424,750
7.25% Senior Notes Due 2022	400,000	431,500	400,000	422,500
Other long-term debt, less current portion	2,916	2,916	2,739	2,739
Minimum Voltaren® Gel royalties due to Novartis—long-term	13,846	13,846	20,100	20,100
Other	5,775	5,775	—	—
	<u>\$ 3,060,297</u>	<u>\$ 3,208,127</u>	<u>\$ 3,448,191</u>	<u>\$ 3,548,437</u>

Equity securities consist of publicly traded common stock, the value of which is based on a quoted market price and thus represent Level 1 measurements within the fair value hierarchy. These securities are not held to support current operations and are therefore classified as non-current assets.

The acquisition-related contingent consideration, which is required to be measured at fair value on a recurring basis, consists primarily of contingent cash consideration related to the November 2010 acquisition of Generics International (US Parent), Inc. (doing business as Qualitest Pharmaceuticals). The fair value of our acquisition-related contingent consideration is determined using an income approach (present value technique), which is discussed in more detail below. The fair value of our 1.75% Convertible Senior Subordinated Notes (Convertible Notes) is based on an income approach known as the binomial lattice model which incorporated certain inputs and assumptions, including scheduled coupon and principal payments, the conversion feature inherent in the Convertible Notes, the put feature inherent in the Convertible Notes, and stock price volatility assumptions of 32% at December 31, 2012 and 33% at December 31, 2011 that were based on historic

volatility of the Company's common stock and other factors. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy.

The fair values of the Term Loan Facilities and 2019, 2020, and 2022 Notes were based on market quotes and transactions proximate to the valuation date. The Company had previously used an income approach to value these debt instruments; however, the valuation methodology was subsequently transitioned to a market-based approach given the volume of observable market transactions and quoted prices for these debt instruments. Based on this valuation methodology, we determined these debt instruments represent Level 2 measurements within the fair value hierarchy.

The total fair value of various foreign exchange forward contracts as of December 31, 2012 includes liabilities of \$0.6 million, reported in Accrued expenses. We measure our derivative instruments at fair value on a recurring basis using significant observable inputs, hence these instruments represent Level 2 measurements within the fair value hierarchy. Refer to Note 20. Derivative Instruments and Hedging Activities for more information regarding our derivative instruments.

At the inception of our License and Supply Agreement with Novartis AG in 2008, we recorded a liability representing the fair value of the minimum Voltaren[®] Gel royalty due to Novartis AG. In December 2012, pursuant to the provisions of this agreement, the term was automatically renewed for an additional one year period. At this time, an additional liability of \$21.3 million was recorded, representing the fair value of the incremental minimum royalty we expect to pay to Novartis AG over the renewal term. The fair values of these liabilities were determined using an income approach (present value technique) taking into consideration the level and timing of expected cash flows and an assumed discount rate. These assumptions are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy. The liability is currently being accreted up to the expected minimum payments, less payments made to date. We believe the carrying amount of this minimum royalty guarantee at December 31, 2012 and December 31, 2011 represents a reasonable approximation of the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. Accordingly, the carrying value approximates fair value as of December 31, 2012 and December 31, 2011.

The fair value of equity method and cost method investments is not readily available nor have we estimated the fair value of these investments and disclosure is not required. The Company is not aware of any identified events or changes in circumstances that would have a significant adverse effect on the carrying value of any of our equity or cost method investments included in our Consolidated Balance Sheets at December 31, 2012 and December 31, 2011. However, the Company did record a pre-tax non-cash impairment charge of \$22.7 million in September 2011 to completely impair its cost method investment in a privately-held company focused on the development of an innovative treatment for certain types of cancer. This impairment was recorded due to the negative clinical trial results related to this company's lead asset. It was included in the Asset impairment charges line of the Company's Consolidated Statements of Operations and related to our Endo Pharmaceuticals segment.

As of December 31, 2012, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. Fair value guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial assets and liabilities measured at fair value on a recurring basis at December 31, 2012 and December 31, 2011, were as follows (in thousands):

Fair Value Measurements at Reporting Date using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2012				
Assets:				
Equity securities	\$ 1,746	\$ —	\$ —	\$ 1,746
Total	\$ 1,746	\$ —	\$ —	\$ 1,746
Liabilities:				
Derivative instruments	\$ —	\$ 602	\$ —	\$ 602
Acquisition-related contingent consideration— short-term	—	—	6,195	6,195
Acquisition-related contingent consideration— long-term	—	—	2,729	2,729
Total	\$ —	\$ 602	\$ 8,924	\$ 9,526

Fair Value Measurements at Reporting Date using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2011				
Assets:				
Money market funds	\$ 110,816	\$ —	\$ —	\$ 110,816
Equity securities	1,642	—	—	1,642
Derivative instruments	—	1,471	—	1,471
Auction-rate securities	—	—	17,463	17,463
Total	\$ 112,458	\$ 1,471	\$ 17,463	\$ 131,392
Liabilities:				
Derivative instruments	\$ —	\$ 119	\$ —	\$ 119
Acquisition-related contingent consideration— short-term	—	—	4,925	4,925
Acquisition-related contingent consideration— long-term	—	—	3,762	3,762
Total	\$ —	\$ 119	\$ 8,687	\$ 8,806

Auction-Rate Securities

In June 2012, our remaining auction-rate securities were called at par and we received proceeds of \$18.8 million. Prior to being sold, these auction-rate securities had been classified as available-for-sale securities and had therefore been maintained at their fair value, with changes in value being recorded as part of Other comprehensive income (loss), net. Due to the fact that we received proceeds equal to par, the auction-rate securities were adjusted to their fair value of \$18.8 million, with a corresponding gain to Other comprehensive income (loss), net. The previously recognized cumulative unrealized holding loss associated with these securities of \$1.5 million was reversed in its entirety. As a result, no gain or loss was realized.

Acquisition-Related Contingent Consideration

Qualitest Pharmaceuticals

On November 30, 2010 (the Qualitest Pharmaceuticals Acquisition Date), Endo acquired Qualitest Pharmaceuticals, which was party to an asset purchase agreement with Teva Pharmaceutical Industries Ltd (Teva) (the Teva Agreement). Pursuant to this agreement, Qualitest Pharmaceuticals purchased certain pipeline generic products from Teva and could be obligated to pay consideration to Teva upon the achievement of certain future regulatory milestones (the Teva Contingent Consideration).

The range of the undiscounted amounts the Company could pay under the Teva Agreement is between zero and \$12.5 million. The Company is accounting for the Teva Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Qualitest Pharmaceuticals. Accordingly, the fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Using this valuation technique, the fair value of the contractual obligation to pay the Teva Contingent Consideration was determined to be \$8.9 million at December 31, 2012 and \$8.7 million at December 31, 2011. The increase in the balance, which was recorded as a loss and included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations, primarily reflects changes to the present value assumptions associated with our valuation model.

As of December 31, 2012, there were no changes to the range of the undiscounted amounts the Company may be required to pay under the Teva Agreement.

Indevus Pharmaceuticals (Indevus)

The Indevus Contingent Consideration Agreements, which were contingent upon the achievement of commercial and regulatory milestones associated with certain of Indevus' key products in development at the Indevus Acquisition Date, were initially measured and recognized at fair value and were re-measured on a recurring basis, with changes to fair value recorded in Acquisition-related and integration items, net in the Consolidated Statements of Operations. The liability for the Indevus contingent consideration was reduced to zero in 2011, reflecting management's 2011 probability assessment that it would not be obligated to make contingent consideration payments based on the progress and projected timeline for the related Indevus products in development. The last of the contingent obligations with respect to the Indevus contingent consideration expired in 2012.

Fair Value Measurements Using Significant Unobservable Inputs

The following table presents changes to the Company's financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2012 (in thousands):

	<u>Auction-rate Securities</u>
Assets:	
January 1, 2012	\$ 17,463
Securities sold or redeemed	(18,800)
Securities purchase or acquired.....	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	—
Unrealized gains included in Other comprehensive income (loss), net.....	1,337
December 31, 2012	<u>\$ —</u>
	<u>Acquisition- related Contingent Consideration</u>
Liabilities:	
January 1, 2012	\$ (8,687)
Amounts (acquired) sold or (issued) settled, net	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	(237)
December 31, 2012	<u>\$ (8,924)</u>

The following table presents changes to the Company's financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2011 (in thousands):

	<u>Auction-rate Securities</u>
Assets:	
January 1, 2011	\$ 17,332
Securities sold or redeemed	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	—
Unrealized gains included in Other comprehensive income (loss), net.....	131
December 31, 2011	<u>\$ 17,463</u>
	<u>Acquisition-related Contingent Consideration</u>
Liabilities:	
January 1, 2011	\$ (16,050)
Amounts (acquired) sold / (issued) settled, net	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	7,363
December 31, 2011	<u>\$ (8,687)</u>

The following is a summary of available-for-sale securities held by the Company as of December 31, 2012 and December 31, 2011 (in thousands):

	Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2012				
Equity securities	\$ 1,766	\$ —	\$ (20)	\$ 1,746
<i>Long-term available-for-sale securities</i>	\$ 1,766	\$ —	\$ (20)	\$ 1,746
<i>Total available-for-sale securities</i>	<u>\$ 1,766</u>	<u>\$ —</u>	<u>\$ (20)</u>	<u>\$ 1,746</u>
	Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2011				
Money market funds	\$ 110,816	\$ —	\$ —	\$ 110,816
<i>Total included in cash and cash equivalents</i>	<u>\$ 110,816</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 110,816</u>
Auction-rate securities	18,800	—	(1,337)	17,463
Equity securities	1,766	—	(124)	1,642
<i>Long-term available-for-sale securities</i>	<u>\$ 20,566</u>	<u>\$ —</u>	<u>\$ (1,461)</u>	<u>\$ 19,105</u>
<i>Total available-for-sale securities</i>	<u>\$ 131,382</u>	<u>\$ —</u>	<u>\$ (1,461)</u>	<u>\$ 129,921</u>

At December 31, 2011, our investments in auction-rate securities consisted of two securities which, as of that date, had been in unrealized loss positions for more than twelve months. The Company had determined that, as of December 31, 2011, the gross unrealized losses associated with the auction-rate securities were not other-than-temporary.

At December 31, 2012 and December 31, 2011, our equity securities consisted of investments in the stock of three publicly traded companies. As of December 31, 2012, one investment had been in an unrealized loss position for less than twelve months and one investment had been in an unrealized loss position for more than twelve months. As of December 31, 2011, two investments had been in an unrealized loss position for less than twelve months and one had been in an unrealized loss position for more than twelve months. Due to changes in circumstances surrounding one of our equity securities in the second half of 2011, we recorded a non-cash, other-than-temporary impairment charge of \$3.8 million to reduce the cost basis of this investment to its fair value. This impairment was recorded in the Asset impairment charges line in our Consolidated Statements of Operations. The Company does not believe the remaining unrealized losses are other-than-temporary at December 31, 2012 or December 31, 2011 primarily because the Company has both the ability and intent to hold these investments for a period of time we believe will be sufficient to recover such losses.

Nonrecurring Fair Value Measurements

The Company's financial assets measured at fair value on a nonrecurring basis during the year ended December 31, 2012 were as follows (in thousands):

	Fair Value Measurements at Measurement Date using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Expense for the Year Ended December 31, 2012
Assets:				
Supprelin® Asia and Europe intangible assets.....	—	—	—	(2,000)
Vantas® Asia and Latin America intangible assets	—	—	—	(3,689)
Valstar® Europe intangible asset	—	—	—	(2,000)
Sanctura® Asia intangible asset.....	—	—	—	(8,000)
Sanctura XR® intangible asset.....	—	—	5,000	(51,163)
AMS developed technology intangible assets	—	—	—	(128,472)
AMS IPR&D intangible assets.....	—	—	9,000	(7,000)
HITS other intangible assets.....	—	—	900	(3,025)
Goodwill.....	—	—	2,012,438	(557,420)
Property, plant and equipment (See Note 8).....	—	—	—	(5,698)
Total	\$ —	\$ —	\$ 2,027,338	\$ (768,467)
Liabilities:				
Patent litigation settlement liability(1) (See Note 15).....	—	—	131,361	(131,361)
Minimum Voltaren® Gel royalties due to Novartis	—	—	21,346	—
Total	\$ —	\$ —	\$ 152,707	\$ (131,361)

(1) As a result of a subsequent change in estimate with respect to this obligation, the Company reduced its liability associated with the Watson Settlement Agreement by \$46.2 million to \$85.1 million during the third quarter of 2012.

See Note 9. Goodwill and Other Intangibles for a discussion of goodwill and other intangible asset impairment charges.

NOTE 4. INVENTORIES

Inventories are comprised of the following at December 31 (in thousands):

	2012	2011
Raw materials.....	\$ 108,460	\$ 103,064
Work-in-process.....	59,763	51,063
Finished goods	189,415	108,292
Total	\$ 357,638	\$ 262,419

Inventory amounts in the table above are shown net of obsolescence. Our reserve for obsolescence is not material to the Consolidated Balance Sheets and therefore has not been separately disclosed.

NOTE 5. ACQUISITIONS

AMS, Inc.

On June 17, 2011 (the AMS, Inc. Acquisition Date), the Company completed its acquisition of all outstanding shares of common stock of AMS, Inc. for approximately \$2.4 billion in aggregate consideration, including \$70.8 million related to existing AMS, Inc. stock-based compensation awards and certain other amounts, at which time AMS, Inc. became a wholly-owned, indirect subsidiary of the Company. AMS, Inc.'s shares were purchased at a price of \$30.00 per share.

AMS, Inc. is a worldwide developer and provider of technology solutions to physicians treating men's and women's pelvic health conditions. The AMS, Inc. business and applicable services include:

Men's Health.

AMS, Inc. supplies surgical solutions for the treatment of male urinary incontinence, the involuntary release of urine from the body. The fully implantable AMS 800[®] system includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff when he wishes to urinate. Since 2000, AMS, Inc. has also been selling the InVance[®] sling system, a less-invasive procedure for men with moderate incontinence, and in 2007, AMS, Inc. released the AdVance[®] sling system for the treatment of mild to moderate stress urinary incontinence. AMS, Inc. also offers the UroLume[®] endoprosthesis stent as a less invasive procedure for patients who may not be good surgical candidates, as well as for men suffering from bulbar urethral strictures.

AMS, Inc. also supplies penile implants to treat erectile dysfunction, the inability to achieve or maintain an erection sufficient for sexual intercourse, with a series of semi-rigid malleable prostheses and a complete range of more naturally functioning inflatable prostheses, including the AMS 700[®] MS. AMS, Inc. has refined its implants over the years with improvements to the AMS 700[®] series of inflatable prostheses, including the AMS 700 LGX[®] and the MS Pump[®]. Another key factor that distinguishes AMS, Inc.'s products is the use of the InhibiZone[®] antibiotic coating, which received FDA approval in July 2009 for AMS, Inc.'s product claim that InhibiZone[®] reduces the rate of revision surgery due to surgical infections.

Women's Health.

AMS, Inc. offers a broad range of systems, led by Monarc[®] and MiniArc[®], to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. Monarc[®] incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramen. AMS, Inc.'s MiniArc[®] Single-Incision Sling for stress incontinence was released in 2007 and requires just one incision to surgically place a small sling under the urethra, which minimizes tissue disruption and potential for blood loss, thereby allowing the procedure to be done with less anesthesia on an outpatient basis. In 2010, AMS, Inc. launched the MiniArc[®] Precise™, which is designed to enhance the ease and accuracy of placement of the MiniArc device.

AMS, Inc. also offers solutions for pelvic floor prolapse and other pelvic floor disorders, which may be caused by pregnancy, labor, and childbirth. In 2008, AMS, Inc. introduced the Elevate[®] transvaginal pelvic floor repair system, with no external incisions. Using an anatomically designed needle and self-fixating tips, Elevate[®] allows for safe, simple and precise mesh placement through a single vaginal incision. The posterior system was launched in 2008 and the anterior system was launched in 2009.

BPH Therapy.

AMS, Inc.'s products can be used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of BPH or bulbar urethral strictures. AMS, Inc. offers men experiencing a physical obstruction of the prostatic urethra an alternative to a transurethral resection of the prostate (TURP), with the GreenLight™ photovaporization of the prostate. This laser therapy is designed to reduce the comorbidities associated with TURP. AMS, Inc.'s GreenLight™ XPS and MoXy™ Liquid Cooled Fiber provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight™ laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and providing enhanced surgical control compared to other laser systems. AMS,

Inc. also offers the StoneLight[®] laser and SureFlex[™] fiber optics for the treatment of urinary stones. StoneLight[®] is a lightweight and portable 15-watt holmium laser that offers the right amount of power to effectively fragment most urinary stones. The SureFlex[™] fiber optic line is engineered to deliver more energy safely and effectively, even under maximum scope deflection, for high performance holmium laser lithotripsy.

AMS, Inc.'s TherMatrix[®] product is designed for those men not yet to the point of urethral obstruction, but for whom symptomatic relief is desired. It is a less-invasive tissue ablation technique that can be performed in a physician's office using microwave energy delivered to the prostate.

The acquisition of AMS, Inc. furthers Endo's evolution from a pharmaceutical product-driven company to a healthcare solutions provider, strengthens our leading core urology franchise and expands our presence in the medical devices market. We believe the combination of AMS, Inc. with Endo's existing platform will provide additional cost-effective solutions across the entire urology spectrum.

The operating results of AMS, Inc. from and including June 18, 2011 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of AMS, Inc., effective June 18, 2011.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the AMS, Inc. Acquisition Date (in thousands):

	June 17, 2011 (As Adjusted)
Cash and cash equivalents.....	\$ 47,289
Commercial paper	71,000
Accounts receivable	73,868
Other receivables.....	630
Inventories.....	74,988
Prepaid expenses and other current assets.....	7,133
Income taxes receivable	9,154
Deferred income taxes.....	15,432
Property, plant and equipment	56,413
Other intangible assets(1).....	1,260,000
Other assets	4,581
Total identifiable assets	<u>\$ 1,620,488</u>
Accounts payable	\$ 10,327
Accrued expenses.....	45,835
Deferred income taxes.....	416,745
Long-term debt.....	520,375
Other liabilities.....	25,891
Total liabilities assumed	<u>\$ 1,019,173</u>
Net identifiable assets acquired	<u>\$ 601,315</u>
Goodwill(2).....	1,798,661
Net assets acquired.....	<u><u>\$ 2,399,976</u></u>

(1) Subsequent pre-tax non-cash impairment charges totaling \$135.5 million related to Other intangible assets were recorded in 2012. These impairment charges are further discussed in Note 9. Goodwill and Other Intangibles.

(2) A subsequent pre-tax non-cash impairment charge of \$507.5 million related to this Goodwill was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the AMS, Inc. Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
Customer Relationships:		
Men's Health	\$ 97.0	17
Women's Health.....	37.0	15
BPH.....	26.0	13
Total.....	<u>\$ 160.0</u>	16
Developed Technology:		
Men's Health	\$ 690.0	18
Women's Health(1)	150.0	9
BPH.....	161.0	18
Total.....	<u>\$ 1,001.0</u>	16
Tradenames:		
AMS.....	\$ 45.0	30
GreenLight	12.0	15
Total.....	<u>\$ 57.0</u>	27
In Process Research & Development:		
Oracle(2)	\$ 12.0	n/a
Genesis	14.0	n/a
TOPAS	8.0	n/a
Other(3).....	8.0	n/a
Total.....	<u>\$ 42.0</u>	n/a
Total other intangible assets	<u>\$ 1,260.0</u>	n/a

- (1) A subsequent pre-tax non-cash impairment charge of \$128.5 million was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.
- (2) A subsequent pre-tax non-cash impairment charge of \$4.0 million was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.
- (3) A subsequent pre-tax non-cash impairment charge of \$3.0 million was recorded in the second quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The fair value of the developed technology, IPR&D and customer relationship assets were estimated using a discounted present value income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. The fair value of the AMS and GreenLight tradenames were estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the AMS or GreenLight tradename. Thus, we derived the hypothetical royalty income from the projected revenues of AMS and GreenLight products, respectively. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

The \$1,798.7 million of goodwill has been assigned to our AMS segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the entire urology spectrum, expected corporate synergies, the assembled workforce of AMS, Inc. and other factors. Approximately \$16.5 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$15.4 million are related primarily to federal net operating loss and credit carryforwards of AMS, Inc. and its subsidiaries. Deferred tax liabilities of \$416.7 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized \$7.7 million and \$28.8 million of AMS, Inc. acquisition-related and integration costs that were expensed during the years ended December 31, 2012 and 2011, respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2012	2011
Bank fees.....	\$ —	\$ 16,070
Legal, separation, integration, and other costs	7,672	12,684
Total.....	<u>\$ 7,672</u>	<u>\$ 28,754</u>

Transaction costs directly associated with the closing of the acquisition in 2011 and included in the table above totaled \$25.8 million.

The amounts of revenue and net loss of AMS, Inc. included in the Company's Consolidated Statements of Operations from and including June 18, 2011 to December 31, 2011 are as follows (in thousands, except per share data):

Revenue.....	\$ 300,299
Net loss attributable to Endo Health Solutions Inc.	\$ (329)
Basic and diluted net loss per share	\$ —

The following supplemental pro forma information presents the financial results as if the acquisition of AMS, Inc. had occurred on January 1, 2010 for the years ended December 31, 2011 and 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2011	Twelve Months Ended December 31, 2010
Unaudited pro forma consolidated results (in thousands, except per share data):		
Revenue.....	\$ 2,968,497	\$ 2,259,104
Net income attributable to Endo Health Solutions Inc.	\$ 214,487	\$ 199,776
Basic net income per share.....	\$ 1.84	\$ 1.72
Diluted net income per share.....	\$ 1.77	\$ 1.69

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of AMS, Inc. to reflect factually supportable adjustments that give effect to events that are directly attributable to the AMS, Inc. Acquisition, including borrowings to finance the acquisition as well as the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, inventory, and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

Qualitest Pharmaceuticals

On November 30, 2010 (the Qualitest Pharmaceuticals Acquisition Date), Endo completed its acquisition of all of the issued and outstanding capital stock of Generics International (US Parent), Inc. (Qualitest Pharmaceuticals) from an affiliate of Apax Partners, L.P. for approximately \$770.0 million. In addition, Endo paid \$406.8 million to retire Qualitest Pharmaceuticals' outstanding debt and related interest rate swap on November 30, 2010. In connection with the Qualitest Pharmaceuticals acquisition, \$108.0 million of the purchase price was placed into two separate escrow accounts. One of the escrow accounts was \$8.0 million, some of which was used to fund working capital adjustments, as defined in the Qualitest Pharmaceuticals Stock Purchase Agreement. This escrow was settled during the third quarter of 2011. There was also a \$100.0 million escrow account to be used to fund all claims arising out of or related to the Qualitest Pharmaceuticals acquisition. In connection with this \$100.0 million escrow account, to the extent that we realize tax benefits for costs that are funded by the escrow account, we will be required to share these tax benefits with Apax. The \$100.0 million escrow account was subsequently reduced to \$45.5 million pursuant to an October 2012 amendment to the Qualitest Pharmaceuticals Stock Purchase Agreement. This escrow fund was previously treated as a component of the Qualitest Pharmaceuticals purchase price and therefore this amendment does not have any impact on our cash or cash equivalents balances.

Qualitest Pharmaceuticals is a manufacturer and distributor of generic drugs and over-the-counter pharmaceuticals throughout the U.S. Qualitest Pharmaceuticals' product portfolio is comprised of 175 product families in various forms including tablets, capsules, creams, ointments, suppositories, and liquids. This acquisition has enabled us to gain critical mass in our generics business while strengthening our pain portfolio through a larger breadth of product offerings.

The operating results of Qualitest Pharmaceuticals from November 30, 2010 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of Qualitest Pharmaceuticals, effective November 30, 2010, the date the Company obtained control of Qualitest Pharmaceuticals.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Qualitest Pharmaceuticals Acquisition Date (in thousands):

	November 30, 2010 (As Adjusted)
Cash and cash equivalents	\$ 21,828
Accounts receivable	93,228
Other receivables	1,483
Inventories	95,000
Prepaid expenses and other current assets	1,901
Deferred income taxes	71,040
Property, Plant and equipment	135,807
Other intangible assets(1)	836,000
Total identifiable assets	<u>\$ 1,256,287</u>
Accounts payable	\$ 27,421
Accrued expenses	59,351
Deferred income taxes	207,321
Long-term debt	406,758
Other liabilities	9,487
Total liabilities assumed	<u>\$ 710,338</u>
Net identifiable assets acquired	<u>\$ 545,949</u>
Goodwill	224,098
Net assets acquired	<u><u>\$ 770,047</u></u>

- (1) A subsequent pre-tax non-cash impairment charge of \$71.0 million related to Other intangible assets was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Qualitest Pharmaceuticals Acquisition Date. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
Developed Technology:		
Hydrocodone and acetaminophen	\$ 119.0	17
Oxycodone and acetaminophen	30.0	17
Promethazine	46.0	16
Isosorbide Mononitrate ER	42.0	16
Multi Vitamins	38.0	16
Trazodone	17.0	16
Butalbital, acetaminophen, and caffeine	25.0	16
Triprevifem	16.0	13
Spironolactone	13.0	17
Hydrocortisone	34.0	16
Hydrochlorothiazide	16.0	16
Controlled Substances	52.0	16
Oral Contraceptives	8.0	13
Others	162.0	17
Total	<u>\$ 618.0</u>	16
In Process Research & Development:		
Generics portfolio with anticipated 2011 launch	\$ 63.0	n/a
Generics portfolio with anticipated 2012 launch	30.0	n/a
Generics portfolio with anticipated 2013 launch	17.0	n/a
Generics portfolio with anticipated 2014 launch ⁽¹⁾	88.0	n/a
Total	<u>\$ 198.0</u>	n/a
Tradename:		
Qualitest tradename	\$ 20.0	15
Total	<u>\$ 20.0</u>	15
Total other intangible assets	<u>\$ 836.0</u>	n/a

- (1) A subsequent pre-tax non-cash impairment charge of \$71.0 million was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The fair value of the developed technology assets and IPR&D assets were estimated using an income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were generally assumed to extend through the economic useful life of the developed technology, IPR&D asset or tradename. The fair value of the Qualitest tradename was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the Qualitest tradename. Thus, we derived the hypothetical royalty income from the projected revenues of Qualitest Pharmaceuticals.

The \$224.1 million of goodwill was assigned to our Qualitest segment. The goodwill recognized is attributable primarily to expected purchasing, manufacturing and distribution synergies as well as its assembled workforce. Approximately \$170.4 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$71.0 million are related primarily to federal and state net operating loss and credit carryforwards of Qualitest Pharmaceuticals and its subsidiaries. Deferred tax liabilities of \$207.3 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized \$11.0 million, \$8.0 million and \$38.8 million of Qualitest Pharmaceuticals acquisition-related and integration items that were expensed during the years ended December 31, 2012, 2011 and 2010, respectively. These items are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2012	2011	2010
Bank fees.....	\$ —	\$ —	\$ 14,215
Legal, separation, integration, and other costs	10,776	8,284	24,572
Changes in fair value of acquisition-related contingent consideration	237	(313)	—
Total.....	<u>\$ 11,013</u>	<u>\$ 7,971</u>	<u>\$ 38,787</u>

Transaction costs directly associated with the closing of the acquisition in 2010 and included in the table above totaled \$36.1 million.

The amounts of revenue and net loss of Qualitest Pharmaceuticals included in the Company's Consolidated Statements of Operations from and including November 30, 2010 to December 31, 2010 are as follows (in thousands, except per share data):

Revenue.....	\$ 30,323
Net loss attributable to Endo Health Solutions Inc.	\$ (3,056)
Basic and diluted net loss per share	\$ (0.03)

The following supplemental pro forma information presents the financial results as if the acquisition of Qualitest Pharmaceuticals had occurred on January 1, 2010 for the year ended December 31, 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2010
Unaudited pro forma consolidated results (in thousands, except per share data):	
Revenue.....	\$ 2,038,761
Net income attributable to Endo Health Solutions Inc.	\$ 243,710
Basic net income per share.....	\$ 2.10
Diluted net income per share.....	\$ 2.07

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Qualitest Pharmaceuticals to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

Penwest Pharmaceuticals Co.

On September 20, 2010 (the Penwest Acquisition Date), the Company completed its tender offer for the outstanding shares of common stock of Penwest and on November 4, 2010, we closed this acquisition for approximately \$171.8 million in aggregate cash consideration, at which time Penwest became our wholly-owned subsidiary. On August 22, 2011, Penwest was merged into Endo Pharmaceuticals Inc., at which time Penwest ceased its existence as a separate legal entity.

This transaction contributes to Endo's core pain management franchise and permits us to maximize the value of our oxymorphone franchise.

The operating results of Penwest from September 20, 2010 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of Penwest, effective September 20, 2010, the date the Company obtained control of Penwest.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Penwest Acquisition Date (in thousands):

	September 20, 2010 (As Adjusted)
Cash and cash equivalents.....	\$ 22,343
Marketable securities	800
Accounts receivable	10,866
Other receivables.....	131
Inventories.....	407
Prepaid expenses and other current assets.....	493
Deferred income taxes.....	29,765
Property, plant and equipment	915
Other intangible assets(1).....	111,200
Other assets	2,104
Total identifiable assets.....	\$ 179,024
Accounts payable	\$ 229
Income taxes payable	160
Penwest shareholder liability	—
Accrued expenses.....	1,542
Deferred income taxes.....	40,168
Other liabilities.....	4,520
Total liabilities assumed	\$ 46,619
Net identifiable assets acquired	\$ 132,405
Goodwill	39,361
Net assets acquired.....	\$ 171,766

- (1) A subsequent pre-tax non-cash impairment charge of \$1.6 million related to Other intangible assets was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Penwest Acquisition Date. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows (in millions):

	Valuation	Amortization Period (in years)
In Process Research & Development:		
Otsuka.....	\$ 5.5	n/a
A0001(1)	1.6	n/a
Total	\$ 7.1	n/a
Developed Technology:		
Opana® ER	\$ 104.1	10
Total	\$ 104.1	10
Total other intangible assets	\$ 111.2	n/a

- (1) A subsequent pre-tax non-cash impairment charge of \$1.6 million was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The fair values of the IPR&D assets and developed technology asset were estimated using an income approach. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with the asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were generally assumed to extend through the economic useful life of our developed technology or IPR&D asset.

The \$39.4 million of goodwill was assigned to our Endo Pharmaceuticals segment. The goodwill recognized is attributable primarily to the control premium associated with our oxymorphone franchise and other factors. None of the goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$29.8 million are related primarily to federal net operating loss and credit carryforwards of Penwest. Deferred tax liabilities of \$40.2 million are related primarily to the difference between the book basis and tax basis of the identifiable intangible assets.

The Company recognized \$0.3 million and \$10.7 million of Penwest acquisition-related and integration costs that were expensed during the years ended December 31, 2011 and 2010, respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2011	2010
Bank fees.....	\$ —	\$ 3,865
Legal, separation, integration, and other costs	259	6,815
Total	<u>\$ 259</u>	<u>\$ 10,680</u>

Transaction costs directly associated with the closing of the acquisition in 2010 and included in the table above totaled \$5.6 million.

Due to the pro forma impacts of eliminating the pre-existing intercompany royalties between Penwest and Endo, which were determined to be at fair value, we have not provided supplemental pro forma information as amounts are not material to the Consolidated Statements of Operations. We have also considered the impacts of Penwest, since the date we obtained a majority interest, on our Consolidated Statement of Operations and concluded amounts were not material.

HealthTronics, Inc.

On July 2, 2010 (the HealthTronics, Inc. Acquisition Date), the Company completed its initial tender offer for all outstanding shares of common stock of HealthTronics, Inc. and obtained effective control of HealthTronics, Inc. On July 12, 2010, Endo completed its acquisition of HealthTronics, Inc. for approximately \$214.8 million in aggregate cash consideration for 100% of the outstanding shares, at which time HealthTronics, Inc. became a wholly-owned subsidiary of the Company. HealthTronics, Inc.'s shares were purchased at a price of \$4.85 per HealthTronics, Inc. Share. In addition, Endo paid \$40.0 million to retire HealthTronics, Inc.'s debt that had been outstanding under its Senior Credit Facility. As a result of the acquisition, the HealthTronics, Inc. Senior Credit Facility was terminated.

HealthTronics, Inc. is a provider of healthcare services and manufacturer of certain related medical devices, primarily for the urology community. The HealthTronics, Inc. business and applicable services include:

Lithotripsy services.

HealthTronics, Inc. provides lithotripsy services, which is a medical procedure where a device called a lithotripter transmits high energy shockwaves through the body to break up kidney stones. Lithotripsy services are provided principally through limited partnerships and other entities that HealthTronics, Inc. manages, which use lithotripters. In 2012, physician partners used our lithotripters to perform more than 50,000 procedures in the U.S. While the physicians render medical services, HealthTronics, Inc. does not. As the general partner of limited partnerships or the manager of other types of entities, HealthTronics, Inc. also provide services relating to operating its lithotripters, including scheduling, staffing, training, quality assurance, regulatory compliance, and contracting with payors, hospitals, and surgery centers.

Prostate treatment services.

HealthTronics, Inc. provides treatments for benign and cancerous conditions of the prostate. In treating benign prostate disease, HealthTronics, Inc. deploys three technologies in a number of its partnerships above: (1) PVP, (2) TUNA, and (3) TUMT. All three technologies apply an energy source which reduces the size of the prostate gland. For treating prostate and other cancers, HealthTronics, Inc. uses a procedure called cryosurgery, a process which uses lethal ice to destroy tissue such as tumors for therapeutic purposes. In April 2008, HealthTronics, Inc. acquired Advanced Medical Partners, Inc., which significantly expanded its cryosurgery partnership base. In July 2009, HealthTronics, Inc. acquired Endocare, Inc., which manufactures both the medical devices and related consumables utilized by its cryosurgery operations and also provides cryosurgery treatments. The prostate treatment services are provided principally by using equipment that HealthTronics, Inc.

leases from limited partnerships and other entities that HealthTronics, Inc. manages. Benign prostate disease and cryosurgery cancer treatment services are billed in the same manner as its lithotripsy services under either retail or wholesale contracts. HealthTronics, Inc. also provides services relating to operating the equipment, including scheduling, staffing, training, quality assurance, regulatory compliance, and contracting.

Anatomical pathology services.

HealthTronics, Inc. provides anatomical pathology services primarily to the urology community. HealthTronics, Inc. has one pathology lab located in Georgia, which provides laboratory detection and diagnosis services to urologists throughout the U.S. In addition, in July 2008, HealthTronics, Inc. acquired Uropath LLC, now referred to as HealthTronics Laboratory Solutions, which managed pathology laboratories located at Uropath sites for physician practice groups located in Texas, Florida and Pennsylvania. Through HealthTronics Laboratory Solutions, HealthTronics, Inc. continues to provide administrative services to in-office pathology labs for practice groups and pathology services to physicians and practice groups with its lab equipment and personnel at the HealthTronics Laboratory Solutions laboratory sites.

Medical products manufacturing, sales and maintenance.

HealthTronics, Inc. manufactures and sells medical devices focused on minimally invasive technologies for tissue and tumor ablation through cryoablation, which is the use of lethal ice to destroy tissue, such as tumors, for therapeutic purposes. HealthTronics, Inc. develops and manufactures these devices for the treatment of prostate and renal cancers and our proprietary technologies also have applications across a number of additional markets, including the ablation of tumors in the lung, liver metastases and palliative intervention (treatment of pain associated with metastases). HealthTronics, Inc. manufactures the related spare parts and consumables for these devices. HealthTronics, Inc. also sells and maintains lithotripters and related spare parts and consumables.

The acquisition of HealthTronics, Inc. reflects Endo's desire to continue expanding our business beyond pain management into complementary medical areas where HealthTronics, Inc. can be innovative and competitive. We believe this expansion will enable us to be a provider of multiple healthcare solutions and services that fill critical gaps in patient care.

The operating results of HealthTronics, Inc. from July 2, 2010 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of HealthTronics, Inc., effective July 2, 2010, the date the Company obtained control of HealthTronics, Inc.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the HealthTronics, Inc. Acquisition Date (in thousands):

	July 2, 2010 (As Adjusted)
Cash and cash equivalents.....	\$ 6,769
Accounts receivable	33,388
Other receivables.....	1,006
Inventories.....	12,399
Prepaid expenses and other current assets.....	5,204
Deferred income taxes.....	46,489
Property, plant and equipment	30,687
Other intangible assets(1).....	73,124
Other assets	5,210
Total identifiable assets.....	\$ 214,276
Accounts payable	\$ 3,084
Accrued expenses.....	20,510
Deferred income taxes.....	22,376
Long-term debt.....	43,460
Other liabilities.....	1,785
Total liabilities assumed	\$ 91,215
Net identifiable assets acquired	\$ 123,061
Noncontrolling interests	(63,227)
Goodwill(2).....	155,009
Net assets acquired.....	\$ 214,843

- (1) Other intangible assets includes a \$12.2 million intangible asset related to our IGRT business, which was sold in September 2011 for approximately \$13.0 million. Accordingly, the carrying amount of this asset was reduced to zero at the time of sale.
- (2) A subsequent pre-tax non-cash impairment charge of \$24.8 million related to this Goodwill was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the HealthTronics, Inc. Acquisition Date. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows (in millions):

	Valuation (in millions)	Amortization Period (in years)
Endocare Developed Technology	\$ 46.3	10
HealthTronics Tradename.....	14.6	15
Service Contract(1).....	12.2	n/a
Total	\$ 73.1	n/a

- (1) This intangible asset relates to our IGRT business, which was sold in September 2011 for approximately \$13.0 million. Accordingly, the carrying amount of this asset was reduced to zero at the time of sale.

The fair value of the developed technology asset was estimated using a discounted present value income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were assumed to extend through the economic useful life of the purchased technology. The fair value of the HealthTronics Tradename was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to

license the HealthTronics Tradename. Thus, we derived the hypothetical royalty income from the projected revenues of HealthTronics, Inc.'s services.

HealthTronics, Inc. has investments in partnerships and limited liability companies (LLCs) where we, as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where we do not own 100% of the entity in accordance with the accounting consolidation principles. As a result, we are required to fair value the noncontrolling interests as part of our purchase price allocation. To calculate fair value, the Company used historical transactions which represented Level 2 data points within the fair value hierarchy to calculate applicable multiples of each respective noncontrolling interest in the partnerships and LLCs.

The \$155.0 million of goodwill has been assigned to our HealthTronics segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the HealthTronics, Inc. network of urology partnerships, expected corporate synergies, the assembled workforce of HealthTronics, Inc. and other factors. Approximately \$33.6 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$46.5 million are related primarily to federal net operating loss and credit carryforwards of HealthTronics, Inc. and its subsidiaries. Deferred tax liabilities of \$22.4 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized \$3.6 million, \$3.7 million and \$20.9 million of HealthTronics, Inc. acquisition-related and integration costs that were expensed during the years ended December 31, 2012, 2011 and 2010, respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2012	2011	2010
Bank fees.....	\$ —	\$ —	\$ 2,017
Acceleration of outstanding HealthTronics, Inc. stock-based compensation.....	—	—	7,924
Legal, separation, integration, and other costs	3,569	3,704	10,988
Total.....	<u>\$ 3,569</u>	<u>\$ 3,704</u>	<u>\$ 20,929</u>

Transaction costs directly associated with the closing of the acquisition in 2010 and included in the table above totaled \$20.0 million.

The amounts of revenue and net loss of HealthTronics, Inc. included in the Company's Consolidated Statements of Operations from and including July 2, 2010 to December 31, 2010 are as follows (in thousands, except per share data):

Revenue.....	\$ 102,144
Net loss attributable to Endo Health Solutions Inc.	\$ (8,098)
Basic and diluted net loss per share	\$ (0.07)

The following supplemental pro forma information presents the financial results as if the acquisition of HealthTronics, Inc. had occurred on January 1, 2010 for the year ended December 31, 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2010
Unaudited pro forma consolidated results (in thousands, except per share data):	
Revenue.....	\$ 1,814,918
Net income attributable to Endo Health Solutions Inc.	\$ 264,165
Basic net income per share.....	\$ 2.27
Diluted net income per share.....	\$ 2.24

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of HealthTronics, Inc. to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

Other

In the second half of 2011, as part of our effort to increase and broaden the relationships within the urology community, we acquired two electronic medical records software companies, Intuitive Medical Software, LLC and meridianEMR, Inc., which individually and combined represent immaterial acquisitions. These acquisitions provide electronic medical records for urologists. Together, these acquisitions provide access to more than 2,000 urology health care providers using data platforms that will enhance service offerings in urology practice management.

NOTE 6. SEGMENT RESULTS

In the fourth quarter of 2011, as a result of our strategic planning process, the Company's executive leadership team reorganized the manner in which it views our various business activities. Management's intention was to enhance its level of understanding of the entity's performance, better assess its prospects and future cash flow potential and ultimately make more informed operating decisions about resource allocation and the enterprise as a whole. Based on this change, we reassessed our reporting structure under the applicable accounting guidance and determined that the Company had four reportable segments. We have retrospectively revised the segment presentation for all periods presented reflecting the change from three to four reportable segments. Additionally, concurrent with the Company's May 2012 enterprise-wide rebranding initiative and corporate name change, the Company changed the names of its reportable segments to better align with these efforts. These changes to our segments have no impact on the Company's Consolidated Financial Statements for all periods presented.

The four reportable business segments in which the Company now operates are: (1) Endo Pharmaceuticals, (2) Qualitest, (3) AMS and (4) HealthTronics. Each segment derives revenue from the sales or licensing of their respective products or services.

We evaluate segment performance based on each segment's adjusted income before income tax. We define adjusted income before income tax as income (loss) before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, net, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income before income tax by adding the adjusted income before income tax of each of our reportable segments to Corporate unallocated adjusted income before income tax.

Endo Pharmaceuticals

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm[®], Opana[®] ER, Percocet[®], Voltaren[®] Gel, Frova[®], Supprelin[®] LA, Vantas[®], Valstar[®] and Fortesta[®] Gel.

Qualitest

The Qualitest segment is comprised of our legacy Endo non-branded generics portfolio and the portfolio from Qualitest Pharmaceuticals, which we acquired in 2010. The Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. With the addition of Qualitest Pharmaceuticals, the segment's product offerings now include products in the pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women's health and hypertension markets, among others.

AMS

The AMS segment currently focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and BPH therapy. These business lines are discussed in greater detail within Note 5. Acquisitions. We distribute devices through our direct sales force and independent sales representatives in the U.S., Canada, Australia and Western Europe. Additionally, we distribute devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to

medical institutions. None of our AMS customers or distributors accounted for ten percent or more of our total revenues during the years ended December 31, 2012, 2011 or 2010. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

HealthTronics

The HealthTronics segment provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics across the U.S. These services are sold through the following business lines: lithotripsy services, prostate treatment services, anatomical pathology services, medical products manufacturing, sales and maintenance and electronic medical records services.

The following represents selected information for the Company's reportable segments for the years ended December 31 (in thousands):

	2012	2011	2010
Net revenues to external customers:			
Endo Pharmaceuticals	\$ 1,677,984	\$ 1,657,767	\$ 1,467,572
Qualitest	633,265	566,854	146,513
AMS(1)	504,487	300,299	—
HealthTronics	211,627	205,201	102,144
Total consolidated net revenues to external customers	<u>\$ 3,027,363</u>	<u>\$ 2,730,121</u>	<u>\$ 1,716,229</u>
Adjusted income before income tax:			
Endo Pharmaceuticals	\$ 906,839	\$ 890,951	\$ 757,453
Qualitest	171,418	107,204	24,722
AMS	119,852	82,418	—
HealthTronics	58,092	68,769	35,538
Corporate unallocated	(338,826)	(318,100)	(194,459)
Total consolidated adjusted income before income tax	<u>\$ 917,375</u>	<u>\$ 831,242</u>	<u>\$ 623,254</u>

(1) The following table displays our AMS segment revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	2012	2011	2010
AMS:			
United States	\$ 330,087	\$ 202,462	\$ —
International	174,400	97,837	—
Total AMS revenues	<u>\$ 504,487</u>	<u>\$ 300,299</u>	<u>\$ —</u>

The table below provides reconciliations of our consolidated adjusted income before income tax to our consolidated (loss) income before income tax, which is determined in accordance with U.S. GAAP, for the years ended December 31 (in thousands):

	2012	2011	2010
Total consolidated adjusted income before income tax:	\$ 917,375	\$ 831,242	\$ 623,254
Upfront and milestone payments to partners	(60,778)	(28,098)	(23,850)
Asset impairment charges	(768,467)	(116,089)	(35,000)
Acquisition-related and integration items, net	(23,015)	(33,638)	(18,976)
Separation benefits and other cost reduction initiatives(1)	(47,033)	(21,821)	(17,245)
Amortization of intangible assets	(227,260)	(190,969)	(83,974)
Inventory step-up	(880)	(49,438)	(6,289)
Non-cash interest expense	(20,762)	(18,952)	(16,983)
Net loss on extinguishment of debt	(7,215)	(11,919)	—
Accrual for payment to Impax related to sales of Opana® ER	(102,000)	—	—
Patent litigation settlement items, net	(85,123)	—	—
Litigation-related and other contingencies	(316,425)	(11,263)	—
Other income (expense), net	—	2,636	(239)
Total consolidated (loss) income before income tax	<u>\$ (741,583)</u>	<u>\$ 351,691</u>	<u>\$ 420,698</u>

- (1) During the year ended December 31, 2012, the Company recorded \$43.6 million of employee separation costs, \$18.2 million of which is included in Accrued expenses on the Consolidated Balance Sheets as of December 31, 2012. The cash related portion of these charges is \$37.8 million. Approximately \$19.7 million of the \$37.8 million was paid in 2012. A majority of the remaining \$18.2 million is expected to be paid in 2013.

The following represents additional selected financial information for our reportable segments for the years ended December 31 (in thousands):

	2012	2011	2010
Depreciation expense:			
Endo Pharmaceuticals	\$ 15,540	\$ 13,264	\$ 13,259
Qualitest	12,343	11,468	1,676
AMS	10,667	4,984	—
HealthTronics	14,081	12,330	6,000
Corporate unallocated	5,033	3,799	2,894
Total depreciation expense	<u>\$ 57,664</u>	<u>\$ 45,845</u>	<u>\$ 23,829</u>

	2012	2011	2010
Amortization expense:			
Endo Pharmaceuticals	\$ 105,974	\$ 104,439	\$ 78,647
Qualitest	41,524	39,078	3,068
AMS	73,422	42,099	—
HealthTronics	6,940	5,953	2,860
Total amortization expense	<u>\$ 227,860</u>	<u>\$ 191,569</u>	<u>\$ 84,575</u>

Interest income and expense are considered corporate items and are not allocated to our segments. Asset information is not accounted for at the segment level and consequently is not reviewed or included within our internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

NOTE 7. LICENSE AND COLLABORATION AGREEMENTS

Commercial Products

Novartis AG and Novartis Consumer Health, Inc.

On March 4, 2008, we entered into a License and Supply Agreement (the Voltaren[®] Gel Agreement) with and among Novartis AG and Novartis Consumer Health, Inc. (Novartis) to obtain the exclusive U.S. marketing rights for the prescription medicine Voltaren[®] Gel (Voltaren[®] Gel or Licensed Product). Voltaren[®] Gel received regulatory approval in October 2007 from the FDA, becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren[®] Gel was granted marketing exclusivity in the U.S. as a prescription medicine until October 2010.

Under the terms of the five-year Voltaren[®] Gel Agreement, Endo made an upfront cash payment of \$85 million. Endo agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds as defined in the Voltaren[®] Gel Agreement. In addition, Endo agreed to make certain guaranteed minimum annual royalty payments of \$30 million per year payable in the 4th and 5th year of the Voltaren[®] Gel Agreement, which may be reduced under certain circumstances, including Novartis's failure to supply the Licensed Product, subject to certain limitations including the launch of a generic to the Licensed Product in the U.S. These guaranteed minimum royalties will be creditable against royalty payments on an annual basis such that Endo's obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren[®] Gel Agreement year. Novartis is also eligible to receive a one-time milestone payment of \$25 million if annual net sales of Voltaren[®] Gel exceed \$300 million in the U.S. To date, annual net sales have not exceeded this threshold and, therefore, this milestone payment has not been paid.

The \$85 million upfront payment and the present value of the guaranteed minimum royalties was initially capitalized as an intangible asset in the amount of \$129 million, representing the fair value of the exclusive license to market Voltaren[®] Gel over the initial contract term. We are amortizing this intangible asset into Cost of revenues over an estimated five-year useful life. Due to Novartis's failure to supply Voltaren[®] Gel during the first quarter of 2012 resulting from the shutdown of its Lincoln, Nebraska manufacturing facility, we were not obligated to make any first quarter royalty payment, including the \$7.5 million minimum royalty. Accordingly, during the first quarter of 2012, we recorded a reduction to the associated liability and a decrease in the intangible asset. Subsequent to the first quarter of 2012, royalties in the amount of \$21.6 million were incurred representing either a percentage of actual net sales of Voltaren[®] Gel or minimum royalties pursuant to the Voltaren[®] Gel Agreement. Voltaren[®] Gel royalties incurred during the year ended December 31, 2011 were \$17.7 million. There were no Voltaren[®] Gel royalties incurred during the year ended December 31, 2010.

Endo is solely responsible to commercialize the Licensed Product during the term of the Voltaren[®] Gel Agreement. With respect to each year during the term of the Voltaren[®] Gel Agreement, subject to certain limitations, Endo is required to incur a minimum amount of annual advertising and promotional expenses (A&P Expenditures) on the commercialization of the Licensed Product, which may be reduced under certain circumstances including Novartis's failure to supply the Licensed Product. In addition, Endo is required to perform a minimum number of face-to-face one-on-one discussions with physicians and other healthcare practitioners (Details) for the purpose of promoting the Licensed Product within its approved indication during each year of the Voltaren[®] Gel Agreement which may be reduced under certain circumstances including Novartis's failure to supply the Licensed Product. Further, during the term of the Voltaren[®] Gel Agreement, Endo will share in the costs of certain clinical studies and development activities initiated at the request of the FDA or as considered appropriate by Novartis and Endo. On December 31, 2012, Endo and Novartis entered into an amendment to the Voltaren[®] Gel Agreement (the Voltaren[®] Gel Amendment) which reduced the minimum number of Details required to be conducted by Endo and the minimum amount of annual advertising and promotional expenses required to be spent by Endo on the commercialization of Voltaren[®] Gel during each year of the Voltaren[®] Gel Agreement.

During the third Voltaren[®] Gel Agreement Year beginning on July 1, 2010 and extending through June 30, 2011, we agreed to spend 15% of prior year sales or approximately \$13 million on A&P Expenditures. During the fourth Voltaren[®] Gel Agreement Year beginning on July 1, 2011 and extending through June 30, 2012, we agreed to spend 13% of prior year sales or approximately \$16 million on A&P Expenditures. On December 31, 2012, we entered into an amendment that reduced the amount of minimum A&P Expenditures for the fifth Agreement Year beginning on July 1, 2012 and extending through June 30, 2013 to approximately \$4.5 million. In subsequent Agreement Years, the minimum A&P Expenditures set forth in the Voltaren[®] Gel Agreement are determined based on a percentage of net sales of Voltaren[®] Gel, which may be reduced under certain circumstances, including Novartis's failure to supply Voltaren[®] Gel.

Amounts incurred by Endo for such A&P Expenditures were \$9.4 million, \$18.7 million and \$18.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

During the term of the Voltaren[®] Gel Agreement, Endo has agreed to purchase all of its requirements for the Licensed Product from Novartis. The price was fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials. The Voltaren[®] Gel Amendment reduced the supply price of Voltaren[®] Gel otherwise payable under the Agreement.

Novartis has the exclusive right, at its sole discretion, to effect a switch of the Licensed Product from a prescription product to an over-the-counter (OTC) product in the U.S. (an OTC Switch) by filing an amendment or supplement to the Licensed Product New Drug Application or taking any other action necessary or advisable in connection therewith to effect the OTC Switch, and thereafter to commercialize such OTC product. Notwithstanding the foregoing, Novartis shall not launch an OTC equivalent product prior to a time specified in the Voltaren[®] Gel Agreement, and Novartis shall not take any action that results in the loss of the prescription product status for the Licensed Product prior to such time. Novartis is obligated to notify Endo if it submits a filing to the FDA in respect of an OTC equivalent product. In the event that Novartis gains approval of an OTC equivalent product that results in the Licensed Product being declassified as a prescription product, then Novartis will make certain royalty payments to Endo on net sales of such OTC equivalent product in the U.S. by Novartis, its affiliates and their respective licensees or sublicensees as set forth in the Voltaren[®] Gel Agreement. As a condition to the payment of any and all such royalties, net sales of the Licensed Product in the U.S. must have exceeded a certain threshold prior to the launch of the OTC equivalent product by Novartis or its affiliates.

The initial term of the Voltaren[®] Gel Agreement will expire on June 30, 2013, and we have the option to extend it for three successive one year terms. In December 2012, pursuant to the provisions of the Voltaren[®] Gel Agreement, the term was automatically renewed for an additional one year period. As a result, we capitalized, as an intangible asset, \$21.3 million, representing the present value of the guaranteed minimum royalties we expect to pay to Novartis AG over the renewal term. The Voltaren[®] Gel Agreement will remain in place unless either (i) Endo provides written notice of non-renewal to the other party at least six months prior to the expiration of any renewal term after the first renewal term (ii) Novartis provides written notice of non-renewal to the other party at least six months prior to the expiration of any renewal term after the second renewal term or (iii) the Voltaren[®] Gel Agreement is otherwise terminated in accordance with its terms. Upon extension, Endo is again obligated to make certain guaranteed minimum annual royalty payments of \$30 million per year during each successive one-year renewal term, subject to certain limitations including the launch of a generic to the Licensed Product in the U.S. These guaranteed minimum annual royalty payments may be reduced under certain circumstances, including Novartis's failure to supply the Licensed Product. These guaranteed minimum royalties will be creditable against royalty payments on an annual basis such that Endo's obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren[®] Gel Agreement year. Among other standard and customary termination rights granted under the Voltaren[®] Gel Agreement, the Voltaren[®] Gel Agreement can be terminated by either party upon reasonable written notice and if either party has committed a material breach that has not been remedied within 90 days from the giving of written notice. Endo may terminate the Voltaren[®] Gel Agreement by written notice upon the occurrence of several events, including the launch in the U.S. of a generic to the Licensed Product. Novartis may terminate the Voltaren[®] Gel Agreement upon reasonable written notice (1) if Endo fails to deliver a set percentage of the minimum Details in a certain six-month period under the Voltaren[®] Gel Agreement; or (2) on or after the launch in the U.S. of an OTC equivalent product by Novartis, its affiliates or any third party that does not result in the declassification of the Licensed Product as a prescription product, following which net sales in a six-month period under the Voltaren[®] Gel Agreement are less than a certain defined dollar amount.

Hind Healthcare Inc.

In November 1998, Endo entered into a license agreement (the Hind License Agreement) with Hind Healthcare Inc. (Hind), for the sole and exclusive right to develop, use, market, promote and sell Lidoderm[®] in the U.S. Under the terms of the Hind License Agreement, Endo paid Hind approximately \$10 million based upon the achievement of certain milestones and capitalized this amount as an intangible asset representing the fair value of these exclusive rights. In addition, we were required to pay Hind nonrefundable royalties based on net sales of Lidoderm[®] until this obligation expired on November 23, 2011 pursuant to the terms of the Hind License Agreement. Royalties were recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm[®]. The royalty rate was 10% of net sales including a minimum royalty of at least \$500,000 per year. There were no royalties recorded in 2012. During the years ended December 31, 2011 and 2010, we recorded \$77.9 million and \$86.8 million in royalties to Hind which we recorded as a reduction to net sales.

Vernalis Development Limited

In July 2004, we entered into a License Agreement with Vernalis Development Limited (Vernalis) under which Vernalis agreed to license, exclusively to us, rights to market frovatriptan succinate (Frova®) in North America (the Vernalis License Agreement). Frova® was launched June 2002 in the U.S. and indicated for the acute treatment of migraine headaches in adults. Under the terms of the Vernalis License Agreement, we paid Vernalis an upfront fee of \$30 million and annual \$15 million payments each in 2005 and 2006. We capitalized the \$30 million up-front payment and the present value of the two \$15 million anniversary payments. We are amortizing this intangible asset into Cost of revenues on a straight-line basis over its estimated life of 12.5 years.

In addition, Vernalis could receive one-time milestone payments for the achievement of defined annual net sales targets. These sales milestone payments increase based on increasing net sales targets ranging from a milestone of \$10 million on \$200 million in net sales to a milestone of \$75 million on \$1.2 billion in net sales. These sales milestones could total up to \$255.0 million if all of the defined net sales targets are achieved. Beginning on January 1, 2007, we began paying royalties to Vernalis based on the net sales of Frova®. The term of the license agreement is for the shorter of the time (i) that there are valid claims on the Vernalis patents covering Frova® or there is market exclusivity granted by a regulatory authority, whichever is longer, or (ii) until the date on which a generic version of Frova® is first offered, but in no event longer than 20 years. We can terminate the license agreement under certain circumstances, including upon one years' written notice. In July 2007, Vernalis and Endo entered into an Amendment (Amendment No. 3) to the License Agreement dated July 14, 2004. Under Amendment No. 3, Vernalis granted an exclusive license to Endo to make, have made, use, commercialize and have commercialized Frova® in Canada, under the Canadian Trademark.

In February 2008, we entered into Amendment No. 4 to the Vernalis License Agreement (Amendment No. 4). In addition to amending certain specific terms and conditions of the License Agreement, Amendment No. 4 sets forth an annual minimum net sales threshold such that no royalties will be due on annual U.S. net sales of Frova® less than \$85 million. Prior to this amendment, royalties were payable by us to Vernalis on all net sales of Frova® in the U.S. Now, once the annual minimum net sales amount is reached, royalty payments will be due only on the portion of annual net sales that exceed the \$85 million threshold. To date, annual net sales have not exceeded the \$85 million threshold and, therefore, no royalties have been paid.

On August 15, 2011, the parties amended the Vernalis License Agreement (Amendment No. 5). Pursuant to Amendment No. 5, Vernalis assigned to the Company certain patents which were previously exclusively licensed by the Company. Amendment No. 5 did not alter the financial arrangement between the parties.

The Population Council

The Company markets certain of its products utilizing the hydrogel polymer technology pursuant to an agreement between Indevus (now, Endo Pharmaceuticals Solutions Inc.) and The Population Council. Unless earlier terminated by either party in the event of a material breach by the other party, the term of the agreement is the shorter of 25 years from October 1997 or until the date on which The Population Council receives approximately \$40 million in payments from the Company. To date, we have made payments of \$10.2 million to the Population Council. The Company is required to pay to The Population Council 3% of its net sales of Vantas® and any polymer implant containing a luteinizing hormone-releasing hormone (LHRH) analog. We are also obligated to pay royalties to The Population Council ranging from 0.5% of net sales to 4% of net sales under certain conditions. In addition, we are obligated to pay the Population Council 30% of certain profits and payments received in certain territories by the Company from the licensing of Vantas® or any other polymer implant containing an LHRH analog and 5% for other implants.

Strakan International Limited

In August 2009, we entered into a License and Supply Agreement with Strakan International Limited, a subsidiary of ProStrakan Group plc. (ProStrakan), which was subsequently acquired by Kyowa Hakko Kirin Co. Ltd., for the exclusive right to commercialize Fortesta® Gel in the U.S. (the ProStrakan Agreement). Fortesta® Gel is a patented two percent testosterone transdermal gel for testosterone replacement therapy in male hypogonadism. A metered dose delivery system permits accurate dose adjustment to increase the ability to individualize patient treatment. Under the terms of the ProStrakan Agreement, Endo paid ProStrakan an up-front cash payment of \$10 million, which was recorded as Research and development expense.

The Company received FDA approval for Fortesta® Gel in December 2010, which triggered a one-time approval milestone to ProStrakan for \$12.5 million. The approval milestone was recorded as an intangible asset and is being amortized

into Cost of revenues on a straight-line basis over its estimated useful life. An additional milestone payment of \$7.5 million was triggered during the second quarter of 2011 pursuant to the terms of the ProStrakan Agreement, at which time it was recorded to Cost of revenues. ProStrakan could potentially receive up to approximately \$167.5 million in additional payments linked to the achievement of future commercial milestones related to Fortesta[®] Gel.

ProStrakan will exclusively supply Fortesta[®] Gel to Endo at a supply price based on a percentage of annual net sales subject to a minimum floor price as defined in the ProStrakan Agreement. Endo may terminate the ProStrakan Agreement upon 6 months' prior written notice at no cost to the Company.

Grünenthal GMBH

In December 2007, we entered into a License, Development and Supply Agreement (the Grünenthal Agreement) with Grünenthal for the exclusive clinical development and commercialization rights in Canada and the U.S. for an oral formulation of Opana[®] ER, which is designed to be crush-resistant. Under the terms of the Grünenthal Agreement, we paid approximately \$4.9 million for the successful completion of a clinical milestone in 2010, which was recorded as Research and development expense. In December 2011, the FDA approved a formulation of Opana[®] ER designed to be crush-resistant, which is called Opana[®] ER.

In the fourth quarter of 2011, the Company capitalized a one-time approval milestone to Grünenthal for \$4.9 million. We are amortizing this intangible asset into Cost of revenues over its estimated useful life. We made an additional payment of \$4.9 million in August 2012 related to a commercial milestone which was recorded as Cost of revenues. Additional payments of approximately 50.8 million euros (approximately \$67.1 million at December 31, 2012) may become due upon achievement of additional future predetermined regulatory and commercial milestones. Endo will also make payments to Grünenthal based on net sales of any such product or products commercialized under this agreement, including the formulation of Opana[®] ER approved by the FDA in December 2011.

Effective December 19, 2012, EPI and Grünenthal amended the Grünenthal Agreement whereby EPI became responsible for planning of packaging of finished product and certain other routine packaging quality obligations and Grünenthal agreed to reimburse EPI for the third-party costs incurred related to packaging as well as pay EPI a periodic packaging fee. The amendment also changed certain of the terms with respect to the floor price required to be paid by EPI in consideration for product supplied by Grünenthal.

Products in Development

Impax Laboratories, Inc.

In June 2010, the Company entered into a Development and Co-Promotion Agreement (the Impax Development Agreement) with Impax Laboratories, Inc. (Impax), whereby the Company was granted a royalty-free license for the co-exclusive rights to co-promote a next generation Parkinson's disease product. Under the terms of the Impax Development Agreement, Endo paid Impax an upfront payment of \$10 million in 2010, which was recorded as Research and development expense. The Company could be obligated to pay up to approximately \$30.0 million in additional payments linked to the achievement of future clinical, regulatory, and commercial milestones related to the development product. Prior to the completion of Phase III trials, Endo may only terminate the Impax Development Agreement upon a material breach.

Bioniche Life Sciences Inc.

In July 2009, the Company entered into a License, Development and Supply Agreement (the Bioniche License Agreement) with Bioniche Life Sciences Inc. and Bioniche Urology Inc. (collectively, Bioniche), whereby the Company licensed from Bioniche the exclusive rights to develop and market Bioniche's proprietary formulation of Mycobacterial Cell Wall-DNA Complex (MCC), known as Urocidin[™], in the U.S. with an option for global rights, which we exercised in the first quarter of 2010. Urocidin[™] is a patented formulation of MCC developed by Bioniche for the treatment of non-muscle-invasive bladder cancer that had been previously been undergoing Phase III clinical testing.

During the third quarter of 2012, as a result of discussions with the FDA regarding our Urocidin[™] Phase III clinical trial, the Company's subsidiary, Endo Pharmaceuticals Inc. (EPI), decided to end the study before its scheduled completion. On December 21, 2012, EPI and Bioniche entered into a termination agreement (the Bioniche Termination Agreement) to terminate the Bioniche License Agreement. As a result, EPI agreed to return rights to Urocidin[™] to Bioniche in consideration for Bioniche paying EPI a royalty equal to 5% of global net sales of Urocidin[™] for a period commencing on

the date of the first commercial sale and continuing for the later of ten years or the expiration of the last valid patent covering the product. Pursuant to the Bioniche Termination Agreement, the parties ceased performing activities under the Bioniche License Agreement, excluding wind-up activities, effective December 21, 2012. Further, all terms and requirements of the Bioniche License Agreement, including future contingent milestone and royalty payments to Bioniche, as well as all rights and licenses granted to EPI pursuant to the Bioniche License Agreement will terminate effective March 31, 2013.

Prior to the termination, under the terms of the Bioniche License Agreement, Endo had paid Bioniche an up-front cash payment of \$20.0 million in July 2009 and milestone payments of \$11.0 million in 2009 and \$4.0 million in 2010 resulting from the achievement of contractual milestones, which were recorded as Research and development expense.

BayerSchering

In July 2005, Indevus (now, Endo Pharmaceuticals Solutions Inc.) licensed exclusive U.S. rights from Schering AG, Germany, now BayerSchering Pharma AG (BayerSchering) to market a long-acting injectable testosterone preparation for the treatment of male hypogonadism that we refer to as Aveed™ (the BayerSchering Agreement). The Company is responsible for the development and commercialization of Aveed™ in the U.S. BayerSchering is responsible for manufacturing and supplying the Company with finished product. As part of the BayerSchering Agreement, Indevus agreed to pay to BayerSchering up to \$30.0 million in up-front, regulatory milestone, and commercialization milestone payments, including a \$5.0 million payment due upon approval by the FDA to market Aveed™. Indevus also agreed to pay to BayerSchering 25% of net sales of Aveed™ to cover both the cost of finished product and royalties. The BayerSchering Agreement expires ten years from the first commercial sale of Aveed™. Either party may also terminate the BayerSchering Agreement in the event of a material breach by the other party.

In October 2006, Indevus entered into a supply agreement with BayerSchering pursuant to which BayerSchering agreed to manufacture and supply Indevus with all of its requirements for Aveed™ for a supply price based on net sales of Aveed™. The supply price is applied against the 25% of net sales owed to BayerSchering pursuant to the BayerSchering Agreement. The BayerSchering Agreement expires 10 years after the first commercial sale of Aveed™.

Hydron Technologies, Inc.

In November 1989, GP Strategies Corporation (GP Strategies), then known as National Patent Development Corporation, entered into an agreement (the Hydron Agreement) with Dento-Med Industries, Inc., now known as Hydron Technologies, Inc. In June 2000, Valera Pharmaceuticals, Inc. (Valera, now a wholly-owned, indirect subsidiary of the Company known as Endo Pharmaceuticals Valera Inc.) entered into a contribution agreement with GP Strategies, pursuant to which Valera acquired the assets of GP Strategies' drug delivery business, including all intellectual property, and all of GP Strategies' rights under the Hydron Agreement, and certain other agreements with The Population Council and Shire US, Inc.

Pursuant to the Hydron Agreement, the Company has the exclusive right to manufacture, sell and distribute any prescription drug or medical device and certain other products made with the hydrogel polymer technology. Hydron Technologies retained an exclusive, worldwide license to manufacture, market or use products composed of, or produced with the use of, the hydrogel polymer technology in certain consumer and oral health fields. Neither party is prohibited from manufacturing, exploiting, using or transferring the rights to any new non-prescription drug product containing the hydrogel polymer technology, subject to certain exceptions, for limited exclusivity periods. Subject to certain conditions and exceptions, the Company is obligated to supply certain types of polymer to Hydron Technologies and Hydron Technologies is obligated to purchase such products from the Company. Under the Hydron Agreement, the Company also had the title to the Hydron® trademark. Recently, the Company decided to stop using the Hydron® trademark and transferred the title to such trademark to Hydron Technologies pursuant to the Hydron Agreement. This agreement continues indefinitely, unless terminated earlier by the parties. Each party may owe royalties up to 5% to the other party on certain products under certain conditions.

BioDelivery Sciences International, Inc.

In January 2012, the Company signed a worldwide license and development agreement (the BioDelivery Agreement) with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA® Buprenorphine. BEMA® Buprenorphine is a transmucosal form of buprenorphine, a partial mu-opiate receptor agonist, which incorporates a bioerodible mucoadhesive (BEMA®) technology. BEMA® Buprenorphine is currently in Phase III trials for the treatment of moderate to severe chronic pain. The Company made an upfront payment to BioDelivery for \$30.0 million, which was expensed as Research and development in the first quarter of 2012. During the first quarter of 2012, \$15.0 million of additional costs were incurred related to the achievement of certain regulatory milestones and were recorded as Research

and development expense. We paid this amount in the second quarter of 2012. In the future, Endo could be obligated to pay royalties based on net sales of BEMA[®] Buprenorphine and commercial and regulatory milestone payments of up to approximately \$135.0 million. Endo may terminate the BioDelivery Agreement at any time upon six months written notice. Unless terminated earlier, the BioDelivery Agreement shall expire, on a country by country basis, upon the later to occur of 10 years from the date of first commercial sale in a particular country or the date on which the last valid claim of the applicable BioDelivery patents in a particular country has expired or been invalidated or found unenforceable.

Orion Corporation

In January 2011, the Company entered into a Discovery, Development and Commercialization Agreement (the 2011 Orion Agreement) with Orion Corporation (Orion) to exclusively co-develop products for the treatment of certain cancers and solid tumors. Under the terms of the 2011 Orion Agreement, Endo and Orion each contributed four research programs to the collaboration to be conducted pursuant to the agreement. The development of each research program shall initially be the sole responsibility of the contributing party. However, upon the achievement of certain milestones, the non-contribution party shall have the opportunity to, at its option, obtain a license to jointly develop and commercialize any research program contributed by the other party for amounts defined in the 2011 Orion Agreement. Subject to certain limitations, upon the first commercial sale of any successfully launched jointly developed product, Endo shall be obligated to pay royalties to Orion based on net sales of the corresponding product in North America (the Endo territory) and Orion shall be obligated to pay royalties to Endo on net sales of the corresponding product in certain European countries (the Orion territory). The 2011 Orion Agreement shall expire in January 2016, unless terminated early or extended pursuant to the terms of the agreement. In January 2011, Endo exercised its option to obtain a license to jointly develop and commercialize Orion's Anti-Androgen program focused on castration-resistant prostate cancer, one of Orion's four contributed research programs, and made a corresponding payment to Orion for \$10.0 million, which was expensed as Research and development in the first quarter of 2011.

EpiCept Corp.

In December 2003, we entered into a license granting us exclusive, worldwide rights to certain patents of EpiCept Corp. (EpiCept) as well as exclusive, worldwide commercialization rights to EpiCept's LidoPAIN[®] BP product (EpiCept Agreement). The EpiCept Agreement provides for Endo to pay EpiCept milestones as well as royalties on the net sales of EpiCept's LidoPAIN[®] BP product. Under this Agreement, we made an upfront payment to EpiCept of \$7.5 million which we capitalized as an intangible asset representing the fair value of the exclusive right and the patents. We are amortizing this intangible asset over its useful life of thirteen years. EpiCept has also retained an option to co-promote the LidoPAIN[®] BP product. Milestone payments made by Endo under this agreement, including regulatory milestones and sales thresholds, could total up to \$82.5 million. In addition, the EpiCept Agreement also contains terms and conditions customary for this type of arrangement, including representations, warranties, indemnities and termination rights. The EpiCept Agreement generally lasts until the underlying patents expire. In January 2009, EpiCept announced that it was discontinuing all drug discovery activities including the development of LidoPAIN[®] BP. However, the Company intends to maintain its patent rights conveyed by the EpiCept Agreement.

Other

We have entered into certain other collaboration and discovery agreements with third parties for the development of pain management and other products. These agreements require us to share in the development costs of such products and grant marketing rights to us for such products.

We have also licensed from universities and other similar firms, rights to certain technologies or intellectual property, generally in the field of pain management. We are generally required to make upfront payments as well as other payments upon successful completion of regulatory or sales milestones. In addition, these agreements generally require us to pay royalties on sales of the products arising from these agreements. These agreements generally permit Endo to terminate the agreement with no significant continuing obligation.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following for the years ended December 31 (in thousands):

	2012	2011
Land and buildings	\$ 214,860	\$ 121,573
Machinery and equipment	127,060	113,992
Leasehold improvements	31,214	36,233
Computer equipment and software	92,582	73,302
Assets under capital lease	6,607	5,461
Furniture and fixtures	9,378	16,365
Assets under construction	50,217	42,516
Property, plant and equipment, gross	531,918	409,442
Less accumulated depreciation	(146,250)	(111,711)
Property, plant and equipment, net	<u>\$ 385,668</u>	<u>\$ 297,731</u>

Depreciation expense, including expense related to assets under capital lease, was \$57.7 million, \$45.8 million and \$23.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

In the fourth quarter of 2012, the Company recorded impairment charges totaling \$5.7 million to completely write off certain miscellaneous property, plant and equipment where the Company deemed the carrying amounts to no longer be recoverable. These charges were related to our ongoing efforts to improve our operating efficiency and to consolidate certain locations, including our generics research and development operations and our corporate headquarters. These charges are included in the Asset impairment charges line item in our 2012 Consolidated Statement of Operations.

On October 28, 2011, our subsidiary Endo Pharmaceuticals Inc. entered into a lease agreement with RT/TC Atwater LP, a Delaware limited partnership, for a new Company headquarters to consist of approximately 300,000 square feet of office space located in Malvern, Pennsylvania.

This lease is accounted for as a direct financing arrangement whereby the Company recorded, over the construction period, the full cost of the asset in Property, plant and equipment, net. At December 31, 2012 and 2011, the Company capitalized \$91.1 million and \$5.5 million, respectively, as Property, plant and equipment related to this arrangement. The lease asset was included as a component of Land and buildings in the table above at December 31, 2012 and as Assets under construction at December 31, 2011. The building and leasehold improvements will be depreciated over the initial lease term of 12 years. See Note 15. Commitments and Contingencies for further details on the lease agreement.

NOTE 9. GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Other indefinite-lived intangible assets consist primarily of the fair value of in-process research and development assets acquired in a business combination.

Goodwill

Changes in the carrying amount of our goodwill for the year ended December 31, 2012 were as follows:

	Carrying Amount				Total Consolidated
	Endo Pharmaceuticals	Qualitest	AMS	HealthTronics	
December 31, 2011	\$ 290,793	\$ 275,201	\$ 1,791,876	\$ 200,171	\$ 2,558,041
Goodwill acquired during the period.....	—	—	—	7,717	7,717
Measurement period adjustments	—	—	2,225	2,789	5,014
Effect of currency translation	—	—	999	—	999
Goodwill impairment charges	—	—	(507,528)	(49,892)	(557,420)
December 31, 2012	<u>\$ 290,793</u>	<u>\$ 275,201</u>	<u>\$ 1,287,572</u>	<u>\$ 160,785</u>	<u>\$ 2,014,351</u>

The goodwill acquired during the period relates to immaterial acquisitions in 2012.

Other Intangible Assets

Our other intangible assets consist of the following at December 31, (in thousands):

	2012	2011
Indefinite-lived intangibles:		
In-process research and development	\$ 165,400	\$ 221,400
<i>Total indefinite-lived intangibles</i>	<u>\$ 165,400</u>	<u>\$ 221,400</u>
Definite-lived intangibles:		
Licenses (weighted average life of 9 years)	\$ 605,850	\$ 647,239
Less accumulated amortization	(329,120)	(256,903)
Licenses, net.....	<u>\$ 276,730</u>	<u>\$ 390,336</u>
Customer relationships (weighted average life of 16 years)	160,210	159,632
Less accumulated amortization	(15,682)	(5,460)
Customer relationships, net.....	<u>\$ 144,528</u>	<u>\$ 154,172</u>
Tradenames (weighted average life of 22 years)	91,600	91,600
Less accumulated amortization	(8,742)	(4,142)
Tradenames, net	<u>\$ 82,858</u>	<u>\$ 87,458</u>
Developed technology (weighted average life of 16 years)	1,694,336	1,774,300
Less accumulated amortization	(266,350)	(125,695)
Developed technology, net.....	<u>\$ 1,427,986</u>	<u>\$ 1,648,605</u>
Other (weighted average life of 13 years).....	1,742	2,200
Less accumulated amortization	(271)	(47)
Other, net	<u>\$ 1,471</u>	<u>\$ 2,153</u>
<i>Total definite-lived intangibles, net (weighted average life of 15 years)</i>	<u>\$ 1,933,573</u>	<u>\$ 2,282,724</u>
Other intangibles, net	<u>\$ 2,098,973</u>	<u>\$ 2,504,124</u>

As of December 31, 2012, the weighted average amortization period for our definite-lived intangible assets in total was approximately 15 years.

Amortization expense for the twelve month periods ended December 31, 2012, 2011 and 2010 was \$227.9 million, \$191.6 million and \$84.6 million, respectively. Estimated amortization of intangibles for the 5 years subsequent to December 31, 2012 is as follows (in thousands):

2013.....	\$	182,302
2014.....	\$	156,473
2015.....	\$	151,187
2016.....	\$	149,959
2017.....	\$	138,488

Changes in the gross carrying amount of our other intangible assets for the year ended December 31, 2012 were as follows:

	Gross Carrying Amount
December 31, 2011	\$ 2,896,371
Voltaren® Gel license extension.....	21,346
Patents acquired	12,075
Asset impairment charges	(205,349)
Effect of currency translation	579
Other	(5,884)
December 31, 2012	<u>\$ 2,719,138</u>

Impairments

We assess goodwill and other indefinite-lived intangible assets for impairment annually, or more frequently whenever events or changes in circumstances indicate that the asset may be impaired. For goodwill, the assessment considers if the carrying amount of a reporting unit exceeds its fair value. If so, an impairment charge is recognized for the excess of the carrying amount of the reporting unit's goodwill over its implied fair value. For indefinite-lived intangible assets, the assessment considers if the carrying amount of the asset exceeds its fair value. If so, an impairment charge is recognized for the excess. Any such impairments are recorded in the Asset impairment charges line of our Consolidated Statements of Operations.

During the third quarter of 2012, we changed our annual goodwill impairment test date from January 1 to October 1. The change in the annual date for impairment testing required a test as of October 1, 2012 so that no more than 12 months elapsed between annual tests. We completed this test and the new date did not have an effect on delaying, accelerating or avoiding an impairment charge. The selection of October 1 as the annual testing date for the impairment of goodwill is preferable as it aligns the timing of the annual impairment test with the completion of our planning and budgeting process, which will allow us to utilize the updated business plans that result from the budget process to estimate the fair value of our reporting units and do so on a more timely basis. The selection of October 1 as the annual testing date will also move the testing outside of our annual year-end financial reporting process when our resources are more constrained. During the third quarter of 2012, we also changed our annual indefinite-lived intangible asset test date to October 1.

Due to significant judgments and estimates that are utilized in an impairment analysis, we determined it was impracticable to objectively determine, without the use of hindsight, the assumptions that would have been used as of each October 1 for periods before October 1, 2012. As such, we will prospectively apply the changes in the annual goodwill and indefinite-lived intangible asset impairment testing dates beginning on October 1, 2012.

As of October 1, 2012, we completed our annual impairment tests. Based upon recent market conditions, and, in some cases, a lack of comparable market transactions for similar assets, Endo determined that an income approach using a discounted cash flow model was an appropriate valuation methodology to determine each reporting unit's fair value for goodwill impairment testing and each asset's fair value for indefinite-lived intangible asset impairment testing. Our discounted cash flow models are highly reliant on various assumptions, including estimates of future cash flows (including long-term growth rates), discount rates, and expectations about variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows. These assumptions are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy. Discount rates applied to the estimated cash flows for our October 1, 2012 annual goodwill and indefinite-lived intangible assets impairment test ranged from 9.5% to 17.5%, depending on the overall risk associated with the particular assets and other market factors. We believe the discount rates and other inputs and assumptions are consistent with those that a market participant would use.

In order to assess the reasonableness of the calculated fair values of our reporting units, we also compare the sum of the reporting units' fair values to Endo's market capitalization and calculate an implied control premium (the excess sum of the reporting unit's fair values over the market capitalization). The Company evaluates the control premium by comparing it to control premiums of recent comparable market transactions, as applicable. If the control premium is not reasonable in light of comparable recent transactions, we reevaluate the fair value estimates of the reporting units by adjusting discount rates and/or other assumptions. This reevaluation could correlate to lower implied fair values for certain or all of the Company's reporting units.

The results of our Step I analyses showed that the fair values of the Pain, UEO and Generics reporting units exceeded their respective carrying amounts. The excess of fair value over carrying amount for each of these reporting units as of October 1, 2012, ranged from approximately 70% to more than 100% of carrying amount or \$355.8 million to \$1.5 billion, respectively. The results of the analysis for the Urology Services reporting unit, which held \$139.9 million of goodwill as of October 1, 2012, showed fair value that exceeded its carrying amount by 8% or \$16.4 million. The Urology Services reporting unit is part of the HealthTronics segment.

The results of the Step I analyses for the AMS, Anatomical Pathology Services, and HITS reporting units showed that the fair values of those reporting units were lower than their respective carrying amounts, thus requiring a Step II analysis for each reporting unit. The declines in the fair values of the AMS, Anatomical Pathology Services, and HITS reporting units, as well as fair value changes for other assets and liabilities in the Step II goodwill impairment test, resulted in an implied fair value of goodwill below the carrying amount of the goodwill for these reporting units. Accordingly, we recorded combined pre-tax non-cash goodwill impairment charges in the Consolidated Statement of Operations totaling \$557.4 million in 2012.

A summary of goodwill and other intangible asset impairment charges recognized for the three years ended December 31, 2012 is included below by reportable segment.

Endo Pharmaceuticals Segment

As part of our year-end financial close and reporting process, the Company concluded that impairment assessments were required to evaluate the recoverability of certain definite-lived intangible assets associated with our Supprelin[®] and Vantas[®] franchises in certain non-U.S. markets. After performing these assessments, we recorded pre-tax non-cash impairment charges of \$2.0 million and \$3.7 million, respectively, representing the remaining carrying amounts of these assets.

The Company also reviewed its in-process research and development indefinite-lived intangible assets in connection with its annual impairment testing. As a result of market and potential regulatory changes in certain non-U.S. markets, we determined that our European Valstar[®] asset and our Asian Sanctura[®] asset were not recoverable. In the fourth quarter of 2012, we recorded pre-tax non-cash impairment charges of \$2.0 million, and \$8.0 million, respectively, representing the carrying amounts of these assets.

Pursuant to the Sanctura XR[®] Amended and Restated License, Commercialization and Supply Agreement with Allergan USA, Inc. (Allergan), the Company receives royalties based on net sales of Sanctura XR[®] made by Allergan. In March 2009, Watson Pharmaceuticals, Inc. (now doing business as Actavis, Inc. and referred to herein as Watson or Actavis) filed an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic versions of Sanctura XR[®] before the expiration of Allergan's patents listed in the Orange Book. Subsequent to Watson's ANDA filing, Sandoz Inc. and Paddock Laboratories, Inc. (acquired by Perrigo Company in August 2011) also filed ANDAs for a generic version of Sanctura XR[®]. In April 2012, the U.S. District Court for the District of Delaware ruled that five patents covering Allergan's Sanctura XR[®] (trospium chloride) extended-release capsules were invalid. The Company appealed this ruling, and subsequently in June 2012, our appeal was dismissed.

As part of our first quarter 2012 financial close and reporting process, the Company concluded that an impairment assessment was required to evaluate the recoverability of the indefinite-lived intangible asset. The Company assessed the recoverability of this asset and determined the fair value of the Sanctura XR[®] intangible asset to be \$21.6 million at March 31, 2012. Accordingly, the Company recorded a pre-tax non-cash impairment charge of \$40.0 million in March 2012, representing the difference between the carrying amount of the intangible asset and its estimated fair value.

In October 2012, Watson announced that it had received FDA approval for its generic version of Sanctura XR[®] and that it intended to begin shipping its product immediately. As a result, the Company reevaluated the recoverability of the asset and determined that an impairment existed. The fair value of the Sanctura XR[®] intangible asset was determined to be \$5.0 million at September 30, 2012. Accordingly, the Company recorded an additional pre-tax non-cash impairment charge

of \$11.2 million in September 2012. The remaining net book value was amortized in its entirety by December 31, 2012, commensurate with the expected rate of erosion due to generic competition.

In early 2012, the Company terminated Penwest's A0001 development program after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, during the fourth quarter of 2011 we recorded a pre-tax, non-cash impairment charge of \$1.6 million to write off this intangible asset in its entirety.

In May 2010, Teva Pharmaceutical Industries Ltd. terminated the pagoclone development and licensing arrangement with the Company upon the completion of the Phase IIb study. As a result, the Company concluded that there was a decline in the fair value of the corresponding indefinite-lived intangible asset. Accordingly, we recorded a \$13.0 million impairment charge in 2010.

On December 27, 2011, the Company terminated its pagoclone development program after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, we recorded a pre-tax, non-cash impairment charge of \$8.0 million in 2011 to write off the remaining intangible asset in its entirety.

As part of our 2010 annual review of all IPR&D assets, we conducted an in-depth review of our octreotide assets for the treatment of acromegaly and carcinoid syndrome, respectively. This review covered a number of factors including the market potential of each product given its stage of development, taking into account, among other things, issues of safety and efficacy, product profile, competitiveness of the marketplace, the proprietary position of the product and its potential profitability. Our 2010 review resulted in no impact to the carrying amount of our octreotide – acromegaly intangible asset. However, the analysis identified certain commercial challenges with respect to the octreotide – carcinoid syndrome intangible asset including the expected rate of physician acceptance and the expected rate of existing patients willing to switch therapies. Upon analyzing the Company's research and development priorities, available resources for current and future projects, and the commercial potential for octreotide – carcinoid syndrome, the Company decided to discontinue development of octreotide for the treatment of carcinoid syndrome. As a result of the above developments, the Company recorded a pre-tax non-cash impairment charge of \$22.0 million in 2010 to write-off, in its entirety, the octreotide – carcinoid syndrome intangible asset.

On November 11, 2011, the Company separately decided to terminate development of the octreotide implant for the treatment of acromegaly after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, we recorded a pre-tax non-cash impairment charge of \$9.0 million in 2011 to completely write-off the octreotide – acromegaly intangible asset.

Qualitest Segment

During the fourth quarter of 2011, the Company received a deficiency from the FDA on an ANDA submission for one of its lead assets in its Qualitest Pharmaceuticals IPR&D portfolio. Subsequently, in early 2012, the Company terminated its development program for this asset as a result of the regulatory challenges and changes in the development timeline resulting from the FDA's request. In addition, as a result of changes in market conditions since the acquisition date, there has been a significant deterioration in the commercial potential for this product. Accordingly, we recorded a pre-tax non-cash impairment charge of \$71.0 million in 2011 to write off the intangible asset in its entirety.

AMS Segment

Based on the results of the Company's Step II analysis for the AMS reporting unit, we recorded a pre-tax, non-cash goodwill impairment charge in the Consolidated Statement of Operations for \$507.5 million, representing the difference between the implied fair value of the reporting unit's goodwill and its carrying amount as of October 1, 2012. The decline in the fair value for the AMS reporting unit is the result of lower projected revenue growth and profitability levels. The lower projected operating results reflect changes in the assumptions related to organic revenue growth, market trends, business mix, cost structure and other expectations about the anticipated short-term and long-term operating results of the AMS reporting unit identified as part of our fourth quarter 2012 strategic planning and budgeting processes.

As a result of the Step II analysis, we also determined that the carrying amounts of the women's health developed technology intangible asset and one of the AMS, Inc. IPR&D intangible assets were impaired. This determination was based primarily on lower than initially expected revenue and profitability levels over a sustained period of time and downward revisions to management's short-term and long-term forecasts for the AMS women's health product line. Accordingly, we recorded a pre-tax non-cash impairment charge of \$128.5 million to impair the women's health developed technology intangible asset in its entirety. We also recorded a pre-tax non-cash impairment charge of \$4.0 million to impair the IPR&D asset, representing the difference between the fair value and the carrying amount.

During the second quarter of 2012, as a result of market and potential regulatory changes affecting the commercial potential in the U.S. for one of the AMS, Inc. IPR&D assets, the Company determined that the asset's carrying amount was no longer fully recoverable. Accordingly, in the second quarter of 2012, we recorded a pre-tax non-cash impairment charge of \$3.0 million, representing the difference between the fair value and the carrying amount.

HealthTronics Segment

Based on the results of the Company's Step II analysis for the Anatomical Pathology Services and HITS reporting units, we recorded pre-tax, non-cash goodwill impairment charges in the Consolidated Statement of Operations for \$24.8 million and \$25.1 million, respectively, representing the difference between the implied fair value of each reporting unit's goodwill and the respective carrying amounts as of October 1, 2012. The declines in the fair values for these reporting units resulted from lower projected revenue growth and profitability levels for each respective business. The lower projected operating results reflect changes in the assumptions related to organic revenue growth, new product development, strategic business changes, cost structure, market trends, business mix and other expectations about the anticipated short-term and long-term operating results of these reporting units identified as part of our fourth quarter 2012 strategic planning and budgeting processes.

As a result of the HITS Step II analysis, we also determined that the carrying amounts of certain HITS intangible assets were impaired. This determination was based primarily on lower than initially expected revenue and profitability levels over an expected sustained period of time and downward revisions to management's short-term and long-term forecasts for the HITS reporting unit. Accordingly, we recorded pre-tax non-cash impairment charges of \$3.0 million on these intangible assets, representing the difference between the fair values and the carrying amounts.

NOTE 10. OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the tax effects allocated to each component of Other comprehensive income (loss) for the years ended December 31, (in thousands):

	2012			2011			2010		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gain (loss) on securities:									
Unrealized gains (losses) arising during the period.....	\$ 1,441	\$ (38)	\$ 1,403	\$ (3,796)	\$ 1,462	\$ (2,334)	\$ 1,347	\$ (627)	\$ 720
Less: reclassification adjustments for losses realized in net (loss) income...	—	—	—	3,190	(1,275)	1,915	—	—	—
Net unrealized gains (losses) ..	<u>1,441</u>	<u>(38)</u>	<u>1,403</u>	<u>(606)</u>	<u>187</u>	<u>(419)</u>	<u>1,347</u>	<u>(627)</u>	<u>720</u>
Foreign currency translation gain (loss)	2,104	60	2,164	(7,751)	(320)	(8,071)	—	—	—
Fair value adjustment on derivatives designated as cash flow hedges:									
Fair value adjustment on derivatives designated as cash flow hedges arising during the period.....	(1,892)	680	(1,212)	517	(301)	216	—	—	—
Less: reclassification adjustments for cash flow hedges settled and included in net (loss) income	436	(157)	279	(2)	1	(1)	—	—	—
Net unrealized fair value adjustment on derivatives designated as cash flow hedges.....	<u>(1,456)</u>	<u>523</u>	<u>(933)</u>	<u>515</u>	<u>(300)</u>	<u>215</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other comprehensive income (loss)	<u>\$ 2,089</u>	<u>\$ 545</u>	<u>\$ 2,634</u>	<u>\$ (7,842)</u>	<u>\$ (433)</u>	<u>\$ (8,275)</u>	<u>\$ 1,347</u>	<u>\$ (627)</u>	<u>\$ 720</u>

NOTE 11. ACCRUED EXPENSES

Accrued expenses are comprised of the following for each of the years ended December 31 (in thousands):

	2012	2011
Chargebacks	\$ 61,302	\$ 116,821
Returns and allowances	85,815	90,075
Rebates	327,926	308,911
Other sales deductions.....	17,780	21,342
Accruals for litigation-related and other contingencies.....	484,378	11,263
Other	193,744	184,419
Total.....	<u>\$ 1,170,945</u>	<u>\$ 732,831</u>

NOTE 12. OTHER INCOME, NET

The components of Other income, net for each of the years ended December 31 are as follows (in thousands):

	2012	2011	2010
Gain on trading securities.....	—	—	(15,420)
Loss on auction-rate securities rights	—	—	15,659
Other income, net.....	(193)	(3,268)	(2,172)
Other income, net.....	<u>\$ (193)</u>	<u>\$ (3,268)</u>	<u>\$ (1,933)</u>

NOTE 13. INCOME TAXES

The components of our (loss) income before income tax by geography were as follows (in thousands):

	2012	2011	2010
United States	\$ (735,381)	\$ 349,174	\$ 420,698
International	(6,202)	2,517	—
Total (loss) income before income tax	<u>\$ (741,583)</u>	<u>\$ 351,691</u>	<u>\$ 420,698</u>

Income tax consists of the following for each of the years ended December 31 (in thousands):

	2012	2011	2010
Current:			
Federal	\$ 120,543	\$ 153,421	\$ 128,793
Foreign	2,398	1,954	—
State	14,420	27,140	22,451
Total current income tax	<u>137,361</u>	<u>182,515</u>	<u>151,244</u>
Deferred:			
Federal	(181,608)	(68,110)	(8,139)
Foreign	(1,025)	(815)	—
State	(7,841)	(18,546)	(6,871)
Total deferred income tax	<u>(190,474)</u>	<u>(87,471)</u>	<u>(15,010)</u>
Excess tax benefits (shortfall) of stock options exercised	2,537	4,015	(1,051)
Valuation allowance	(2,986)	10,567	(1,505)
Total income tax	<u>\$ (53,562)</u>	<u>\$ 109,626</u>	<u>\$ 133,678</u>

A reconciliation of income tax at the federal statutory income tax rate to the total income tax provision for each of the years ended December 31 (in thousands):

	2012	2011	2010
Federal income tax at the statutory rate	\$ (259,554)	\$ 123,092	\$ 147,245
Noncontrolling interests	(18,311)	(19,058)	(9,805)
State income tax, net of federal benefit	7,407	7,590	8,447
Research and development credit	—	(3,883)	(3,667)
Orphan drug credit	—	(2,013)	(904)
Uncertain tax positions	15,617	(6,741)	1,148
Foreign rate differential	4,181	577	—
Goodwill asset impairment charges	187,320	—	—
Change in valuation allowance	(5,771)	8,984	—
Effect of permanent items:			
Branded prescription drug fee	6,108	6,307	—
Changes in contingent consideration	—	(2,215)	(15,673)
Domestic production activities deduction	(5,194)	(10,626)	(4,357)
Transaction-related expenses	349	2,843	9,612
Fines and penalties	11,202	17	5
Other	3,084	4,752	1,627
Total income tax	<u>\$ (53,562)</u>	<u>\$ 109,626</u>	<u>\$ 133,678</u>

The tax effects of temporary differences that comprise the current and non-current deferred income tax amounts shown on the balance sheets for the years ended December 31 are as follows (in thousands):

	2012	2011
Deferred tax assets:		
Accrued expenses	\$ 261,234	\$ 167,565
Compensation related to stock options	33,148	26,125
Purchased in-process research and development	—	673
Net operating loss carryforward.....	125,000	178,524
Impairment on capital assets.....	9,590	16,047
Research and development credit carryforward.....	16,188	18,206
Uncertain tax positions	9,584	8,684
Prepaid royalties	1,811	5,524
Other	46,547	23,496
Total gross deferred income tax assets	<u>503,102</u>	<u>444,844</u>
Deferred tax liabilities:		
Property, plant, equipment, and intangibles.....	(684,194)	(815,566)
Non-cash interest expense	(8,331)	(10,315)
Total gross deferred income tax liabilities	<u>(692,525)</u>	<u>(825,881)</u>
Valuation allowance	(18,551)	(21,537)
Net deferred income tax liability	<u>\$ (207,974)</u>	<u>\$ (402,574)</u>

At December 31, 2012, our NOLs and research and development credit carryforwards were related to multiple tax jurisdictions, including federal and various state jurisdictions, which expire at intervals between 2013 and 2033. At December 31, 2012, we had gross federal net operating loss carry forwards of \$324.9 million.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 2012, the Company has not made a provision for U.S. or additional foreign withholding taxes on approximately \$85.7 million of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

We evaluate our tax positions using the prescribed two-step process. Step 1 – Recognition, requires the Company to determine whether a tax position, based solely on its technical merits, has a likelihood of more than 50 percent (more-likely-than-not) that the tax position taken will be sustained upon examination. Step 2 – Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The Company records accrued interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties resulted in an income tax expense of \$0.5 million in 2012, income tax benefit of \$3.4 million in 2011 and income tax expense of \$1.0 million in 2010.

A reconciliation of the change in the unrecognized tax benefits (UTB) balance from January 1, 2010 to December 31, 2012 is as follows (in thousands):

	Unrecognized Tax Benefit Federal, State, and Foreign Tax
UTB Balance at January 1, 2010.....	\$ 27,103
Gross additions for current year positions.....	6,293
Gross additions for prior period positions.....	—
Gross reductions for prior period positions.....	(2,887)
Decrease due to settlements.....	(351)
Decrease due to lapse of statute of limitations.....	(679)
Additions related to acquisitions.....	9,702
UTB Balance at December 31, 2010.....	\$ 39,181
Gross additions for current year positions.....	2,082
Gross additions for prior period positions.....	133
Gross reductions for prior period positions.....	(1,078)
Decrease due to settlements.....	(13,790)
Decrease due to lapse of statute of limitations.....	(4,220)
Additions related to acquisitions.....	18,320
UTB Balance at December 31, 2011.....	\$ 40,628
Gross additions for current year positions.....	24,088
Gross additions for prior period positions.....	285
Gross reductions for prior period positions.....	(632)
Decrease due to lapse of statute of limitations.....	(5,452)
UTB Balance at December 31, 2012.....	\$ 58,917
Accrued interest and penalties.....	6,763
Total UTB balance including accrued interest and penalties.....	\$ 65,680
Current portion (included in accrued expenses).....	\$ —
Non-current portion (included in other liabilities).....	\$ 65,680

The Company and its subsidiaries are routinely examined by various taxing authorities, which have proposed adjustments to tax for issues such as certain tax credits and the deductibility of certain expenses. While it is possible that one or more of these examinations may be resolved within the next twelve months, it is not anticipated that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months. In addition, the expiration of statutes of limitations for various jurisdictions is expected to reduce the unrecognized tax benefits balance by an insignificant amount.

The Company files income tax returns in the U.S. Federal jurisdiction, and various state and foreign jurisdictions. The Company is subject to U.S. Federal, state and local, and non-U.S. income tax examinations by tax authorities. In general, the Company is no longer subject to U.S. Federal, state and local, and foreign income tax examinations by tax authorities for years before 2005. The Company believes that it has provided adequately for uncertain tax positions relating to all open tax years by tax jurisdiction.

The total amount of gross unrecognized tax benefits as of December 31, 2012 is \$65.7 million, including interest and penalties, of which \$54.9 million, if recognized, would affect the Company's effective tax rate. This liability is included in Other liabilities in the Consolidated Balance Sheets. The change in the total amount of unrecognized tax benefits impacted the Company's results of operations for the year ended December 31, 2012 due to the establishment of an uncertainty on certain litigation-related and other contingent matters, partially offset by a release of reserves due to the expiration of statutes of limitation. The change in the total amount of unrecognized tax benefits did not have a material impact on our financial position as of December 31, 2012. Any future adjustments to our uncertain tax position liability will result in an impact to our income tax provision and effective tax rate.

It is expected that the amount of unrecognized tax benefits will change during the next twelve months; however, the Company does not anticipate any adjustments that would lead to a material impact on our results of operations or our financial position.

NOTE 14. STOCKHOLDERS' EQUITY

Common Stock

The total number of shares of common stock, \$0.01 par value, that the Company is authorized to issue is 350,000,000.

Subject to certain limitations, we are permitted to pay dividends under our indebtedness. See Note 19. Debt for further details.

Preferred Stock

The Board of Directors may, without further action by the stockholders, issue a series of Preferred Stock and fix the rights and preferences of those shares, including the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, terms of redemption, redemption price or prices, liquidation preferences, the number of shares constituting any series and the designation of such series. As of December 31, 2012, no shares of Preferred Stock have been issued.

Stock-Based Compensation

Endo Health Solutions Inc. 2000, 2004, 2007, and 2010 Stock Incentive Plans and the Endo Health Solutions Inc. Assumed Stock Incentive Plan

On August 11, 2000, we established the Endo Health Solutions Inc. 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan reserved an aggregate of 4,000,000 shares of common stock of the Company for issuance to employees, officers, directors and consultants. The 2000 Stock Incentive Plan provided for the issuance of stock options, restricted stock, stock bonus awards, stock appreciation rights or performance awards. The 2000 Stock incentive Plan expired in 2010.

In May 2004, our stockholders approved the Endo Health Solutions Inc. 2004 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2004 Stock Incentive Plan is 4,000,000 shares. The 2004 Plan provides for the grant of stock options, stock appreciation rights, shares of restricted stock, performance shares, performance units or other share-based awards that may be granted to executive officers and other employees of the Company, including officers and directors who are employees, to non-employee directors and to consultants to the Company.

In May 2007, our stockholders approved the Endo Health Solutions Inc. 2007 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2007 Stock Incentive Plan is 7,000,000 shares (subject to adjustment for certain transactions), but in no event may the total number of shares of Company stock subject to awards awarded to any one participant during any tax year of the Company exceed 750,000 shares (subject to adjustment for certain transactions).

In May 2010, our stockholders approved the Endo Health Solutions Inc. 2010 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the Plan includes 8,000,000 shares plus the number of shares of Company stock reserved but unissued under the Company's 2004 and 2007 Stock Incentive Plans as of April 28, 2010 and may be increased to include the number of shares of Company stock that become available for reuse under these plans following April 28, 2010, subject to adjustment for certain transactions. Notwithstanding the foregoing, of the 8,000,000 shares originally reserved for issuance under this Plan, no more than 4,000,000 of such shares shall be issued as awards, other than options, that are settled in the Company's stock. In no event may the total number of shares of Company stock subject to awards awarded to any one participant during any tax year of the Company, exceed 1,000,000 shares (subject to adjustment for certain transactions).

In June 2011, in connection with our acquisition of AMS, Inc., we assumed the AMS 2005 Stock Incentive Plan (now known as the Endo Health Solutions Inc. Assumed Stock Incentive Plan). As of the AMS, Inc. Acquisition Date, the number of shares of Company stock reserved for issuance under the Plan was 5,269,152.

At December 31, 2012, approximately 20.1 million shares were reserved for future issuance upon exercise of options granted or to be granted under the Endo 2004, 2007, and 2010 Stock Incentive Plans and the Endo Health Solutions Inc. Assumed Stock Incentive Plan. As of December 31, 2012, stock options, restricted stock awards, performance stock units and restricted stock units have been granted under the Stock Incentive Plans.

All stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense in the income statement over the requisite service period.

The Company recognized stock-based compensation expense of \$59.4 million, \$46.0 million and \$22.9 million during the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the total remaining unrecognized compensation cost related to all non-vested stock-based compensation awards amounted to \$81.8 million. This expected cost does not include the impact of any future stock-based compensation awards.

Presented below is the allocation of stock-based compensation as recorded in our Consolidated Statements of Operations for the years ended December 31 (in thousands).

	2012	2011	2010
Selling, general and administrative expenses.....	\$ 51,846	\$ 39,305	\$ 19,229
Research and development expenses	6,672	6,214	3,680
Cost of revenues.....	877	494	—
Total stock-based compensation expense	<u>\$ 59,395</u>	<u>\$ 46,013</u>	<u>\$ 22,909</u>

Stock Options

During the years ended December 31, 2012, 2011 and 2010, the Company granted stock options to employees of the Company as part of their annual stock compensation award and, in certain circumstances, upon their commencement of service with the Company. For all of the Company's stock-based compensation plans, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company's stock price over a period commensurate with the expected life of the share option as well as other factors. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. We estimate the expected term of options granted based on our historical experience with our employees' exercise of stock options and other factors.

A summary of the activity under the Endo 2000, 2004, 2007, and 2010 Stock Incentive Plans and the Endo Health Solutions Inc. Assumed Stock Incentive Plan (since June 18, 2011) for the three-year period ended December 31, 2012 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of January 1, 2010	5,158,541	\$ 22.84		
Granted.....	2,210,537	\$ 22.23		
Exercised.....	(965,013)	\$ 21.64		
Forfeited.....	(305,033)	\$ 21.72		
Expired.....	(207,632)	\$ 30.44		
Outstanding as of December 31, 2010	5,891,400	\$ 22.60		
Granted.....	3,865,575	\$ 29.66		
Exercised.....	(1,274,280)	\$ 22.80		
Forfeited.....	(335,049)	\$ 26.54		
Expired.....	(32,179)	\$ 26.49		
Outstanding as of December 31, 2011	8,115,467	\$ 25.79		
Granted.....	2,237,081	\$ 34.58		
Exercised.....	(853,794)	\$ 22.66		
Forfeited.....	(613,613)	\$ 31.31		
Expired.....	(60,436)	\$ 27.61		
Outstanding as of December 31, 2012	8,824,705	\$ 27.92	6.60	\$ 18,070,054
Vested and expected to vest as of December 31, 2012	8,360,315	\$ 27.67	6.49	\$ 17,817,892
Exercisable as of December 31, 2012	3,932,954	\$ 24.79	4.86	\$ 11,332,566

The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was \$19.3 million, \$29.0 million and \$9.0 million, respectively. The weighted average grant date fair value of the stock options granted in the twelve months ended December 31, 2012, 2011 and 2010 was \$10.50, \$11.97 and \$7.66 per option, respectively, determined using the following assumptions:

	December 31, 2012	December 31, 2011	December 31, 2010
Average expected term (years).....	5.00	5.00	5.25
Risk-free interest rate.....	0.9%	2.0%	2.4%
Dividend yield.....	—	—	—
Expected volatility	33%	32%	34%

As of December 31, 2012, the weighted average remaining requisite service period of the non-vested stock options was 2.2 years. As of December 31, 2012, the total remaining unrecognized compensation cost related to non-vested stock options amounted to \$36.5 million. This unrecognized compensation cost does not include the impact of any future stock-based compensation awards.

The following table summarizes information about stock options outstanding under our 2000, 2004, 2007, and 2010 Stock Incentive Plans and the Endo Health Solutions Inc. Assumed Stock Incentive Plan at December 31, 2012:

Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Exercisable Weighted Average Exercise Price	Range of Exercise Prices
8,824,705	6.60	\$27.92	3,932,954	\$24.79	\$11.05 - \$41.83

Restricted Stock Units

During the years ended December 31, 2012, 2011 and 2010, the Company granted restricted stock units to employees and non-employee directors of the Company as part of their annual stock compensation award and, in certain circumstances, upon their commencement of service with the Company. We recognize expense for our restricted stock units using the straight-line method over the requisite service period. The total value of compensation expense for restricted stock units is equal to the closing price of Endo shares on the date of grant.

A summary of our restricted stock units for the three-year period ended December 31, 2012 is presented below:

	<u>Number of Shares</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of January 1, 2010	1,477,241	
Granted.....	1,411,140	
Forfeited.....	(357,546)	
Vested	<u>(319,532)</u>	
Outstanding as of December 31, 2010	2,211,303	
Granted.....	1,158,562	
Forfeited.....	(181,752)	
Vested	<u>(558,331)</u>	
Outstanding as of December 31, 2011	2,629,782	
Granted.....	1,087,171	
Forfeited.....	(362,682)	
Vested	<u>(930,659)</u>	
Outstanding as of December 31, 2012	2,423,612	\$ 62,736,926
Vested and expected to vest as of December 31, 2012	2,206,714	\$ 55,823,733

As of December 31, 2012, the weighted average remaining requisite service period of the non-vested restricted stock units was 2.0 years. The weighted average grant date fair value of the restricted stock units granted during the years ended December 31, 2012, 2011 and 2010 was \$34.76, \$33.51 and \$21.39 per unit, respectively. As of December 31, 2012, the total remaining unrecognized compensation cost related to non-vested restricted stock units amounted to \$40.1 million. This unrecognized compensation cost does not include the impact of any future stock-based compensation awards.

Restricted Stock Awards

We recognize expense for our restricted stock using the straight-line method over the requisite service period. The total value of compensation expense for restricted stock is equal to the closing price of Endo shares on the date of grant.

A summary of our restricted stock awards for the three-year period ended December 31, 2012 is presented below:

	Number of Shares	Weighted Average Fair Value Per Share	Aggregate Intrinsic Value
Non-vested as of January 1, 2010	—	\$ —	
Granted.....	—	\$ —	
Forfeited.....	—	\$ —	
Vested	—	\$ —	\$ —
Non-vested as of December 31, 2010	—	\$ —	
Granted.....	199,413	\$ 30.40	
Forfeited.....	(8,009)	\$ 27.51	
Vested	(17,787)	\$ 32.96	\$ 276,551
Non-vested as of December 31, 2011	173,617	\$ 30.27	
Granted.....	—	\$ —	
Forfeited.....	(19,624)	\$ 29.34	
Vested	(72,342)	\$ 29.19	\$ 1,897,531
Non-vested as of December 31, 2012	81,651	\$ 31.45	

As of December 31, 2012, the weighted average remaining requisite service period of the non-vested restricted stock awards was approximately 1.6 years.

Performance Shares

Beginning in the first quarter ended March 31, 2010, the Company began to award performance stock units (PSU) to certain key employees as part of their annual stock compensation award. These PSUs are tied to both Endo's overall financial performance and Endo's financial performance relative to the financial performance of a selected industry group. Awards are granted annually, with each award covering a three-year performance cycle. Each PSU is convertible to one share of Endo common stock. Performance measures used to determine the actual number of performance shares issuable upon vesting include an equal weighting of Endo's total shareholder return (TSR) performance compared to the performance group over the three-year performance cycle and Endo's three-year cumulative revenue performance as compared to a three-year revenue target. TSR relative to peers is considered a market condition while cumulative revenue performance is considered a performance condition under applicable authoritative guidance. The PSUs linked to revenue performance are marked to market on a recurring basis based on management's expectations of future revenues. PSUs granted during the years ended December 31, 2012, 2011 and 2010 totaled approximately 193,000, 160,000 and 163,000, respectively. On December 31, 2012, all remaining PSUs granted during 2010 were converted to shares of common stock in accordance with the provisions of underlying PSU award agreements. Subsequently, holders of the PSUs received approximately 143,000 shares of common stock, net of shares withheld for tax purposes. As of December 31, 2012, there was approximately \$5.1 million of total unrecognized compensation costs related to PSUs. That cost is expected to be recognized over a weighted average period of 3.0 years.

Share Repurchase Programs

In April 2008, our Board of Directors approved a share repurchase program (the 2008 Share Repurchase Program), authorizing the Company to repurchase in the aggregate up to \$750 million of shares of its outstanding common stock. In August 2012, our Board of Directors resolved to cancel and terminate the 2008 Share Repurchase Program, effective immediately, and approve a new share repurchase program (the 2012 Share Repurchase Program). The 2012 Share Repurchase Program authorizes the Company to repurchase in the aggregate up to \$450 million of shares of its outstanding common stock. Purchases under this program may be made from time to time in open market purchases, pre-set purchase programs, privately-negotiated transactions, and accelerated stock buyback agreements. This program does not obligate Endo to acquire any particular amount of common stock. Future repurchases, if any, will depend on factors such as levels of cash generation from operations, cash requirements for investment in the Company's business, repayment of future debt, if any, then current stock price, market conditions, securities law limitations and other factors. The share repurchase program may be suspended, modified or discontinued at any time. The 2012 Share Repurchase Program is set to expire on March 31, 2015.

Pursuant to our share repurchase programs, we purchased approximately 8.3 million shares of our common stock during 2012 totaling \$256.0 million, 0.9 million shares of our common stock during 2011 totaling \$34.7 million and 2.5 million shares of our common stock during 2010 totaling \$59.0 million.

Employee Stock Purchase Plan

At our Annual Meeting of Stockholders held in May of 2011, our shareholders approved the Endo Health Solutions Inc. Employee Stock Purchase Plan (the ESPP). The ESPP is a Company-sponsored plan that enables employees to voluntarily elect, in advance of any of the four quarterly offering periods ending March 31, June 30, September 30 and December 31 of each year, to contribute up to 10% of their eligible compensation, subject to certain limitations, to purchase shares of common stock at 85% of the lower of the closing price of Endo common stock on the first or last trading day of each offering period. The maximum number of shares that a participant may purchase in any calendar year is equal to \$25,000 divided by the closing selling price per share of our common stock on the first day of the offering period, subject to certain adjustments. Compensation expense is calculated in accordance with the applicable accounting guidance and is based on the share price at the beginning or end of each offering period and the purchase discount. Obligations under the ESPP may be satisfied by the reissuance of treasury stock, by the Company's purchase of shares on the open market or by the authorization of new shares. The maximum number of shares available under the ESPP, pursuant to the terms of the ESPP plan document, is one percent of the common shares outstanding on April 15, 2011 or approximately 1.2 million shares. The ESPP shall continue in effect until the earlier of (i) the date when no shares of stock are available for issuance under the ESPP, at which time the ESPP shall be suspended pursuant to the terms of the ESPP plan document, or (ii) December 31, 2022, unless earlier terminated. Compensation expense related to the ESPP totaled \$1.3 million during 2012. The Company issued 235,425 shares from treasury with a cost totaling \$6.1 million during 2012 pursuant to the ESPP.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Manufacturing, Supply and Other Service Agreements

We contract with various third party manufacturers, suppliers and service providers to provide us with raw materials used in our products and semi-finished and finished goods, as well as certain packaging and labeling and sales and marketing services. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG (collectively, Novartis), Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc., Grünenthal GMBH, Sharp Corporation Ventiv Commercial Services, LLC and UPS Supply Chain Solutions. If for any reason we are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for our products or services needed to conduct our business, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Novartis Manufacturing Agreement

On May 3, 2001, we entered into a long-term manufacturing and development agreement with Novartis Consumer Health, Inc. whereby Novartis Consumer Health, Inc. agreed to manufacture certain of our commercial products and products in development and Endo agreed to purchase, on an annual basis, a minimum amount of product from Novartis Consumer Health, Inc. for the purchase price equal to a predetermined amount per unit, subject to periodic adjustments. This agreement had a five-year initial term, with automatic five-year renewals thereafter. In August 2005, we extended this agreement until 2011. On February 23, 2011, we gave notice to Novartis Consumer Health, Inc. that we would terminate this agreement effective February 2014. On December 31, 2012, the parties mutually agreed to terminate the agreement effective December 31, 2012. The termination did not give rise to any early termination penalties. Amounts purchased pursuant to this agreement were \$1.8 million, \$66.3 million and \$54.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

In December 2011, Novartis Consumer Health, Inc.'s Lincoln, Nebraska manufacturing facility was shut down to facilitate its implementation of certain manufacturing process improvements. These improvements were intended to address the possibility of rare instances of errors in the packaging of the tablets, potentially resulting in product mix-ups. The supply disruption was not related to the efficacy or safety of Endo's products. However, we experienced short-term supply constraints of certain Endo analgesic products which had been manufactured at this facility prior to the shutdown, including Opana[®], Voltaren[®] Gel, oxymorphone hydrochloride, Percodan[®], Endodan[®], morphine sulfate ER and Zydone[®]. Novartis Consumer Health has agreed to reimburse Endo for certain out-of-pocket costs, including costs related to recalls of certain of our products manufactured at the Lincoln facility and incremental freight charges associated with the transfer of Voltaren[®] Gel to an alternate Novartis manufacturing site.

In the first quarter of 2012, Endo began production of the formulation of Opana[®] ER, designed to be crush-resistant, at a third party manufacturing facility managed by Endo's development partner, Grünenthal. The Company began shipping this formulation in March 2012 and completed the transition to this formulation in the second quarter of 2012. Endo also began production of Voltaren[®] Gel at an alternative Novartis manufacturing source and resumed sales of Voltaren[®] Gel in April 2012. Endo had already initiated the manufacturing of Percocet[®] and Endocet[®] at its Huntsville, Alabama facility as a result

of its acquisition of Qualitest Pharmaceuticals in 2010 and, as a result, there was minimal disruption to patients on these products.

Novartis License and Supply Agreement

Pursuant to the March 2008 Voltaren® Gel License and Supply Agreement (the Voltaren® Gel Agreement) with Novartis AG and Novartis Consumer Health, Inc. Endo has agreed to purchase from Novartis all of its requirements for Voltaren® Gel during the entire term of the Voltaren® Gel Agreement. The price of product purchased under the Voltaren® Gel Agreement is fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials. Amounts purchased pursuant to the Voltaren® Gel Agreement were \$34.0 million, \$30.4 million and \$27.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Teikoku Seiyaku Co., Ltd.

Under the terms of our agreement (the Teikoku Agreement) with Teikoku Seiyaku Co. Ltd. (Teikoku), a Japanese manufacturer, Teikoku manufactures Lidoderm® at its two Japanese facilities, located on adjacent properties, for commercial sale by us in the U.S. We also have an option to extend the supply area to other territories. On April 24, 2007, we amended the Teikoku agreement (the Amended Agreement). The material components of the Amended Agreement are as follows:

- We agreed to purchase a minimum number of patches per year through 2012, representing the noncancelable portion of the Amended Agreement.
- Teikoku agreed to fix the supply price of Lidoderm® for a period of time after which the price will be adjusted at future dates certain based on a price index defined in the Amended Agreement. The minimum purchase requirement shall remain in effect subsequent to 2012, except that Endo has the right to terminate the Amended Agreement if we fail to meet the annual minimum requirement in subsequent years. Using prices currently existing under the Amended Agreement we have estimated our minimum purchase requirement to be approximately \$40.3 million in 2013.
- Following cessation of our obligation to pay royalties to Hind Healthcare Inc. (Hind) under the Sole and Exclusive License Agreement dated as of November 23, 1998, as amended, between Hind and Endo (the Hind Agreement), we began to pay to Teikoku annual royalties based on our annual net sales of Lidoderm®.
- The Amended Agreement will expire on December 31, 2021, unless terminated in accordance with its terms. Either party may terminate this Agreement, upon 30 days' written notice, in the event that Endo fails to purchase the annual minimum quantity for each year after 2012 (e.g., 2013 through 2021). Notwithstanding the foregoing, after December 31, 2021, the Amended Agreement shall be automatically renewed on the first day of January each year unless (i) we and Teikoku agree to terminate the Amended Agreement upon mutual written agreement or (ii) either we or Teikoku terminates the Amended Agreement with 180-day written notice to the other party, which notice shall not in any event be effective prior to July 1, 2022.
- Endo is the exclusive licensee for any authorized generic for Lidoderm®.

On January 6, 2010, the parties amended the Teikoku Agreement, effective December 16, 2009. Pursuant to the amendment, Teikoku has agreed to supply Lidoderm® at a fixed price for a period of time after which the price will be adjusted at certain future dates based on a price index defined in the amendment.

Effective November 1, 2010, the parties again amended the Teikoku Agreement. Pursuant to this amendment, Teikoku agreed to supply additional Lidoderm® at no cost to Endo in each of 2011, 2012 and 2013 in the event Endo's firm orders of Product exceeded certain thresholds in those years.

Amounts purchased pursuant to the Teikoku Agreement, as amended, were \$179.5 million, \$203.4 million and \$172.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

On November 23, 2011, our obligation to pay royalties to Hind under the Hind Agreement ceased. Accordingly, on November 23, 2011, pursuant to the terms of the Teikoku Agreement, we began to incur royalties to Teikoku based on annual net sales of Lidoderm®. The royalty rate is 6% of branded Lidoderm® net sales. During the twelve months ended December 31, 2012, we recorded \$55.7 million for these royalties to Teikoku, which was included in our Consolidated

Statements of Operations as Cost of revenues. At December 31, 2012, \$55.7 million is recorded as a royalty payable and included in Accounts payable in the accompanying Consolidated Balance Sheets.

On August 3, 2012, Teikoku agreed to provide to Endo, at a discount, any branded Lidoderm[®] product that is required to be provided to the wholesaler affiliates of Watson Laboratories, Inc. pursuant to the Watson Settlement Agreement (discussed below). The discount will be equal to a 50% reduction to the regular prices that Endo would otherwise be obligated to pay for this product.

Mallinckrodt Inc.

Under the terms of our agreement (the Mallinckrodt Agreement) with Mallinckrodt Inc. (Mallinckrodt), Mallinckrodt manufactures and supplies to us certain narcotic active drug substances, in bulk form, and raw materials for inclusion in our controlled substance pharmaceutical products. There is no minimum annual purchase commitment under the Mallinckrodt Agreement. However, we are required to purchase a fixed percentage of our annual requirements of each narcotic active drug substance covered by the Mallinckrodt Agreement from Mallinckrodt. The purchase price for these substances is equal to a fixed amount, adjusted on an annual basis. The initial term of this agreement was July 1, 1998 until September 30, 2013, with an automatic renewal provision for unlimited successive one-year periods. On September 30, 2011, we provided written notice to Mallinckrodt that the Company intends to let the Mallinckrodt Agreement expire effective September 30, 2013. The Company chose to allow the Mallinckrodt Agreement to expire in connection with its ongoing initiatives relating to the sourcing of active pharmaceutical ingredients. In April 2012, the Company entered into an agreement with Noramco, Inc. as described below. The Company will continue to purchase certain narcotic active drug substances, in bulk form, under the terms of the Mallinckrodt Agreement through the expiration date.

Amounts purchased pursuant to this agreement were \$37.6 million, \$51.3 million and \$26.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Noramco, Inc.

Under the terms of our agreement (the Noramco Agreement) with Noramco, Inc. (Noramco), Noramco manufactured and supplied to us certain narcotic active drug substances, in bulk form, and raw materials for inclusion in our controlled substance pharmaceutical products. There were no minimum annual purchase commitments under the Noramco Agreement. However, we were required to purchase a fixed percentage of our annual requirements of each narcotic active drug substance covered by the Noramco Agreement from Noramco. The purchase price for these substances was equal to a fixed amount, adjusted on an annual basis. Originally, the Noramco Agreement was to expire on December 31, 2011, with automatic renewal provisions for unlimited successive one-year periods. In September 2011, we extended the Noramco Agreement through early 2012. On April 27, 2012, we entered into a new supply agreement with Noramco (the 2012 Noramco Agreement). Under the terms of this supply agreement, Noramco manufactures and supplies to us certain narcotic active drug substances, in bulk form, for inclusion in our controlled substance pharmaceutical products. There are no minimum annual purchase commitments under the 2012 Noramco Agreement. However, we are required to purchase from Noramco a fixed percentage of our annual requirements of each narcotic active drug substance covered by the 2012 Noramco Agreement. The purchase price for these substances is equal to a fixed amount, adjusted on an annual basis based on volume. The term of the 2012 Noramco Agreement is for four years with automatic renewal provisions for unlimited successive one-year periods.

Amounts purchased from Noramco were \$52.9 million, \$55.5 million and \$13.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Grünenthal GMBH

Under the terms of our December 2007 License, Development and Supply Agreement with Grünenthal (the Grünenthal Agreement), Grünenthal agreed to manufacture and supply to Endo a crush-resistant formulation of Opana[®] ER based on a supply price equal to a certain percentage of net sales of Opana[®] ER, subject to a floor price. In the first quarter of 2012, Endo began production of the crush-resistant formulation of Opana[®] ER at a third party manufacturing facility managed by Grünenthal. The Grünenthal Agreement will expire on the later of (i) the 15th anniversary of the date of first commercial sale of the product, (ii) the expiration of the last issued patent in the territory claiming or covering products, or (iii) the expiration of exclusivity granted by the FDA for the last product developed under the Grünenthal Agreement. Effective December 19, 2012, EPI and Grünenthal amended the Grünenthal Agreement whereby EPI became responsible for planning of packaging of finished product and certain other routine packaging quality obligations and Grünenthal agreed to reimburse EPI for the third-party costs incurred related to packaging as well as pay EPI a periodic packaging fee. The amendment also changed

certain of the terms with respect to the floor price required to be paid by EPI in consideration for product supplied by Grünenthal.

Our license and supply payments made to Grünenthal pursuant to the Grünenthal Agreement are recorded in Cost of revenues in our Consolidated Financial Statements and must be paid in U.S. dollars within 45 days after each calendar quarter. We incurred \$35.7 million during the year ended December 31, 2012 for these payments. We incurred no such costs during the year ended December 31, 2011 and no such costs during the year ended December 31, 2010.

Sharp Corporation

Under the terms of our agreement (the Sharp Agreement) with Sharp Corporation (Sharp), a U.S. manufacturer, Sharp performs certain packaging and labeling services for Endo, including the packaging and labeling of Lidoderm® at its facilities in Allentown, Pennsylvania and Conshohocken, Pennsylvania, for commercial sale by us in the U.S. Effective June 1, 2012, the parties amended the Sharp Agreement to include several new products that Sharp will package and label. These products include our formulation of Opana® ER designed to be crush-resistant, Vantas®, Supprelin® LA, Valstar® and several SKUs of generic prednisone and methylprednisolone. The Sharp Agreement is effective until March 1, 2015 and is subject to renewal for additional one-year periods upon mutual agreement by both parties. Endo has the right to terminate the Sharp Agreement at any time upon 90 days' written notice to Sharp.

Amounts purchased pursuant to the Sharp agreement were \$9.5 million, \$6.3 million and \$6.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Ventiv Commercial Services, LLC

On December 27, 2011, we entered into a Sales and Promotional Services Agreement (the Ventiv Agreement) with Ventiv, effective as of December 30, 2011. Under the terms of the Ventiv Agreement, Ventiv provided to Endo certain sales and promotional services through a contracted field force of 228 sales representatives, 24 district managers, one project manager, one trainer and one national sales director, collectively referred to as the Ventiv Field Force. The Ventiv Field Force promotes Voltaren® Gel, Lidoderm®, Frova®, Opana® ER, Fortesta® Gel and any additional products added by Endo. The sales representatives are required to perform face-to-face, one-on-one discussions with physicians and other health care practitioners promoting these products.

Endo pays to Ventiv a monthly fixed fee during the term of the Ventiv Agreement based on a budget that has been approved by both Endo and Ventiv. During the term of the Ventiv Agreement, Ventiv will also be eligible to earn, in addition to the fixed management fee, an at-risk management fee. This at-risk management fee is payable upon the achievement of certain performance metrics that have been mutually agreed upon by the parties.

On September 26, 2012, the Ventiv Agreement was amended to decrease the Ventiv Field Force from 228 to 170 sales representatives and decrease the number of district managers from 24 to 17, as well as to retain one project manager, one trainer and one national sales director, starting on October 5, 2012. In addition, the amendment decreased the fees payable to Ventiv as a result of the decrease in the Ventiv Field Force.

The Ventiv Agreement shall continue until December 30, 2013. Endo may extend the current term for an additional period by written notice delivered to Ventiv prior to the expiration of the then current term.

The expenses incurred with respect to Ventiv were \$37.2 million, \$38.4 million and \$10.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. These amounts were included within Selling, general and administrative expense in the accompanying Consolidated Statements of Operations.

UPS Supply Chain Solutions

Under the terms of this agreement, we utilize UPS Supply Chain Solutions to provide customer service support and warehouse, freight and distribution services for certain of our products in the U.S. The initial term of the agreement will extend to March 31, 2015. The agreement may be terminated by either party (1) without cause upon prior written notice to the other party; (2) with cause in the event of an uncured material breach by the other party and (3) if the other party become insolvent or bankrupt. In the event of termination of services provided under the Warehouse Distribution Services Schedule to the agreement (i) by Endo without cause or (ii) by UPS due to Endo's breach, failure by Endo to make payments when

due, or Endo's insolvency, we would be required to pay UPS certain termination costs. Such termination costs would not exceed \$0.9 million. On February 21, 2012, we amended this agreement to provide for a reduced pricing structure, which includes new monthly fees, new variable fees and new termination fees.

General

In addition to the manufacturing and supply agreements described above, we have agreements with various companies for clinical development services. Although we have no reason to believe that the parties to these agreements will not meet their obligations, failure by any of these third parties to honor their contractual obligations may have a materially adverse effect on our business, financial condition, results of operations and cash flows.

Milestones and Royalties

See Note 7. License and Collaboration Agreements for a complete description of future milestone and royalty commitments pursuant to our acquisitions, license and collaboration agreements.

Employment Agreements

We have entered into employment agreements with certain members of management.

Research Contracts

We routinely contract with universities, medical centers, contract research organizations and other institutions for the conduct of research and clinical studies on our behalf. These agreements are generally for the duration of the contracted study and contain provisions that allow us to terminate prior to completion.

Legal Proceedings

We and certain of our subsidiaries are involved in various claims, legal proceedings and governmental investigations that arise from time to time in the ordinary course of our business, including relating to product liability, intellectual property, regulatory compliance and commercial matters. While we cannot predict the outcome of our ongoing legal proceedings and we intend to vigorously defend our position, an adverse outcome in any of these proceedings could have a material adverse effect on our current and future financial position, results of operations and cash flows.

In view of the inherent difficulty of predicting the outcome of our various claims, legal proceedings and governmental investigations, particularly where there are many claimants, each with their own unique circumstances that give rise to their alleged claims, and the claimants seek indeterminate damages and particularly given the various stages of our proceedings, unless specified otherwise below, we are unable to predict the outcome of these matters or the ultimate legal and financial liability, and at this time cannot reasonably estimate the possible loss or range of loss. Accordingly, there are claims, legal proceedings and governmental investigations in which we are involved where a loss is reasonably possible in future periods and for which we have not accrued a related liability. Likewise, it is reasonably possible that a future loss could exceed the related accrued liability.

Product Liability

We and certain of our subsidiaries have been named as defendants in numerous lawsuits in various federal and state courts, as well as in Canada, alleging personal injury resulting from the use of certain our products and the products of our subsidiaries. These matters are described in more detail below. At December 31, 2012, the Company has established a product liability accrual totaling \$92.0 million for all known pending and estimated future claims, which the Company believes represents the minimum possible amount we will be required to pay with respect to these cases. The amount of this accrual was recorded in our Consolidated Statements of Operations as Litigation-related and other contingencies. No better estimate is available and the Company cannot estimate the range of loss at this time. We will continue to monitor each related legal claim and adjust the accrual for new information and further developments. It is not possible at this time to determine with certainty the ultimate outcome of these matters or the effect of potential future claims. Nevertheless, we believe it is reasonably possible that the outcomes of such cases could result in losses in excess of insurance reimbursement levels that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

MCP Cases. Qualitest Pharmaceuticals, and in certain cases the Company or certain of its subsidiaries, along with several other pharmaceutical manufacturers, have been named as defendants in numerous lawsuits in various federal and state courts alleging personal injury resulting from the use of the prescription medicine metoclopramide. Plaintiffs in these suits allege various personal injuries including tardive dyskinesia, other movement disorders, and death. The Company intends to contest these cases vigorously and to explore other options as appropriate in the best interests of the Company. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any additional litigation will be brought against the Company or its subsidiaries. Subject to certain terms and conditions, we will be indemnified by the former owners of Qualitest Pharmaceuticals with respect to metoclopramide litigation arising out of the sales of the product by Qualitest Pharmaceuticals between January 1, 2006 and the date on which the acquisition was completed, subject to an overall liability cap for all claims arising out of or related to the acquisition, including the claims described above. As of February 20, 2013, approximately 843 MCP cases are currently pending against Qualitest Pharmaceuticals and/or the Company.

Propoxyphene Cases. Qualitest Pharmaceuticals and, in certain cases, the Company or certain of its subsidiaries, along with several other pharmaceutical manufacturers, have been named as defendants in numerous lawsuits originally filed in various federal and state courts alleging personal injury resulting from the use of prescription pain medicines containing propoxyphene. Plaintiffs in these suits allege various personal injuries including cardiac impairment and damage. In August 2011, a multidistrict litigation (MDL) was formed, and certain transferable cases pending in federal court are now coordinated in the Eastern District of Kentucky as part of MDL No. 2226. On March 5, 2012 and June 22, 2012, the MDL Judge issued orders dismissing with prejudice certain claims against generic manufacturers, including Qualitest Pharmaceuticals and the Company. Certain plaintiffs have appealed those decisions to the U.S. Court of Appeals for the Sixth Circuit. A consolidated appeal is pending before the Sixth Circuit in certain of these cases. Some of these cases have already been remanded, although appeals are being sought or are pending. In November 2012, additional cases were filed in various California state courts, and removed to corresponding federal courts. The Company intends to contest all of these cases vigorously and to explore other options as appropriate in the best interests of the Company. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any additional litigation will be brought against the Company or its subsidiaries. Subject to certain terms and conditions, we will be indemnified by the former owners of Qualitest Pharmaceuticals with respect to propoxyphene litigation arising out of the sales of the product by Qualitest Pharmaceuticals between January 1, 2006 and the date on which the acquisition was completed, subject to an overall liability cap for all claims arising out of or related to the acquisition, including the claims described above. As of February 20, 2013, approximately 39 propoxyphene cases are currently pending against Qualitest Pharmaceuticals and/or the Company. There are also approximately 69 propoxyphene cases on appeal to the Sixth Circuit.

Vaginal Mesh Cases. On October 20, 2008, the FDA issued a Public Health Notification regarding potential complications associated with transvaginal placement of surgical mesh to treat pelvic organ prolapse (POP) and stress urinary incontinence (SUI). The notification provides recommendations and encourages physicians to seek specialized training in mesh procedures, to advise their patients about the risks associated with these procedures and to be diligent in diagnosing and reporting complications.

In July 2011, FDA issued an update to the October 2008 Public Health Notification regarding mesh to further advise the public and the medical community of the potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI. In this July 2011 update, the FDA maintained that adverse events are not rare, as previously reported, and questioned the relative effectiveness of transvaginal mesh as a treatment for POP as compared to non-mesh surgical repair. The July 2011 notification continued to encourage physicians to seek specialized training in mesh procedures, to consider and to advise their patients about the risks associated with these procedures and to be diligent in diagnosing and reporting complications. FDA also convened an advisory panel which met on September 8-9, 2011 to further address the safety and effectiveness of transvaginal surgical mesh used to treat POP and SUI. At the conclusion of the meetings, the advisory panel recommended reclassifying transvaginal mesh products used to treat POP to Class III devices (premarket approval) and recommended that manufacturers of these products be required to conduct additional post-market surveillance studies. The advisory panel recommended that transvaginal surgical mesh products used to treat SUI remain as Class II devices. Regarding retropubic and transobturator (TOT) slings, the advisory panel recommended that no additional post-market surveillance studies are necessary. Regarding mini-slings, the advisory panel recommended premarket study for new devices and additional post-market surveillance studies.

On January 3, 2012, the FDA ordered manufacturers of transvaginal surgical mesh used for pelvic organ prolapse and of single incision mini-slings for urinary incontinence, such as AMS, Inc., to conduct post-market safety studies and to monitor adverse event rates relating to the use of these products. AMS, Inc. received a total of nineteen class-wide post-market study orders regarding its pelvic floor repair and mini-sling products; however sixteen of these study orders have been

placed on hold for a variety of commercial reasons. Three of these post-market study orders remain active and AMS, Inc. is continuing the process of complying with these orders. In these orders, the FDA also noted that it is still considering the recommendation of the September 9, 2011 advisory committee that urogynecological surgical mesh for transvaginal repair of pelvic organ prolapse be reclassified from Class II to Class III.

Since 2008, AMS, Inc., and more recently, in certain cases the Company or certain of its subsidiaries, have been named as defendants in multiple lawsuits in various federal and state courts, as well as in Canada, alleging personal injury resulting from use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence. Plaintiffs in these suits allege various personal injuries including chronic pain, incontinence and inability to control bowel function, and permanent deformities. On February 7, 2012, a multidistrict litigation (MDL) was formed, and cases pending in federal courts are now consolidated in the Southern District of West Virginia as part of MDL No. 2325. Similar cases in various state courts around the country are also currently pending. More specifically, as of February 20, 2013, approximately 5,100 mesh cases are currently pending against AMS, Inc. and/or the Company or certain of its subsidiaries. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. The majority of the currently pending cases are in the MDL.

In addition, we have been contacted regarding a civil investigation that has been initiated by a number of state attorneys general into mesh products, including transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence. We have not yet received a subpoena relating to this investigation, and at this time, we cannot predict or determine the outcome of this investigation or reasonably estimate the amount or range of amounts of fines or penalties, if any, that might result from a settlement or an adverse outcome from this investigation.

AMS, Inc. and the Company intend to vigorously contest all currently pending cases and any future cases that may be brought, if any, and to explore other options as appropriate in the best interests of AMS, Inc. and the Company. It is not possible at this time to determine with certainty the ultimate outcome of these matters or the effect of potential future claims. Nevertheless, we believe it is reasonably possible that the outcomes of such cases could result in losses in excess of insurance reimbursement levels that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Department of Health and Human Services Subpoena

As previously reported, in January 2007 and April 2011, the Company received subpoenas issued by the United States Department of Health and Human Services (HHS), Office of Inspector General (OIG) and the United States Department of Justice (DOJ), respectively. The subpoenas request documents relating to Lidoderm® (lidocaine patch 5%), focused primarily on the sale, marketing and promotion of Lidoderm®.

In October 2012, preliminary discussions to resolve potential claims arising from this matter advanced to a point where the Company believed a loss to be probable. Endo recorded a charge of \$53.0 million in the third quarter of 2012, which at that time the Company believed was the minimum possible settlement. Since that time, discussions have progressed and, without admitting any liability or wrongdoing, the Company reached a tentative agreement with the HHS-OIG, DOJ and participating state entities in the fourth quarter of 2012 to resolve this matter for a total of approximately \$194.0 million. Accordingly, we recorded a corresponding charge in our 2012 Consolidated Statement of Operations as Litigation-related and other contingencies. The settlement remains subject to further negotiation of specific terms and to final approval by the federal government and participating state entities, and accordingly, there is no assurance that a resolution will occur. Endo has cooperated fully and continues to cooperate with the government's investigation. Settlements of these investigations have commonly resulted in the payment of substantial damages and fines to the government for alleged civil and criminal violations, and have commonly included a corresponding plea agreement or deferred prosecution agreement, and entry into a Corporate Integrity Agreement with the HHS-OIG.

Pricing Litigation

A number of cases were brought by state government entities that allege generally that our wholly-owned subsidiary, Endo Pharmaceuticals Inc. (EPI), and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid. These cases generally seek damages, treble damages, disgorgement of profits, restitution and attorneys' fees.

As previously reported, a case pending in the 19th Judicial District, Parish of East Baton Rouge, Louisiana against EPI and numerous other pharmaceutical companies: *State of Louisiana v. Abbott Laboratories, Inc., et al.* contained allegations similar to the those described above. Without admitting any liability or wrongdoing, in the third quarter of 2012, EPI and the

State of Louisiana have reached an agreement to resolve this case for a total of approximately \$4.6 million. On July 1, 2011, the Texas Attorney General's Office issued a Civil Investigative Demand (CID) to Qualitest Pharmaceuticals, Inc. and to EPI inquiring into activities in Texas that are similar to those contained in the allegations described above. Without admitting any liability or wrongdoing, in the third quarter of 2012, Qualitest Pharmaceuticals, EPI and the State of Texas have reached an agreement to resolve this matter for a total of \$25.0 million. We recorded corresponding charges for these amounts in our 2012 Consolidated Statement of Operations as Litigation-related and other contingencies.

Additionally, there is a previously reported case pending in the Third Judicial District Court of Salt Lake County, Utah against EPI and numerous other pharmaceutical companies: *State of Utah v. Actavis US, Inc., et al.*

EPI intends to contest the above unresolved case vigorously and to explore other options as appropriate in the best interests of the Company. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company or its subsidiaries.

Paragraph IV Certifications on Lidoderm®

As previously reported, on January 15, 2010, the Company's subsidiary, Endo Pharmaceuticals Inc. (EPI or Endo) and the holders of the Lidoderm® NDA and relevant patents, Teikoku Seiyaku Co., Ltd., and Teikoku Pharma USA, Inc. (collectively, Teikoku) received a Paragraph IV Certification Notice under 21 U.S.C. 355(j) (a Paragraph IV Notice) from Watson Laboratories, Inc. (Watson) advising of its filing of an Abbreviated New Drug Application (ANDA) for a generic version of Lidoderm® (lidocaine topical patch 5%). The Paragraph IV Notice refers to U.S. Patent No. 5,827,529, which covers the formulation of Lidoderm®, a topical patch to relieve the pain of post herpetic neuralgia launched in 1999. This patent is listed in the FDA's Orange Book and expires in October 2015. As a result of this Notice, on February 19, 2010, EPI and Teikoku filed a lawsuit against Watson in the U.S. District Court of the District of Delaware. This lawsuit was heard by the court and the trial concluded on February 14, 2012. In October 2010, Teikoku Pharma USA listed U.S. Patent No. 5,741,510 in the FDA Orange Book, and this patent expires in March 2014. On June 30, 2011, EPI and Teikoku filed a second lawsuit against Watson in the U.S. District Court of the District of Delaware alleging infringement of U.S. Patent Nos. 5,741,510, 6,096,333, and 6,096,334 which cover lidocaine patch formulations and manufacturing processes.

On May 28, 2012, EPI entered into a Settlement and License Agreement (the Watson Settlement Agreement) among EPI and Teikoku, on the one hand, and Watson, on the other hand. The Watson Settlement Agreement settled all ongoing patent litigation among the parties relating to Watson's generic version of Lidoderm®. Under the terms of the Watson Settlement Agreement, the parties dismissed their respective claims and counterclaims without prejudice. As part of the settlement, Watson agreed not to challenge the validity or enforceability of Endo's and Teikoku's patents relating to Lidoderm® with respect to Watson's generic version of Lidoderm®. Watson also agreed not to sell its generic version of Lidoderm® until it received FDA approval and, in any event, no sooner than September 15, 2013, except in limited specific circumstances (such date being the Start Date). Endo and Teikoku agreed to grant Watson a license permitting the sale of generic Lidoderm® upon the Start Date in the U.S. The license to Watson is exclusive as to Endo's launch of an authorized generic version of Lidoderm® until the earlier of 1) the introduction of a generic version of Lidoderm® by a company other than Watson, or 2) seven and a half months after Watson launches its generic version of Lidoderm®. Endo will receive an at market royalty equal to 25% of the gross profit generated on Watson's sales of its generic version of Lidoderm® during Watson's period of exclusivity.

Additionally, the Watson Settlement Agreement provides that Endo and Teikoku will provide, at no cost, to Watson's wholesaler affiliate branded Lidoderm® product for Watson's wholesaler affiliate's distribution, subject to certain terms and conditions. Given that Watson received FDA approval of its generic version of Lidoderm® in August 2012,

Endo and Teikoku will provide branded Lidoderm® of value totaling \$12.0 million each month (\$96.0 million in total for 2013) (valued at the then-prevailing wholesale acquisition cost) beginning on January 1, 2013 through August 1, 2013. The obligation of Endo and Teikoku to provide this branded product at no cost terminates immediately upon the launch of a third party's generic version of Lidoderm® in the U.S., including its territories, possessions and the Commonwealth of Puerto Rico (the Territory).

Endo will be responsible for the payment of all gross to net adjustments arising from Watson's sale of the branded Lidoderm® product.

Teikoku has agreed to provide a rebate to Endo equal to 50% of the cost of branded Lidoderm® product that is required to be provided to Watson's wholesaler affiliate pursuant to Section 3(b), 3(c) and 3(d) of the Watson Settlement Agreement.

The Company has concluded that the Watson Settlement Agreement is a multiple-element arrangement and during the second quarter of 2012 recognized a liability and corresponding charge of \$131.4 million in Patent litigation settlement, net in the Consolidated Statements of Operations, representing the initial estimated fair value of the settlement component. Fair value of the settlement component was estimated using the probability adjusted expected value of branded Lidoderm® product to be provided to Watson at the anticipated wholesaler acquisition cost (WAC) expected to be in place at the time of shipment, less a reasonable estimate of Watson's selling costs. The resultant probability-weighted values were then discounted using a discount rate of 5.1%.

The Company believes that the level and timing of branded Lidoderm® product to be shipped, discount rate, and probabilities used in the model appropriately reflect market participant assumptions. Because the liability is recorded at fair value using WAC, the net charge recognized in 2012 is comprised of several elements, including our cost of product to be shipped, estimated gross-to-net deductions to be paid by the Company and the estimated product profit margin. We believe this is the most appropriate measure of fair value as these components combined represent the value accruing to Watson. As a result of using a fair value measurement, the charge will be greater than the actual cost to the Company. As such, relief of the liability in subsequent periods through shipments of branded Lidoderm® product will result in income, which we expect to record as a component of Other income, net in the Company's Consolidated Statements of Operations. We intend to reclassify the portion of the settlement liability related to the gross-to-net component into our gross-to-net reserves as product is shipped to Watson, the effect of which will be to offset a portion of the income that will be recognized into Other income, net in the Company's Consolidated Statements of Operations, as the settlement liability is relieved. The rebate arrangement with Teikoku will also be accounted for prospectively as product purchased from Teikoku will be recorded into inventory at the discounted purchase price and relieved as shipments are made to Watson. The benefit associated with this rebate will be recorded as a component of Other income, net in the Company's Consolidated Statements of Operations.

On August 23, 2012, Watson announced it received FDA approval on its ANDA for its lidocaine patch 5%, a generic version of Lidoderm®. The Company anticipates Watson will launch its generic version of Lidoderm® on September 15, 2013 pursuant to the terms of the Watson Settlement Agreement. In light of Watson's anticipated September 2013 launch, the Company reassessed its obligation to Watson and believes it will not be obligated to provide to Watson's wholesaler affiliate branded Lidoderm® product beyond September 2013. Accordingly, in the third quarter of 2012, the Company recognized a change in estimate with respect to its obligation and reduced its liability associated with the Watson Settlement Agreement by \$46.2 million to \$85.1 million. The corresponding gain of \$46.2 million was recorded in Patent litigation settlement, net in the Consolidated Statements of Operations. Future changes, if any, resulting from revisions to the timing or the amount of the original estimate will be recognized as an increase or a decrease in the carrying amount of the litigation settlement liability and the related Patent litigation settlement, net during the period of change. Future changes in estimates to the settlement liability could have a material impact on our results of operations.

As previously reported, in January 2011, EPI and Teikoku received a Paragraph IV Notice from Mylan Technologies Inc. (Mylan) advising of its filing of an ANDA for a generic version of Lidoderm®. The Paragraph IV Notice refers to U.S. Patent Nos. 5,827,529 and 5,741,510, which cover the formulation of Lidoderm®. These patents are listed in the FDA's Orange Book and expire in October 2015 and March 2014, respectively. On March 14, 2011, EPI filed a lawsuit against Mylan in the U.S. District Court for the District of Delaware, claiming that the Paragraph IV Notice served by Mylan failed to comply with the requirements of 21 U.S.C. sec. 355(b)(3)(C)(i) and 21 C.F.R. 214.95(a). In that suit, EPI sought a declaration that Mylan's Paragraph IV Notice is null, void and without legal effect, and that as a result, Mylan has failed to properly trigger the ANDA litigation process. In the alternative, EPI alleged that Mylan's submission of its ANDA constitutes infringement of the '510 patent under 35 U.S.C. sec. 271(e)(2)(A). On March 30, 2012, the Court dismissed this complaint without prejudice. On April 13, 2012, Endo and Teikoku filed a motion to amend this Complaint and reinstate the suit. That motion is currently pending before the court.

On May 16, 2012, EPI and Teikoku received a Paragraph IV Notice from Noven Pharmaceuticals, Inc. (Noven) advising of its filing of an ANDA for a generic version of Lidoderm® (lidocaine topical patch 5%). The Paragraph IV Notice refers to U.S. Patent No. 5,827,529, which covers the formulation of Lidoderm®. This patent is listed in the FDA's Orange Book and expires in October 2015. On June 29, 2012, EPI filed a lawsuit against Noven in the U.S. District Court for the District of Delaware. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act.

On May 24, 2012, EPI and Teikoku received a Paragraph IV Notice from TWi Pharmaceuticals, Inc. (TWi) advising of its filing of an ANDA for a generic version of Lidoderm® (lidocaine topical patch 5%). The Paragraph IV Notice refers to U.S. Patent Nos. 5,827,529 and 5,741,510, which cover the formulation of Lidoderm®. These patents are listed in the FDA's Orange Book and expire in October 2015 and March 2014, respectively. On July 5, 2012, EPI filed a lawsuit against TWi in the U.S. District Court for the District of Delaware. Because the suit was filed within the 45-day period under the Hatch-

Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act.

Endo intends, and has been advised by Teikoku that they too intend, to vigorously defend the intellectual property rights relating to Lidoderm® and to pursue all available remaining legal and regulatory avenues in defense of Lidoderm®, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that we will be successful. If we are unsuccessful and any one of the above generic manufacturers is able to obtain FDA approval of its product, that generic manufacturer may be able to launch its generic version of Lidoderm® prior to the applicable patents' expirations in 2014 and 2015. Additionally, we cannot predict or determine the timing or outcome of ongoing litigation but will explore all options as appropriate in the best interests of the Company. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Lidoderm® and challenge the applicable patents.

Paragraph IV Certifications on Opana® ER

As previously reported, starting in December 2007 through December 2011, EPI received Paragraph IV Notices from various generic drug manufacturers, including Impax Laboratories, Inc. (Impax), Actavis South Atlantic LLC (Actavis), Sandoz, Inc. (Sandoz), Barr Laboratories, Inc. (Teva), Watson Laboratories, Inc. (Watson), Roxane Laboratories, Inc. (Roxane) and most recently, Ranbaxy Inc. (Ranbaxy) advising of the filing by each such company of an ANDA for a generic version of the non-crush resistant formulation of Opana® ER (oxymorphone hydrochloride extended-release tablets CII). To date, EPI settled all of the Paragraph IV litigation relating to the non-crush resistant formulation of Opana® ER. Under the terms of the settlements, each generic manufacturer agreed not to challenge the validity or enforceability of patents relating to the non-crush resistant formulation of Opana® ER. As a result, Actavis launched its generic non-crush resistant Opana® ER 7.5 and 15 mg tablets on July 15, 2011, and Impax launched its generic non-crush resistant Opana® ER 5, 10, 20, 30 and 40 mg tablets on January 2, 2013. We expect Sandoz, Teva, Watson, Roxane and Actavis to launch production and sale of all strengths of their respective versions of generic non-crush resistant Opana® ER during the third quarter of 2013. We evaluated Ranbaxy's Paragraph IV Notice and concluded that we will not sue Ranbaxy at this time. As a result, and because Ranbaxy filed a Paragraph III notice against two patents expiring September 9, 2013, we expect Ranbaxy to launch all strengths of its generic non-crush resistant Opana® ER on September 9, 2013.

On December 11, 2012, EPI filed a Complaint against Actavis South Atlantic LLC (Actavis) in the United States District Court for the District of New Jersey claiming false advertising and calling for Actavis to cease and desist promoting its non-crush resistant formulation of Opana® ER product as AB rated, or bioequivalent, to the crush-resistant formulation of Opana® ER. On February 5, 2013, Endo filed a Motion for Preliminary Injunction with the court requesting the court enjoin Actavis from further false advertising. That Motion is pending before the court.

Pursuant to the June 2010 Settlement and License Agreement (the Impax Settlement Agreement) with Impax, EPI agreed to provide a payment to Impax should prescription sales of the non-crush resistant formulation of Opana® ER, as defined in the Impax Settlement Agreement, fall below a predetermined contractual threshold in the quarter immediately prior to the date on which Impax was authorized to launch its generic version of the non-crush resistant formulation of Opana® ER, which occurred on January 2, 2013. During the first quarter of 2012, the Novartis shut-down of its Lincoln, Nebraska manufacturing facility and resulting lack of 2012 oxymorphone active pharmaceutical ingredient (API) quota granted by the DEA to Novartis caused EPI to attempt an accelerated launch of the crush-resistant formulation of Opana® ER. While significant uncertainties existed throughout the first quarter of 2012 about our ability to rapidly ramp up production of the formulation designed to be crush-resistant and produce finished goods at a new, untested manufacturing facility in a very short period of time, we were able to do so in March 2012. Accordingly, the Company recognized a liability under the Impax Settlement Agreement upon the Company's sale of the formulation designed to be crush-resistant, which occurred in March 2012. The total charge of \$102.0 million was recorded in Cost of revenues in our 2012 Consolidated Financial Statements.

From September 21, 2012 through February 6, 2013, EPI and its partner Grünenthal received Paragraph IV Notices from each of Teva Pharmaceuticals USA, Inc. (Teva), Amneal Pharmaceuticals, LLC, Sandoz Inc., ThoRx Laboratories, Inc. (ThoRx), Par Pharmaceuticals (Par), Actavis South Atlantic LLC (Actavis), and Impax Pharmaceuticals (Impax), advising of the filing by each such company of an ANDA for a generic version of the formulation of Opana® ER designed to be crush-resistant. These Paragraph IV Notices refer to U.S. Patent Nos. 8,075,872, 8,114,383, 8,192,722, 7,851,482, 8,309,060, 8,309,122 and 8,329,216, which variously cover the formulation of Opana® ER, a highly pure version of the active pharmaceutical ingredient and the release profile of Opana® ER. EPI filed lawsuits against each of these filers in the US District Court for the Southern District of New York. Each lawsuit was filed within the 45-day deadline to invoke a 30-month stay of FDA approval pursuant to the Hatch-Waxman legislative scheme. EPI intends, and has been advised by Grünenthal

that they too intend, to vigorously defend the intellectual property rights covering Opana[®] ER and to pursue all available legal and regulatory avenues in defense of Opana[®] ER, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that we will be successful. If we are unsuccessful and Teva, Amneal, Sandoz, ThorRx, Par, Actavis or Impax is able to obtain FDA approval of its product, it may be able to launch a generic version of Opana[®] ER prior to the applicable patents' expirations in 2023 through 2029. Additionally, we cannot predict or determine the timing or outcome of this defense but will explore all options as appropriate in the best interests of the Company. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Opana[®] ER and challenge the applicable patents.

Paragraph IV Certification on Fortesta[®] Gel

On January 18, 2013, EPI and its licensor Strakan Limited received a notice from Watson advising of the filing by Watson of an ANDA for a generic version of Fortesta[®] (testosterone) Gel. On February 28, 2013, EPI filed a lawsuit against Watson in the U.S. District Court for the Eastern District of Texas, Marshall division. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act.

Endo intends to vigorously defend Fortesta[®] Gel and to pursue all available legal and regulatory avenues in defense of Fortesta[®] Gel, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that we will be successful. If we are unsuccessful and Watson is able to obtain FDA approval of its product, Watson may be able to launch its generic version of Fortesta[®] Gel prior to the applicable patents' expirations in 2018. Additionally, we cannot predict or determine the timing or outcome of this litigation but will explore all options as appropriate in the best interests of the Company. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Fortesta[®] Gel and challenge the applicable patents.

Paragraph IV Certification on Frova[®]

As previously reported, in July 2011, EPI and its licensor, Vernalis Development Limited received a notice from Mylan Technologies Inc. (Mylan) advising of the filing by Mylan of an ANDA for a generic version of Frova[®] (frovatriptan succinate) 2.5 mg tablets. Mylan's notice included a Paragraph IV Notice with respect to U.S. Patent Nos. 5,464,864, 5,561,603, 5,637,611, 5,827,871 and 5,962,501, which cover Frova[®]. These patents are listed in the FDA's Orange Book and expire between 2013 and 2015. As a result of this Paragraph IV Notice, on August 16, 2011, EPI filed a lawsuit against Mylan in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent Nos. 5,464,864, 5,637,611 and 5,827,871. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act. On September 22, 2011, Mylan filed an Answer and Counterclaims, claiming the asserted patents are invalid or not infringed.

Endo intends to vigorously defend its intellectual property rights and to pursue all available legal and regulatory avenues in defense of Frova[®], including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that we will be successful. If we are unsuccessful and Mylan is able to obtain FDA approval of its product, Mylan may be able to launch its generic version of Frova[®] prior to the applicable patents' expirations in 2014 and 2015. Additionally, we cannot predict or determine the timing or outcome of this litigation but will explore all options as appropriate in the best interests of the Company. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Frova[®] and challenge the applicable patents.

Other Legal Proceedings

In addition to the above proceedings, we are involved in, or have been involved in, arbitrations or various other legal proceedings that arise from the normal course of our business. We cannot predict the timing or outcome of these claims and other proceedings. Currently, we are not involved in any arbitration and/or other legal proceeding that we expect to have a material effect on our business, financial condition, results of operations and cash flows.

Leases

We lease certain fixed assets under capital leases that expire through 2014. We lease automobiles, machinery and equipment and facilities under certain noncancelable operating leases that expire through 2024. These leases are renewable at our option.

On October 28, 2011, our subsidiary EPI entered into a lease agreement with RT/TC Atwater LP, a Delaware limited partnership, for a new Company headquarters to consist of approximately 300,000 square feet of office space located at 1400 Atwater Boulevard, Malvern, Pennsylvania (with a four-year option to lease up to approximately 150,000 additional square feet). The term of this triple net lease is 12 years and includes three renewal options, each for an additional 60-month period. The lease commenced on December 31, 2012 with a monthly lease rate for the initial year of \$0.5 million, increasing by 2.25% each year thereafter.

This lease is accounted for as a direct financing arrangement whereby the Company recorded, over the construction period, the full cost of the asset in Property, plant and equipment, net. A corresponding liability was also recorded, net of leasehold improvements paid for by the Company, and will be amortized over the expected lease term through monthly rental payments using an effective interest method. At December 31, 2012, the Company recorded a liability of \$57.0 million related to this arrangement, \$5.1 million of which is included in Accounts payable and \$51.9 million of which is included in Other liabilities in the accompanying Consolidated Balance Sheet.

A summary of minimum future rental payments required under capital and operating leases as of December 31, 2012 are as follows (in thousands):

	Capital Leases(1)	Operating Leases
2013.....	\$ 8,914	\$ 17,950
2014.....	\$ 6,418	\$ 16,583
2015.....	\$ 6,036	\$ 12,656
2016.....	\$ 6,007	\$ 8,229
2017.....	\$ 6,112	\$ 4,314
Thereafter.....	\$ 45,797	\$ 2,585
Total minimum lease payments.....	\$ 79,284	\$ 62,317
Less: Amount representing interest.....	11,306	
Total present value of minimum payments.....	\$ 67,978	
Less: Current portion of such obligations.....	6,701	
Long-term capital lease obligations.....	\$ 61,277	

(1) The direct financing arrangement is included under Capital Leases.

Expense incurred under operating leases was \$25.5 million, \$22.5 million and \$17.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 16. SAVINGS AND INVESTMENT PLAN AND DEFERRED COMPENSATION PLANS

Savings and Investment Plan

On September 1, 1997, we established a defined contribution Savings and Investment Plan (the Endo 401(k) Plan) covering all employees. Employee contributions are made on a pre-tax basis under section 401(k) of the Internal Revenue Code (the Code). We match up to 6% of the participants' contributions subject to limitations under section 401(k) of the Code. Participants are fully vested with respect to their own contributions and the Company's matching contributions.

On July 2, 2010, the Company acquired HealthTronics, Inc., which sponsored the HealthTronics, Inc. and Subsidiaries 401(k) Plan (the HealthTronics Plan). The HealthTronics Plan was a defined contribution profit-sharing plan with a 401(k) option covering all employees of HealthTronics, Inc. In June 2011, former HealthTronics, Inc. employees began to participate in the Endo 401(k) Plan and the HealthTronics Plan assets were transferred into the Endo 401(k) Plan.

On November 30, 2010, the Company acquired Qualitest Pharmaceuticals, which sponsored the Qualitest Pharmaceuticals 401(k) Plan (the Qualitest Plan). The Qualitest Plan is a defined contribution profit-sharing plan with a 401(k) option covering all employees of Qualitest Pharmaceuticals. In January 2012, former Qualitest Pharmaceuticals employees began to participate in the Endo 401(k) Plan and the Qualitest Plan assets were transferred into the Endo 401(k) Plan.

On June 17, 2011, the Company acquired AMS, Inc., which sponsors the AMS Savings and Investment Plan (the AMS Plan). The AMS Plan is a defined contribution profit-sharing plan with a 401(k) option covering all employees of AMS, Inc. The Company merged the AMS Plan into the Endo 401(k) Plan in 2013.

Costs incurred for contributions made by us to the various 401(k) plans amounted to \$17.7 million, \$15.0 million and \$9.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Executive Deferred Compensation Plan

In December 2007, the Board of Directors (the Board) of Endo Health Solutions Inc. adopted the Endo Pharmaceuticals Holdings Inc. Executive Deferred Compensation Plan (now known as the Endo Health Solutions Inc. Executive Deferred Compensation Plan and referred to herein as the Deferred Compensation Plan) and the Endo Pharmaceuticals Holdings Inc. 401(k) Restoration Plan (now known as the Endo Health Solutions Inc. 401(k) Restoration Plan and referred to herein as the 401(k) Restoration Plan) both effective as of January 1, 2008. Both plans cover employees earning over the Internal Revenue Code plan compensation limit, which would include the chief executive officer, chief financial officer and other named executive officers. The Deferred Compensation Plan allows for deferral of up to 50% of the bonus, with payout to occur as elected, either in a lump sum or in installments, and up to 100% of restricted stock units granted, with payout to occur as a lump sum. Under the 401(k) Restoration Plan the participant may defer the amount of base salary and bonus that would have been deferrable under the Company's Savings and Investment Plan (up to 50% of salary and bonus) if not for the qualified plan statutory limits on deferrals and contributions, and also provides for a company match on the first six percent of deferrals to the extent not provided for under the Savings and Investment Plan. Payment occurs as elected, either in lump sum or in installments.

Directors Deferred Compensation Plan

Also in December 2007, the Board adopted the Endo Pharmaceuticals Holdings Inc. Directors Deferred Compensation Plan (now known as the Endo Health Solutions Inc. Directors Deferred Compensation Plan), effective January 1, 2008. The purpose of the Plan is to promote the interests of the Company and the stockholders of the Company by providing non-employee Directors the opportunity to defer up to 100% of meeting fees, retainer fees, and restricted stock units, with payout to occur as elected either in lump sum or installments.

NOTE 17. NET (LOSS) INCOME PER SHARE

The following is a reconciliation of the numerator and denominator of basic and diluted net (loss) income per share (in thousands, except per share data):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Numerator:			
Net (loss) income attributable to Endo Health Solutions Inc. common stockholders	\$ (740,337)	\$ 187,613	\$ 259,006
Denominator:			
For basic per share data—weighted average shares	115,719	116,706	116,164
Dilutive effect of common stock equivalents	—	2,306	1,202
Dilutive effect of 1.75% Convertible Senior Subordinated Notes and warrants	—	2,166	585
For diluted per share data—weighted average shares	<u>115,719</u>	<u>121,178</u>	<u>117,951</u>
Basic net (loss) income per share attributable to Endo Health Solutions Inc.	<u>\$ (6.40)</u>	<u>\$ 1.61</u>	<u>\$ 2.23</u>
Diluted net (loss) income per share attributable to Endo Health Solutions Inc.	<u>\$ (6.40)</u>	<u>\$ 1.55</u>	<u>\$ 2.20</u>

Basic net (loss) income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted income per common share is computed based on the weighted average number of common shares outstanding and, if there is net income during the period, the dilutive impact of common stock equivalents outstanding during the period. Common stock equivalents are measured under the treasury stock method.

The 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes) are only included in the dilutive net income per share calculation using the treasury stock method during periods in which the average market price of

our common stock was above the applicable conversion price of the Convertible Notes, or \$29.20 per share and the impact would not be anti-dilutive. In these periods, under the treasury stock method, we calculated the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and included that number in the total diluted shares outstanding for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the Convertible Notes. However, we separately analyze the impact of the convertible note hedge and the warrant agreements on diluted weighted average shares outstanding. As a result, the purchases of the convertible note hedges are excluded because their impact would be anti-dilutive. The treasury stock method is applied when the warrants are in-the-money with the proceeds from the exercise of the warrant used to repurchase shares based on the average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that could potentially be included if the warrants were exercised is approximately 13.0 million at December 31, 2012.

The following reconciliation shows the maximum potential dilution of shares currently excluded from the calculation of diluted net (loss) income per share per share for the years ended December 31 (in thousands):

	2012	2011	2010
Weighted average shares excluded:			
1.75% Convertible senior subordinated notes due 2015 and warrants(1)	25,993	23,827	25,408
Employee stock-based awards	4,991	2,043	2,721
	<u>30,984</u>	<u>25,870</u>	<u>28,129</u>

(1) Amounts represent the incremental potential total dilution that could occur if our Convertible Notes and warrants were converted to shares of our common stock.

NOTE 18. COST OF REVENUES

The components of Cost of revenues for the years ended December 31 (in thousands) were as follows:

	2012	2011	2010
Cost of net pharmaceutical product sales	\$ 971,570	\$ 823,455	\$ 451,096
Cost of device revenues	162,918	124,217	—
Cost of service and other revenues	126,605	117,536	53,661
Total cost of revenues	<u>\$ 1,261,093</u>	<u>\$ 1,065,208</u>	<u>\$ 504,757</u>

NOTE 19. DEBT

The components of our total indebtedness at December 31, (in thousands), were as follows:

	2012	2011
1.75% Convertible Senior Subordinated Notes due 2015	\$ 379,500	\$ 379,500
Unamortized discount on 1.75% Convertible Senior Subordinated Notes due 2015	(58,168)	(80,278)
<i>1.75% Convertible Senior Subordinated Notes due 2015, net</i>	<i>\$ 321,332</i>	<i>\$ 299,222</i>
7.00% Senior Notes due 2019	\$ 500,000	\$ 500,000
7.00% Senior Notes due 2020	\$ 400,000	\$ 400,000
Unamortized initial purchaser's discount	(3,101)	(3,382)
<i>7.00% Senior Notes due 2020, net</i>	<i>\$ 396,899</i>	<i>\$ 396,618</i>
7.25% Senior Notes due 2022	\$ 400,000	\$ 400,000
3.25% AMS Convertible Notes due 2036	\$ 795	\$ 841
4.00% AMS Convertible Notes due 2041	\$ 111	\$ 131
Term Loan A Facility Due 2016	\$ 1,387,500	\$ 1,471,875
Term Loan B Facility Due 2018	\$ 160,550	\$ 438,250
Other long-term debt	\$ 4,758	\$ 5,657
Total long-term debt, net	\$ 3,171,945	\$ 3,512,594
Less current portion	\$ 133,998	\$ 88,265
Total long-term debt, less current portion, net	\$ 3,037,947	\$ 3,424,329

Credit Facility

On November 30, 2010, we established a \$400 million, five-year senior secured term loan facility (the Term Loan Facility), and a \$500 million, five-year senior secured revolving credit facility (the 2010 Revolving Credit Facility and, together with the Term Loan Facility, the 2010 Credit Facility) with JP Morgan Chase Bank, Royal Bank of Canada, and certain other lenders. The 2010 Credit Facility was established primarily to finance our acquisition of Qualitest Pharmaceuticals and was available for working capital, general corporate purposes and letters of credit. The agreement governing the 2010 Credit Facility (the 2010 Credit Agreement) also permitted up to \$200 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders with the consent of the JP Morgan Chase Bank (the administrative agent) without the need for consent from any of the existing lenders under the 2010 Credit Facility.

The obligations of the Company under the 2010 Credit Facility were guaranteed by certain of the Company's domestic subsidiaries and were secured by substantially all of the assets of the Company and the subsidiary guarantors. The 2010 Credit Facility contained certain usual and customary covenants, including, but not limited to covenants to maintain maximum leverage and minimum interest coverage ratios. Borrowings under the 2010 Credit Facility bore interest at an amount equal to a rate calculated based on the type of borrowing and the Company's Leverage Ratio. For term loans and revolving loans (other than Swing Line Loans), the Company had been permitted to elect to pay interest based on an adjusted LIBOR rate plus between 2.00% and 2.75% or an Alternate Base Rate (as defined in the 2010 Credit Agreement) plus between 1.00% and 1.75%. The Company had also paid a commitment fee of between 35 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

Financing costs of \$16.5 million paid to establish the 2010 Credit Facility were deferred and were being amortized to interest expense over the life of the 2010 Credit Facility. Financing costs associated with prior credit facilities not yet amortized as of November 30, 2010 totaled approximately \$3.2 million on November 30, 2010. In accordance with the applicable accounting guidance for debt modifications, upon the termination of the prior credit facilities, approximately \$0.3 million of this amount was written off in proportion to decreased lending capacity provided by certain individual loan syndicates with a corresponding charge to earnings. The remaining \$2.9 million was deferred to be amortized over the life of the 2010 Credit Facility.

On June 17, 2011, we terminated the 2010 Credit Facility. Concurrent with the termination of the 2010 Credit Facility, we established a \$1,500 million, five-year senior secured term loan facility (the Term Loan A Facility), a \$700 million, seven-year senior secured term loan facility (the Term Loan B Facility, and, together with the Term Loan A Facility, the Term Loan Facilities), and a \$500 million, five-year senior secured revolving credit facility (the 2011 Revolving Credit Facility and, together with the Term Loan Facilities, the 2011 Credit Facility) with Morgan Stanley Senior Funding, Inc., as administrative agent, Bank of America, N.A., as Syndication Agent, and certain other lenders. The 2011 Credit Facility was established primarily to finance our acquisition of AMS, Inc. and is available for working capital, general corporate purposes

and lines of credit. The agreement governing the 2011 Credit Facility (the 2011 Credit Agreement) also permits up to \$500 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders with the consent of Morgan Stanley Senior Funding, Inc. (the administrative agent) without the need for consent from any of the existing lenders under the 2011 Credit Facility.

The obligations of the Company under the 2011 Credit Facility are guaranteed by certain of the Company's domestic subsidiaries and are secured by substantially all of the assets of the Company and the subsidiary guarantors. The 2011 Credit Facility contains certain usual and customary covenants, including, but not limited to covenants to maintain maximum leverage and minimum interest coverage ratios. Borrowings under the 2011 Credit Facility bear interest at an amount equal to a rate calculated based on the type of borrowing and the Company's Leverage Ratio. For term A loans and revolving loans (other than Swing Line Loans), the Company is permitted to elect to pay interest based on an adjusted LIBOR rate plus between 1.75% and 2.50% or an Alternate Base Rate (as defined in the 2011 Credit Agreement) plus between 0.75% and 1.50%. For term B loans, the Company may elect to pay interest based on an adjusted LIBOR rate plus 3.00% or an Alternate Base Rate plus 2.00%. The Company will pay a commitment fee of between 37.5 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

Financing costs of \$56.2 million paid to establish the 2011 Credit Facility, including \$43.4 million paid to investment bankers that also helped structure the AMS, Inc. acquisition, as well as financing costs of \$6.2 million associated with prior credit facilities, were deferred and are being amortized to interest expense over the life of the 2011 Credit Facility. Approximately \$8.5 million of the deferred financing costs associated with prior credit facilities was written off at this time in accordance with the applicable accounting guidance for debt modifications and extinguishments and was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

In February 2012, we made a prepayment of \$205.0 million on our Term Loan B Facility. We made additional prepayments of \$33.0 million and \$39.7 million in July 2012 and September 2012, respectively. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$7.2 million of the remaining unamortized financing costs was written off in connection with our 2012 prepayments. This amount was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

In September 2011 and December 2011, we made prepayments of \$135.0 million and \$125.0 million, respectively, on our Term Loan B Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$3.4 million of the remaining unamortized financing costs was written off in connection with our 2011 prepayments and included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt. Pursuant to our rights under the 2011 Credit Agreement, we elected to apply a portion of the September 2011 prepayment against all remaining contractual payments such that we had no remaining principal payment obligations until the maturity of the Term Loan B Facility on June 17, 2018.

During the years ended December 31, 2012, 2011 and 2010, we recognized \$57.8 million, \$51.3 million and \$5.4 million, respectively, of interest expense related to our Credit Facilities.

7.00% Senior Notes Due 2019

On June 8, 2011, we issued \$500 million in aggregate principal amount of 7.00% Notes due 2019 (the 2019 Notes) at an issue price of par. The 2019 Notes were issued in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2019 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. Interest on the 2019 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2012. The 2019 Notes will mature on July 15, 2019, subject to earlier repurchase or redemption in accordance with the terms of the Indenture incorporated by reference herein. We received proceeds of approximately \$485.9 million from the issuance, net of certain costs of the offering, including \$9.9 million of costs paid to investment bankers that also helped structure the AMS, Inc. acquisition.

On or after July 15, 2015, the Company may on any one or more occasions redeem all or a part of the 2019 Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and additional interest, if any, if redeemed during the twelve-month period beginning on July 15 of the years indicated below:

<u>Payment Dates (between indicated dates)</u>	<u>Redemption Percentage</u>
From July 15, 2015 to and including July 14, 2016	103.500%
From July 15, 2016 to and including July 14, 2017	101.750%
From July 15, 2017 and thereafter	100.000%

In addition, at any time prior to July 15, 2015, Endo may on any one or more occasions redeem all or a part of the 2019 Notes at a specified redemption price set forth in the Indenture, plus accrued and unpaid interest and additional interest, if any.

At any time prior to July 15, 2014, the Company may redeem up to 35% of the aggregate principal amount of the 2019 Notes at a specified redemption price set forth in the Indenture, plus accrued and unpaid interest and additional interest, if any, with the net cash proceeds of an equity offering subject to certain provisions. If the Company experiences certain change of control events, it must offer to repurchase the 2019 Notes at 101% of their principal amount, plus accrued and unpaid interest and additional interest, if any.

The Indenture contains covenants that, among other things, restrict the Company's ability and the ability of its restricted subsidiaries to incur certain additional indebtedness and issue preferred stock, make restricted payments, sell certain assets, agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company, create certain liens, merge, consolidate, or sell substantially all of the Company's assets, or enter into certain transactions with affiliates. These covenants are subject to a number of important exceptions and qualifications, including the fall away or revision of certain of these covenants upon the 2019 Notes receiving investment grade credit ratings.

During the years ended December 31, 2012 and 2011, we recognized \$36.4 million and \$20.4 million, respectively, of interest expense related to our 2019 Notes.

7.00% Senior Notes Due 2020

In November 2010, we issued \$400 million in aggregate principal amount of 7.00% Senior Notes due 2020 (the 2020 Notes) at an issue price of 99.105%. The 2020 Notes were issued in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2020 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. Interest on the 2020 Notes is payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2011. The 2020 Notes will mature on December 15, 2020, subject to earlier repurchase or redemption in accordance with the terms of the Indenture incorporated by reference herein. We received proceeds of approximately \$386.6 million from the issuance, net of the initial purchaser's discount and certain other costs of the offering.

On or after December 15, 2015, the Company may on any one or more occasions redeem all or a part of the 2020 Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and additional interest, if any, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

<u>Payment Dates (between indicated dates)</u>	<u>Redemption Percentage</u>
From December 15, 2015 to and including December 14, 2016	103.500%
From December 15, 2016 to and including December 14, 2017	102.333%
From December 15, 2017 to and including December 14, 2018	101.167%
From December 15, 2018 and thereafter	100.000%

In addition, at any time prior to December 15, 2013, the Company may redeem up to 35% of the aggregate principal amount of the 2020 Notes at a specified redemption price set forth in the Indenture, plus accrued and unpaid interest and additional interest, if any, with the net cash proceeds of an equity offering subject to certain provisions. If the Company experiences certain change of control events, it must offer to repurchase the 2020 Notes at 101% of their principal amount, plus accrued and unpaid interest and additional interest, if any.

The Indenture contains covenants that, among other things, restrict the Company's ability and the ability of its restricted subsidiaries to incur certain additional indebtedness and issue preferred stock, make restricted payments, sell certain assets, agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company, create certain liens, merge, consolidate, or sell substantially all of the Company's assets, or enter into certain transactions with affiliates. These covenants are subject to a number of important exceptions and qualifications, including the fall away or revision of certain of these covenants upon the 2020 Notes receiving investment grade credit ratings.

During the years ended December 31, 2012, 2011 and 2010, we recognized \$29.0 million, \$29.3 million and \$3.1 million, respectively, of interest expense related to our 2020 Notes.

7.25% Senior Notes Due 2022

On June 8, 2011, we issued \$400 million in aggregate principal amount of 7.25% Senior Notes due 2022 (the 2022 Notes) at an issue price of par. The 2022 Notes were issued in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The 2022 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. Interest on the 2022 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2012. The 2022 Notes will mature on January 15, 2022, subject to earlier repurchase or redemption in accordance with the terms of the Indenture incorporated by reference herein. We received proceeds of approximately \$388.7 million from the issuance, net of certain costs of the offering, including \$7.9 million of costs paid to investment bankers that also helped structure the AMS, Inc. acquisition.

On or after July 15, 2016, the Company may on any one or more occasions redeem all or a part of the 2022 Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and additional interest, if any, if redeemed during the twelve-month period beginning on July 15 of the years indicated below:

Payment Dates (between indicated dates)	Redemption Percentage
From July 15, 2016 to and including July 14, 2017	103.625%
From July 15, 2017 to and including July 14, 2018	102.417%
From July 15, 2018 to and including July 14, 2019	101.208%
From July 15, 2019 and thereafter	100.000%

In addition, at any time prior to July 15, 2016, Endo may on any one or more occasions redeem all or a part of the 2022 notes at a specified redemption price set forth in the Indenture, plus accrued and unpaid interest and additional interest, if any.

At any time prior to July 15, 2014, the Company may redeem up to 35% of the aggregate principal amount of the 2022 Notes at a specified redemption price set forth in the Indenture, plus accrued and unpaid interest and additional interest, if any, with the net cash proceeds of an equity offering subject to certain provisions. If the Company experiences certain change of control events, it must offer to repurchase the 2022 Notes at 101% of their principal amount, plus accrued and unpaid interest and additional interest, if any.

The Indenture contains covenants that, among other things, restrict the Company's ability and the ability of its restricted subsidiaries to incur certain additional indebtedness and issue preferred stock, make restricted payments, sell certain assets, agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company, create certain liens, merge, consolidate, or sell substantially all of the Company's assets, or enter into certain transactions with affiliates. These covenants are subject to a number of important exceptions and qualifications, including the fall away or revision of certain of these covenants upon the 2022 Notes receiving investment grade credit ratings.

During the years ended December 31, 2012 and 2011, we recognized \$29.8 million and \$16.8 million, respectively, of interest expense related to our 2022 Notes.

2011 Exchange Offer

On October 14, 2011, the Company filed a Form S-4 Registration Statement with the Securities and Exchange Commission. On October 31, 2011, it filed a prospectus pursuant to Rule 424(b)(3). Pursuant to both filings, the Company offered to exchange the 2019 Notes, 2020 Notes and 2022 Notes for a like principal amount of new notes having identical terms that have been registered under the Securities Act of 1933, as amended. On November 30, 2011, all of the 2019 Notes, 2020 Notes and 2022 Notes had been properly tendered in the exchange offer and not withdrawn.

1.75% Convertible Senior Subordinated Notes Due 2015

In April 2008, we issued \$379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes) in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

We received proceeds of approximately \$370.7 million from the issuance, net of the initial purchaser's discount and certain other costs of the offering. Interest is payable semiannually in arrears on each April 15 and October 15 with the first interest payment being made on October 15, 2008. The Convertible Notes will mature on April 15, 2015, unless earlier converted or repurchased by us.

Holders of the Convertible Notes may convert their notes based on a conversion rate of 34.2466 shares of our common stock per \$1,000 principal amount of notes (the equivalent of \$29.20 per share), subject to adjustment upon certain events, only under the following circumstances as described in the indenture for the Convertible Notes: (1) during specified periods, if the price of our common stock reaches specified thresholds; (2) if the trading price of the Convertible Notes is below a specified threshold; (3) at any time after October 15, 2014; or (4) upon the occurrence of certain corporate transactions. We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the Convertible Notes. It is our current intention to settle the principal amount of any conversion consideration in cash.

Concurrently with the issuance of the Convertible Notes, we entered into a privately negotiated convertible note hedge transaction with affiliates of the initial purchasers. Pursuant to the hedge transaction we purchased common stock call options intended to reduce the potential dilution to our common stock upon conversion of the Convertible Notes by effectively increasing the initial conversion price of the Convertible Notes to \$40.00 per share, representing a 61.1% conversion premium over the closing price of our common stock on April 9, 2008 of \$24.85 per share. The call options allow us to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$29.20 per share. The call options expire on April 15, 2015 and must be net-share settled. The cost of the call option was approximately \$107.6 million. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$40.00 per share. The warrants expire on various dates from July 14, 2015 through October 6, 2015 and must be net-share settled. We received approximately \$50.4 million in cash proceeds from the sale of these warrants. The warrant transaction could have a dilutive effect on our net income per share to the extent that the price of our common stock exceeds the strike price of the warrants at exercise.

As discussed in Note 17. Net (Loss) Income Per Share, in periods in which our common stock price exceeds the conversion price of the Convertible Notes or the strike price of the warrants, we include the effects of the additional shares that may be issued in our diluted net income per share calculation using the treasury stock method.

The carrying values of the debt and equity components of our Convertible Notes are as follows (in thousands):

	December 31, 2012	December 31, 2011
Principal amount of Convertible Notes	\$ 379,500	\$ 379,500
Unamortized discount related to the debt component(1)	(58,168)	(80,278)
Net carrying amount of the debt component	<u>\$ 321,332</u>	<u>\$ 299,222</u>
Carrying amount of the equity component	<u>\$ 142,199</u>	<u>\$ 142,199</u>

- (1) Represents the unamortized portion of the original purchaser's discount and certain other costs of the offering as well as the unamortized portion of the discount created from the separation of the debt portion of our Convertible Notes from the equity portion. This discount will be amortized to interest expense over the term of the Convertible Notes.

For the year ended December 31, 2012, we recognized \$28.8 million of interest expense related to our Convertible Notes, of which \$6.6 million related to the contractual interest payments and \$22.2 million related to the amortization of the debt discount and certain other costs of the offering. For the year ended December 31, 2011, we recognized \$26.9 million of interest expense related to our Convertible Notes, of which \$6.6 million related to the contractual interest payments and \$20.3 million related to the amortization of the debt discount and certain other costs of the offering. For the year ended December 31, 2010, we recognized \$28.0 million of interest expense related to our Convertible Notes, of which \$9.3 million

related to the contractual interest payments and \$18.6 million related to the amortization of the debt discount and certain other costs of the offering.

3.25% Convertible AMS Notes Due 2036 and 4.00% Convertible AMS Notes Due 2041

As a result of our acquisition of AMS, Inc., the Company assumed AMS, Inc.'s 3.25% Convertible Notes due 2036 (the 2036 Notes) and 4.00% Convertible Notes due 2041 (the 2041 Notes and, together with the 2036 Notes, the AMS Notes). In accordance with the indentures governing the AMS Notes, the AMS Notes were immediately convertible upon the closing of Endo's acquisition of AMS, Inc. From the AMS, Inc. Acquisition Date until the make whole premium on the 2036 Notes expired on August 9, 2011, we paid \$95.7 million to redeem \$61.4 million of the 2036 Notes at a stated premium of 1.5571. From the AMS, Inc. Acquisition Date until the make whole premium on the 2041 Notes expired on August 1, 2011, we paid \$423.4 million to redeem \$249.9 million of the 2041 Notes at a stated premium of 1.6940. Our obligation remaining related to the AMS Notes is less than \$1.0 million at December 31, 2012, excluding accrued interest.

Maturities

Maturities on long-term debt for each of the next 5 years as of December 31, 2012 are as follows (in thousands):

	December 31, 2012
2013.....	\$ 133,092
2014.....	\$ 151,347
2015.....	\$ 568,029
2016.....	\$ 919,252
2017.....	\$ 37

Maturities on long-term debt, and respective interest payments, primarily represent obligations of Endo Health Solutions Inc.

NOTE 20. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to certain risks relating to our ongoing business operations. With our June 2011 acquisition of AMS, Inc., we began using derivative instruments to mitigate a portion of our exposure to volatility in foreign currency exchange rates. Foreign currency exchange forward contracts are used to manage the currency risk associated with forecasted sales to and receivables from certain subsidiaries, denominated in their local currencies. We hedge only exposures in the ordinary course of business. We account for our derivative instruments at fair value, which is determined based on quoted prices for similar contracts.

We account for certain of our derivative instruments under hedge accounting provided we meet designation, documentary and analytic requirements. Hedge accounting creates the potential for a Consolidated Statement of Operations match between the changes in fair value of derivatives and the changes in the cost of the associated underlying transactions, in this case translation gain or loss. The effective portion of the change in the fair value of these foreign currency exchange contracts is reported in Accumulated other comprehensive loss, a component of stockholders' equity, and is recognized as an adjustment to Other income, net, in the same period the related expenses are recognized in earnings. Ineffectiveness would occur when changes in the market value of the hedged transactions are not completely offset by changes in the market value of the derivatives. The ineffective portion of contracts designated for hedge accounting, the gain or loss from changes in the fair value of contracts not designated for hedge accounting and contracts where hedge accounting is discontinued when it is determined the underlying transaction is not going to occur, are recognized currently in the Consolidated Statements of Operations. Amounts due from counterparties (unrealized hedge gains) or due to counterparties (unrealized hedge losses) are included in Prepaid expenses and other current assets or other accrued expenses, respectively. Cash receipts or payments related to our derivatives are classified in the Consolidated Statements of Cash Flows as cash flows from operating activities, consistent with the related items being hedged, unless the derivative is not designated or does not qualify for hedge accounting, in which case the receipts or payments are classified in cash flows from investing activities.

At December 31, 2012, we have foreign currency exchange forward contracts outstanding which are designated as cash flow accounting hedges of currency fluctuations for a portion of our forecasted sales to certain subsidiaries, denominated in euros, British pounds, Canadian dollars and Australian dollars. These derivative instruments have remaining terms between one and twelve months. The notional amount of these foreign currency exchange forward contracts in U.S. dollars was \$31.8 million at December 31, 2012 and \$46.8 million at December 31, 2011.

We have also entered into foreign currency exchange forward contracts to manage a portion of our exposure to foreign exchange rate fluctuations on certain inter-company receivables denominated in euros, British pounds, Canadian dollars and Australian dollars. These contracts are not designated as accounting hedges and the associated underlying transactions are expected to occur within the next month. There were no such contracts outstanding at December 31, 2012. The notional amount of these contracts was \$10.8 million at December 31, 2011.

At December 31, 2012, the fair value of derivatives designated for hedge accounting of \$0.6 million was included in Accrued expenses in the Consolidated Balance Sheets. At December 31, 2011, \$1.5 million of the fair value of derivatives designated for hedge accounting was included in Prepaid expenses and other current assets and \$0.1 million was included in Accrued expenses in the Consolidated Balance Sheets.

At December 31, 2012, \$0.6 million of the existing net loss from contracts designated for hedge accounting, which is included in Accumulated other comprehensive loss, is expected to be reclassified into earnings within the next twelve months.

During the years ended December 31, 2012 and 2011, a loss of \$0.5 million and a gain of \$2.0 million, respectively, were recognized in Other income, net in the Consolidated Statements of Operations from contracts not designated for hedge accounting.

NOTE 21. SUPPLEMENTAL GUARANTOR INFORMATION

In connection with the 2019 Notes, 2020 Notes and 2022 Notes, we have included this supplemental guarantor disclosure in accordance with Rule 3-10 of Regulation S-X. The 2019 Notes, 2020 Notes, and 2022 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the following nineteen subsidiaries (together, the Guarantor Subsidiaries):

- Endo Pharmaceuticals Inc.
- Endo Pharmaceuticals Valera Inc.
- American Medical Systems Holdings, Inc.
- AMS Research Corporation
- AMS Sales Corporation
- Generics International (US Midco), Inc.
- Generics International (US), Inc.
- Generics Bidco II, LLC
- Wood Park Properties LLC
- Quartz Specialty Pharmaceuticals, LLC
- Endo Pharmaceuticals Solutions Inc.
- Ledgemont Royalty Sub LLC
- American Medical Systems, Inc.
- Laserscope
- Generics International (US Parent), Inc.
- Generics International (US Holdco), Inc.
- Generics Bidco I, LLC
- Moores Mill Properties LLC
- Vintage Pharmaceuticals, LLC

Each of the Guarantor Subsidiaries is 100 percent owned by us.

The following supplemental consolidating financial information presents the Consolidated Balance Sheets as of December 31, 2012 and 2011, the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010, the Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2012, 2011 and 2010 and the Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010, for the Guarantor Subsidiaries as a group, and separately for our non-Guarantor Subsidiaries as a group.

The Consolidating Financial Statements are presented using the equity method of accounting for investments in 100% owned subsidiaries. Under the equity method, the investments in subsidiaries are recorded at cost and adjusted for our share of the subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. The elimination entries principally eliminate investments in subsidiaries and intercompany balances and transactions. The financial information in this footnote should be read in conjunction with the Consolidated Financial Statements presented and other notes related thereto contained in this Annual Report on Form 10-K for the year ended December 31, 2012.

Subsequent to the issuance of the 2011 financial statements, the Company determined that a revision was required to correct the classification of intercompany cash transfers between Endo Pharmaceuticals Holdings, Inc. (n/k/a Endo Health Solutions Inc.) and Guarantor and Non-Guarantor Subsidiaries totaling \$85.1 million as of December 31, 2011. As a result, adjustments have been made from what was previously reported in the Consolidating Statement of Operations as of December 31, 2011. These adjustments to the 2011 Consolidating Statement of Operations resulted in a decrease to Endo Health Solution Inc.'s Dividend income from subsidiaries of \$85.1 million and a corresponding decrease in Endo Health Solution Inc.'s Income before income tax. Additionally, there was an increase of \$85.1 million in Endo Health Solutions Inc.'s Equity from earnings (loss) in subsidiaries. Each of these adjustments was offset in the Eliminations column on the Consolidating Statement of Operations. These adjustments had no effect on the total Consolidated net income or Net income attributable to Endo Health Solutions Inc. for the year ended December 31, 2011 and the change did not impact the Consolidating Balance Sheet or Consolidating Statement of Cash Flows.

CONSOLIDATING BALANCE SHEET
(In thousands)

	December 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 512	\$ 499,932	\$ 47,472	\$ —	\$ 547,916
Accounts receivable, net	—	601,967	75,752	13,131	690,850
Inventories, net	—	354,150	23,774	(20,286)	357,638
Prepaid expenses and other current assets	—	12,675	8,591	6,484	27,750
Income taxes receivable	39,503	(35,708)	32,585	109	36,489
Deferred income taxes	—	296,027	11,906	658	308,591
Total current assets	40,015	1,729,043	200,080	96	1,969,234
INTERCOMPANY RECEIVABLES	2,039,648	8,233,831	193,673	(10,467,152)	—
MARKETABLE SECURITIES	—	1,746	—	—	1,746
PROPERTY, PLANT AND EQUIPMENT, NET	—	356,427	29,573	(332)	385,668
GOODWILL	—	1,798,493	215,858	—	2,014,351
OTHER INTANGIBLES, NET	—	2,020,942	78,031	—	2,098,973
INVESTMENT IN SUBSIDIARIES	5,162,874	313,978	—	(5,476,852)	—
OTHER ASSETS	65,727	27,766	24,122	(19,028)	98,587
TOTAL ASSETS	<u>\$ 7,308,264</u>	<u>\$ 14,482,226</u>	<u>\$ 741,337</u>	<u>\$ (15,963,268)</u>	<u>\$ 6,568,559</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ 90	\$ 410,532	\$ 6,492	\$ (232)	\$ 416,882
Accrued expenses	31,981	1,096,261	42,708	(5)	1,170,945
Current portion of long-term debt	131,250	906	1,842	—	133,998
Acquisition-related contingent consideration	—	6,195	—	—	6,195
Total current liabilities	163,321	1,513,894	51,042	(237)	1,728,020
INTERCOMPANY PAYABLES	3,031,742	7,351,093	84,317	(10,467,152)	—
DEFERRED INCOME TAXES	5,314	512,118	(867)	—	516,565
ACQUISITION-RELATED CONTINGENT CONSIDERATION	—	2,729	—	—	2,729
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,035,031	—	2,916	—	3,037,947
OTHER LIABILITIES	—	159,319	9,800	(19,027)	150,092
STOCKHOLDERS' EQUITY:					
Preferred Stock	—	—	—	—	—
Common Stock	1,400	—	30,430	(30,430)	1,400
Additional paid-in capital	1,035,115	4,195,802	571,928	(4,767,730)	1,035,115
Retained earnings (deficit)	811,573	754,551	(70,203)	(684,348)	811,573
Accumulated other comprehensive (loss) income	(6,802)	(7,280)	1,624	5,656	(6,802)
Treasury stock	(768,430)	—	—	—	(768,430)
Total Endo Health Solutions Inc. stockholders' equity	1,072,856	4,943,073	533,779	(5,476,852)	1,072,856
Noncontrolling interests	—	—	60,350	—	60,350
Total stockholders' equity	<u>1,072,856</u>	<u>4,943,073</u>	<u>594,129</u>	<u>(5,476,852)</u>	<u>1,133,206</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,308,264</u>	<u>\$ 14,482,226</u>	<u>\$ 741,337</u>	<u>\$ (15,963,268)</u>	<u>\$ 6,568,559</u>

CONSOLIDATING BALANCE SHEET
(In thousands)

	December 31, 2011				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 48,318	\$ 455,756	\$ 43,546	\$ —	\$ 547,620
Accounts receivable, net	—	656,265	74,584	2,373	733,222
Inventories, net	—	248,128	19,918	(5,627)	262,419
Prepaid expenses and other current assets	—	19,274	7,004	3,454	29,732
Deferred income taxes	—	205,606	9,497	—	215,103
Total current assets	48,318	1,585,029	154,549	200	1,788,096
INTERCOMPANY RECEIVABLES	1,777,233	7,322,603	193,223	(9,293,059)	—
MARKETABLE SECURITIES	—	19,105	—	—	19,105
PROPERTY, PLANT AND EQUIPMENT, NET	—	268,572	29,469	(310)	297,731
GOODWILL	—	2,303,940	254,101	—	2,558,041
OTHER INTANGIBLES, NET	—	2,415,531	88,593	—	2,504,124
INVESTMENT IN SUBSIDIARIES	5,860,570	317,544	—	(6,178,114)	—
OTHER ASSETS	87,099	27,338	31,049	(20,000)	125,486
TOTAL ASSETS	<u>\$ 7,773,220</u>	<u>\$ 14,259,662</u>	<u>\$ 750,984</u>	<u>\$ (15,491,283)</u>	<u>\$ 7,292,583</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ —	\$ 251,715	\$ 8,667	\$ 3	\$ 260,385
Accrued expenses	38,623	651,653	42,558	(3)	732,831
Current portion of long-term debt	84,376	972	2,917	—	88,265
Acquisition-related contingent consideration	—	4,925	—	—	4,925
Income taxes payable	(23,204)	71,900	(13,214)	(110)	35,372
Total current liabilities	99,795	981,165	40,928	(110)	1,121,778
INTERCOMPANY PAYABLES	2,267,572	6,978,697	46,790	(9,293,059)	—
DEFERRED INCOME TAXES	6,573	611,625	(521)	—	617,677
ACQUISITION-RELATED CONTINGENT CONSIDERATION	—	3,762	—	—	3,762
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,421,590	—	2,739	—	3,424,329
OTHER LIABILITIES	—	94,915	10,531	(20,000)	85,446
STOCKHOLDERS' EQUITY:					
Preferred Stock	—	—	—	—	—
Common Stock	1,383	—	30,430	(30,430)	1,383
Additional paid-in capital	952,325	4,198,625	574,218	(4,772,843)	952,325
Retained earnings (deficit)	1,551,910	1,398,613	(15,364)	(1,383,249)	1,551,910
Accumulated other comprehensive loss	(9,436)	(7,740)	(668)	8,408	(9,436)
Treasury stock	(518,492)	—	—	—	(518,492)
Total Endo Health Solutions Inc. stockholders' equity	1,977,690	5,589,498	588,616	(6,178,114)	1,977,690
Noncontrolling interests	—	—	61,901	—	61,901
Total stockholders' equity	<u>1,977,690</u>	<u>5,589,498</u>	<u>650,517</u>	<u>(6,178,114)</u>	<u>2,039,591</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,773,220</u>	<u>\$ 14,259,662</u>	<u>\$ 750,984</u>	<u>\$ (15,491,283)</u>	<u>\$ 7,292,583</u>

CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

	Year Ended December 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES	\$ —	\$ 2,769,215	\$ 355,752	\$ (97,604)	\$ 3,027,363
COSTS AND EXPENSES:					
Cost of revenues	—	1,131,412	221,554	(91,873)	1,261,093
Selling, general and administrative	—	813,805	85,109	(67)	898,847
Research and development	—	218,840	7,280	—	226,120
Patent litigation settlement, net	—	85,123	—	—	85,123
Litigation-related and other contingencies	—	316,425	—	—	316,425
Asset impairment charges	—	715,551	52,916	—	768,467
Acquisition-related and integration items, net	—	19,412	3,603	—	23,015
OPERATING LOSS	—	(531,353)	(14,710)	(5,664)	(551,727)
INTEREST EXPENSE, NET	45,699	137,096	39	—	182,834
NET LOSS ON EXTINGUISHMENT OF DEBT	7,215	—	—	—	7,215
OTHER (INCOME) EXPENSE, NET	—	(14,720)	5,645	8,882	(193)
LOSS BEFORE INCOME TAX	(52,914)	(653,729)	(20,394)	(14,546)	(741,583)
INCOME TAX	(18,581)	(13,233)	(17,871)	(3,877)	(53,562)
EQUITY FROM LOSS IN SUBSIDIARIES	(706,004)	(3,566)	—	709,570	—
CONSOLIDATED NET LOSS	(740,337)	(644,062)	(2,523)	698,901	(688,021)
Less: Net income attributable to noncontrolling interests	—	—	52,316	—	52,316
NET LOSS ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ (740,337)	\$ (644,062)	\$ (54,839)	\$ 698,901	\$ (740,337)

CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

	Year Ended December 31, 2011				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES	\$ —	\$ 2,580,530	\$ 280,431	\$ (130,840)	\$ 2,730,121
COSTS AND EXPENSES:					
Cost of revenues	—	1,033,334	164,775	(132,901)	1,065,208
Selling, general and administrative	58	753,855	59,372	(14)	813,271
Research and development	—	182,333	(47)	—	182,286
Litigation-related and other contingencies	—	—	11,263	—	11,263
Asset impairment charges	—	116,089	—	—	116,089
Acquisition-related and integration items, net.....	(7,050)	39,734	954	—	33,638
OPERATING INCOME.....	6,992	455,185	44,114	2,075	508,366
INTEREST EXPENSE, NET.....	38,908	109,060	56	—	148,024
NET LOSS ON EXTINGUISHMENT OF DEBT	11,919	—	—	—	11,919
OTHER INCOME, NET	—	(2,812)	(580)	124	(3,268)
(LOSS) INCOME BEFORE INCOME TAX.....	(43,835)	348,937	44,638	1,951	351,691
INCOME TAX.....	(18,245)	129,673	(2,580)	778	109,626
EQUITY FROM INCOME IN SUBSIDIARIES.....	213,203	1,548	—	(214,751)	—
CONSOLIDATED NET INCOME.....	\$ 187,613	\$ 220,812	\$ 47,218	\$ (213,578)	\$ 242,065
Less: Net income attributable to noncontrolling interests	—	—	54,452	—	54,452
NET INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 187,613	\$ 220,812	\$ (7,234)	\$ (213,578)	\$ 187,613

CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

	Year Ended December 31, 2010				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES.....	\$ —	\$ 1,633,328	\$ 102,144	\$ (19,243)	\$ 1,716,229
COSTS AND EXPENSES:					
Cost of revenues	—	470,339	53,661	(19,243)	504,757
Selling, general and administrative	61	530,143	17,401	—	547,605
Research and development	—	144,525	—	—	144,525
Asset impairment charges	—	35,000	—	—	35,000
Acquisition-related and integration items, net...	(42,970)	46,635	15,311	—	18,976
OPERATING INCOME	42,909	406,686	15,771	—	465,366
INTEREST EXPENSE (INCOME), NET	23,953	22,681	(33)	—	46,601
OTHER INCOME, NET	—	(1,427)	(506)	—	(1,933)
INCOME BEFORE INCOME TAX	18,956	385,432	16,310	—	420,698
INCOME TAX	(7,985)	145,272	(3,609)	—	133,678
EQUITY FROM INCOME IN SUBSIDIARIES	232,065	—	—	(232,065)	—
CONSOLIDATED NET INCOME	\$ 259,006	\$ 240,160	\$ 19,919	\$ (232,065)	\$ 287,020
Less: Net income attributable to noncontrolling interests	—	—	28,014	—	28,014
NET INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 259,006	\$ 240,160	\$ (8,095)	\$ (232,065)	\$ 259,006

CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME
(In thousands)

	Year Ended December 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET LOSS	\$ (740,337)	\$ (644,062)	\$ (2,523)	\$ 698,901	\$ (688,021)
OTHER COMPREHENSIVE INCOME	2,634	460	2,292	(2,752)	2,634
CONSOLIDATED COMPREHENSIVE LOSS..	<u>(737,703)</u>	<u>(643,602)</u>	<u>(231)</u>	<u>696,149</u>	<u>(685,387)</u>
Less: Comprehensive income attributable to noncontrolling interests	<u>—</u>	<u>—</u>	<u>52,316</u>	<u>—</u>	<u>52,316</u>
COMPREHENSIVE LOSS ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	<u>\$ (737,703)</u>	<u>\$ (643,602)</u>	<u>\$ (52,547)</u>	<u>\$ 696,149</u>	<u>\$ (737,703)</u>

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31, 2011				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET INCOME	\$ 187,613	\$ 220,812	\$ 47,218	\$ (213,578)	\$ 242,065
OTHER COMPREHENSIVE LOSS	(8,275)	(6,579)	(668)	7,247	(8,275)
CONSOLIDATED COMPREHENSIVE INCOME	179,338	214,233	46,550	(206,331)	233,790
Less: Comprehensive income attributable to noncontrolling interests	—	—	54,452	—	54,452
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.....	<u>\$ 179,338</u>	<u>\$ 214,233</u>	<u>\$ (7,902)</u>	<u>\$ (206,331)</u>	<u>\$ 179,338</u>

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31, 2010				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET INCOME	\$ 259,006	\$ 240,160	\$ 19,919	\$ (232,065)	\$ 287,020
OTHER COMPREHENSIVE INCOME	720	720	—	(720)	720
CONSOLIDATED COMPREHENSIVE INCOME	259,726	240,880	19,919	(232,785)	287,740
Less: Comprehensive income attributable to noncontrolling interests	—	—	28,014	—	28,014
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.....	<u>\$ 259,726</u>	<u>\$ 240,880</u>	<u>\$ (8,095)</u>	<u>\$ (232,785)</u>	<u>\$ 259,726</u>

CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash provided by operating activities.....\$	43,094	\$ 649,475	\$ 41,310	\$ —	\$ 733,879
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment.....	—	(84,621)	(15,197)	—	(99,818)
Proceeds from sale of property, plant and equipment.....	—	132	1,294	—	1,426
Acquisitions, net of cash acquired.....	—	—	(3,175)	—	(3,175)
Proceeds from investments.....	—	18,800	—	—	18,800
License fees.....	—	(5,000)	(700)	—	(5,700)
Net cash used in investing activities.....	—	(70,689)	(17,778)	—	(88,467)
FINANCING ACTIVITIES:					
Capital lease obligations repayments	—	(661)	(198)	—	(859)
Principal payments on Term Loans.....	(362,075)	—	—	—	(362,075)
Payment on AMS Convertible Notes	—	(66)	—	—	(66)
Principal payments on other indebtedness	—	—	(899)	—	(899)
Tax benefits of stock awards	—	4,949	—	—	4,949
Exercise of Endo Health Solutions Inc. stock options.....	19,358	—	—	—	19,358
Purchase of common stock.....	(256,000)	—	—	—	(256,000)
Issuance of common stock from treasury.....	6,062	—	—	—	6,062
Cash distributions to noncontrolling interests ...	—	—	(53,269)	—	(53,269)
Cash buy-out of noncontrolling interests, net of cash contributions	—	—	(2,748)	—	(2,748)
Intercompany activity.....	501,755	(538,832)	37,077	—	—
Net cash used in financing activities	(90,900)	(534,610)	(20,037)	—	(645,547)
Effect of foreign exchange rate	—	—	431	—	431
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.....	(47,806)	44,176	3,926	—	296
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	48,318	455,756	43,546	—	547,620
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 512	\$ 499,932	\$ 47,472	\$ —	\$ 547,916

CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2011				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash provided by operating activities.....	\$ 64,311	\$ 577,150	\$ 60,654	\$ —	\$ 702,115
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment.....	—	(49,895)	(9,488)	—	(59,383)
Proceeds from sale of property, plant and equipment.....	—	345	1,281	—	1,626
Acquisitions, net of cash acquired.....	—	(2,341,143)	(52,254)	—	(2,393,397)
Proceeds from investments.....	—	85,025	—	—	85,025
Purchases of investments.....	—	(14,025)	—	—	(14,025)
Other investments.....	—	(4,628)	—	—	(4,628)
License fees.....	—	(2,300)	—	—	(2,300)
Proceeds from sale of business.....	—	—	12,990	—	12,990
Intercompany activity.....	—	(30,430)	—	30,430	—
Net cash used in investing activities.....	—	(2,357,051)	(47,471)	30,430	(2,374,092)
FINANCING ACTIVITIES:					
Capital lease obligations repayments.....	—	(1,212)	(232)	—	(1,444)
Proceeds from issuance of 2019 and 2022 Notes...	900,000	—	—	—	900,000
Proceeds from issuance of Term Loans.....	2,200,000	—	—	—	2,200,000
Proceeds from other indebtedness.....	—	—	500	—	500
Principal payments on Term Loans.....	(689,876)	—	—	—	(689,876)
Payment on AMS Convertible Notes.....	—	(519,040)	—	—	(519,040)
Deferred financing fees.....	(82,504)	—	—	—	(82,504)
Payment for contingent consideration.....	—	—	(827)	—	(827)
Tax benefits of stock awards.....	—	6,145	(236)	—	5,909
Exercise of Endo Health Solutions Inc. stock options.....	28,954	—	—	—	28,954
Purchase of common stock.....	(34,702)	—	—	—	(34,702)
Cash distributions to noncontrolling interests.....	—	—	(53,997)	—	(53,997)
Cash buy-out of noncontrolling interests, net of cash contributions.....	—	—	(292)	—	(292)
Intercompany activity.....	(2,383,265)	2,345,595	68,100	(30,430)	—
Net cash (used in) provided by financing activities.....	(61,393)	1,831,488	13,016	(30,430)	1,752,681
Effect of foreign exchange rate.....	—	—	702	—	702
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	2,918	51,587	26,901	—	81,406
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	45,400	404,169	16,645	—	466,214
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 48,318	\$ 455,756	\$ 43,546	\$ —	\$ 547,620

CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2010				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash provided by operating activities.....	\$ 15,435	\$ 179,754	\$ 258,457	\$ —	\$ 453,646
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment.....	—	(15,500)	(4,391)	—	(19,891)
Proceeds from sale of property, plant and equipment.....	—	356	—	—	356
Acquisitions, net of cash acquired.....	—	(896,966)	(208,074)	—	(1,105,040)
Proceeds from sales of trading securities	—	231,125	—	—	231,125
Other investments.....	—	(2,473)	—	—	(2,473)
License fees.....	—	(400)	—	—	(400)
Net cash used in investing activities.....	—	(683,858)	(212,465)	—	(896,323)
FINANCING ACTIVITIES:					
Capital lease obligations repayments	—	(313)	—	—	(313)
Proceeds from issuance of 2020 Notes.....	386,576	—	—	—	386,576
Proceeds from issuance of Term Loans.....	400,000	—	—	—	400,000
Proceeds from other indebtedness	—	1,696	—	—	1,696
Principal payments on HealthTronics, Inc. senior credit facility	—	(40,000)	—	—	(40,000)
Principal payments on Qualitest Pharmaceuticals debt.....	—	(406,758)	—	—	(406,758)
Principal payments on other indebtedness.....	—	(61,559)	—	—	(61,559)
Deferred financing fees	(13,563)	—	—	—	(13,563)
Tax benefits of stock awards	—	1,944	—	—	1,944
Exercise of Endo Health Solutions Inc. stock options	20,883	—	—	—	20,883
Purchase of common stock	(58,974)	—	—	—	(58,974)
Cash distributions to noncontrolling interests	—	—	(28,870)	—	(28,870)
Cash buy-out of noncontrolling interests, net of cash contributions.....	—	—	(633)	—	(633)
Intercompany activity.....	(747,543)	747,543	—	—	—
Net cash (used in) provided by financing activities	(12,621)	242,553	(29,503)	—	200,429
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,814	(261,551)	16,489	—	(242,248)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	42,586	665,720	156	—	708,462
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 45,400	\$ 404,169	\$ 16,645	\$ —	\$ 466,214

NOTE 22. SUBSEQUENT EVENTS

Long-Term Incentive Compensation

In early 2013, long-term incentive compensation in the form of stock options and restricted stock units were granted to employees. Stock options will generally vest over 4 years and expire 10 years from the date of the grant. Restricted stock units will vest over 4 years. The exercise price of the options granted was equal to the closing price on the dates of grant. The grant date fair value of the stock options and restricted stock units granted was approximately \$31.7 million.

Appointment of New President and Chief Executive Officer

On February 25, 2013, the Company announced the appointment of Mr. Rajiv De Silva to the position of President and Chief Executive Officer of the Registrant, effective March 18, 2013, which will be the effective date of David P. Holveck's retirement. Mr. De Silva will also be appointed to the Board effective March 18, 2013, which is the effective date of Mr. Holveck's resignation from the Board. In connection with Mr. De Silva's appointment as President and Chief Executive Officer of the Company, he entered into an executive employment agreement, effective as of March 18, 2013.

NOTE 23. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share data)			
2012(1)				
Total revenues.....	\$ 690,633	\$ 785,188	\$ 750,482	\$ 801,060
Gross profit.....	\$ 325,813	\$ 490,618	\$ 456,215	\$ 493,624
Operating (loss) income.....	\$ (61,078)	\$ 70,153	\$ 143,516	\$ (704,318)
Net (loss) income attributable to Endo Health Solutions Inc.....	\$ (87,345)	\$ 9,465	\$ 53,809	\$ (716,266)
Net (loss) income per share attributable to Endo Health Solutions Inc. (basic).....	\$ (0.75)	\$ 0.08	\$ 0.46	\$ (6.35)
Net (loss) income per share attributable to Endo Health Solutions Inc. (diluted).....	\$ (0.75)	\$ 0.08	\$ 0.45	\$ (6.35)
Weighted average shares (basic).....	117,052	116,992	116,022	112,811
Weighted average shares (diluted).....	117,052	121,080	119,579	112,811
2011(2)				
Total revenues.....	\$ 560,026	\$ 607,611	\$ 759,078	\$ 803,406
Gross profit.....	\$ 328,468	\$ 370,914	\$ 456,906	\$ 508,625
Operating income.....	\$ 120,879	\$ 134,315	\$ 140,154	\$ 113,018
Net income attributable to Endo Health Solutions Inc.....	\$ 55,787	\$ 54,583	\$ 40,649	\$ 36,594
Net income per share attributable to Endo Health Solutions Inc. (basic).....	\$ 0.48	\$ 0.47	\$ 0.35	\$ 0.31
Net income per share attributable to Endo Health Solutions Inc. (diluted).....	\$ 0.46	\$ 0.44	\$ 0.34	\$ 0.30
Weighted average shares (basic).....	116,354	116,663	116,816	116,992
Weighted average shares (diluted).....	120,761	122,686	120,847	120,418

- (1) Operating income for the year ended December 31, 2012 was impacted by (1) milestone payments to collaborative partners of \$45.8 million, \$5.7 million, \$5.3 million and \$3.9 million in the first, second, third and fourth quarters, respectively (2) acquisition-related and integration items, net of \$3.7 million, \$7.1 million, \$5.8 million and \$6.4 million during the first, second, third and fourth quarters, respectively (3) asset impairment charges of \$40.0 million, \$3.0 million, \$11.2 million and \$714.3 million during the first, second, third and fourth quarters, respectively (4) net inventory step-up of \$1.3 million and \$(0.4) million in the first and second quarters, respectively (5) amortization expense relating to intangible assets of \$53.5 million, \$58.7 million, \$58.9 million and \$56.8 million during the first, second, third and fourth quarters, respectively (6) certain integration costs and separation benefits incurred in connection with continued efforts to enhance the company's operations and other miscellaneous costs of \$11.6 million, \$3.8 million, \$11.6 million and \$20.1 million during the first, second, third and fourth quarters, respectively and (7) other charges related to litigation-related and other contingent matters totaling \$110.0 million, \$131.4 million, \$30.4 million and \$231.8 million during the first, second, third and fourth quarters, respectively.

- (2) Operating income for the year ended December 31, 2011 was impacted by (1) milestone payments to collaborative partners of \$11.0 million, \$14.0 million, \$2.4 million and \$0.8 million in the first, second, third and fourth quarters, respectively (2) acquisition-related and integration items, net of \$6.1 million, \$17.6 million, \$5.8 million and \$4.1 million during the first, second, third and fourth quarters, respectively (3) asset impairment charges of \$22.7 million and \$93.4 million during the third and fourth quarters, respectively (4) net inventory step-up of \$13.8 million, \$3.0 million, \$23.9 million and \$8.7 million in the first, second, third and fourth quarters, respectively (5) amortization expense relating to intangible assets of \$37.4 million, \$40.6 million, \$59.0 million and \$54.6 million during the first, second, third and fourth quarters, respectively (6) certain integration costs and separation benefits incurred in connection with continued efforts to enhance the company's operations of \$3.5 million, \$0.5 million, \$13.6 million and \$4.2 million during the first, second, third and fourth quarters, respectively and (7) other charges related to litigation-related and other contingent matters totaling \$11.3 million during the fourth quarter.

Quarterly and year to date computations of per share amounts are made independently; therefore, the sum of the per share amounts for the quarters may not equal the per share amounts for the year.

APPENDIX “H”

MANAGEMENT’S DISCUSSION AND ANALYSIS OF ENDO IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS OF ENDO

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) describes the principal factors affecting the results of operations, liquidity and capital resources, and critical accounting estimates at Endo. This discussion should be read in conjunction with our audited Consolidated Financial Statements and related notes thereto. Except for the historical information contained in this Report, including the following discussion, this Report contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements” beginning on page 1 of this Report.

EXECUTIVE SUMMARY

About the Company

At our Annual Meeting of Stockholders on May 23, 2012, our stockholders approved the proposal to amend and restate our Amended and Restated Certificate of Incorporation to change our name from Endo Pharmaceuticals Holdings Inc. to Endo Health Solutions Inc., which we refer to herein as “Endo”, “we”, “us”, or the “Company”. This change became effective on May 23, 2012. Concurrently with this change, the Company also changed the names of its business segments. Effective May 23, 2012, the names of our business segments are Endo Pharmaceuticals (formerly Branded Pharmaceuticals), Qualitest (formerly Generics), AMS (formerly Devices) and HealthTronics (formerly Services).

Endo Health Solutions Inc. is a U.S. based, specialty healthcare solutions company with a diversified business model, operating in four key business segments—Endo Pharmaceuticals, Qualitest, AMS and HealthTronics. Our Endo Pharmaceuticals and Qualitest segments offer a variety of branded and generic pharmaceutical products in multiple therapeutic areas. AMS provides technology solutions to physicians treating men's and women's pelvic health conditions. Finally, HealthTronics provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics. As a combined entity, we deliver comprehensive healthcare solutions across our diversified businesses in key therapeutic areas, including pain and urology, and believe we are positioned to address the changing economics that are driving the continued transformation of the U.S. healthcare environment.

We believe our diversified business model enables us to strengthen our partnerships with providers, payers and patients by offering multiple products and platforms to deliver healthcare solutions. We have a portfolio of branded pharmaceuticals that includes established brand names such as Lidoderm[®], Opana[®] ER, Voltaren[®] Gel, Percocet[®], Frova[®], Supprelin[®] LA, Vantas[®], Valstar[®] and Fortesta[®] Gel. Endo Pharmaceuticals comprised approximately 55% of our total revenues in 2012, with 31% of our revenues coming from Lidoderm[®]. Our non-branded Qualitest portfolio, which accounted for 21% of total revenues in 2012, currently consists of products primarily focused in pain management. We generally focus on selective generics that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. Our AMS segment accounted for 17% of total revenues in 2012 and our HealthTronics segment accounted for the remaining 2012 revenue.

Business Environment

The Company conducts its business within the pharmaceutical, devices, and healthcare services industries, which are highly competitive and subject to numerous government regulations. Many competitive factors may significantly affect the Company’s sales of its products and services, including efficacy, safety, price and cost-effectiveness, marketing effectiveness, product labeling, quality control and quality assurance at our and our third-party manufacturing operations and research and development of new products. To compete successfully for business in the healthcare industry, the Company must demonstrate that its products and services offer medical benefits as well as cost advantages. Currently, most of the Company’s products compete with other products already on the market in the same therapeutic category, and are subject to potential competition from new products that competitors may introduce in the future. Generic competition is one of the Company’s leading challenges. Similarly, the Company competes with other providers with respect to the devices and services we offer, as well as providers of alternative treatments.

In the pharmaceutical industry, the majority of an innovative product’s commercial value is usually realized during the period that the product has market exclusivity. When a product loses exclusivity, it is no longer protected by a patent and is

subject to new competing products in the form of generic brands. Upon loss of exclusivity, the Company can lose a major portion of that product's sales in a short period of time. Intellectual property rights have increasingly come under attack in the current healthcare environment. Generic drug firms continue to file Abbreviated New Drug Applications (ANDAs) seeking to market generic forms of certain of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending the patent claims challenged in ANDA filings, the generic firms will then introduce generic versions of the product at issue, resulting in the potential for substantial market share and revenue losses for that product. For a complete description of legal proceedings, see Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The healthcare industry is subject to various government-imposed regulations authorizing prices or price controls that have and will continue to have an impact on the Company's sales. The U.S. Congress and some state legislatures have considered a number of proposals and have enacted laws that could result in major changes in the current healthcare system, either nationally or at the state level. Driven in part by budget concerns, Medicaid access and reimbursement restrictions have been implemented in some states and proposed in many others. In addition, the Medicare Prescription Drug Improvement and Modernization Act provides outpatient prescription drug coverage to senior citizens in the U.S. This legislation has had a modest favorable impact on the Company as a result of an increase in the number of seniors with drug coverage. At the same time, there continues to be a potential negative impact on the U.S. pharmaceutical business that could result from pricing pressures or controls.

The growth of Managed Care Organizations (MCOs) in the U.S. has increased competition in the healthcare industry. MCOs seek to reduce healthcare expenditures for participants by making volume purchases and entering into long-term contracts to negotiate discounts with various pharmaceutical providers. Because of the market potential created by the large pool of participants, marketing prescription drugs to MCOs has become an important part of the Company's strategy. Companies compete for inclusion in MCO formularies and the Company generally has been successful in having its major products included. The Company believes that developments in the managed care industry, including continued consolidation, have had and will continue to have a generally downward pressure on prices.

Changes in the behavior and spending patterns of purchasers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the frequency of physician visits and foregoing health care insurance coverage, as a result of the current global economic downturn may impact the Company's business.

Pharmaceutical production processes are complex, highly regulated and vary widely from product to product. In addition to our pharmaceutical manufacturing operations at our Qualitest Pharmaceuticals locations, we contract with various third party manufacturers and suppliers to provide us with raw materials used in our products and finished goods. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG, Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc., Grünenthal GMBH and Sharp Corporation. Shifting or adding manufacturing capacity can be a lengthy process that could require significant expenditures and regulatory approvals. If for any reason we are unable to continue our internal manufacturing operations or obtain sufficient quantities of any of the finished goods or raw materials or components required for our products, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Healthcare Reform

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act, comprehensive healthcare reform legislation. On March 30, 2010, the President signed H.R. 4872, the Health Care and Education Reconciliation Act of 2010 (Reconciliation Act), which included a package of changes to the PPACA, as well as additional elements to reform health care in the U.S.

While some provisions of the new healthcare reform law have already taken effect, most of the provisions to expand access to health care coverage will not be implemented until 2014 and beyond. Since implementation is incremental to the enactment date of the law, there are still many challenges and uncertainties ahead. Such a comprehensive reform measure will require expanded implementation efforts on the part of federal and state agencies embarking on rule-making to develop the specific components of their new authority.

In March 2012, the U.S. Supreme Court addressed challenges to the constitutionality of the health care reform law. The Court considered the constitutionality of the individual mandate, as well as whether the overall health care law could still stand even if the individual mandate was ruled unconstitutional. On June 28, 2012, the Supreme Court upheld the individual mandate. In its ruling, the Court did address the expansion of Medicaid required under the law, a provision that requires

states to expand Medicaid to approximately 17 million additional low-income individuals up to 133 percent of the federal poverty level. Under the law, the federal government would pay the additional costs for the expansion of Medicaid for the years 2014 to 2016 and then the federal share would phase down to 90 percent by 2020. The law provided that if a state did not expand its Medicaid program eligibility to 133 percent, it would risk losing the federal share for all its Medicaid funding and not just the funding for the expansion. On this matter, the Supreme Court upheld the constitutionality of the Medicaid expansion but ruled that the punitive aspects of the provision are unconstitutional meaning that the federal government does not have the authority to terminate existing federal funding for Medicaid if the states do not expand Medicaid. This aspect of the ruling may cause some states to refuse to expand Medicaid eligibility thereby limiting the number of individuals with access to health insurance.

The implementation of the healthcare reform law will result in a transformation of the delivery and payment for health care services in the U.S., including the expansion of health insurance coverage to an estimated 32 million Americans. In addition, there are significant health insurance reforms that are expected to improve patients' ability to obtain and maintain health insurance. Such measures include: the elimination of lifetime caps; no rescission of policies; and no denial of coverage due to preexisting conditions. The expansion of healthcare insurance and these additional market reforms should result in greater access to the Company's products.

Our estimate of the overall impact of healthcare reform reflects a number of uncertainties. However, we believe that the impact to our business will be largely attributable to changes in the Medicare Part D Coverage Gap, the imposition of an annual fee on branded prescription pharmaceutical manufacturers, and increased rebates in the Medicaid Fee-For-Service Program and Medicaid Managed Care plans. There are a number of other provisions in the legislation that collectively are expected to have a small impact, including originator average manufacturers' price (AMP) for new formulations, an excise tax on manufactured or imported medical devices offered for sale in the U.S., and the expansion of 340B pricing to new entities. Certain elements of healthcare reform reduced total revenues by approximately \$40 million in 2011 and have had and will continue to have a similar impact in future years.

In the U.S., the Medicare Prescription Drug Improvement and Modernization Act of 2003 continues to provide an effective prescription drug benefit to seniors and individuals with disabilities in the Medicare program (Medicare Part D). Uncertainty will continue to exist due to Congressional proposals that have the potential to impose new costs and increase pricing pressures on the pharmaceutical industry.

In response to the U.S. debt-ceiling crisis, Congress passed the Budget Control Act of 2011 on August 2, 2011. Within the Act, Congress created the Joint Select Committee on Deficit Reduction (JSC), which was charged with issuing a formal recommendation on how to reduce the federal deficit by \$1.2 trillion to \$1.5 trillion over the next ten years. The Budget Control Act provided that if Congress failed to pass a deficit reduction plan by December 23, 2011, a process of sequestration would occur on January 1, 2013 which would result in across-the-board spending cuts to certain government programs, including Medicare, in order to meet the deficit reduction goal. Since the JSC failed to put forth a proposal and Congress ultimately failed to pass a deficit reduction plan, the sequestration process was scheduled to be triggered on January 2, 2013. However, Congress was able to avert sequestration when it passed the American Taxpayer Relief Act of 2012 (H.R. 8). This law delays the sequestration from January 2, 2013 until March 1, 2013. The automatic spending cuts that would occur as a result of the sequestration process are unpalatable for many lawmakers and Congress may use the 2013 session to consider repealing the cuts by finding savings in other programs, such as Medicaid.

Governmental Regulation

Pharmaceutical products. The development, testing, manufacture, holding, packaging, labeling, distribution, marketing, and sales of our products and our ongoing product development activities are subject to extensive and rigorous government regulation. The Federal Food, Drug and Cosmetic Act (FFDCA), the Controlled Substances Act and other federal and state statutes and regulations govern or influence the testing, manufacture, packaging, labeling, storage, record keeping, approval, advertising, promotion, sale and distribution of pharmaceutical products. Noncompliance with applicable requirements can result in fines, recall or seizure of products, total or partial suspension of production and/or distribution, refusal of the government to enter into supply contracts or to approve NDAs and ANDAs, civil penalties and criminal prosecution.

FDA approval is typically required before each dosage form or strength of any new drug can be marketed. Applications for FDA approval to market a drug must contain information relating to efficacy, safety, toxicity, pharmacokinetics, product formulation, raw material suppliers, stability, manufacturing processes, packaging, labeling, and quality control. The FDA also has the authority to require post-approval testing after marketing has begun and to suspend or revoke previously granted

drug approvals. Product development and approval within this regulatory framework requires many years and involves the expenditure of substantial resources.

Based on scientific developments, post-market experience, or other legislative or regulatory changes, the current FDA standards of review for approving new pharmaceutical products are sometimes more stringent than those that were applied in the past. Some new or evolving review standards or conditions for approval were not applied to many established products currently on the market, including certain opioid products. As a result, the FDA does not have as extensive safety databases on these products as on some products developed more recently. Accordingly, we believe the FDA has expressed an intention to develop such databases for certain of these products, including many opioids.

In particular, the FDA has expressed interest in specific chemical structures that may be present as impurities in a number of opioid narcotic active pharmaceutical ingredients, such as oxycodone, which based on certain structural characteristics and laboratory tests may indicate the potential for having mutagenic effects.

More stringent controls of the levels of these impurities have been required and may continue to be required for FDA approval of drug products containing these impurities. Also, labeling revisions, formulation or manufacturing changes and/or product modifications may be necessary for new or existing products containing such impurities. The FDA's more stringent requirements together with any additional testing or remedial measures that may be necessary could result in increased costs for, or delays in, obtaining approval for certain of our products in development. Although we do not believe that the FDA would seek to remove a currently marketed product from the market unless such mutagenic effects are believed to indicate a significant risk to patient health, we cannot make any such assurance.

We cannot determine what effect changes in the FDA's laws or regulations, when and if promulgated, or changes in the FDA's legal or regulatory interpretations or requirements, may have on our business in the future. Changes could, among other things, require expanded or different labeling, additional testing, the recall or discontinuance of certain products, additional record keeping and expanded documentation of the properties of certain products and scientific substantiation. Such changes, or new legislation, could have a material adverse effect on our business, financial condition, results of operations and cash flows. In December 2003, Congress passed measures intended to speed the process by which generic versions of brand name drugs are introduced to the market. Among other things, these measures are intended to limit regulatory delays of generic drug applications and penalize companies that reach certain agreements with makers of brand name drugs that delay the introduction of generic versions. The FTC has expressed its concern with agreements between brand and generic drug companies that may delay the introduction of a generic drug to the market, and the U.S. Supreme Court will review a case involving such agreements during the 2013 Supreme Court term. These changes and the results of the Supreme Court review could result in increased generic competition for our branded and generic products and could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, on September 27, 2007, Congress enacted the Food and Drug Administration Amendments Act of 2007 (FDAAA) that re-authorized requirements for testing drug products in children, where appropriate, which were made permanent by the Food and Drug Administration Safety and Innovation Act, which was signed into law in July 2012 and is further described below. The FDAAA also included new requirements for post-approval studies or clinical trials of drugs that are known to or that signal the potential to pose serious safety risks, and authority to require risk evaluation and mitigation strategies, or REMS to confirm that the benefits of a drug outweigh the risks of the drug, all of which may increase the time and cost necessary for new drug development as well as the cost of maintaining regulatory compliance for a marketed product.

EPI and Qualitest Pharmaceuticals sell products that are "controlled substances" as defined in the Controlled Substances Act of 1970 (CSA), which establishes certain security and record keeping requirements administered by the DEA. The DEA is concerned with the control of registered handlers of controlled substances, and with the equipment and raw materials used in their manufacture and packaging, in order to prevent loss and diversion into illicit channels of commerce. The DEA regulates controlled substances as Schedule I, II, III, IV or V substances, with Schedule I and II substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. Our Qualitest segment sells a significant amount of hydrocodone-containing products. Hydrocodone combination products are currently regulated as Schedule III substances. Pursuant to the Food and Drug Administration Safety and Innovation Act, which is further described below, Congress has required the FDA to convene a meeting to solicit advice and recommendations to assist in conducting a scientific and medical evaluation on whether to reschedule combination products containing hydrocodone. Congress is acting in response to continued reports of misuse, abuse and addiction of products containing hydrocodone. An advisory committee to take public comments on the proposed rescheduling took place on January 24-25, 2013. At this advisory committee, the FDA's Drug Safety and Risk Management Advisory Committee recommended that hydrocodone be rescheduled to Schedule II. The FDA is responsible for preparing the documentation to reschedule a drug. Upon completion, the medical and scientific evaluation and scheduling recommendation of the FDA are forwarded to the Assistant Secretary for Health (ASH) who makes the final determination on behalf of the Secretary of the Department of HHS. The medical and scientific

evaluation and the recommendation as to the appropriate schedule for the drug are then forwarded to the DEA. Should the DEA reschedule hydrocodone-containing products, it will be done through the rule-making process. A change from a Schedule III substance to a Schedule II substance could restrict patient access to needed medication. It would also require significant changes to the entire industry's supply chain from manufacturers, to wholesalers and retailers. We believe the increased burden and cost to the healthcare system would be substantial. While the briefing document published by the FDA on October 25, 2012, in advance of the advisory committee meeting suggests the FDA may not be prepared to recommend to the DEA that hydrocodone products be rescheduled to Schedule II, the FDA did, however, acknowledge that the question remains on how to reduce levels of abuse of hydrocodone combination products. As part of our expansion of our Huntsville site, we have factored in the potential for hydrocodone being rescheduled.

On February 7-8, 2013, the FDA held a public hearing to obtain information, particularly scientific evidence, such as study data or peer-reviewed analyses, on issues pertaining to the use of opioid drugs in the treatment of chronic pain. The FDA is considering a Citizen Petition filed in July 2012 by a group of physicians seeking changes to the labeling of opioid drug products relating to indications and duration of use. In considering the petition ongoing policy debate on the use of opioid medications, at the hearing, the FDA heard presentations from individuals and groups on diagnosing and understanding patient pain, and what it would mean to change or limit patient access to opioids. While it is not presently known what, if any actions the FDA may take, as a result of the Citizen Petition or the public hearing, if the FDA requires changes to the indications for use or duration of use in the labeling of opioid drug products, it could have a material adverse effect on our business, financial position, results of operations and cash flows.

Medical devices. Numerous governmental authorities, principally the FDA and comparable foreign regulatory agencies, regulate the development, testing, design, manufacturing, packaging, labeling, storage, installation, marketing, distribution and servicing of our medical devices. In Europe and certain other countries, we comply with the European Union Directives for Medical Devices and certify our compliance with the CE Mark. In other countries outside the U.S., we comply with appropriate local registration and authorization. In the U.S., under the FDCA, medical devices, such as those manufactured by AMS, Inc. and HealthTronics, Inc. are classified into Class I, II, or III depending on the degree of risk associated with each medical device and the extent of control needed to provide for safety and effectiveness. Class I includes devices with the least risk and Class III includes those with the greatest risk. Class I medical devices are subject to the FDA's general controls, which include compliance with the applicable portions of the FDA's Quality System Regulation, facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials. Class II devices are subject to the FDA's general controls and may also be subject to other special controls as deemed necessary by the FDA to provide for the safety and effectiveness of the device. Class III medical devices are subject to the FDA's general controls, special controls, and premarket approval prior to marketing.

HealthTronics, Inc. currently markets Class II medical devices, and AMS, Inc. currently markets Class I, II and III medical devices. If a device is classified as Class I or II, and if it is not exempt, its manufacturer will have to undertake the premarket notification process in order to obtain marketing clearance, also referred to as the 510(k) process. When a 510(k) is required, the manufacturer must submit to the FDA a premarket notification demonstrating that the device is "substantially equivalent" to either a device that was legally marketed prior to May 28, 1976, the date upon which the Medical Device Amendments of 1976 were enacted, or to another commercially available, similar device which was subsequently cleared through the 510(k) process. By regulation, the FDA is required to clear a 510(k) within 90 days of submission of the application. As a practical matter, clearance often takes longer, particularly if a clinical trial is required. A successful 510(k) submission results in FDA permission to market the new device.

Class III devices are approved through a Premarket Approval Application, or PMA, under which the applicant must submit data from adequate and well-controlled clinical trials to the FDA that demonstrate the safety and effectiveness of the device for its intended use(s). All of our marketed devices have been approved or cleared for marketing pursuant to a PMA or the 510(k) process. The FDA also has authority under the FDCA to require a manufacturer to conduct post-market surveillance of a Class II or Class III device. On January 3, 2012, the FDA ordered manufacturers of transvaginal surgical mesh used for pelvic organ prolapse and of single incision mini-slings for urinary incontinence, such as AMS, Inc. to conduct post-market safety studies and to monitor adverse event rates relating to the use of these products. Of the nineteen class-wide post market study orders received by AMS, Inc. for pelvic floor repair and mini-sling products, three remain active. AMS, Inc. is in the process of complying with these orders. In its orders, the FDA also noted that it is still considering the recommendation of an advisory committee on September 9, 2011, that urogynecological surgical mesh for transvaginal repair of pelvic organ prolapse be reclassified from Class II to Class III.

The FDA has broad post-market regulatory and enforcement powers with respect to medical devices, similar to those for pharmaceutical products. Failure to comply with the applicable U.S. medical device regulatory requirements could result in, among other things, warning letters, fines, injunctions, consent decrees, civil money penalties, repairs, replacements,

refunds, recalls or seizures of products, total or partial suspension of production, the FDA's refusal to grant future premarket clearances or approvals, withdrawals or suspensions of current product applications, and criminal prosecution.

On January 19, 2011, the FDA's Center for Devices and Radiological Health (CDRH) unveiled a plan of 25 action items it intended to implement during 2011 relating to the 510(k) premarket notification process for bringing medical devices to market. Among the actions the FDA indicated it plans to take were to issue guidance documents to clarify when clinical data should be submitted in support of a premarket notification submission, to clarify the review of submissions that use "multiple predicates" in a premarket notification submission, to clarify when modifications to a device require a new 510(k), and other guidance documents. The plan included other intended measures such as streamlining the review of innovative lower-risk products through the de novo review process, and establishing a Center Science Council of senior FDA experts to enhance science-based decision-making in 510(k) reviews. The FDA announced that it intended to refer to the Institute of Medicine (IOM) for further review and consideration of other significant actions, such as whether or not to define the scope and grounds for the exercise of authority to partially or fully rescind a 510(k) marketing clearance, to clarify and consolidate the concepts of "indications for use" and "intended use," to clarify when a device should no longer be available as a "predicate" to support a showing of substantial equivalence, whether to develop guidance on a new class of devices, called "class IIb," for which additional data would be necessary to support a 510(k) determination.

On July 29, 2011, the IOM released its report, which recommended that the FDA move towards replacing the current 510(k) review process, which is based on "substantial equivalence" determinations, with a new "integrated premarket and post-market regulatory framework" that provides a reasonable assurance of safety and efficacy. The IOM also recommended that the FDA prioritize enhancement of its post-market surveillance program. The IOM also stated that it was unable to study fully the seven specific actions referred to it by the FDA because the requests came at the end of its review. The FDA decided not to act on the IOM recommendation to replace the 510(k) substantial equivalence framework, but since January 2011, CDRH has issued numerous guidance documents and proposed and final regulations impacting all medical devices (PMA and 510(k)), that have the potential to significantly impact how the FDA regulates medical devices. These include issuing guidance on data requirements for pivotal clinical investigations for medical devices, on CDHR's evaluation of substantial equivalence in premarket notification 510(k) submissions, on presubmission meetings for investigation device applications (IDEs), including with regard to multiple predicate devices, and on its decisions on whether and how to approve a device clinical study, among other draft guidance. While the FDA issued and withdrew (pursuant to a requirement of the MDUFMA legislation), a draft guidance on when device modifications require a new 510(k), it plans to issue another draft guidance on device modification requirements. In addition, the FDA issued a proposed rule that would require a unique identifier on distributed devices for tracking purposes, and a final rule that revises and expands medical device registration and listing requirements. Further, pursuant to the March 2010 healthcare reform law, a medical device tax went into effect January 1, 2013, for devices listed with the FDA.

The extent and how the FDA will implement some or all of its planned action items, draft guidance and proposed and final rules is unknown at this time. These actions could have a significant effect on the cost of applying for and maintaining applications under the 510(k) clearance mechanism, on the criteria required for achieving clearance for additional uses of existing devices or new 510(k) devices, and for the marketing of medical devices.

The evolving and complex nature of regulatory requirements, the broad authority and discretion of the FDA and the generally high level of regulatory oversight results in a continuing possibility that from time to time, we will be adversely affected by regulatory actions despite ongoing efforts and commitment to achieve and maintain full compliance with all regulatory requirements.

2012—A Year in Review

Despite first quarter supply disruptions for several of our key pharmaceutical products resulting from the shutdown of a third party supplier's manufacturing facility, in 2012 we grew revenue for the fourteenth consecutive year. The Company also renamed itself Endo Health Solutions in the early part of the year to reflect the integration of our diversified operating companies and our significant transformation into a broader healthcare solutions company as a result of a series of recent strategic acquisitions and business development decisions. In March, we launched our new formulation of Opana® ER designed to be crush-resistant, which by the end of the year accounted for more than 90% of total dispensed prescriptions of Opana® ER. In May, we entered into an agreement with Watson Laboratories, Inc. settling patent litigation over Lidoderm® and thereby substantially reducing the uncertainty around the future of this product. During the year we also initiated the Phase III program for BEMA Buprenorphine for the treatment of moderate to severe chronic pain, which we expect to complete by late 2013 or early 2014.

Total revenues for the year ended December 31, 2012 increased 11% over 2011 to \$3.03 billion, with a Net loss attributable to Endo Health Solutions Inc. of \$740.3 million, or \$6.40 per diluted share, as compared to Net income attributable to Endo Health Solutions Inc. of \$187.6 million or \$1.55 per diluted share in 2011. The increase in revenues was driven by revenue growth from our Endo Pharmaceuticals, Qualitest and HealthTronics segments as well as the timing of our acquisition of AMS, Inc. during the second quarter of 2011, from which we derived a full year's revenue in 2012 compared to less than seven months in 2011. The 2012 Net loss attributable to Endo Health Solutions Inc. was primarily attributable to certain charges for asset impairments totaling \$768.5 million and certain litigation-related and other matters, including patent litigation settlement costs and the accrual for payment to Impax related to sales of Opana[®] ER, totaling \$503.5 million during 2012.

Watson Litigation Settlement

On May 28, 2012, Endo Pharmaceuticals Inc. (EPI) entered into a Settlement and License Agreement (the Watson Settlement Agreement) among EPI and Teikoku, on the one hand, and Watson, on the other hand. The Watson Settlement Agreement settled all ongoing patent litigation among the parties relating to Watson's generic version of Lidoderm[®].

On August 23, 2012, Watson announced it received FDA approval on its Abbreviated New Drug Application (ANDA) for its lidocaine patch 5%, a generic version of Lidoderm[®]. The Company anticipates Watson will launch its generic version of Lidoderm[®] on September 15, 2013 pursuant to the terms of the Watson Settlement Agreement.

For further details, see Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Litigation-Related and Other Contingencies

During 2012, we recorded total accruals in the amount of \$316.4 million for certain of our legal and other related proceedings, with respect to certain pricing litigation matters, product liability litigation, and the investigation by the HHS-OIG and the DOJ relating to the sale, marketing and promotion of Lidoderm[®]. These matters are described in more detail in Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Impax

Pursuant to the June 2010 Settlement and License Agreement (the Impax Settlement Agreement) with Impax Laboratories Inc. (Impax) the Company agreed to provide a payment to Impax should prescription sales of the non-crush resistant formulation of Opana[®] ER, as defined in the Impax Settlement Agreement, fall below a predetermined contractual threshold in the quarter immediately prior to the date on which Impax was authorized to launch its generic version of the non-crush resistant formulation of Opana[®] ER, which occurred on January 2, 2013. During the first quarter of 2012, the Novartis shut-down of its Lincoln, Nebraska manufacturing facility and resulting lack of 2012 oxymorphone active pharmaceutical ingredient (API) quota granted by the DEA to Novartis caused EPI to attempt an accelerated launch of the crush-resistant formulation of Opana[®] ER. While significant uncertainties existed throughout the first quarter of 2012 about our ability to rapidly ramp up production of the formulation designed to be crush-resistant and produce finished goods at a new, untested manufacturing facility in a very short period of time, we were able to do so in March 2012. Accordingly, the Company recognized a liability under the Impax Settlement Agreement upon the Company's sale of the formulation designed to be crush-resistant, which occurred in March 2012. The total charge of \$102.0 million was recorded in Cost of revenues in our 2012 Consolidated Financial Statements.

Pipeline Developments

BEMA[®] Buprenorphine

In January 2012, the Company signed a worldwide license and development agreement with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA[®] Buprenorphine, a transmucosal form of buprenorphine which incorporates a bioerodible mucoadhesive (BEMA[®]) technology and is currently in Phase III trials for the treatment of moderate to severe chronic pain. At this time, the Company made an upfront payment to BioDelivery for \$30.0 million, which was expensed as Research and development in the first quarter of 2012. An additional \$15.0 million payment related to the achievement of certain regulatory milestones was triggered and recorded as Research and development expense during the first quarter of 2012. We paid this amount in the second quarter of 2012. In August 2012, the Company and BioDelivery announced the initiation of the Phase III clinical program for BEMA[®]

Buprenorphine for the treatment of moderate to severe chronic pain. Both studies are anticipated to be completed by late 2013 or early 2014.

JetTouchTM / Botox[®] Co-Development Program

In June 2012, AMS, Inc. announced a co-development agreement with Allergan, Inc. to jointly develop and seek regulatory approval for the delivery of Botox[®] (onabotulinumtoxinA) using the JetTouchTM system for treatment of overactive bladder.

Recent Business Activity

Lidoderm[®]

In August 2012, the Company received a letter from the FDA, noting that it had denied our Citizen Petition (CP) related to the approval requirements for generic versions of Lidoderm[®]. Also on August 23, 2012, Watson announced it received FDA approval on its ANDA for its lidocaine patch 5%, a generic version of Lidoderm[®]. We anticipate Watson will launch its generic version of Lidoderm[®] in September of 2013 pursuant to the terms of the Company's settlement agreement with Watson.

Opana[®] ER

In December 2011, the FDA approved a formulation of Opana[®] ER designed to be crush-resistant, which is called Opana[®] ER with the same dosage strengths, color and packaging and similar tablet size. Endo transitioned to the crush-resistant formulation in March 2012 upon successfully accelerating production of this formulation. In June 2012, we announced the FDA had moved the old formulation of Opana[®] ER to the Orange Book Discontinued List in connection with our transition to the crush-resistant formulation and in September 2012, we announced that, according to IMS Health data estimates, the crush-resistant formulation of Opana[®] ER now accounts for more than 90 percent of the Opana[®] ER total prescription volume.

On August 13, 2012, EPI submitted a Citizen Petition with the FDA requesting that it (1) determine that the discontinued, non-crush-resistant version of Opana[®] ER approved under NDA No. 021610 was discontinued for safety and can no longer serve as a Reference List Drug (RLD) for an ANDA or generic applicant; (2) refuse to approve any pending ANDA for a generic version of the non-crush resistant version of Opana[®] ER approved under NDA No. 021610; and (3) suspend and withdraw the approval of any ANDA referencing Opana[®] ER approved under NDA No. 021610 as the RLD.

On August 31, 2012, EPI submitted an additional Citizen Petition requesting that the FDA (1) require that any ANDA referencing the crush-resistant formulation of Opana[®] ER contain data and information demonstrating that the proposed ANDA product is similarly crush-resistant; (2) classify extended-release opioid formulations incorporating crush-resistant technologies, such as the new Opana[®] ER, as new dosage forms in Appendix C of FDA's Orange Book; and (3) confirm that any ANDA referencing Opana[®] ER approved under NDA No. 021610 will not be identified in the Orange Book as therapeutically equivalent to the crush-resistant formulation of Opana[®] ER.

In November 2012, EPI supplemented its Citizen Petition to include emerging safety data that demonstrate that the crush-resistant formulation of Opana[®] ER is reducing rates of abuse. In January 2013, EPI received a letter from the FDA noting it had denied its August 31, 2012 Citizen Petition without comment on the merits. The FDA stated that it intends to make its determination regarding whether the original formulation of Opana[®] ER was withdrawn for safety reasons by May 2013.

From September 21, 2012 through February 6, 2013, EPI and its partner Grünenthal received Paragraph IV Notices from each of Teva Pharmaceuticals USA, Inc. (Teva), Amneal Pharmaceuticals, LLC (Amneal), Sandoz Inc. (Sandoz), Thorx Laboratories, Inc. (Thorx), Par Pharmaceuticals (Par), Actavis South Atlantic LLC (Actavis) and Impax Pharmaceuticals (Impax), advising of the filing by each such company of an ANDA for a generic version of the formulation of Opana[®] ER designed to be crush-resistant.

In December 2012, Endo launched 7.5 mg and 15 mg strengths of its crush-resistant formulation of Opana[®] ER, which is now commercially available in 5 mg, 7.5 mg, 10 mg, 15 mg, 20 mg, 30 mg and 40 mg dosage strengths.

MoXy[®] Fiber

In August 2012, the Company introduced the new 650kJ MoXy[®] fiber for our GreenLight XPS[®] system for photoselective vaporization of the prostate, which provides more than 50 percent more energy than the previous fiber for the same price. The new MoXy[®] fiber will enable physicians to treat larger glands with a single fiber, offering improved overall value and greater cost efficiency.

Montelukast Sodium Tablets

In August 2012, the Company announced it had launched its montelukast sodium tablets and chewable tablets, generic versions of Singulair[®], following the expiration of the last patent that provides Merck U.S. market exclusivity. The Company began shipping the product immediately. Montelukast sodium tablets are labeled for use in treating symptoms of asthma and allergic rhinitis. The total combined branded and generic sales for montelukast sodium tablets and chewable tablets in the U.S. for the twelve months ending June 30, 2012 were approximately \$4.9 billion, according to IMS Health.

Levetiracetam

In April 2012, Qualitest Pharmaceuticals announced it had received FDA approval on its ANDA for levetiracetam oral solution 100 mg/mL, a generic version of Keppra[®] to begin distribution in late 2012. The total sales for levetiracetam oral solution 100 mg/mL in the U.S. for the twelve months ending December 31, 2011 were approximately \$62 million, according to IMS Health. Subsequently, in July 2012, Qualitest Pharmaceuticals announced it had received FDA approval on its ANDA for levetiracetam extended-release 500 and 750 mg tablets, a generic version of Keppra XR[®]. The total sales for levetiracetam extended-release 500 and 750 mg tablets in the U.S. for the 12 months ending May 31, 2012 were approximately \$125 million, according to IMS Health.

Other

In October, Qualitest Pharmaceuticals received, through its partner Alembic Pharmaceuticals Limited, FDA approval for irbesartan tablets, a generic version of Avapro[®], irbesartan/HCTZ tablets, a generic version of Avalide[®] and modafinil tablets, a generic version of Provigil[®]. Total combined branded and generic sales for irbesartan tablets, irbesartan/HCTZ tablets and modafinil tablets in the U.S. for the 12 months ended September 30, 2012 were approximately \$1.7 billion, according to IMS Health.

In November 2012, Qualitest Pharmaceuticals received FDA approval for Gildagia[™] (ethinyl estradiol and norethindrone) tablets, 0.035 mg / 0.4 mg. Total combined branded and generic sales of these products in the U.S. for the 12 months ended December 31, 2012 were approximately \$23 million, according to IMS Health.

In December 2012, Qualitest Pharmaceuticals received FDA approval for disulfiram tablets, a generic version of Antabuse[®]. Total combined branded and generic sales of disulfiram tablets in the U.S. for the 12 months ended December 31, 2012 were approximately \$18 million, according to IMS Health.

Goodwill and Indefinite-Lived Intangible Assets Impairment Testing

During the three months ended September 30, 2012, we changed our annual goodwill and indefinite-lived intangible assets impairment test date from January 1 to October 1. The selection of October 1 as the annual testing date for the impairment of goodwill aligns the timing of the annual impairment test with the completion of our planning and budgeting process, which allows us to utilize the updated business plans that result from the budget process to estimate the fair value of our reporting units. This change necessitated completing a test as of October 1, 2012 so that no more than 12 months elapsed between annual tests. A description of the procedures and assumptions used in our goodwill and indefinite-lived intangible assets impairment testing, as well as the results of our testing, is included below under the caption "CRITICAL ACCOUNTING ESTIMATES". The impairment charges recorded as a result of our goodwill and indefinite-lived intangible assets impairment testing are described in detail below under the caption "RESULTS OF OPERATIONS".

Changes in Directors & Officers and Other Related Matters

On July 18, 2012, Endo announced the appointment of Camille Farhat as President of AMS, Inc., a wholly owned subsidiary of Endo Health Solutions Inc. Prior to joining AMS, Inc., Mr. Farhat served in a variety of senior leadership positions within the healthcare industry; most recently as General Manager of Baxter Pharmaceuticals and Technologies. As General Manager, Mr. Farhat significantly enhanced the performance and improved the operating efficiency of the business

while focusing on the needs of patients. During his time at Baxter, he also held the role of General Manager for Baxter Global Infusion Systems. Before that, Mr. Farhat provided executive leadership at Medtronic, including roles in Business Development, as well as Global General Manager, Gastroenterology and Urology. In addition, he held a variety of positions at GE Healthcare, including roles as a Global General Manager of the Computed Tomography Business. He also held leadership positions in strategic planning and global sourcing at General Electric.

On September 27, 2012, the Company increased the size of its Board of Directors from nine to ten and appointed Jill D. Smith to fill this new vacancy. Ms. Smith currently serves on the board of SoundBite Communications and is a member of the executive committee for the Women's Cancer Program at Dana Farber Hospital, and a member of the board of trustees for The Rashi School. Previously, Ms. Smith served as the chairman of the board of directors and chief executive officer of DigitalGlobe, Inc., and prior to DigitalGlobe, Ms. Smith was president and chief executive officer of eDial, chief executive officer of SRDS, L.P., as well as chief operating officer of Micron Electronics, Inc. Ms. Smith also has served on the corporate boards of Elster Group and Smith & Hawken. Ms. Smith's earlier professional experience includes co-founding Treacy & Company, LLC, a consulting and boutique investment business and holding executive positions at Sara Lee Corporation and Bain & Company.

On December 12, 2012, the Company announced that David P. Holveck will retire in 2013 as President and Chief Executive Officer. On February 25, 2013, the Company announced the appointment of Mr. Rajiv De Silva to the position of President and Chief Executive Officer of the Registrant, effective March 18, 2013, which will be the effective date of Mr. Holveck's retirement. Mr. De Silva will also be appointed to the Board effective March 18, 2013, which is the effective date of Mr. Holveck's resignation from the Board. In connection with Mr. De Silva's appointment as President and Chief Executive Officer of the Company, he entered into an executive employment agreement, effective as of March 18, 2013.

RESULTS OF OPERATIONS

The Company reported a Net loss attributable to Endo Health Solutions Inc. for the year ended December 31, 2012 of \$740.3 million or \$6.40 per diluted share on total revenues of \$3.03 billion compared with Net income attributable to Endo Health Solutions Inc. of \$187.6 million or \$1.55 per diluted share on total revenues of \$2.73 billion for the year ended December 31, 2011.

Consolidated Results Review

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Revenues. Revenues in 2012 increased 11% to \$3.03 billion from \$2.73 billion in 2011. This increase in revenues was driven by revenue growth from our Endo Pharmaceuticals, Qualitest and HealthTronics segments, as well as the timing of our acquisition of AMS, Inc. during the second quarter of 2011, from which we derived a full year's revenue during 2012, compared to less than seven months during 2011.

The following table displays our revenues by category and as a percentage of total revenues for the years ended December 31(dollars in thousands):

	2012		2011	
	\$	%	\$	%
Lidoderm®	\$ 947,680	31	\$ 825,181	30
Opana® ER	299,287	10	384,339	14
Voltaren® Gel	117,563	4	142,701	5
Percocet®	103,406	3	104,600	4
Frova®	61,341	2	58,180	2
Supprelin® LA	57,416	2	50,115	2
Other brands	91,291	3	92,651	3
Total Endo Pharmaceuticals*	\$ 1,677,984	55	\$ 1,657,767	61
Qualitest	633,265	21	566,854	21
AMS	504,487	17	300,299	11
HealthTronics	211,627	7	205,201	8
Total revenues*	\$ 3,027,363	100	\$ 2,730,121	100

* Percentages may not add due to rounding.

Lidoderm®. Net sales of Lidoderm® in 2012 increased 15% to \$947.7 million from \$825.2 million in 2011. We were required to pay Hind royalties based on net sales of Lidoderm® until this obligation expired on November 23, 2011. Hind royalties were recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm®. Due to the expiration of the Hind royalty, net sales were \$77.9 million higher during 2012, respectively, compared to 2011. Beyond this change for the Hind royalty, Lidoderm® had solid performance this year on increased scripts from 2011, and continues to generate strong cash flow that we can use to invest in our business to continue to further diversify our revenue base. Pursuant to the Watson Settlement Agreement, we expect Watson to launch its lidocaine patch 5%, a generic version of Lidoderm®, on September 15, 2013, negatively impacting future net sales of Lidoderm®.

Opana® ER. Net Sales of Opana® ER in 2012 decreased 22% to \$299.3 million from \$384.3 million in 2011. In the first half of 2012, after our first quarter supply disruption associated with the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, we transitioned to our formulation of Opana® ER, designed to be crush-resistant. While we believe our ongoing commercial efforts, which include direct and indirect sales efforts, coupon programs, education and promotion within targeted customer channels, have contributed positively to the uptake of our crush-resistant formulation, revenues since the transition have not returned to historical pre-transition levels. The decrease during 2012 compared to 2011, was driven by a combination of the reduced volumes associated with our previously discussed transition efforts as well as the direct impact of the first quarter 2012 supply disruption, which caused some patients to switch to other pain relief products. As a result of the above-referenced market disruption and increased competition within the extended release opioid category beginning in January 2013, we expect Opana® ER sales to decline in 2013. However, the extent to which our revenues will be affected is subject to a number of uncertainties including the FDA's determination regarding whether the original formulation of Opana® ER was withdrawn for safety reasons, which we expect will be decided in May 2013, as well as certain other FDA actions that could impact the ability of both branded and generic competition for Opana® ER to enter the market.

Voltaren® Gel. Net Sales of Voltaren® Gel in 2012 decreased 18% to \$117.6 million from \$142.7 million in 2011. Due to short-term Voltaren® Gel supply constraints resulting from the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, there were no sales of Voltaren® Gel during the three months ended March 31, 2012, which negatively impacted sales on a full-year basis, resulting in a sales decrease from 2012 to 2011. This decline was partially offset by the effect of the market's efforts to return stock of Voltaren® Gel to normal levels during the second quarter of 2012. Subject to FDA approval, we believe one or more competing products could potentially enter the market during the second quarter of 2014, negatively impacting future sales of Voltaren® Gel.

Percocet®. Net sales of Percocet® in 2012 decreased 1% to \$103.4 million from \$104.6 million in 2011. This decrease was primarily attributable to reduced volumes, partially offset by price increases.

Frova®. Net sales of Frova® in 2012 increased 5% to \$61.3 million from \$58.2 million in 2011. The increase was primarily attributable to price increases, partially offset by reduced volumes.

Supprelin® LA. Net sales of Supprelin® LA in 2012 increased 15% to \$57.4 million from \$50.1 million in 2011. This increase was driven by increases to both price and volume, resulting primarily from an increase in new patient starts and a growing base of continued care patients. We believe this growth is largely due to a strong base of national opinion leader support and ongoing efforts to streamline the treatment initiation process.

Other brands. Net sales of our other branded products in 2012 decreased 1% to \$91.3 million from \$92.7 million in 2011. This decrease was primarily driven by sales growth of Valstar® and Fortesta® Gel, partially offset by decreased sales of Opana® as demand continues to shift to Opana® ER.

Qualitest. Net sales of our generic products in 2012 increased 12% to \$633.3 million from \$566.9 million in 2011. This increase was primarily driven by strong demand for Qualitest's diversified product portfolio and favorable pricing as a result of market opportunities, which drove gross profit of over 35%. During the year ended December 31, 2012, revenues from Qualitest's top 15 products increased 11% to \$373.1 million in 2012 from \$335.6 million in 2011. This increase, which was largely driven by increased volumes and pricing upside, was partially offset by reduced revenues from products impacted by the supply disruption associated with the previously disclosed shutdown of Novartis Consumer Health's Lincoln, Nebraska manufacturing facility.

AMS. Revenues from our AMS segment in 2012 increased 68% to \$504.5 million from \$300.3 million in 2011. This increase is attributable to the timing of our acquisition of AMS, Inc., which contributed revenue during the full twelve months ended December 31, 2012 compared to less than seven months of revenue during 2011. However, this increase was partially offset by lower than usual sales in AMS's women's health line, which relates primarily to a reduction in mesh

procedural volumes, particularly as to pelvic organ prolapse (POP) repair procedures. This reduction in mesh procedural volumes may be in response to a July 2011 update to the October 2008 Public Health Notification issued by the FDA to further advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI, as well as to the attorney advertising associated with transvaginal mesh litigation.

HealthTronics. Revenues from our HealthTronics segment in 2012 increased 3% to \$211.6 million from \$205.2 million in 2011. This increase was primarily attributable to the revenues from the electronic medical records software companies, Intuitive Medical Software, LLC and meridianEMR, Inc. which we acquired in the second half of 2011, partially offset by the loss of sales from our IGRT business, which was sold in August 2011.

Gross Margin, Costs and Expenses. The following table sets forth costs and expenses for the years ended December 31 (dollars in thousands):

	2012		2011	
	\$	% of Revenues	\$	% of Revenues
Cost of revenues	\$ 1,261,093	42	\$ 1,065,208	39
Selling, general and administrative*	898,847	30	813,271	30
Research and development	226,120	7	182,286	7
Patent litigation settlement, net	85,123	3	—	—
Litigation-related and other contingencies*	316,425	10	11,263	—
Asset impairment charges	768,467	25	116,089	4
Acquisition-related and integration items, net	23,015	1	33,638	1
Total costs and expenses**	<u>\$ 3,579,090</u>	<u>118</u>	<u>\$ 2,221,755</u>	<u>81</u>

* \$11.3 million of costs incurred in 2011, associated primarily with an unfavorable court decision in the matter of Allmed Systems Inc. d/b/a Lisa Laser USA, Inc. and Lisa Laser Products OHG. vs. HealthTronics, Inc., which had previously been reported as a component of Selling, general and administrative expenses, have been reclassified as Litigation-related and other contingencies to conform to current year presentation.

** Percentages may not add due to rounding.

Cost of Revenues and Gross Margin. Cost of revenues in 2012 increased 18% to \$1,261.1 million from \$1,065.2 million in 2011. This increase was primarily driven by increased revenues and our June 2011 acquisition of AMS, Inc., which contributed approximately \$162.9 million to our Cost of revenues in 2012, compared to \$124.2 million in 2011. Cost of revenues was also impacted by the 2012 charge of \$102.0 million related to the 2010 Impax Settlement Agreement. In addition, gross profit margins decreased to 58% in 2012 from 61% in 2011. This decrease in gross profit was primarily due to changes in the mix of revenues and the corresponding margins.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in 2012 increased 11% to \$898.8 million from \$813.3 million in 2011. This increase was primarily attributable to the timing of our acquisition of AMS, Inc. and the inclusion, during 2012, of \$272.6 million of a full twelve months of AMS expense, compared to \$153.1 million in 2011, representing less than seven months of AMS Selling, general and administrative expense. Also contributing to this increase was an increase in expenses of \$9.0 million related to separation benefits incurred in connection with continued efforts to enhance the Company's operations. These increases were partially offset by a decrease in Endo Pharmaceuticals sales, advertising and promotional expenses of approximately \$22 million, incentive compensation of approximately \$10 million and other expenses of approximately \$5 million.

Research and Development Expenses. Research and development expenses in 2012 increased 24% to \$226.1 million from \$182.3 million in 2011. This increase is primarily due to \$57.9 million in expense related to upfront and milestones payments in 2012, which included the initiation of the BEMA[®] Buprenorphine development program, compared to \$19.1 million in 2011. In addition, expenses increased \$29.4 million as a result of the addition of AMS's research and development portfolio upon our June 2011 acquisition of AMS, Inc. Due to the timing of our AMS, Inc. acquisition, our AMS segment incurred Research and development expenses during the entire twelve month period ended December 31, 2012, as compared to a partial period's expense in 2011. These increases were partially offset by a decrease in expenses of approximately \$21 million related to our branded R&D programs as we focused our efforts on key products in development.

We invest in research and development because we believe it is important to our long-term competitiveness. As a percent of revenues, R&D expense was approximately 7% in 2012 and 2011, and 8% in 2010. The variation in R&D expense

as a percent of revenues is primarily due to upfront and milestone payments to third party collaborative partners included in R&D expense totaling \$57.9 million or 2% of revenue, \$19.1 million or 1% of revenue and \$23.9 million or 1% of revenue in 2012, 2011 and 2010, respectively. In addition to upfront and milestone payments, total research and development expenses include the costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, as well as clinical trials, medical support of marketed products, other payments under third-party collaborations and contracts and other costs. Research and development spending also includes enterprise-wide costs which support our overall research and development infrastructure. These enterprise-wide costs, which primarily relate to our Endo Pharmaceuticals segment, are not allocated by product or to specific R&D projects. Unallocated enterprise-wide R&D costs were \$52.5 million, \$63.5 million and \$57.3 million in 2012, 2011 and 2010, respectively.

We continually evaluate our portfolio of R&D assets to appropriately balance our early-stage and late-stage programs in order to support future growth of the Company. With the addition of Qualitest Pharmaceuticals in November 2010, the Company's pharmaceutical R&D programs now include projects in a diversified set of therapeutics areas, including pain management, urology, endocrinology, central nervous system (CNS) disorders, and immunosuppression, oncology, women's health and hypertension markets, among others.

We manage our pharmaceutical R&D programs on a portfolio basis, investing resources in each stage of research and development from early discovery through late-stage development. These stages include: (1) early-stage projects consisting of assets in both preclinical and Phase I programs; (2) middle-stage projects consisting of assets in Phase II programs, and (3) late-stage projects consisting of assets in Phase III programs, assets in which an NDA is currently pending approval, or on-market assets in post marketing stages, such as Phase IV programs and post marketing regulatory commitments.

We consider our branded R&D programs in Phase III, or late-stage development, to be our significant R&D programs as they could potentially have an impact on our near-term revenue and earnings. As of December 31, 2012, our late-stage branded pharmaceutical programs, excluding on-market assets, include AveedTM and BEMA[®] Buprenorphine.

The Company's pharmaceutical research and development efforts are also focused on the goal of developing a balanced, diversified portfolio of innovative and clinically differentiated generic products across a wide range of therapeutic areas. We generally focus on selective generics that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. We believe products with these characteristics will face a lesser degree of competition and therefore provide longer product life cycles and higher profitability than commodity generic products. For the years ended December 31, 2012, 2011 and 2010, the Company's direct R&D expense related to generics was \$29.1 million, \$29.1 million and \$17.5 million, respectively.

FDA approval of an abbreviated new drug application (ANDA) is required before a generic equivalent of an existing or reference-listed drug can be marketed. As of December 31, 2012, we have approximately 40 ANDAs under active FDA review in multiple therapeutic areas. The timing of final FDA approval of ANDA applications depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the manufacturer of the reference listed drug is entitled to one or more statutory exclusivity periods, during which the FDA is prohibited from approving generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date.

We are also committed to developing new products and improving our current products in our medical device business to provide physicians and patients with better clinical outcomes through less invasive and more efficiently delivered therapies. Most of these R&D activities are conducted in our Minnesota and California facilities, although we also work with physicians, research hospitals, and universities around the world. Many of the ideas for new and improved products come from a global network of leading physicians who also work with us in evaluating new concepts and in conducting clinical trials to gain regulatory approvals. We conduct applied research in areas that we think will likely lead to product commercialization activities. This research is often done at a technology platform level such that the science can be utilized to develop a number of different products. The development process for any new product can range from months to several years, primarily depending on the regulatory pathway required for approval.

Our product development engineers work closely with their marketing partners to identify important needs in the urology, gynecology, urogynecology and colorectal markets. The team then analyzes the opportunities to optimize the value of the product development portfolio. Our product development teams continue to improve our current product lines and develop new products to increase our market share and also expand the markets we serve. In addition, we believe our clinical data will continue to drive market expansion for our therapies and demonstrates our technology leadership position.

The following table presents the composition of our total R&D expense as of December 31, 2012 and, for our branded pharmaceuticals R&D portfolio, the number of projects by stage of development:

	Research and Development Expense (in thousands)			Number of Projects at December 31, 2012			
	2012	2011	2010	Preclinical and Phase I	Phase II	Phase III(1)	Phase IV
Early-stage	\$ 18,903	\$ 26,638	\$ 22,872	13			
Middle-stage.....	5,595	11,697	13,373		2		
Late-stage	53,510	21,447	33,485			2	2
Sub-Total(2).....	<u>\$ 78,008</u>	<u>\$ 59,782</u>	<u>\$ 69,730</u>				
Qualitest portfolio(2).....	29,057	29,121	17,452				
AMS portfolio(2)	59,207	29,850	—				
HealthTronics portfolio(2)	7,368	—	—				
Enterprise-wide unallocated R&D costs.....	52,480	63,533	57,343				
Total R&D expense.....	<u>\$ 226,120</u>	<u>\$ 182,286</u>	<u>\$ 144,525</u>				

(1) Includes projects for which an NDA has been filed with the FDA.

(2) Excludes all costs not allocated to specific products and R&D projects.

These amounts are not necessarily indicative of our future R&D spend or our future R&D focus. Over time, our R&D spend among categories is unpredictable. We continually evaluate each product under development in an effort to allocate R&D dollars efficiently to projects we believe to be in the best interests of the Company based on, among other factors, the performance of such products in preclinical and/or clinical trials, our expectations regarding the potential future regulatory approval of the product and our view of the potential commercial viability of the product in light of market conditions.

R&D expenses, excluding upfront and milestone payments, are expected to decrease as we continue to streamline and integrate the R&D functions of our subsidiaries and focus our efforts on key products in development. As we continue to execute on our strategy of being a healthcare solutions provider with an integrated business model that includes branded and generic prescription drugs, medical devices and healthcare services, the composition of research and development expense may change reflecting our focus on these multiple products and platforms.

Patent Litigation Settlement, net. On May 28, 2012, Endo Pharmaceuticals Inc. (EPI) entered into a Settlement and License Agreement (the Watson Settlement Agreement) among EPI and Teikoku, on the one hand, and Watson, on the other hand. The Watson Settlement Agreement settled all ongoing patent litigation among the parties relating to Watson's generic version of Lidoderm®. Under the terms of the Watson Settlement Agreement, the parties dismissed their respective claims and counterclaims without prejudice. As part of the settlement, Watson agreed not to challenge the validity or enforceability of Endo's and Teikoku's patents relating to Lidoderm® with respect to Watson's generic version of Lidoderm®. Watson also agreed not to sell its generic version of Lidoderm® until it received FDA approval and, in any event, no sooner than September 15, 2013, except in limited specific circumstances (such date being the Start Date). Endo and Teikoku agreed to grant Watson a license permitting the sale of generic Lidoderm® upon the Start Date in the U.S. The license to Watson is exclusive as to Endo's launch of an authorized generic version of Lidoderm® until the earlier of 1) the introduction of a generic version of Lidoderm® by a company other than Watson, or 2) seven and a half months after Watson launches its generic version of Lidoderm®. Endo will receive an at market royalty equal to 25% of the gross profit generated on Watson's sales of its generic version of Lidoderm® during Watson's period of exclusivity.

Additionally, the Watson Settlement Agreement provides that Endo and Teikoku will provide, at no cost, to Watson's wholesaler affiliate branded Lidoderm[®] product for Watson's wholesaler affiliate's distribution, subject to certain terms and conditions. Given that Watson received FDA approval of its generic version of Lidoderm[®] in August 2012, Endo and Teikoku will provide branded Lidoderm[®] of value totaling \$12.0 million each month (\$96.0 million in total for 2013) (valued at the then-prevailing wholesale acquisition cost) beginning on January 1, 2013 through August 1, 2013. The obligation of Endo and Teikoku to provide this branded product at no cost terminates immediately upon the launch of a third party's generic version of Lidoderm[®] in the U.S., including its territories, possessions and the Commonwealth of Puerto Rico (the Territory).

Endo will be responsible for the payment of all gross to net adjustments arising from Watson's sale of the branded Lidoderm[®] product.

In contemplation of the Watson Settlement Agreement, Teikoku has agreed to provide a rebate to Endo equal to 50% of the cost of branded Lidoderm[®] product that is required to be provided to Watson's wholesaler affiliate pursuant to Section 3(b), 3(c) and 3(d) of the Watson Settlement Agreement.

The Company has concluded that the Watson Settlement Agreement is a multiple-element arrangement and during the second quarter of 2012 recognized a liability and corresponding charge of \$131.4 million in Patent litigation settlement, net in the Consolidated Statements of Operations representing the initial estimated fair value of the settlement component. Fair value of the settlement component was estimated using the probability adjusted expected value of branded Lidoderm[®] product to be provided to Watson at the anticipated wholesaler acquisition cost (WAC) expected to be in place at the time of shipment, less a reasonable estimate of Watson's selling costs. The resultant probability-weighted values were then discounted using a discount rate of 5.1%.

The Company believes that the level and timing of branded Lidoderm[®] product to be shipped, discount rate, and probabilities used in the model appropriately reflect market participant assumptions. Because the liability is recorded at fair value using WAC, the net charge recognized in 2012 is comprised of several elements, including our cost of product to be shipped, estimated gross-to-net deductions to be paid by the Company and the estimated product profit margin. We believe this is the most appropriate measure of fair value as these components combined represent the value accruing to Watson. As a result of using a fair value measurement, the charge will be greater than the actual cost to the Company. As such, relief of the liability in subsequent periods through shipments of branded Lidoderm[®] product will result in income, which we expect to record as a component of Other income, net in the Company's Consolidated Statements of Operations. We intend to reclassify the portion of the settlement liability related to the gross-to-net component into our gross-to-net reserves as product is shipped to Watson, the effect of which will be to offset a portion of the income that will be recognized into Other income, net in the Company's Consolidated Statements of Operations, as the settlement liability is relieved. The rebate arrangement with Teikoku will also be accounted for prospectively as product purchased from Teikoku will be recorded into inventory at the discounted purchase price and relieved as shipments are made to Watson. The benefit associated with this rebate will be recorded as a component of Other income, net in the Company's Consolidated Statements of Operations.

On August 23, 2012, Watson announced it received FDA approval on its ANDA for its lidocaine patch 5%, a generic version of Lidoderm[®]. The Company anticipates Watson will launch its generic version of Lidoderm[®] on September 15, 2013 pursuant to the terms of the Watson Settlement Agreement. In light of Watson's anticipated September 2013 launch, the Company reassessed its obligation to Watson and believes it will not be obligated to provide to Watson's wholesaler affiliate branded Lidoderm[®] product beyond September 2013. Accordingly, in the third quarter of 2012, the Company recognized a change in estimate with respect to its obligation and reduced its liability associated with the Watson Settlement Agreement by \$46.2 million to \$85.1 million. The corresponding gain of \$46.2 million was recorded in Patent litigation settlement, net in the Consolidated Statements of Operations. Future changes, if any, resulting from revisions to the timing or the amount of the original estimate will be recognized as an increase or a decrease in the carrying amount of the litigation settlement liability and the related Patent litigation settlement, net during the period of change. Future changes in estimates to the settlement liability could have a material impact on our results of operations.

Litigation-Related and Other Contingencies. Charges for Litigation-related and other contingencies in 2012 totaled \$316.4 million compared to \$11.3 million in 2011. The 2012 amount relates to charges associated with certain of our legal proceedings and other contingent matters as described in more detail in Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules". The 2011 charge relates primarily to an unfavorable court decision in the matter of Allmed Systems Inc. d/b/a Lisa Laser USA, Inc. and Lisa Laser Products OHG. vs. HealthTronics, Inc.

Asset Impairment Charges. Asset impairment charges in 2012 totaled \$768.5 million compared to \$116.1 million in 2011. The impairment charges were related to goodwill, other intangibles and other miscellaneous assets and are further discussed below by segment. Our impairment review processes are described in further detail under the caption "CRITICAL ACCOUNTING ESTIMATES".

Endo Pharmaceuticals Segment

As part of our year-end financial close and reporting process, the Company concluded that impairment assessments were required to evaluate the recoverability of certain definite-lived intangible assets associated with our Supprelin[®] and Vantas[®] franchises in certain non-U.S. markets. After performing these assessments, we recorded pre-tax non-cash impairment charges of \$2.0 million and \$3.7 million, respectively, representing the remaining carrying amounts of these assets.

The Company also reviewed its in-process research and development indefinite-lived intangible assets in connection with its annual impairment testing. As a result of market and potential regulatory changes in certain non-U.S. markets, we determined that our European Valstar[®] asset and our Asian Sanctura[®] asset were not recoverable. In the fourth quarter of 2012, we recorded pre-tax non-cash impairment charges of \$2.0 million, and \$8.0 million, respectively, representing the carrying amounts of these assets.

Pursuant to the Sanctura XR[®] Amended and Restated License, Commercialization and Supply Agreement with Allergan USA, Inc. (Allergan), the Company receives royalties based on net sales of Sanctura XR[®] made by Allergan. In March 2009, Watson Pharmaceuticals, Inc. (now doing business as Actavis, Inc. and referred to herein as Watson or Actavis) filed an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic versions of Sanctura XR[®] before the expiration of Allergan's patents listed in the Orange Book. Subsequent to Watson's ANDA filing, Sandoz Inc. and Paddock Laboratories, Inc. (acquired by Perrigo Company in August 2011) also filed ANDAs for a generic version of Sanctura XR[®]. In April 2012, the U.S. District Court for the District of Delaware ruled that five patents covering Allergan's Sanctura XR[®] (trospium chloride) extended-release capsules were invalid. The Company appealed this ruling, and subsequently in June 2012, our appeal was dismissed.

As part of our first quarter 2012 financial close and reporting process, the Company concluded that an impairment assessment was required to evaluate the recoverability of the indefinite-lived intangible asset. The Company assessed the recoverability of this asset and determined the fair value of the Sanctura XR[®] intangible asset to be \$21.6 million at March 31, 2012. Accordingly, the Company recorded a pre-tax non-cash impairment charge of \$40.0 million in March 2012, representing the difference between the carrying amount of the intangible asset and its estimated fair value. In October 2012, Watson announced that it had received FDA approval for its generic version of Sanctura XR[®] and that it intended to begin shipping its product immediately. As a result, the Company reevaluated the recoverability of the asset and determined that an impairment existed. The fair value of the Sanctura XR[®] intangible asset was determined to be \$5.0 million at September 30, 2012. Accordingly, the Company recorded an additional pre-tax non-cash impairment charge of \$11.2 million in September 2012. The remaining net book value was amortized in its entirety by December 31, 2012, commensurate with the expected rate of erosion due to generic competition.

In early 2012, the Company terminated Penwest's A0001 development program after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, during the fourth quarter of 2011 we recorded a pre-tax, non-cash impairment charge of \$1.6 million to write off this intangible asset in its entirety.

On December 27, 2011, the Company terminated its pagoclone development program after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, we recorded a pre-tax, non-cash impairment charge of \$8.0 million in 2011 to write off the remaining intangible asset in its entirety.

On November 11, 2011, the Company terminated development of the octreotide implant for the treatment of acromegaly after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, we recorded a pre-tax non-cash impairment charge of \$9.0 million in 2011 to completely write-off the octreotide – acromegaly intangible asset.

From September 21, 2012 through November 1, 2012, EPI and its partner Grünenthal received Paragraph IV Notices from each of Teva, Amneal, Sandoz and ThoRx advising of the filing by each such company of an ANDA for a generic version of the formulation of Opana® ER designed to be crush-resistant. EPI intends, and has been advised by Grünenthal that they too intend, to vigorously defend the intellectual property rights covering Opana® ER and to pursue all available legal and regulatory avenues in defense of Opana® ER, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that we will be successful. If we are unsuccessful and Teva, Amneal, Sandoz or ThoRx is able to obtain FDA approval of its product, it may be able to launch a generic version of Opana® ER prior to the applicable patents' expirations in 2023, 2024, 2025 and 2029 respectively.

While the original formulation of Opana® ER is safe and effective when taken as prescribed, it was nevertheless subject to abuse, misuse and diversion. Consequently, our subsidiary, EPI discontinued from sale for safety reasons all strengths of Opana® ER approved under New Drug Application (NDA) No. 021610 and notified the FDA of this discontinuation. As a result, the FDA moved Opana® ER to the Discontinued List section of the Agency's Approved Drug Products with Therapeutic Equivalence Evaluations (Orange Book). On August 13, 2012, EPI submitted a Citizen Petition with the FDA requesting that it (1) determine that the discontinued, non-crush-resistant version of Opana® ER approved under NDA No. 021610 was discontinued for safety and can no longer serve as a Reference List Drug (RLD) for an ANDA or generic applicant; (2) refuse to approve any pending ANDA for a generic version of the non-crush resistant version of Opana® ER approved under NDA No. 021610; and (3) suspend and withdraw the approval of any ANDA referencing Opana® ER approved under NDA No. 021610 as the RLD. The petition emphasizes the potential widespread availability of non-crush resistant generics of all strengths of Opana® ER in early 2013 and calls into question whether generics can properly be marketed in view of the discontinuation of Opana® ER for safety reasons.

On August 31, 2012, EPI submitted an additional Citizen Petition requesting that the FDA (1) require that any ANDA referencing the crush-resistant formulation of Opana® ER contain data and information demonstrating that the proposed ANDA product is similarly crush resistant; (2) classify extended-release opioid formulations incorporating crush-resistant technologies, such as the new Opana® ER, as new dosage forms in Appendix C of the FDA's Orange Book; and (3) confirm that any ANDA referencing Opana® ER approved under NDA No. 021610 will not be identified in the Orange Book as therapeutically equivalent to the crush-resistant formulation of Opana® ER. The petition emphasized that the abuse of prescription opioid analgesics is at the center of a major public health crisis of addiction, misuse, abuse, overdose and death and that objective criteria are required to evaluate whether a formulation is truly crush-resistant. In January 2013, we received notice from the FDA that it had denied our August 31, 2012 Citizen Petition. Other than an acknowledgment of receipt, we have received no response from the FDA with respect to our August 13, 2012 Citizen Petition.

In light of recent legal, regulatory and competitive activity related to the crush-resistant formulation of Opana® ER, we concluded that an impairment assessment was required to evaluate the recoverability of the Opana® ER indefinite-lived intangible assets and performed this analysis in conjunction with our third quarter 2012 10-Q filing. In performing this assessment, we calculated the anticipated undiscounted cash flows related to Opana® ER on a probability-weighted basis, considering the potential outcomes that could result from the recent regulatory developments discussed in the above paragraphs, and concluded that no impairment charge was required at September 30, 2012. Changes in any of the assumptions used in determining the fair value of this asset may result in the need for future impairment testing, which could result in future impairment charges.

Qualitest Segment

During the fourth quarter of 2011, the Company received a deficiency from the FDA on an ANDA submission for one of its lead assets in its Qualitest Pharmaceuticals IPR&D portfolio. Subsequently, in early 2012, the Company terminated its development program for this asset as a result of the regulatory challenges and changes in the development timeline resulting from the FDA's request. In addition, as a result of changes in market conditions since the acquisition date, there has been a significant deterioration in the commercial potential for this product. Accordingly, we recorded a pre-tax non-cash impairment charge of \$71.0 million in 2011 to write off the intangible asset in its entirety.

AMS Segment

Based on the results of the Company's Step II analysis for the AMS reporting unit, we recorded a pre-tax, non-cash goodwill impairment charge in the Consolidated Statement of Operations for \$507.5 million, representing the difference between the implied fair value of the reporting unit's goodwill and its carrying amount as of October 1, 2012. The decline in the fair value for the AMS reporting unit is the result of lower projected revenue growth and profitability levels. The lower projected operating results reflect changes in the assumptions related to organic revenue growth, market trends, business mix,

cost structure and other expectations about the anticipated short-term and long-term operating results of the AMS reporting unit identified as part of our fourth quarter 2012 strategic planning and budgeting processes. Future changes, if any, to our assumptions may result in additional and potentially full future impairment charges to our AMS goodwill of up to \$1.3 billion.

As a result of the Step II analysis, we also determined that the carrying amounts of the women's health developed technology intangible asset and one of the AMS, Inc. IPR&D intangible assets were impaired. This determination was based primarily on lower than initially expected revenue and profitability levels over a sustained period of time and downward revisions to management's short-term and long-term forecasts for the AMS women's health product line. Accordingly, we recorded a pre-tax non-cash impairment charge of \$128.5 million to impair the women's health developed technology intangible asset in its entirety. We also recorded a pre-tax non-cash impairment charge of \$4.0 million to impair the IPR&D asset, representing the difference between the fair value and the carrying amount. Future changes, if any, to our assumptions may result in additional and potentially full future impairment charges related to this IPR&D asset of up to \$8.0 million.

During the second quarter of 2012, as a result of market and potential regulatory changes affecting the commercial potential in the U.S. for one of the AMS, Inc. IPR&D assets, the Company determined that the asset's carrying amount was no longer fully recoverable. Accordingly, in the second quarter of 2012, we recorded a pre-tax non-cash impairment charge of \$3.0 million, representing the difference between the fair value and the carrying amount.

HealthTronics Segment

Based on the results of the Company's Step II analysis for the Anatomical Pathology Services and HITS reporting units, we recorded pre-tax, non-cash goodwill impairment charges in the Consolidated Statement of Operations for \$24.8 million and \$25.1 million, respectively, representing the difference between the implied fair value of each reporting unit's goodwill and the respective carrying amounts as of October 1, 2012. The declines in the fair values for these reporting units resulted from lower projected revenue growth and profitability levels for each respective business. The lower projected operating results reflect changes in the assumptions related to organic revenue growth, new product development, strategic business changes, cost structure, market trends, business mix and other expectations about the anticipated short-term and long-term operating results of these reporting units identified as part of our fourth quarter 2012 strategic planning and budgeting processes. Future changes, if any, to our assumptions related to the HITS reporting unit may result in additional and potentially full future impairment charges of \$19.8 million.

As a result of the HITS Step II analysis, we also determined that the carrying amounts of certain HITS intangible assets were impaired. This determination was based primarily on lower than initially expected revenue and profitability levels over an expected sustained period of time and downward revisions to management's short-term and long-term forecasts for the HITS reporting unit. Accordingly, we recorded pre-tax non-cash impairment charges of \$3.0 million on these intangible assets, representing the difference between the fair values and the carrying amounts.

Other

In July 2008, the Company made a \$20 million investment in a privately-held company focused on the development of an innovative treatment for certain types of cancer. In September 2011, we impaired our investment in this privately-held company due to the negative clinical trial results related to its lead asset. Accordingly, we wrote off our investment in its entirety and recorded an impairment charge of \$22.7 million.

Remaining Asset impairment charges were not material to the Consolidated Financial Statements in either 2012 or 2011.

Acquisition-Related and Integration Items, net. Acquisition-related and integration items, net totaled \$23.0 million in expense in 2012 compared to \$33.6 million in expense in 2011. The decrease is primarily a result of the nonrecurring transaction costs in 2011 directly associated with the closing of the AMS acquisition of \$25.8 million, partially offset by an unfavorable change in the fair value of contingent consideration in 2012, which resulted in a loss of \$0.2 million compared to a favorable change resulting in a gain of \$7.4 million in 2011. The remaining change is a result of integration costs related to our recent acquisitions.

Interest Expense, net. The components of interest expense, net for the years ended December 31 are as follows (in thousands):

	2012	2011
Interest expense	\$ 183,240	\$ 148,623
Interest income	(406)	(599)
Interest expense, net	<u>\$ 182,834</u>	<u>\$ 148,024</u>

Interest expense during 2012 totaled \$183.2 million compared to \$148.6 million in 2011. The increase from 2011 to 2012 was primarily attributable to increases in our average total indebtedness resulting from our June 2011 borrowings of \$900.0 million of senior notes and \$2.2 billion of term loan indebtedness in connection with our June 2011 acquisition of AMS, Inc.

Net Loss on Extinguishment of Debt. In February 2012, we made a prepayment of \$205.0 million on our Term Loan B Facility. We made additional prepayments of \$33.0 million and \$39.7 million in July 2012 and September 2012, respectively. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$7.2 million of the remaining unamortized financing costs were written off in connection with our 2012 prepayments. This amount was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

Upon the establishment of our 2011 Credit Facility, financing costs of \$56.2 million paid to establish the 2011 Credit Facility as well as financing costs of \$6.2 million associated with prior credit facilities, were deferred and are being amortized to interest expense over the life of the 2011 Credit Facility. Approximately \$8.5 million of the deferred financing costs associated with prior credit facilities was also written off at this time in accordance with the applicable accounting guidance for debt modifications and extinguishments and was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt. Additionally, in September 2011 and December 2011, we made prepayments of \$135.0 million and \$125.0 million, respectively, on our Term Loan B Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$3.4 million of the remaining unamortized financing costs was written off in connection with our 2011 prepayments and included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

Other Income, Net. Other income, net was \$0.2 million of income in 2012 compared to \$3.3 million of income in 2011.

Income Tax. In 2012, we recognized \$53.6 million of income tax benefit compared to expense of \$109.6 million in 2011. The effective income tax rate was 7.2% in 2012 compared to 31.2% in 2011. The change in the effective tax rate is largely driven by charges not deductible for tax purposes including our goodwill impairment charge and certain non-deductible litigation-related and other contingent matters.

Additionally, in 2012 we recorded a \$6.3 million benefit for a prior period adjustment related to the reversal of a 2010 capital loss valuation allowance recorded in connection with our acquisition of HealthTronics, Inc. The valuation allowance was reversed because of a 2011 transaction that resulted in a realized ordinary loss for income tax purposes.

Net Income Attributable to Noncontrolling Interests. As a result of our July 2010 acquisition of HealthTronics, Inc., we own interests in various partnerships and limited liability corporations (LLCs) where we, as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where we do not own 100% of the entity in accordance with the accounting consolidation principles. Net income attributable to noncontrolling interests relates to the portion of the net income of these partnerships and LLCs not attributable, directly or indirectly, to our ownership interests. Net income attributable to noncontrolling interest totaled \$52.3 million in 2012 and \$54.5 million in 2011.

2013 Outlook. We estimate that our 2013 total revenues will be between \$2.80 billion and \$2.95 billion. This estimate is based on our expectation of growth in Qualitest and AMS offset by a decrease in Endo Pharmaceuticals revenues resulting from the entry of a single generic competitor to Lidoderm®, and by erosion in market share for Opana® ER due to competition from a single, non-AB-rated generic. Cost of revenues as a percent of total revenues is expected to increase when compared to 2012 as a result of the simultaneous growth in lower margin generic pharmaceutical product sales and decline in higher margin branded pharmaceutical sales in 2013. Selling, general and administrative expenses as a percentage of revenues are expected to decline in 2013 relative to 2012 reflecting continuing efficiency improvement efforts and the annualization of the effects of cost reductions initiated in 2012. Research and development expenses, excluding upfront and milestone payments, are expected to decrease as we streamline and integrate the R&D functions of our subsidiaries and focus our efforts on key products in development. There can be no assurance that the Company will achieve these results.

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenues. Total revenues in 2011 increased 59% to \$2.73 billion from \$1.72 billion in 2010. This increase in revenues is primarily driven by our 2011 acquisition of AMS, Inc., from which we derived \$300.3 million in revenue, plus the full-year impact from our 2010 acquisitions, including \$446.2 million in revenues from Qualitest Pharmaceuticals products and \$205.2 million in revenues from HealthTronics, Inc. The remaining increase in total revenue was driven by organic growth in our Endo Pharmaceuticals product portfolio including Lidoderm[®], Opana[®] ER and Voltaren[®] Gel. Sales growth of our Endo Pharmaceuticals segment was essentially volume driven.

The following table displays our revenues by category and as a percentage of total revenues for the years ended December 31(dollars in thousands). We have retrospectively revised the segment presentation for all periods presented reflecting the change from three to four reportable segments.

	2011		2010	
	\$	%	\$	%
Lidoderm [®]	\$ 825,181	30	\$ 782,609	46
Opana [®] ER.....	384,339	14	239,864	14
Voltaren [®] Gel.....	142,701	5	104,941	6
Percocet [®]	104,600	4	121,347	7
Frova [®]	58,180	2	59,299	3
Supprelin [®] LA.....	50,115	2	46,910	3
Other brands.....	92,651	3	112,602	7
Total Endo Pharmaceuticals*.....	\$ 1,657,767	61	\$ 1,467,572	86
Qualitest.....	566,854	21	146,513	9
AMS.....	300,299	11	—	—
HealthTronics.....	205,201	8	102,144	6
Total revenues*.....	\$ 2,730,121	100	\$ 1,716,229	100

* Percentages may not add due to rounding.

Lidoderm[®]. Net sales of Lidoderm[®] in 2011 increased 5% to \$825.2 million from \$782.6 million in 2010. The increase in net sales was primarily attributable to increased volumes in 2011. In addition, we were required to pay Hind royalties based on net sales of Lidoderm[®] until this obligation expired on November 23, 2011. Hind royalties were recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm[®]. Due to the expiration of this obligation, these royalties decreased from \$86.8 million in 2010 to \$77.9 million in 2011, which had a favorable impact to 2011 net sales. Lidoderm[®] had solid performance this year and continues to generate strong cash flow that we can use to invest in our business to continue to further diversify our revenue base.

Opana[®] ER. Net sales of Opana[®] ER in 2011 increased 60% to \$384.3 million from \$239.9 million in 2010. The increase in net sales was primarily attributable to continued prescription and market share growth of the product, as we continue to drive our promotional efforts through physician targeting. In addition, our strategy to contract with managed care organizations has resulted in increases in volume as we have broadened our access for the brand.

Voltaren[®] Gel. Net sales of Voltaren[®] Gel in 2011 increased 36% to \$142.7 million from \$104.9 million in 2010. The increase was driven by volume. The Company launched Voltaren[®] Gel in March 2008 and we believe the growth of Voltaren[®] Gel since its launch is driven by the product's proven clinical efficacy combined with our continued promotional activities aimed at increasing product awareness in the target audience.

Percocet[®]. Net sales of Percocet[®] in 2011 decreased 14% to \$104.6 million from \$121.3 million in 2010. The decrease was primarily attributable to decreased volumes during 2011 as compared to 2010.

Frova[®]. Net sales of Frova[®] in 2011 decreased 2% to \$58.2 million from \$59.3 million in 2010. The decrease in net sales was primarily attributable to reduced volumes during 2011 as compared to 2010, partially offset by price increases.

Supprelin[®] LA. Net sales of Supprelin[®] LA in 2011 increased 7% to \$50.1 million from \$46.9 million in 2010. This increase was driven primarily by volume growth during 2011, resulting primarily from an increase in new patient starts and a growing base of continued care patients. We believe this growth is largely due to a strong base of national opinion leader support and ongoing efforts to streamline the treatment initiation process.

Other brands. Net sales of our other branded products in 2011 decreased 18% to \$92.7 million from \$112.6 million in 2010. This decrease was primarily attributable to decreased sales of Opana[®] as demand continues to shift from Opana[®] to Opana[®] ER. This decrease was partially offset by the 2011 launch of Fortesta[®] Gel, which contributed \$14.9 million of net sales in 2011 as well as increased sales of both Vantas[®] and Valstar[®].

Qualitest. Net sales of our Qualitest segment in 2011 increased 287% to \$566.9 million from \$146.5 million in 2010. This increase was primarily driven by our acquisition of Qualitest Pharmaceuticals on November 30, 2010. Qualitest Pharmaceuticals products contributed \$446.2 million of net sales of generic products in 2011, compared with \$30.3 million in 2010.

AMS. Revenues from our AMS segment in 2011 were \$300.3 million and were primarily attributable to sales of products from our AMS, Inc. subsidiary, which we acquired in June 2011. AMS products that represented approximately 1% or more of our consolidated total revenues in 2011 included the AMS 700[®] series of inflatable prostheses, the AMS 800[®] artificial urinary sphincter, the GreenLight[™] laser therapy products used to treat BPH, the Monarc[®] subfascial hammock and the Elevate[™] anterior pelvic floor repair system.

HealthTronics. Revenues from our HealthTronics segment in 2011 increased 101% to \$205.2 million from \$102.1 million in 2010. This increase was driven by the full-year impact of HealthTronics, Inc., which contributed six months of revenue in 2010 compared to a full year of revenue in 2011. The \$205.2 million consisted primarily of lithotripsy fees of \$110.2 million, cryosurgery treatment fees of \$26.0 million and other service revenues from our HealthTronics segment.

Gross Margin, Costs and Expenses. The following table sets forth costs and expenses for the years ended December 31 (dollars in thousands):

	2011		2010	
	\$	% of Revenues	\$	% of Revenues
Cost of revenues.....	\$ 1,065,208	39	\$ 504,757	29
Selling, general and administrative*	813,271	30	547,605	32
Research and development.....	182,286	7	144,525	8
Litigation-related and other contingencies*	11,263	—	—	—
Asset impairment charges	116,089	4	35,000	2
Acquisition-related and integration items, net	33,638	1	18,976	1
Total costs and expenses**	<u>\$ 2,221,755</u>	<u>81</u>	<u>\$ 1,250,863</u>	<u>73</u>

* \$11.3 million of costs incurred in 2011, associated primarily with an unfavorable court decision in the matter of Allmed Systems Inc. d/b/a Lisa Laser USA, Inc. and Lisa Laser Products OHG. vs. HealthTronics, Inc., which had previously been reported as a component of Selling, general and administrative expenses, have been reclassified as Litigation-related and other contingencies to conform to current year presentation.

** Percentages may not add due to rounding.

Costs of Revenues and Gross Profit Margin. Costs of revenues in 2011 increased 111% to \$1,065.2 million from \$504.8 million in 2010, primarily due to the acquisition of AMS, Inc. in June 2011 and a full year of activity from our 2010 acquisitions. Gross profit margins were 61% in 2011 compared with 71% in 2010. The decrease in gross profit margin in 2011 is primarily due to our 2010 acquisitions, which contributed a lower gross profit margin percentage than Endo's legacy products. Costs of revenues have also been unfavorably impacted by the increased amortization expense resulting from the intangible assets recognized as part of our recent acquisitions. Amortization expense in Costs of revenues was \$185.5 million and \$84.0 million in 2011 and 2010, respectively. Beginning in November 2011, the Teikoku royalty based on net sales of Lidoderm[®] is also included in Costs of revenues. These decreases in gross profit margin were partially offset by the elimination of the royalty obligation related to net sales of Opana[®] ER in September 2010, subsequent to our acquisition of Penwest.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in 2011 increased 49% to \$813.3 million from \$547.6 million in 2010. The increase in Selling, general and administrative expenses was primarily attributable to our second half 2010 acquisitions and our June 2011 acquisition of AMS, Inc., which, on a combined basis, contributed approximately \$239.2 million of Selling, general and administrative expense during 2011 compared with \$24.7 million during 2010. The increase was also partially driven by certain integration costs and separation benefits incurred in connection with continued efforts to enhance the Company's operations and included in Selling, general and administrative

expenses totaling \$19.7 million during 2011. The remaining increase is primarily attributable to the overall growth of our business and the related increases in costs. Selling, general and administrative expenses as a percentage of revenue decreased to 30% in 2011 from 32% in 2010.

Research and Development Expenses. Research and development expenses in 2011 increased 26% to \$182.3 million from \$144.5 million in 2010. This increase was primarily driven by the addition of AMS, Inc.'s and Qualitest Pharmaceuticals' research and development portfolios to our existing programs, the progress of our branded pharmaceutical portfolio's development, and the expansion of our efforts in the pharmaceutical discovery and device research and development areas.

Litigation-Related and Other Contingencies. Charges for Litigation-related and other contingencies in 2011 totaled \$11.3 million compared to zero in 2010. The 2011 charge relates primarily to an unfavorable court decision in the matter of Allmed Systems Inc. d/b/a Lisa Laser USA, Inc. and Lisa Laser Products OHG. vs. HealthTronics, Inc.

Asset Impairment Charges. Asset impairment charges in 2011 totaled \$116.1 million in 2011 compared to \$35.0 million in 2010. The impairment charges were related to intangibles and other miscellaneous assets and are further discussed below by segment. Our impairment review processes are described in further detail under the caption "CRITICAL ACCOUNTING ESTIMATES".

Endo Pharmaceuticals Segment

In early 2012, the Company terminated Penwest's A0001 development program after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, during the fourth quarter of 2011 we recorded a pre-tax, non-cash impairment charge of \$1.6 million to write off this intangible asset in its entirety.

In May 2010, Teva Pharmaceutical Industries Ltd. terminated the pagoclone development and licensing arrangement with the Company upon the completion of the Phase IIb study. As a result, the Company concluded that there was a decline in the fair value of the corresponding indefinite-lived intangible asset. Accordingly, we recorded a \$13.0 million impairment charge in 2010.

On December 27, 2011, the Company terminated its pagoclone development program after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, we recorded a pre-tax, non-cash impairment charge of \$8.0 million to write off the remaining intangible asset in its entirety.

As part of our 2010 annual review of all IPR&D assets, we conducted an in-depth review of our octreotide assets for the treatment of acromegaly and carcinoid syndrome, respectively. This review covered a number of factors including the market potential of each product given its stage of development, taking into account, among other things, issues of safety and efficacy, product profile, competitiveness of the marketplace, the proprietary position of the product and its potential profitability. Our 2010 review resulted in no impact to the carrying amount of our octreotide – acromegaly intangible asset. However, the analysis identified certain commercial challenges with respect to the octreotide – carcinoid syndrome intangible asset including the expected rate of physician acceptance and the expected rate of existing patients willing to switch therapies. Upon analyzing the Company's research and development priorities, available resources for current and future projects, and the commercial potential for octreotide – carcinoid syndrome, the Company decided to discontinue development of octreotide for the treatment of carcinoid syndrome. As a result of the above developments, the Company recorded a pre-tax non-cash impairment charge of \$22.0 million in 2010 to write-off, in its entirety, the octreotide – carcinoid syndrome intangible asset.

On November 11, 2011, the Company separately decided to terminate development of the octreotide implant for the treatment of acromegaly after conducting an in-depth review of the Company's research and development activities, including an analysis of research and development priorities, focus and available resources for current and future projects and the commercial potential for the product. Accordingly, we recorded a pre-tax non-cash impairment charge of \$9.0 million in 2011 to completely write-off the octreotide – acromegaly intangible asset.

Qualitest Segment

During the fourth quarter of 2011, the Company received a deficiency from the FDA on an ANDA submission for one of its lead assets in its Qualitest Pharmaceuticals IPR&D portfolio. Subsequently, in early 2012, the Company terminated its development program for this asset as a result of the regulatory challenges and changes in the development timeline resulting from the FDA's request. In addition, as a result of changes in market conditions since the acquisition date, there has been a significant deterioration in the commercial potential for this product. Accordingly, we recorded a pre-tax non-cash impairment charge of \$71.0 million in 2011 to write off the intangible asset in its entirety.

Other

In July 2008, the Company made a \$20 million investment in a privately-held company focused on the development of an innovative treatment for certain types of cancer. In September 2011, we impaired our investment in this privately-held company due to the negative clinical trial results related to its lead asset. Accordingly, we wrote off our investment in its entirety and recorded an impairment charge of \$22.7 million.

Remaining Asset impairment charges were not material to Consolidated Financial Statements in either 2011 or 2010.

Acquisition-Related and Integration Items, net. Acquisition-related and integration items, net in 2011 were \$33.6 million of expense compared to \$19.0 million of expense in 2010. The increase is primarily a result of a decrease in the gain on the fair value of contingent consideration, which was \$51.4 million in 2010 compared to \$7.4 million in 2011. This increase in expense was partially offset by a decrease in transaction costs associated with the closing of acquisitions, which was \$25.8 million in 2011, related to the AMS acquisition, compared to \$61.7 million in 2010, related to the acquisitions of Qualitest Pharmaceuticals, Penwest and HealthTronics, Inc. The remaining change is the result of integration costs related to these acquisitions.

Interest Expense, net. The components of interest expense, net for the years ended December 31 are as follows (in thousands):

	2011	2010
Interest expense	\$ 148,623	\$ 47,956
Interest income	(599)	(1,355)
Interest expense, net.....	<u>\$ 148,024</u>	<u>\$ 46,601</u>

Interest expense in 2011 was \$148.6 million compared with \$48.0 million in 2010. The increase in interest expense was primarily attributable to increases to our average total indebtedness in 2011 compared to 2010. In 2011, we incurred \$66.6 million of interest expense on our \$1.3 billion of senior notes, of which \$400.0 million originated in November 2010 and the remaining \$900.0 million in June 2011. This compares to \$3.1 million of senior note interest in 2010. Our 2011 interest expense related to our credit facilities was \$51.3 million compared to \$5.4 million in 2010. This increase was largely attributable to the 2011 Credit Facility entered into in June 2011, which provided \$2.2 billion of term loan indebtedness compared to \$400.0 million of term loan indebtedness at December 31, 2010. These increases were partially offset by reduced interest expense on our 16% non-recourse notes due 2024, which incurred \$7.3 million of interest expense in 2010 until they were retired in the third quarter of 2010.

Interest income decreased to \$0.6 million in 2011 compared to \$1.4 million in 2010. This decrease is a result of the fluctuations in the amount of cash invested in interest-bearing accounts, including our money market funds and auction-rate securities, as well as the yields on those investments.

Loss (Gain) on Extinguishment of Debt. Upon the establishment of our 2011 Credit Facility, financing costs of \$56.2 million paid to establish the 2011 Credit Facility as well as financing costs of \$6.2 million associated with prior credit facilities, were deferred and are being amortized to interest expense over the life of the 2011 Credit Facility. Approximately \$8.5 million of the deferred financing costs associated with prior credit facilities was also written off at this time in accordance with the applicable accounting guidance for debt modifications and extinguishments and was included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt. Additionally, in September 2011 and December 2011, we made prepayments of \$135.0 million and \$125.0 million, respectively, on our Term Loan B Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$3.4 million of the remaining unamortized financing costs was written off in connection with our 2011 prepayments and included in the Consolidated Statements of Operations as a Net loss on extinguishment of debt.

Other Income, net. The components of other (income) expense, net for the years ended December 31 are as follows (in thousands):

	2011	2010
Gain on trading securities.....	\$ —	\$ (15,420)
Loss on auction-rate securities rights	—	15,659
Other income, net	(3,268)	(2,172)
Other income, net.....	<u>\$ (3,268)</u>	<u>\$ (1,933)</u>

During 2010, the value of our trading auction-rate securities increased by \$15.4 million. The increases in fair value were more than offset by losses recorded as a result of decreases in the fair value of our auction-rate securities rights totaling \$15.7 million. As all auction-rate securities rights were exercised and all trading auction-rate securities were sold on June 30, 2010, there were no subsequent changes to their respective fair values.

Income Tax. Income tax expense in 2011 decreased 18% to \$109.6 million from \$133.7 million in 2010. This fluctuation is due to a \$69.0 million decrease in income before income tax and the decrease in our effective income tax rate to 31.2% from 31.8% in 2010. The decrease in the effective income tax rate is primarily due to an increase in non-taxable income attributable to non-controlling interests in the current period as compared to 2010, the release of reserves related to uncertain tax positions due to statute of limitations expirations and audit settlements, an increase in the Domestic Production Activities deduction, and a decrease in transactions costs from acquisitions in the current period as compared to 2010. This decrease was partially offset by a lower benefit from non-taxable reductions in the fair value of contingent consideration in the current period as compared to 2010, the establishment of a valuation allowance in the current period against an anticipated capital loss on our cost method investment in a privately-held company and a charge for the non-deductible Branded Prescription Drug fee enacted in 2011.

Net income attributable to noncontrolling interests. As a result of our July 2010 acquisition of HealthTronics, Inc., we own interests in various partnerships and limited liability corporations (LLCs) where we, as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where we do not own 100% of the entity in accordance with the accounting consolidation principles. Net income attributable to noncontrolling interests relates to the portion of the net income of these partnerships and LLCs not attributable, directly or indirectly, to our ownership interests. Net income attributable to noncontrolling interest totaled \$54.5 million in 2011 compared to \$28.0 million in 2010 due to the results of our HealthTronics, Inc. subsidiary, which contributed six months of results in 2010 compared to a full year in 2011.

Business Segment Results Review

In the fourth quarter of 2011, as a result of our strategic planning process, the Company's executive leadership team reorganized the manner in which it views our various business activities. Management's intention was to enhance its level of understanding of the entity's performance, better assess its prospects and future cash flow potential and ultimately make more informed operating decisions about resource allocation and the enterprise as a whole. Based on this change, we reassessed our reporting structure under the applicable accounting guidance and determined that the Company now has four reportable segments: (1) Endo Pharmaceuticals, (2) Qualitest, (3) AMS and (4) HealthTronics. We have retrospectively revised the segment presentation for all periods presented reflecting the change from three to four reportable segments. Additionally, concurrent with the Company's May 2012 enterprise-wide rebranding initiative and corporate name change, the Company changed the names of its reportable segments to better align with these efforts. These changes to our segments have no impact on the Company's Consolidated Financial Statements for all periods presented. Each segment derives revenue from the sales or licensing of their respective products or services and is discussed below.

We evaluate segment performance based on each segment's adjusted income before income tax, a financial measure not determined in accordance with GAAP. We define adjusted income before income tax as income (loss) before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, net, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income before income tax by adding the adjusted income before income tax of each of our reportable segments to corporate unallocated adjusted income before income tax.

We refer to adjusted income before income tax in making operating decisions because we believe it provides meaningful supplemental information regarding the Company's operational performance. For instance, we believe that this measure facilitates its internal comparisons to its historical operating results and comparisons to competitors' results. The Company believes this measure is useful to investors in allowing for greater transparency related to supplemental information used by us in our financial and operational decision-making. In addition, we have historically reported similar financial measures to our investors and believe that the inclusion of comparative numbers provides consistency in our financial reporting at this time. Further, we believe that adjusted income before income tax may be useful to investors as we are aware that certain of our significant stockholders utilize adjusted income before income tax to evaluate our financial performance. Finally, adjusted income before income tax is utilized in the calculation of adjusted diluted net income per share, which is used by the Compensation Committee of Endo's Board of Directors in assessing the performance and compensation of substantially all of our employees, including our executive officers.

There are limitations to using financial measures such as adjusted income before income tax. Other companies in our industry may define adjusted income before income tax differently than we do. As a result, it may be difficult to use adjusted income before income tax or similarly named adjusted financial measures that other companies may use to compare the performance of those companies to our performance. Because of these limitations, adjusted income before income tax should not be considered as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business. The Company compensates for these limitations by providing reconciliations of our consolidated adjusted income before income tax to our consolidated income before income tax, which is determined in accordance with U.S. GAAP and included in our Consolidated Statements of Operations.

Endo Pharmaceuticals

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm[®], Opana[®] ER, Percocet[®], Voltaren[®] Gel, Frova[®], Supprelin[®] LA, Vantas[®], Valstar[®] and Fortesta[®] Gel.

Qualitest

The Qualitest segment is comprised of our legacy Endo non-branded generics portfolio and the portfolio from Qualitest Pharmaceuticals, which we acquired in 2010. Our Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. With the addition of Qualitest Pharmaceuticals, the segment's product offerings now include products in the pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women's health and hypertension markets, among others.

AMS

The AMS segment currently focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and BPH therapy. These business lines are discussed in greater detail within Note 5. Acquisitions in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules". We distribute devices through our direct sales force and independent sales representatives in the U.S., Canada, Australia, and Western Europe. Additionally, we distribute devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of our AMS customers or distributors accounted for ten percent or more of our total revenues during any of the three years ended December 31, 2012 or 2011. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

HealthTronics

The HealthTronics segment provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics across the U.S. These services are sold through the following business lines: lithotripsy services, prostate treatment services, anatomical pathology services, medical products manufacturing, sales and maintenance and electronic medical records services.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Revenues. The following table displays our revenue by reportable segment for the years ended December 31 (in thousands):

	2012	2011
Net revenues to external customers:		
Endo Pharmaceuticals.....	\$ 1,677,984	\$ 1,657,767
Qualitest.....	633,265	566,854
AMS(1).....	504,487	300,299
HealthTronics	211,627	205,201
Total consolidated net revenues to external customers	<u>\$ 3,027,363</u>	<u>\$ 2,730,121</u>

(1) The following table displays our AMS segment revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	2012	2011
AMS:		
United States.....	\$ 330,087	\$ 202,462
International.....	174,400	97,837
Total AMS revenues	<u>\$ 504,487</u>	<u>\$ 300,299</u>

Endo Pharmaceuticals. Revenues from our Endo Pharmaceuticals segment in 2012 increased 1% to \$1,678.0 million from \$1,657.8 million in 2011. This increase was primarily driven by increased revenues from Lidoderm[®], partially offset by decreases from Voltaren[®] Gel and Opana[®] ER.

Qualitest. Net sales of our generic products in 2012 increased 12% to \$633.3 million from \$566.9 million in 2011. This increase was primarily driven by strong demand for Qualitest's diversified product portfolio and favorable pricing as a result of market opportunities, which drove gross profit of over 35%. During the year ended December 31, 2012, revenues from Qualitest's top 15 products increased 11% to \$373.1 million in 2012 from \$335.6 million in 2011. This increase, which was largely driven by increased volumes and pricing upside, was partially offset by reduced revenues from products impacted by the supply disruption associated with the previously disclosed shutdown of Novartis Consumer Health's Lincoln, Nebraska manufacturing facility.

AMS. Revenues from our AMS segment in 2012 increased 68% to \$504.5 million from \$300.3 million in 2011. This increase is attributable to the timing of our acquisition of AMS, Inc., which contributed revenue during the full twelve months ended December 31, 2012 compared to less than seven months of revenue during 2011. However, this increase was partially offset by lower than usual sales in AMS's women's health line, which relates primarily to a reduction in mesh procedural volumes, particularly as to pelvic organ prolapse (POP) repair procedures. This reduction in mesh procedural volumes may be in response to a July 2011 update to the October 2008 Public Health Notification issued by the FDA to further advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and SUL, as well as to the attorney advertising associated with transvaginal mesh litigation.

HealthTronics. Revenues from our HealthTronics segment in 2012 increased 3% to \$211.6 million from \$205.2 million in 2011. This increase was primarily attributable to the revenues from the electronic medical records software companies, Intuitive Medical Software, LLC and meridianEMR, Inc. which we acquired in the second half of 2011, partially offset by the loss of sales from our IGRT business, which was sold in August 2011.

Adjusted income before income tax. The following table displays our adjusted income (loss) before income tax by reportable segment for the years ended December 31 (in thousands):

	<u>2012</u>	<u>2011</u>
Adjusted income before income tax:		
Endo Pharmaceuticals.....	\$ 906,839	\$ 890,951
Qualitest.....	171,418	107,204
AMS.....	119,852	82,418
HealthTronics	58,092	68,769
Corporate unallocated.....	(338,826)	(318,100)
Total consolidated adjusted income before income tax.....	<u>\$ 917,375</u>	<u>\$ 831,242</u>

Endo Pharmaceuticals. Adjusted income before income tax in 2012 increased 2% to \$906.8 million from \$891.0 million in 2011. This increase was primarily driven by increased revenues as described above as well as decreased operating expenses associated with our ongoing efforts to improve our operating efficiency.

Qualitest. Adjusted income before income tax in 2012 increased 60% to \$171.4 million from \$107.2 million in 2011. This increase was primarily driven by the continued revenue growth of our generics business. Additionally, favorable pricing as a result of market opportunities on certain of our generics products resulted in higher overall margins in our Qualitest segment.

AMS. Adjusted income before income tax in 2012 increased 45% to \$119.9 million from \$82.4 million in 2011. This increase was primarily driven by the timing of our June 2011 acquisition of AMS, Inc., which contributed a full period's results during the twelve months ended December 31, 2012, compared to less than seven months in 2011.

HealthTronics. Adjusted income before income tax in 2012 decreased 16% to \$58.1 million from \$68.8 million in 2011. Despite an increase in revenues as described above, this decrease was primarily driven by increased research and development expenses and costs incurred associated with the two electronic medical records software companies, Intuitive Medical Software, LLC and meridianEMR, Inc., that we acquired in the second half of 2011.

Corporate unallocated. Corporate unallocated adjusted loss before income tax in 2012 increased 7% to \$338.8 million from \$318.1 million in 2011. This increase was primarily driven by the previously discussed increase in interest expense, partially offset by decreased general and administrative expenses associated with our ongoing efforts to improve our operating efficiency.

Reconciliation to GAAP. The table below provides reconciliations of our consolidated adjusted income before income tax to our consolidated income (loss) before income tax, which is determined in accordance with U.S. GAAP, for the years ended December 31 (in thousands):

	2012	2011
Total consolidated adjusted income before income tax:	\$ 917,375	\$ 831,242
Upfront and milestone payments to partners	(60,778)	(28,098)
Asset impairment charges	(768,467)	(116,089)
Acquisition-related and integration items, net	(23,015)	(33,638)
Separation benefits and other cost reduction initiatives	(47,033)	(21,821)
Amortization of intangible assets	(227,260)	(190,969)
Inventory step-up	(880)	(49,438)
Non-cash interest expense	(20,762)	(18,952)
Net loss on extinguishment of debt	(7,215)	(11,919)
Accrual for payment to Impax related to sales of Opana® ER	(102,000)	—
Patent litigation settlement items, net	(85,123)	—
Litigation-related and other contingencies	(316,425)	(11,263)
Other income, net	—	2,636
Total consolidated (loss) income before income tax	<u>\$ (741,583)</u>	<u>\$ 351,691</u>

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenues. The following table displays our revenue by reportable segment for the years ended December 31 (in thousands):

	2011	2010
Net revenues to external customers:		
Endo Pharmaceuticals	\$ 1,657,767	\$ 1,467,572
Qualitest	566,854	146,513
AMS(1)	300,299	—
HealthTronics	205,201	102,144
Total consolidated net revenues to external customers	<u>\$ 2,730,121</u>	<u>\$ 1,716,229</u>

(1) The following table displays our AMS segment revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	2011	2010
AMS:		
United States	\$ 202,462	\$ —
International	97,837	—
Total AMS revenues	<u>\$ 300,299</u>	<u>\$ —</u>

Endo Pharmaceuticals. Net sales during 2011 increased 13% to \$1,657.8 million from \$1,467.6 million in 2010. This increase was primarily driven by increased revenues from Opana® ER, Lidoderm® and Voltaren® Gel, partially offset by decreased revenues from Percocet® and certain other brands.

Qualitest. Net sales of our Qualitest segment in 2011 increased 287% to \$566.9 million from \$146.5 million in 2010. This increase was primarily driven by our acquisition of Qualitest Pharmaceuticals on November 30, 2010. Qualitest Pharmaceuticals products contributed \$446.2 million of net sales of generic products in 2011, compared with \$30.3 million in 2010.

AMS. Revenues from our AMS segment in 2011 were \$300.3 million and were primarily attributable to sales of products from our AMS, Inc. subsidiary, which we acquired in June 2011. AMS products that represented approximately 1% or more of our consolidated total revenues in 2011 included the AMS 700® series of inflatable prostheses, the AMS 800® artificial urinary sphincter, the GreenLight™ laser therapy products used to treat BPH, the Monarc® subfascial hammock and the Elevate™ anterior pelvic floor repair system.

HealthTronics. Revenues from our HealthTronics segment in 2011 increased 101% to \$205.2 million from \$102.1 million in 2010. This increase was driven by the full-year impact of HealthTronics, Inc., which contributed six months of revenue in 2010 compared to a full year of revenue in 2011. The \$205.2 million consisted primarily of lithotripsy fees of \$110.2 million, cryosurgery treatment fees of \$26.0 million and other service revenues from our HealthTronics segment.

Adjusted income (loss) before income tax. The following table displays our adjusted income (loss) before income tax by reportable segment and for the years ended December 31 (in thousands):

	2011	2010
Adjusted income before income tax:		
Endo Pharmaceuticals.....	\$ 890,951	\$ 757,453
Qualitest.....	107,204	24,722
AMS.....	82,418	—
HealthTronics	68,769	35,538
Corporate unallocated.....	(318,100)	(194,459)
Total consolidated adjusted income before income tax.....	<u>\$ 831,242</u>	<u>\$ 623,254</u>

Endo Pharmaceuticals. Adjusted income before income tax during 2011 increased 18% to \$891.0 million from \$757.5 million in 2010. This increase was primarily driven by increased revenues from our Endo Pharmaceuticals segment as well as the decrease in the royalty expense to Penwest from \$29.8 million during 2010 to zero during 2011. This royalty was eliminated upon our acquisition of Penwest in the third quarter of 2010.

Qualitest. Adjusted income before income tax during 2011 increased 334% to \$107.2 million from \$24.7 million in 2010. This increase was primarily driven by increased revenues from our Qualitest Pharmaceuticals acquisition as well as decreased research and development expense as a percentage of revenues.

AMS. Adjusted income before income tax during 2011 was \$82.4 million and was attributable to our AMS, Inc. subsidiary, which we acquired in June 2011.

HealthTronics. Adjusted income before income tax during 2011 was \$68.8 million compared to \$35.5 million in 2010. This increase was driven by our acquisition of HealthTronics, Inc., which contributed six months of results in 2010 compared to a full year in 2011.

Corporate unallocated. Corporate unallocated adjusted loss before income tax during 2011 increased 64% to \$318.1 million from \$194.5 million in 2010, which is primarily attributable to the overall growth of our business and the related increase in corporate costs, including increases in net interest expense of \$101.4 million.

Reconciliation to GAAP. The table below provides reconciliations of our consolidated adjusted income before income tax to our consolidated income before income tax, which is determined in accordance with U.S. GAAP, for the years ended December 31 (in thousands):

	2011	2010
Total consolidated adjusted income before income tax:	\$ 831,242	\$ 623,254
Upfront and milestone payments to partners	(28,098)	(23,850)
Asset impairment charges	(116,089)	(35,000)
Acquisition-related and integration items, net	(33,638)	(18,976)
Separation benefits and other cost reduction initiatives	(21,821)	(17,245)
Amortization of intangible assets.....	(190,969)	(83,974)
Inventory step-up	(49,438)	(6,289)
Non-cash interest expense	(18,952)	(16,983)
Net loss on extinguishment of debt.....	(11,919)	—
Litigation-related and other contingencies.....	(11,263)	—
Other income (expense), net	2,636	(239)
Total consolidated income before income tax.....	<u>\$ 351,691</u>	<u>\$ 420,698</u>

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is cash generated from operations. Our principal liquidity requirements are for working capital for operations, licenses, milestone payments, capital expenditures and debt service payments. The Company continues to maintain a sufficient level of working capital, which was approximately \$241.2 million at December 31, 2012 compared to \$666.3 million and \$623.7 million at December 31, 2011 and 2010, respectively. Historically, we have generated positive cash flow from operating activities and have had broad access to financial markets that provide liquidity. Cash and cash equivalents were approximately \$547.9 million at December 31, 2012 compared to \$547.6 million and \$466.2 million at December 31, 2011 and 2010, respectively. Cash and cash equivalents at December 31, 2012, 2011 and 2010 primarily consisted of bank deposits, time deposits and/or money market funds.

In 2013, we expect that sales of our current portfolio of products and services will allow us to continue to generate positive cash flow from operations. We expect cash generated from operations together with our cash and cash equivalents to be sufficient to cover cash needs for working capital and general corporate purposes, including certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, common stock repurchases and any regulatory and/or sales milestones that may become due.

We depend on patents or other forms of intellectual-property protection for most of our branded pharmaceutical revenues, cash flows, and earnings. Pursuant to our settlement and license agreement with Watson, we expect Watson to launch its lidocaine patch 5%, a generic version of Lidoderm[®] on September 15, 2013. Additionally, subject to FDA approval, we believe one or more competing products for Voltaren[®] Gel could potentially enter the market during the second quarter of 2014. The impact of such competition could cause a rapid decline in revenue from the affected products and have a material adverse effect on our liquidity and financial position. In addition, Impax's recently launched generic version of the non-crush resistant formulation Opana[®] ER adversely affected our results of operations since its launch on January 2, 2013 and will likely continue to do so in the future. However, the extent to which our revenues will be affected is subject to a number of uncertainties including the FDA's determination regarding whether the original formulation of Opana[®] ER was withdrawn for safety reasons, which we expect will be decided in May 2013, as well as certain other FDA actions that could impact the ability of both branded and generic competition for Opana[®] ER to enter the market. Our goal is to mitigate the effect of these competitive activities by leveraging growth across the remainder of our portfolio and by acquiring and in-licensing additional products, product rights or technologies.

Beyond 2013, we expect cash generated from operations together with our cash, cash equivalents and marketable securities to continue to be sufficient to cover cash needs for working capital and general corporate purposes, including certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, common stock repurchases and any regulatory and/or sales milestones that may become due. At this time, we cannot accurately predict the effect of certain developments on the rate of sales growth, such as the degree of market acceptance, patent protection and exclusivity of our products, the impact of competition, the effectiveness of our sales and marketing efforts and the outcome of our current efforts to develop, receive approval for and successfully launch our near-term product candidates. Any of the above could adversely affect our future cash flows. We may need to obtain additional funding for future strategic transactions, to repay our outstanding indebtedness, or for our future operational needs, and we cannot be certain that funding will be available on terms acceptable to us, or at all.

We may also elect to incur additional debt or issue equity or convertible securities to finance ongoing operations, acquisitions or to meet our other liquidity needs. Any issuances of equity securities or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact net income per share in future periods. An acquisition may be accretive or dilutive and by its nature, involves numerous risks and uncertainties.

A description of our current debt agreements is below.

Credit Facility. On June 17, 2011, we terminated the 2010 Credit Facility. Concurrent with the termination of the 2010 Credit Facility, we established a \$1,500 million, 5-year senior secured term loan facility (the Term Loan A Facility), a \$700 million, 7-year senior secured term loan facility (the Term Loan B Facility, and, together with the Term Loan A Facility, the Term Loan Facilities), and a \$500 million, 5-year senior secured revolving credit facility (the 2011 Revolving Credit Facility and, together with the Term Loan Facilities, the 2011 Credit Facility) with Morgan Stanley Senior Funding, Inc., as administrative agent, Bank of America, N.A., as Syndication Agent, and certain other lenders. The 2011 Credit Facility was established primarily to finance our acquisition of AMS, Inc. and is available for working capital, general corporate purposes and lines of credit. The agreement governing the 2011 Credit Facility (the 2011 Credit Agreement) also permits up to \$500 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders with the

consent of Morgan Stanley Senior Funding, Inc. (the administrative agent) without the need for consent from any of the existing lenders under the 2011 Credit Facility.

The obligations of the Company under the 2011 Credit Facility are guaranteed by certain of the Company's domestic subsidiaries and are secured by substantially all of the assets of the Company and the subsidiary guarantors. The 2011 Credit Facility contains certain usual and customary covenants, including, but not limited to covenants to maintain maximum leverage and minimum interest coverage ratios. Borrowings under the 2011 Credit Facility bear interest at an amount equal to a rate calculated based on the type of borrowing and the Company's Leverage Ratio. For term A loans and revolving loans (other than Swing Line Loans), the Company is permitted to elect to pay interest based on an adjusted LIBOR rate plus between 1.75% and 2.50% or an Alternate Base Rate (as defined in the 2011 Credit Agreement) plus between 0.75% and 1.50%. For term B loans, the Company may elect to pay interest based on an adjusted LIBOR rate plus 3.00% or an Alternate Base Rate plus 2.00%. The Company will pay a commitment fee of between 37.5 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

In September 2011 and December 2011, we made prepayments of \$135.0 million and \$125.0 million, respectively, on our Term Loan B Facility. Pursuant to our rights under the 2011 Credit Agreement, we elected to apply a portion of the September 2011 prepayment against all remaining contractual payments such that we had no remaining principal payment obligations until the maturity of the Term Loan B Facility on June 17, 2018. In February 2012, we made a prepayment of \$205.0 million on our Term Loan B Facility. We made additional prepayments of \$33.0 million and \$39.7 million in July 2012 and September 2012, respectively.

Based on current favorable conditions in the leveraged loan markets, we currently intend to seek amendments to the 2011 Credit Facility in order to, among other things, extend its term and modify its covenants to provide us with greater financial and operating flexibility. Any such amendment would require the consent of the lenders under the 2011 Credit Facility. There can be no assurance that we will be able to obtain any such amendment on favorable terms or at all.

7.00% Senior Notes Due 2019. On June 8, 2011, we entered into an indenture among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, which governs the terms of the Company's \$500 million aggregate principal amount of 7.00% Senior Notes due 2019 (the 2019 Notes). The 2019 Notes were issued in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act) to qualified institutional buyers in accordance with Rule 144A and to persons outside of the U.S. pursuant to Regulation S under the Securities Act. The 2019 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. The Company used the net proceeds of the 2019 Notes offering to partially finance the acquisition of AMS, Inc., and to pay related fees and expenses.

The 2019 Notes bear interest at a rate of 7.00% per year, accruing from June 8, 2011. Interest on the 2019 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2012. The 2019 Notes will mature on July 15, 2019, subject to earlier repurchase or redemption in accordance with the terms of the indenture governing the 2019 Notes. The indenture governing the 2019 Notes contains covenants that, among other things, restrict the Company's ability and the ability of certain of its restricted subsidiaries to incur certain additional indebtedness and issue preferred stock; make certain dividends, distributions, investments and other restricted payments; sell certain assets; agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company; create certain liens; enter into transactions with affiliates; designate subsidiaries as unrestricted subsidiaries; and consolidate, merge or sell substantially all of the Company's assets. These covenants are subject to a number of important exceptions and qualifications, including the fall away or revision of certain of these covenants upon the 2019 Notes receiving investment grade credit ratings.

7.00% Senior Notes Due 2020. On November 23, 2010, we entered into an indenture among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, which governs the terms of the Company's \$400 million aggregate principal amount of 7.00% Senior Notes due 2020 (the 2020 Notes). The 2020 Notes were issued in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act) to qualified institutional buyers in accordance with Rule 144A and to persons outside of the U.S. pursuant to Regulation S under the Securities Act. The 2020 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. The Company used the net proceeds of the 2020 Notes offering to partially finance the acquisition of Qualitest Pharmaceuticals, and to pay related fees and expenses.

The 2020 Notes bear interest at a rate of 7.00% per year, accruing from November 23, 2010. Interest on the 2020 Notes is payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2011. The 2020 Notes will mature on December 15, 2020, subject to earlier repurchase or redemption in accordance with the terms of the indenture governing the 2020 Notes. The indenture governing the 2020 Notes contains covenants that, among other things, restrict the

Company's ability and the ability of certain of its restricted subsidiaries to incur certain additional indebtedness and issue preferred stock; make certain dividends, distributions, investments and other restricted payments; sell certain assets; agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company; create certain liens; enter into transactions with affiliates; designate subsidiaries as unrestricted subsidiaries; and consolidate, merge or sell substantially all of the Company's assets. These covenants are subject to a number of important exceptions and qualifications, including the fall away or revision of certain of these covenants upon the 2020 Notes receiving investment grade credit ratings.

7.25% Senior Notes Due 2022. On June 8, 2011, we entered into an indenture among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, which governs the terms of the Company's \$400 million aggregate principal amount of 7.25% Senior Notes due 2022 (the 2022 Notes). The 2022 Notes were issued in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act) to qualified institutional buyers in accordance with Rule 144A and to persons outside of the U.S. pursuant to Regulation S under the Securities Act. The 2022 Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries. The Company used the net proceeds of the 2022 Notes offering to partially finance the acquisition of AMS, Inc., and to pay related fees and expenses.

The 2022 Notes bear interest at a rate of 7.25% per year, accruing from June 8, 2011. Interest on the 2022 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2012. The 2022 Notes will mature on January 15, 2022, subject to earlier repurchase or redemption in accordance with the terms of the indenture governing the 2022 Notes. The indenture governing the 2022 Notes contains covenants that, among other things, restrict the Company's ability and the ability of certain of its restricted subsidiaries to incur certain additional indebtedness and issue preferred stock; make certain dividends, distributions, investments and other restricted payments; sell certain assets; agree to any restrictions on the ability of restricted subsidiaries to make payments to the Company; create certain liens; enter into transactions with affiliates; designate subsidiaries as unrestricted subsidiaries; and consolidate, merge or sell substantially all of the Company's assets. These covenants are subject to a number of important exceptions and qualifications, including the fall away or revision of certain of these covenants upon the 2022 Notes receiving investment grade credit ratings.

2011 Exchange Offer. On October 14, 2011, the Company filed a Form S-4 Registration Statement with the Securities and Exchange Commission. On October 31, 2011, it filed a prospectus pursuant to Rule 424(b)(3). Pursuant to both filings, the Company offered to exchange the 2019 Notes, 2020 Notes and 2022 Notes for a like principal amount of new notes having identical terms that have been registered under the Securities Act of 1933, as amended. On November 30, 2011, all of the 2019 Notes, 2020 Notes and 2022 Notes had been properly tendered in the exchange offer and not withdrawn.

1.75% Convertible Senior Subordinated Notes due 2015. As discussed in Note 19. Debt in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules", in April 2008, we issued \$379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes) in a private offering for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

Holders of the Convertible Notes may convert their notes based on a conversion rate of 34.2466 shares of our common stock per \$1,000 principal amount of notes (the equivalent of \$29.20 per share), subject to adjustment upon certain events, only under the following circumstances as described in the indenture for the Convertible Notes: (1) during specified periods, if the price of our common stock reaches specified thresholds; (2) if the trading price of the Convertible Notes is below a specified threshold; (3) at any time after October 15, 2014; or (4) upon the occurrence of certain corporate transactions. We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the notes. It is our current intention to settle the principal amount of any conversion consideration in cash.

The Convertible Notes are only included in the dilutive net income per share calculation using the treasury stock method during periods in which the average market price of our common stock was above the applicable conversion price of the Convertible Notes, or \$29.20 per share. In these periods, under the treasury stock method, we calculated the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and included that number in the total diluted shares outstanding for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the Convertible Notes. However, we separately analyze the impact of the convertible note hedge and the warrant agreements on diluted weighted average shares outstanding. As a result, the purchases of the convertible note hedges are excluded because their impact would be anti-dilutive. The treasury stock method is applied when the warrants are in-the-money with the proceeds from the exercise of the warrant used to repurchase shares based on the

average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that could potentially be included if the warrants were exercised is approximately 13.0 million.

The following table provides the range of shares that would be included in the dilutive net income per share calculation for the Convertible Notes and warrants based on share price sensitivity (in thousands except per share data):

	Three Months Ended March 31, 2012 (1)				Three Months Ended June 30, 2012			
	-5%	Actual	+5%	+10%	-5%	Actual	+5%	+10%
Average market price of								
Endo common stock:	\$ 34.66	\$ 36.48	\$ 38.30	\$ 40.13	\$ 31.58	\$ 33.24	\$ 34.90	\$ 36.56
Impact on dilutive shares:								
Convertible Notes	2,047	2,594	3,088	3,540	979	1,581	2,123	2,616
Warrants.....	—	—	—	42	—	—	—	—
	<u>2,047</u>	<u>2,594 (2)</u>	<u>3,088</u>	<u>3,582</u>	<u>979</u>	<u>1,581 (3)</u>	<u>2,123</u>	<u>2,616</u>

	Three Months Ended September 30, 2012				Three Months Ended December 31, 2012 (1)			
	-5%	Actual	+5%	+10%	-5%	Actual	+5%	+10%
Average market price of								
Endo common stock:	\$ 29.88	\$ 31.45	\$ 33.02	\$ 34.60	\$ 26.91	\$ 28.33	\$ 29.75	\$ 31.16
Impact on dilutive shares:								
Convertible Notes	296	929	1,504	2,028	—	—	240	817
Warrants.....	—	—	—	—	—	—	—	—
	<u>296</u>	<u>929 (3)</u>	<u>1,504</u>	<u>2,028</u>	<u>—</u>	<u>— (2)</u>	<u>240</u>	<u>817</u>

(1) Because the Company reported a Net loss attributable to Endo Health Solutions Inc. during the three month periods ended March 31, 2012 and December 31, 2012, the Convertible Notes and Warrants had no dilutive impact during these periods and would not have had a dilutive impact given any of the assumed share prices above. Therefore, these amounts are included for informational purposes only and are not indicative of actual results or results that would have occurred given the assumed share prices above.

(2) Represents, for the three month periods ended March 31, 2012 and December 31, 2012, the amounts that would have been included in total diluted shares outstanding of 117.1 million and 112.8 million, respectively, had the Company reported Net income attributable to Endo Health Solutions Inc. as opposed to a Net loss attributable to Endo Health Solutions Inc.

(3) Amounts included in total diluted shares outstanding of 121.1 million and 119.6 million for the three month periods ended June 30, 2012 and September 30, 2012, respectively.

3.25% Convertible AMS Notes Due 2036 and 4.00% Convertible AMS Notes Due 2041. As a result of our acquisition of AMS, Inc., the Company assumed AMS, Inc.'s 3.25% Convertible Notes due 2036 (the 2036 Notes) and 4.00% Convertible Notes due 2041 (the 2041 Notes and, together with the 2036 Notes, the AMS Notes). In accordance with the indentures governing the AMS Notes, the AMS Notes were immediately convertible upon the closing of Endo's acquisition of AMS, Inc. From the AMS, Inc. Acquisition Date until the make whole premium on the 2036 Notes expired on August 9, 2011, we paid \$95.7 million to redeem \$61.4 million of the 2036 Notes at a stated premium of 1.5571. From the AMS, Inc. Acquisition Date until the make whole premium on the 2041 Notes expired on August 1, 2011, we paid \$423.4 million to redeem \$249.9 million of the 2041 Notes at a stated premium of 1.6940. Our obligation remaining related to the AMS Notes is less than \$1.0 million at December 31, 2012, excluding accrued interest.

Share Repurchase Programs. In April 2008, our Board of Directors approved a share repurchase program (the 2008 Share Repurchase Program), authorizing the Company to repurchase in the aggregate up to \$750 million of shares of its outstanding common stock. In August 2012, our Board of Directors resolved to cancel and terminate the 2008 Share Repurchase Program, effective immediately, and approve a new share repurchase program (the 2012 Share Repurchase Program). The 2012 Share Repurchase Program authorizes the Company to repurchase in the aggregate up to \$450 million of shares of its outstanding common stock. Purchases under this program may be made from time to time in open market purchases, pre-set purchase programs, privately-negotiated transactions, and accelerated stock buyback agreements. This program does not obligate Endo to acquire any particular amount of common stock. Future repurchases, if any, will depend on factors such as levels of cash generation from operations, cash requirements for investment in the Company's business,

repayment of future debt, if any, then current stock price, market conditions, securities law limitations and other factors. The share repurchase program may be suspended, modified or discontinued at any time. The 2012 Share Repurchase Program is set to expire on March 31, 2015.

Pursuant to our share repurchase programs, we purchased approximately 8.3 million shares of our common stock during 2012 totaling \$256.0 million, 0.9 million shares of our common stock during 2011 totaling \$34.7 million and 2.5 million shares of our common stock during 2010 totaling \$59.0 million.

Employee Stock Purchase Plan. At our Annual Meeting of Stockholders held in May of 2011, our shareholders approved the Endo Health Solutions Inc. Employee Stock Purchase Plan (the ESPP). The ESPP is a Company-sponsored plan that enables employees to voluntarily elect, in advance of any of the four quarterly offering periods ending March 31, June 30, September 30 and December 31 of each year, to contribute up to 10% of their eligible compensation, subject to certain limitations, to purchase shares of common stock at 85% of the lower of the closing price of Endo common stock on the first or last trading day of each offering period. The maximum number of shares that a participant may purchase in any calendar year is equal to \$25,000 divided by the closing selling price per share of our common stock on the first day of the offering period, subject to certain adjustments. Compensation expense is calculated in accordance with the applicable accounting guidance and is based on the share price at the beginning or end of each offering period and the purchase discount. Obligations under the ESPP may be satisfied by the reissuance of treasury stock, by the Company's purchase of shares on the open market or by the authorization of new shares. The maximum number of shares available under the ESPP, pursuant to the terms of the ESPP plan document, is one percent of the common shares outstanding on April 15, 2011 or approximately 1.2 million shares. The ESPP shall continue in effect until the earlier of (i) the date when no shares of stock are available for issuance under the ESPP, at which time the ESPP shall be suspended pursuant to the terms of the ESPP plan document, or (ii) December 31, 2022, unless earlier terminated. Compensation expense related to the ESPP totaled \$1.3 million during 2012. The Company issued 235,425 shares from treasury with a cost totaling \$6.1 million during 2012 pursuant to the ESPP.

Marketable Securities. In June 2012, our remaining auction-rate securities were called at par and we received proceeds of \$18.8 million. Prior to being sold, these auction-rate securities had been classified as available-for-sale securities and had therefore been maintained at their fair value, with changes in value being recorded as part of Other comprehensive income (loss), net. Due to the fact that we received proceeds equal to par, the auction-rate securities were adjusted to their fair value of \$18.8 million, with a corresponding gain to Other comprehensive income (loss), net. The previously recognized cumulative unrealized holding loss associated with these securities of \$1.5 million was reversed in its entirety. As a result, no gain or loss was realized.

Working Capital. The components of our working capital as of December 31, 2012, 2011 and 2010 are below (in thousands):

	December 31, 2012	December 31, 2011	December 31, 2010
Total current assets.....	\$ 1,969,234	\$ 1,788,096	\$ 1,359,534
Less: total current liabilities	(1,728,020)	(1,121,778)	(735,828)
Working capital	<u>\$ 241,214</u>	<u>\$ 666,318</u>	<u>\$ 623,706</u>

Working capital decreased by \$425.1 million from December 31, 2011 to December 31, 2012 primarily due to the establishment of accruals totaling \$316.4 million for litigation-related and other contingencies, \$102.0 million for the liability for our payment to Impax related to sales of Opana[®] ER and \$85.1 million for payments to Watson related to the Lidoderm[®] litigation settlement, the payment of \$277.7 million of our Term Loan indebtedness that had been classified as a non-current liability, net repurchases of Common stock totaling \$249.9 million, net purchases of property, plant and equipment of \$98.4 million and distributions to non-controlling interests of \$53.3 million. These decreases were partially offset by Net cash provided by operating activities of \$733.9 million.

Working capital increased by \$42.6 million from December 31, 2010 to December 31, 2011 primarily as a result of the current assets and liabilities assumed in connection with our second quarter 2011 acquisition of AMS and the net cash retained from our 2011 financings to acquire AMS. These amounts were partially offset by the use of cash to prepay \$260.0 million of our Term Loan indebtedness.

The following table summarizes our Consolidated Statements of Cash Flows and liquidity for the years ended December 31 (dollars in thousands):

	2012	2011	2010
Net cash flow provided by (used in):			
Operating activities.....	\$ 733,879	\$ 702,115	\$ 453,646
Investing activities.....	(88,467)	(2,374,092)	(896,323)
Financing activities.....	(645,547)	1,752,681	200,429
Effect of foreign exchange rate	431	702	—
Net increase (decrease) in cash and cash equivalents.....	\$ 296	\$ 81,406	\$ (242,248)
Cash and cash equivalents, beginning of period.....	\$ 547,620	\$ 466,214	\$ 708,462
Cash and cash equivalents, end of period.....	\$ 547,916	\$ 547,620	\$ 466,214
Current ratio	1.1:1	1.6:1	1.8:1
Days sales outstanding	45	45	46

Net cash provided by operating activities. Net cash provided by operating activities was \$733.9 million in 2012 compared to \$702.1 million provided by operating activities in 2011 and \$453.6 million provided by operating activities in 2010. Significant components of our operating cash flows for the years ended December 31 are as follows (in thousands):

	2012	2011	2010
Cash Flow Data-Operating Activities:			
Consolidated net (loss) income.....	\$ (688,021)	\$ 242,065	\$ 287,020
Depreciation and amortization.....	285,524	237,414	108,404
Stock-based compensation.....	59,395	46,013	22,909
Amortization of debt issuance costs and premium / discount.....	36,699	32,788	22,013
Deferred income taxes	(193,960)	(75,877)	(15,420)
Change in fair value of acquisition-related contingent consideration.....	237	(7,363)	(51,420)
Loss on auction-rate securities rights.....	—	—	15,659
Gain on trading securities	—	—	(15,420)
Net loss on extinguishment of debt.....	7,215	11,919	—
Asset impairment charges.....	768,467	116,089	35,000
Changes in assets and liabilities which provided (used) cash.....	454,393	99,581	43,672
Other, net	3,930	(514)	1,229
Net cash provided by operating activities.....	\$ 733,879	\$ 702,115	\$ 453,646

Net cash provided by operating activities represents the cash receipts and cash disbursements from all of our activities other than investing activities and financing activities. Operating cash flow is derived by adjusting our Consolidated net (loss) income for non-cash operating items, gains and losses attributed to investing and financing activities and changes in operating assets and liabilities resulting from timing differences between the receipts and payments of cash and when the transactions are recognized in our results of operations. As a result, changes in cash from operating activities reflect, among other things, the timing of cash collections from customers, payments to suppliers, managed care organizations and government agencies, collaborative partners, employees, and tax payments in the ordinary course of business.

The \$31.8 million increase in Net cash provided by operating activities in 2012 compared to 2011 was a result of a full-year of cash flow contribution from AMS and working capital initiatives, partially offset by operating performance, which was negatively impacted by the previously disclosed supply disruptions related to the shutdown of Novartis Consumer Health Inc.'s Lincoln, Nebraska manufacturing facility.

In 2011, our operating cash flow benefited from a full year of cash from operations from our Qualitest Pharmaceuticals acquisition and from a partial year of cash generated from our AMS, Inc. acquisition, when compared to 2010. In addition, Net cash provided by operating activities in 2011 was higher than in 2010 due in part to timing and an increasing lag in payments to managed care organizations attributed to government agencies' administrative delays.

Net cash used in investing activities. Net cash used in investing activities was \$88.5 million in 2012 compared to \$2.4 billion used in investing activities in 2011. This \$2.3 billion decrease in cash used relates primarily to net cash paid for acquisitions, which was \$3.2 million in 2012 compared to \$2.4 billion in 2011. The cash spent in 2011 was primarily for our acquisition of AMS, Inc.

Net cash used in investing activities was \$2.4 billion in 2011 compared to \$896.3 million used in investing activities in 2010. This \$1.5 billion increase in cash used relates primarily to cash paid for acquisitions, which was \$2.4 billion in 2011 compared to \$1.1 billion in 2010. The cash spent in 2011 was primarily for our acquisition of AMS, Inc. and the amounts spent in 2010 relate primarily to our acquisitions of Qualitest Pharmaceuticals, Penwest and HealthTronics, Inc.

Net cash (used in) provided by financing activities. Net cash used in financing activities was \$645.5 million in 2012 compared to \$1.8 billion provided by financing activities in 2011. This \$2.4 billion fluctuation was primarily attributable to our June 2011 debt restructuring related to our AMS acquisition, which provided net cash of \$1.8 billion in 2011, and the subsequent principal repayment activity related to the term loan portion of this debt, which used net cash of \$362.1 million in 2012. Additionally, in 2012, we completed net repurchases of Common stock totaling \$249.9 million.

Net cash provided by financing activities was \$1.8 billion in 2011 compared to \$200.4 million provided by financing activities in 2010. This \$1.6 billion increase resulted primarily from the previously described \$1.8 billion of cash provided by our 2011 debt restructuring, compared to \$266.4 million of cash provided by our 2010 debt-related activity, primarily related to our Qualitest Pharmaceuticals and HealthTronics, Inc. acquisitions.

Research and Development. Over the past few years, we have incurred significant expenditures related to conducting clinical studies to develop new products and exploring the value of our existing products in treating disorders beyond those currently approved in their respective labels. We may seek to mitigate the risk in, and expense of, our research and development programs by entering into collaborative arrangements with third parties. However, we intend to retain a portion of the commercial rights to these programs and, as a result, we still expect to spend significant funds on our share of the cost of these programs, including the costs of research, preclinical development, clinical research and manufacturing.

We expect to continue to incur significant levels of research and development expenditures as we focus on the development and advancement of our product pipeline. There can be no assurance that results of any ongoing or future preclinical or clinical trials related to these projects will be successful, that additional trials will not be required, that any drug or product under development will receive FDA approval in a timely manner or at all, or that such drug or product could be successfully manufactured in accordance with U.S. current Good Manufacturing Practices, or successfully marketed in a timely manner, or at all, or that we will have sufficient funds to develop or commercialize any of our products.

Manufacturing, Supply and Other Service Agreements. We contract with various third-party manufacturers and suppliers to provide us with raw materials used in our products, finished goods and certain services. Our most significant agreements are with Novartis Consumer Health, Inc. and Novartis AG, Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc., Grünenthal GMBH, Sharp Corporation, Ventiv Commercial Services, LLC and UPS Supply Chain Solutions. If, for any reason, we are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for our products, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. For a complete description of commitments under manufacturing, supply and other service agreements, see Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

License and Collaboration Agreements. We have agreed to certain contingent payments in certain of our license, collaboration and other agreements. Payments under these agreements generally become due and payable only upon the achievement of certain developmental, regulatory, commercial and/or other milestones. Due to the fact that it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded in our Consolidated Balance Sheets and are not reflected in the expected cash requirements for Contractual Obligations table below. In addition, under certain arrangements, we may have to make royalty payments based on a percentage of future sales of the products in the event regulatory approval for marketing is obtained. From a business perspective, we view these payments favorably as they signify that the products are moving successfully through the development phase toward commercialization. For a complete description of our contingent payments involving our license and collaboration agreements, Note 7. License and Collaboration Agreements and Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Corporate Headquarters Lease. On October 28, 2011, as part of our ongoing efforts to improve our operating efficiency and consolidate our Pennsylvania-based employees into one location, we entered into a lease agreement with RT/TC Atwater LP, a Delaware limited partnership, for a new Company headquarters to consist of approximately 300,000 square feet of office space located at 1400 Atwater Boulevard, Malvern, Pennsylvania (with a four-year option to lease up to approximately 150,000 additional square feet). The term of this triple net lease is 12 years and includes three renewal options, each for an additional 60-month period. The lease commenced on December 31, 2012 with a monthly lease rate for the initial year of \$0.5 million, increasing by 2.25% each year thereafter.

This lease is accounted for as a direct financing arrangement whereby the Company recorded, over the construction period, the full cost of the asset in Property, plant and equipment, net. At December 31, 2012 and 2011, the Company capitalized \$91.1 million and \$5.5 million, respectively, as Property, plant and equipment related to this arrangement. The building and leasehold improvements will be depreciated over the initial lease term. A corresponding liability was also recorded, net of leasehold improvements paid for by the Company and will be amortized over the expected lease term through monthly rental payments using an effective interest method. At December 31, 2012, the Company has recorded a liability of \$57.0 million related to this arrangement.

Effective upon the cease use date of the Chadds Ford, Pennsylvania properties in 2013, we expect to record a liability reflecting our remaining obligations under the respective lease agreements.

Acquisitions. As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue stock or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings for merger and related expenses (whether or not our efforts are successful) that may include transaction costs, closure costs or costs of restructuring activities.

AMS, Inc.

On June 17, 2011 (the AMS, Inc. Acquisition Date), the Company completed its acquisition of all outstanding shares of common stock of AMS, Inc. for approximately \$2.4 billion in aggregate consideration, including \$70.8 million related to existing AMS, Inc. stock-based compensation awards and certain other amounts, at which time AMS, Inc. became a wholly-owned, indirect subsidiary of the Company. AMS, Inc.'s shares were purchased at a price of \$30.00 per share.

AMS, Inc. is a worldwide developer and provider of technology solutions to physicians treating men's and women's pelvic health conditions. The AMS, Inc. business and applicable services include:

Men's Health.

AMS, Inc. supplies surgical solutions for the treatment of male urinary incontinence, the involuntary release of urine from the body. The fully implantable AMS 800[®] system includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff when he wishes to urinate. Since 2000, AMS, Inc. has also been selling the InVance[®] sling system, a less-invasive procedure for men with moderate incontinence, and in 2007, AMS, Inc. released the AdVance[®] sling system for the treatment of mild to moderate stress urinary incontinence. AMS, Inc. also offers the UroLume[®] endoprosthesis stent as a less invasive procedure for patients who may not be good surgical candidates, as well as for men suffering from bulbar urethral strictures.

AMS, Inc. also supplies penile implants to treat erectile dysfunction, the inability to achieve or maintain an erection sufficient for sexual intercourse, with a series of semi-rigid malleable prostheses and a complete range of more naturally functioning inflatable prostheses, including the AMS 700[®] MS. AMS, Inc. has refined its implants over the years with improvements to the AMS 700[®] series of inflatable prostheses, including the AMS 700 LGX[®] and the MS Pump[®]. Another key factor that distinguishes AMS, Inc.'s products is the use of the InhibiZone[®] antibiotic coating, which received FDA approval in July 2009 for AMS, Inc.'s product claim that InhibiZone[®] reduces the rate of revision surgery due to surgical infections.

Women's Health.

AMS, Inc. offers a broad range of systems, led by Monarc[®] and MiniArc[®], to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. Monarc[®] incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramen. AMS, Inc.'s MiniArc[®] Single-Incision Sling for stress incontinence was released in 2007 and requires just one incision to surgically place a small sling under the urethra, which minimizes tissue disruption and potential for blood loss, thereby allowing the procedure to be done with less anesthesia on an outpatient basis. In 2010, AMS, Inc. launched the MiniArc[®] Precise[™], which is designed to enhance the ease and accuracy of placement of the MiniArc device.

AMS, Inc. also offers solutions for pelvic floor prolapse and other pelvic floor disorders, which may be caused by pregnancy, labor, and childbirth. In 2008, AMS, Inc. introduced the Elevate[®] transvaginal pelvic floor repair system, with no

external incisions. Using an anatomically designed needle and self-fixating tips, Elevate[®] allows for safe, simple and precise mesh placement through a single vaginal incision. The posterior system was launched in 2008 and the anterior system was launched in 2009.

BPH Therapy.

AMS, Inc.'s products can be used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of BPH or bulbar urethral strictures. AMS, Inc. offers men experiencing a physical obstruction of the prostatic urethra an alternative to a transurethral resection of the prostate (TURP), with the GreenLight[™] photovaporization of the prostate. This laser therapy is designed to reduce the comorbidities associated with TURP. AMS, Inc.'s GreenLight[™] XPS and MoXy[™] Liquid Cooled Fiber provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight[™] laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and providing enhanced surgical control compared to other laser systems. AMS, Inc. also offers the StoneLight[®] laser and SureFlex[™] fiber optics for the treatment of urinary stones. StoneLight[®] is a lightweight and portable 15-watt holmium laser that offers the right amount of power to effectively fragment most urinary stones. The SureFlex[™] fiber optic line is engineered to deliver more energy safely and effectively, even under maximum scope deflection, for high performance holmium laser lithotripsy.

AMS, Inc.'s TherMatrix[®] product is designed for those men not yet to the point of urethral obstruction, but for whom symptomatic relief is desired. It is a less-invasive tissue ablation technique that can be performed in a physician's office using microwave energy delivered to the prostate.

The acquisition of AMS, Inc. furthers Endo's evolution from a pharmaceutical product-driven company to a healthcare solutions provider, strengthens our leading core urology franchise and expands our presence in the medical devices market. We believe the combination of AMS, Inc. with Endo's existing platform will provide additional cost-effective solutions across the entire urology spectrum.

The operating results of AMS, Inc. from and including June 18, 2011 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of AMS, Inc., effective June 18, 2011.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the AMS, Inc. Acquisition Date (in thousands):

	June 17, 2011 (As Adjusted)
Cash and cash equivalents.....	\$ 47,289
Commercial paper.....	71,000
Accounts receivable	73,868
Other receivables.....	630
Inventories.....	74,988
Prepaid expenses and other current assets.....	7,133
Income taxes receivable	9,154
Deferred income taxes.....	15,432
Property, plant and equipment	56,413
Other intangible assets(1).....	1,260,000
Other assets	4,581
Total identifiable assets	<u>\$ 1,620,488</u>
Accounts payable	\$ 10,327
Accrued expenses.....	45,835
Deferred income taxes.....	416,745
Long-term debt.....	520,375
Other liabilities.....	25,891
Total liabilities assumed	<u>\$ 1,019,173</u>
Net identifiable assets acquired	\$ 601,315
Goodwill(2).....	1,798,661
Net assets acquired.....	<u><u>\$ 2,399,976</u></u>

-
- (1) Subsequent pre-tax non-cash impairment charges totaling \$135.5 million related to Other intangible assets were recorded in 2012. These impairment charges are further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".
- (2) A subsequent pre-tax non-cash impairment charge of \$507.5 million related to this Goodwill was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the AMS, Inc. Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
Customer Relationships:		
Men's Health.....	\$ 97.0	17
Women's Health.....	37.0	15
BPH.....	26.0	13
Total.....	<u>\$ 160.0</u>	16
Developed Technology:		
Men's Health.....	\$ 690.0	18
Women's Health(1).....	150.0	9
BPH.....	161.0	18
Total.....	<u>\$ 1,001.0</u>	16
Tradenames:		
AMS.....	\$ 45.0	30
GreenLight	12.0	15
Total.....	<u>\$ 57.0</u>	27
In Process Research & Development:		
Oracle(2)	\$ 12.0	n/a
Genesis	14.0	n/a
TOPAS	8.0	n/a
Other(3).....	8.0	n/a
Total.....	<u>\$ 42.0</u>	n/a
Total other intangible assets	<u>\$ 1,260.0</u>	n/a

- (1) A subsequent pre-tax non-cash impairment charge of \$128.5 million was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.
- (2) A subsequent pre-tax non-cash impairment charge of \$4.0 million was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.
- (3) A subsequent pre-tax non-cash impairment charge of \$3.0 million was recorded in the second quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles.

The fair value of the developed technology, IPR&D and customer relationship assets were estimated using a discounted present value income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. The fair value of the AMS and GreenLight tradenames were estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the AMS or GreenLight tradename. Thus, we derived the hypothetical royalty income from the projected revenues of AMS and GreenLight products, respectively. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

The \$1,798.7 million of goodwill has been assigned to our AMS segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the entire urology spectrum, expected corporate synergies, the assembled workforce of AMS, Inc. and other factors. Approximately \$16.5 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$15.4 million are related primarily to federal net operating loss and credit carryforwards of AMS, Inc. and its subsidiaries. Deferred tax liabilities of \$416.7 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized \$7.7 million and \$28.8 million of AMS, Inc. acquisition-related and integration costs that were expensed during the years ended December 31, 2012 and 2011, respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2012	2011
Bank fees.....	\$ —	\$ 16,070
Legal, separation, integration, and other costs	7,672	12,684
Total.....	<u>\$ 7,672</u>	<u>\$ 28,754</u>

Transaction costs directly associated with the closing of the acquisition in 2011 and included in the table above totaled \$25.8 million.

The amounts of revenue and net loss of AMS, Inc. included in the Company's Consolidated Statements of Operations from and including June 18, 2011 to December 31, 2011 are as follows (in thousands, except per share data):

Revenue.....	\$ 300,299
Net loss attributable to Endo Health Solutions Inc.	\$ (329)
Basic and diluted net loss per share	\$ —

The following supplemental pro forma information presents the financial results as if the acquisition of AMS, Inc. had occurred on January 1, 2010 for the years ended December 31, 2011 and 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2011	Twelve Months Ended December 31, 2010
Unaudited pro forma consolidated results (in thousands, except per share data):		
Revenue.....	\$ 2,968,497	\$ 2,259,104
Net income attributable to Endo Health Solutions Inc.	\$ 214,487	\$ 199,776
Basic net income per share.....	\$ 1.84	\$ 1.72
Diluted net income per share.....	\$ 1.77	\$ 1.69

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of AMS, Inc. to reflect factually supportable adjustments that give effect to events that are directly attributable to the AMS, Inc. Acquisition, including borrowings to finance the acquisition as well as the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, inventory, and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

Qualitest Pharmaceuticals

On November 30, 2010 (the Qualitest Pharmaceuticals Acquisition Date), Endo completed its acquisition of all of the issued and outstanding capital stock of Generics International (US Parent), Inc. (Qualitest Pharmaceuticals) from an affiliate of Apax Partners, L.P. for approximately \$770.0 million. In addition, Endo paid \$406.8 million to retire Qualitest Pharmaceuticals' outstanding debt and related interest rate swap on November 30, 2010. In connection with the Qualitest Pharmaceuticals acquisition, \$108.0 million of the purchase price was placed into two separate escrow accounts. One of the escrow accounts was \$8.0 million, some of which was used to fund working capital adjustments, as defined in the Qualitest Pharmaceuticals Stock Purchase Agreement. This escrow was settled during the third quarter of 2011. There was also a \$100.0 million escrow account to be used to fund all claims arising out of or related to the Qualitest Pharmaceuticals acquisition. In connection with this \$100.0 million escrow account, to the extent that we realize tax benefits for costs that are funded by the escrow account, we will be required to share these tax benefits with Apax. The \$100.0 million escrow account was subsequently reduced to \$45.5 million pursuant to an October 2012 amendment to the Qualitest Pharmaceuticals Stock Purchase Agreement. This escrow fund was previously treated as a component of the Qualitest Pharmaceuticals purchase price and therefore this amendment does not have any impact on our cash or cash equivalents balances.

Qualitest Pharmaceuticals is a manufacturer and distributor of generic drugs and over-the-counter pharmaceuticals throughout the U.S. Qualitest Pharmaceuticals' product portfolio is comprised of 175 product families in various forms including tablets, capsules, creams, ointments, suppositories, and liquids. This acquisition has enabled us to gain critical mass in our generics business while strengthening our pain portfolio through a larger breadth of product offerings.

The operating results of Qualitest Pharmaceuticals from November 30, 2010 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of Qualitest Pharmaceuticals, effective November 30, 2010, the date the Company obtained control of Qualitest Pharmaceuticals.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Qualitest Pharmaceuticals Acquisition Date (in thousands):

	November 30, 2010 (As Adjusted)
Cash and cash equivalents.....	\$ 21,828
Accounts receivable	93,228
Other receivables.....	1,483
Inventories.....	95,000
Prepaid expenses and other current assets.....	1,901
Deferred income taxes.....	71,040
Property, Plant and equipment	135,807
Other intangible assets(1).....	836,000
Total identifiable assets	<u>\$ 1,256,287</u>
Accounts payable	\$ 27,421
Accrued expenses.....	59,351
Deferred income taxes.....	207,321
Long-term debt.....	406,758
Other liabilities.....	9,487
Total liabilities assumed	<u>\$ 710,338</u>
Net identifiable assets acquired.....	<u>\$ 545,949</u>
Goodwill	224,098
Net assets acquired.....	<u><u>\$ 770,047</u></u>

-
- (1) A subsequent pre-tax non-cash impairment charge of \$71.0 million related to Other intangible assets was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Qualitest Pharmaceuticals Acquisition Date. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
Developed Technology:		
Hydrocodone and acetaminophen	\$ 119.0	17
Oxycodone and acetaminophen.....	30.0	17
Promethazine	46.0	16
Isosorbide Mononitrate ER.....	42.0	16
Multi Vitamins	38.0	16
Trazodone.....	17.0	16
Butalbital, acetaminophen, and caffeine.....	25.0	16
Tripvifem.....	16.0	13
Spironolactone.....	13.0	17
Hydrocortisone	34.0	16
Hydrochlorothiazide	16.0	16
Controlled Substances	52.0	16
Oral Contraceptives	8.0	13
Others	162.0	17
Total	<u>\$ 618.0</u>	16
In Process Research & Development:		
Generics portfolio with anticipated 2011 launch.....	\$ 63.0	n/a
Generics portfolio with anticipated 2012 launch.....	30.0	n/a
Generics portfolio with anticipated 2013 launch.....	17.0	n/a
Generics portfolio with anticipated 2014 launch(1)	88.0	n/a
Total	<u>\$ 198.0</u>	n/a
Tradename:		
Qualitest tradename	\$ 20.0	15
Total	<u>\$ 20.0</u>	15
Total other intangible assets	<u>\$ 836.0</u>	n/a

- (1) A subsequent pre-tax non-cash impairment charge of \$71.0 million was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The fair value of the developed technology assets and IPR&D assets were estimated using an income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were generally assumed to extend through the economic useful life of the developed technology, IPR&D asset or tradename. The fair value of the Qualitest tradename was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the Qualitest tradename. Thus, we derived the hypothetical royalty income from the projected revenues of Qualitest Pharmaceuticals.

The \$224.1 million of goodwill was assigned to our Qualitest segment. The goodwill recognized is attributable primarily to expected purchasing, manufacturing and distribution synergies as well as its assembled workforce. Approximately \$170.4 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$71.0 million are related primarily to federal and state net operating loss and credit carryforwards of Qualitest Pharmaceuticals and its subsidiaries. Deferred tax liabilities of \$207.3 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized \$11.0 million, \$8.0 million and \$38.8 million of Qualitest Pharmaceuticals acquisition-related and integration items that were expensed during the years ended December 31, 2012, 2011 and 2010, respectively. These items are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2012	2011	2010
Bank fees.....	\$ —	\$ —	\$ 14,215
Legal, separation, integration, and other costs	10,776	8,284	24,572
Changes in fair value of acquisition-related contingent consideration.....	237	(313)	—
Total.....	<u>\$ 11,013</u>	<u>\$ 7,971</u>	<u>\$ 38,787</u>

Transaction costs directly associated with the closing of the acquisition in 2010 and included in the table above totaled \$36.1 million.

The amounts of revenue and net loss of Qualitest Pharmaceuticals included in the Company's Consolidated Statements of Operations from and including November 30, 2010 to December 31, 2010 are as follows (in thousands, except per share data):

Revenue.....	\$ 30,323
Net loss attributable to Endo Health Solutions Inc.	\$ (3,056)
Basic and diluted net loss per share	\$ (0.03)

The following supplemental pro forma information presents the financial results as if the acquisition of Qualitest Pharmaceuticals had occurred on January 1, 2010 for the year ended December 31, 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2010
Unaudited pro forma consolidated results (in thousands, except per share data):	
Revenue.....	\$ 2,038,761
Net income attributable to Endo Health Solutions Inc.	\$ 243,710
Basic net income per share.....	\$ 2.10
Diluted net income per share.....	\$ 2.07

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Qualitest Pharmaceuticals to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

Penwest Pharmaceuticals Co.

On September 20, 2010 (the Penwest Acquisition Date), the Company completed its tender offer for the outstanding shares of common stock of Penwest and on November 4, 2010, we closed this acquisition for approximately \$171.8 million in aggregate cash consideration, at which time Penwest became our wholly-owned subsidiary. On August 22, 2011, Penwest was merged into Endo Pharmaceuticals Inc., at which time Penwest ceased its existence as a separate legal entity.

This transaction contributes to Endo's core pain management franchise and permits us to maximize the value of our oxymorphone franchise.

The operating results of Penwest from September 20, 2010 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of Penwest, effective September 20, 2010, the date the Company obtained control of Penwest.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Penwest Acquisition Date (in thousands):

	September 20, 2010 (As Adjusted)
Cash and cash equivalents	\$ 22,343
Marketable securities	800
Accounts receivable	10,866
Other receivables	131
Inventories	407
Prepaid expenses and other current assets	493
Deferred income taxes	29,765
Property, plant and equipment	915
Other intangible assets(1)	111,200
Other assets	2,104
Total identifiable assets	<u>\$ 179,024</u>
Accounts payable	\$ 229
Income taxes payable	160
Penwest shareholder liability	—
Accrued expenses	1,542
Deferred income taxes	40,168
Other liabilities	4,520
Total liabilities assumed	<u>\$ 46,619</u>
Net identifiable assets acquired	<u>\$ 132,405</u>
Goodwill	39,361
Net assets acquired	<u><u>\$ 171,766</u></u>

- (1) A subsequent pre-tax non-cash impairment charge of \$1.6 million related to Other intangible assets was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the Penwest Acquisition Date. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows (in millions):

	Valuation	Amortization Period (in years)
In Process Research & Development:		
Otsuka	\$ 5.5	n/a
A0001(1)	1.6	n/a
Total	<u>\$ 7.1</u>	n/a
Developed Technology:		
Opana® ER	\$ 104.1	10
Total	<u>\$ 104.1</u>	10
Total other intangible assets	<u><u>\$ 111.2</u></u>	n/a

- (1) A subsequent pre-tax non-cash impairment charge of \$1.6 million was recorded in the fourth quarter of 2011. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The fair values of the IPR&D assets and developed technology asset were estimated using an income approach. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with the asset. The Company believes that the level and timing of cash flows appropriately reflect

market participant assumptions. Cash flows were generally assumed to extend through the economic useful life of our developed technology or IPR&D asset.

The \$39.4 million of goodwill was assigned to our Endo Pharmaceuticals segment. The goodwill recognized is attributable primarily to the control premium associated with our oxymorphone franchise and other factors. None of the goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$29.8 million are related primarily to federal net operating loss and credit carryforwards of Penwest. Deferred tax liabilities of \$40.2 million are related primarily to the difference between the book basis and tax basis of the identifiable intangible assets.

The Company recognized \$0.3 million and \$10.7 million of Penwest acquisition-related and integration costs that were expensed during the years ended December 31, 2011 and 2010, respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2011	2010
Bank fees.....	\$ —	\$ 3,865
Legal, separation, integration, and other costs	259	6,815
Total.....	<u>\$ 259</u>	<u>\$ 10,680</u>

Transaction costs directly associated with the closing of the acquisition in 2010 and included in the table above totaled \$5.6 million.

Due to the pro forma impacts of eliminating the pre-existing intercompany royalties between Penwest and Endo, which were determined to be at fair value, we have not provided supplemental pro forma information as amounts are not material to the Consolidated Statements of Operations. We have also considered the impacts of Penwest, since the date we obtained a majority interest, on our Consolidated Statement of Operations and concluded amounts were not material.

HealthTronics, Inc.

On July 2, 2010 (the HealthTronics, Inc. Acquisition Date), the Company completed its initial tender offer for all outstanding shares of common stock of HealthTronics, Inc. and obtained effective control of HealthTronics, Inc. On July 12, 2010, Endo completed its acquisition of HealthTronics, Inc. for approximately \$214.8 million in aggregate cash consideration for 100% of the outstanding shares, at which time HealthTronics, Inc. became a wholly-owned subsidiary of the Company. HealthTronics, Inc.'s shares were purchased at a price of \$4.85 per HealthTronics, Inc. Share. In addition, Endo paid \$40.0 million to retire HealthTronics, Inc.'s debt that had been outstanding under its Senior Credit Facility. As a result of the acquisition, the HealthTronics, Inc. Senior Credit Facility was terminated.

HealthTronics, Inc. is a provider of healthcare services and manufacturer of certain related medical devices, primarily for the urology community. The HealthTronics, Inc. business and applicable services include:

Lithotripsy services.

HealthTronics, Inc. provides lithotripsy services, which is a medical procedure where a device called a lithotripter transmits high energy shockwaves through the body to break up kidney stones. Lithotripsy services are provided principally through limited partnerships and other entities that HealthTronics, Inc. manages, which use lithotripters. In 2012, physician partners used our lithotripters to perform more than 50,000 procedures in the U.S. While the physicians render medical services, HealthTronics, Inc. does not. As the general partner of limited partnerships or the manager of other types of entities, HealthTronics, Inc. also provide services relating to operating its lithotripters, including scheduling, staffing, training, quality assurance, regulatory compliance, and contracting with payors, hospitals, and surgery centers.

Prostate treatment services.

HealthTronics, Inc. provides treatments for benign and cancerous conditions of the prostate. In treating benign prostate disease, HealthTronics, Inc. deploys three technologies in a number of its partnerships above: (1) PVP, (2) TUNA, and (3) TUMT. All three technologies apply an energy source which reduces the size of the prostate gland. For treating prostate and other cancers, HealthTronics, Inc. uses a procedure called cryosurgery, a process which uses lethal ice to destroy tissue such as tumors for therapeutic purposes. In April 2008, HealthTronics, Inc. acquired Advanced Medical Partners, Inc., which

significantly expanded its cryosurgery partnership base. In July 2009, HealthTronics, Inc. acquired Endocare, Inc., which manufactures both the medical devices and related consumables utilized by its cryosurgery operations and also provides cryosurgery treatments. The prostate treatment services are provided principally by using equipment that HealthTronics, Inc. leases from limited partnerships and other entities that HealthTronics, Inc. manages. Benign prostate disease and cryosurgery cancer treatment services are billed in the same manner as its lithotripsy services under either retail or wholesale contracts. HealthTronics, Inc. also provides services relating to operating the equipment, including scheduling, staffing, training, quality assurance, regulatory compliance, and contracting.

Anatomical pathology services.

HealthTronics, Inc. provides anatomical pathology services primarily to the urology community. HealthTronics, Inc. has one pathology lab located in Georgia, which provides laboratory detection and diagnosis services to urologists throughout the U.S. In addition, in July 2008, HealthTronics, Inc. acquired Uropath LLC, now referred to as HealthTronics Laboratory Solutions, which managed pathology laboratories located at Uropath sites for physician practice groups located in Texas, Florida and Pennsylvania. Through HealthTronics Laboratory Solutions, HealthTronics, Inc. continues to provide administrative services to in-office pathology labs for practice groups and pathology services to physicians and practice groups with its lab equipment and personnel at the HealthTronics Laboratory Solutions laboratory sites.

Medical products manufacturing, sales and maintenance.

HealthTronics, Inc. manufactures and sells medical devices focused on minimally invasive technologies for tissue and tumor ablation through cryoablation, which is the use of lethal ice to destroy tissue, such as tumors, for therapeutic purposes. HealthTronics, Inc. develops and manufactures these devices for the treatment of prostate and renal cancers and our proprietary technologies also have applications across a number of additional markets, including the ablation of tumors in the lung, liver metastases and palliative intervention (treatment of pain associated with metastases). HealthTronics, Inc. manufactures the related spare parts and consumables for these devices. HealthTronics, Inc. also sells and maintains lithotripters and related spare parts and consumables.

The acquisition of HealthTronics, Inc. reflects Endo's desire to continue expanding our business beyond pain management into complementary medical areas where HealthTronics, Inc. can be innovative and competitive. We believe this expansion will enable us to be a provider of multiple healthcare solutions and services that fill critical gaps in patient care.

The operating results of HealthTronics, Inc. from July 2, 2010 are included in the accompanying Consolidated Statements of Operations. The Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011 reflect the acquisition of HealthTronics, Inc., effective July 2, 2010, the date the Company obtained control of HealthTronics, Inc.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the HealthTronics, Inc. Acquisition Date (in thousands):

	July 2, 2010 (As Adjusted)
Cash and cash equivalents.....	\$ 6,769
Accounts receivable	33,388
Other receivables.....	1,006
Inventories.....	12,399
Prepaid expenses and other current assets.....	5,204
Deferred income taxes.....	46,489
Property, plant and equipment	30,687
Other intangible assets(1).....	73,124
Other assets	5,210
Total identifiable assets	<u>\$ 214,276</u>
Accounts payable	\$ 3,084
Accrued expenses.....	20,510
Deferred income taxes.....	22,376
Long-term debt.....	43,460
Other liabilities.....	1,785
Total liabilities assumed	<u>\$ 91,215</u>
Net identifiable assets acquired	<u>\$ 123,061</u>
Noncontrolling interests	(63,227)
Goodwill(2).....	155,009
Net assets acquired.....	<u><u>\$ 214,843</u></u>

(1) Other intangible assets includes a \$12.2 million intangible asset related to our IGRT business, which was sold in September 2011 for approximately \$13.0 million. Accordingly, the carrying amount of this asset was reduced to zero at the time of sale.

(2) A subsequent pre-tax non-cash impairment charge of \$24.8 million related to this Goodwill was recorded in the fourth quarter of 2012. This impairment charge is further discussed in Note 9. Goodwill and Other Intangibles in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

The above estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the HealthTronics, Inc. Acquisition Date. Our measurement period adjustments are complete.

The valuation of the intangible assets acquired and related amortization periods are as follows (in millions):

	Valuation (in millions)	Amortization Period (in years)
Endocare Developed Technology	\$ 46.3	10
HealthTronics Tradename.....	14.6	15
Service Contract(1).....	12.2	n/a
Total	<u>\$ 73.1</u>	n/a

(1) This intangible asset relates to our IGRT business, which was sold in September 2011 for approximately \$13.0 million. Accordingly, the carrying amount of this asset was reduced to zero at the time of sale.

The fair value of the developed technology asset was estimated using a discounted present value income approach. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used probability-weighted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were assumed to extend through the economic useful life of the purchased technology. The fair value of the HealthTronics Tradename was estimated using an income approach, specifically known as the relief from royalty method.

The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the HealthTronics Tradename. Thus, we derived the hypothetical royalty income from the projected revenues of HealthTronics, Inc.'s services.

HealthTronics, Inc. has investments in partnerships and limited liability companies (LLCs) where we, as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where we do not own 100% of the entity in accordance with the accounting consolidation principles. As a result, we are required to fair value the noncontrolling interests as part of our purchase price allocation. To calculate fair value, the Company used historical transactions which represented Level 2 data points within the fair value hierarchy to calculate applicable multiples of each respective noncontrolling interest in the partnerships and LLCs.

The \$155.0 million of goodwill has been assigned to our HealthTronics segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the HealthTronics, Inc. network of urology partnerships, expected corporate synergies, the assembled workforce of HealthTronics, Inc. and other factors. Approximately \$33.6 million of goodwill was expected to be deductible for income tax purposes.

Deferred tax assets of \$46.5 million are related primarily to federal net operating loss and credit carryforwards of HealthTronics, Inc. and its subsidiaries. Deferred tax liabilities of \$22.4 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized \$3.6 million, \$3.7 million and \$20.9 million of HealthTronics, Inc. acquisition-related and integration costs that were expensed during the years ended December 31, 2012, 2011 and 2010, respectively. These costs are included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations and are comprised of the following items (in thousands):

	2012	2011	2010
Bank fees.....	\$ —	\$ —	\$ 2,017
Acceleration of outstanding HealthTronics, Inc. stock-based compensation.....	—	—	7,924
Legal, separation, integration, and other costs	3,569	3,704	10,988
Total.....	<u>\$ 3,569</u>	<u>\$ 3,704</u>	<u>\$ 20,929</u>

Transaction costs directly associated with the closing of the acquisition in 2010 and included in the table above totaled \$20.0 million.

The amounts of revenue and net loss of HealthTronics, Inc. included in the Company's Consolidated Statements of Operations from and including July 2, 2010 to December 31, 2010 are as follows (in thousands, except per share data):

Revenue.....	\$ 102,144
Net loss attributable to Endo Health Solutions Inc.	\$ (8,098)
Basic and diluted net loss per share	\$ (0.07)

The following supplemental pro forma information presents the financial results as if the acquisition of HealthTronics, Inc. had occurred on January 1, 2010 for the year ended December 31, 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of any future results.

	Twelve Months Ended December 31, 2010
Unaudited pro forma consolidated results (in thousands, except per share data):	
Revenue.....	\$ 1,814,918
Net income attributable to Endo Health Solutions Inc.	\$ 264,165
Basic net income per share.....	\$ 2.27
Diluted net income per share.....	\$ 2.24

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of HealthTronics, Inc. to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

Other

In the second half of 2011, as part of our effort to increase and broaden the relationships within the urology community, we acquired two electronic medical records software companies, Intuitive Medical Software, LLC and meridianEMR, Inc., which individually and combined represent immaterial acquisitions. These acquisitions provide electronic medical records for urologists. Together, these acquisitions provide access to more than 2,000 urology health care providers using data platforms that will enhance service offerings in urology practice management.

Acquisition-Related Contingent Consideration. As part of our consideration for the Qualitest Pharmaceuticals and Indevus acquisitions, we were initially contingently contractually obligated to pay certain consideration resulting from the outcome of future events. These amounts are updated for our current assumptions each reporting period based on new developments until such consideration is satisfied.

Qualitest Pharmaceuticals

On November 30, 2010 (the Qualitest Pharmaceuticals Acquisition Date), Endo acquired Qualitest Pharmaceuticals, which was party to an asset purchase agreement with Teva Pharmaceutical Industries Ltd (Teva) (the Teva Agreement). Pursuant to this agreement, Qualitest Pharmaceuticals purchased certain pipeline generic products from Teva and could be obligated to pay consideration to Teva upon the achievement of certain future regulatory milestones (the Teva Contingent Consideration).

The range of the undiscounted amounts the Company could pay under the Teva Agreement is between zero and \$12.5 million. The Company is accounting for the Teva Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Qualitest Pharmaceuticals. Accordingly, the fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Using this valuation technique, the fair value of the contractual obligation to pay the Teva Contingent Consideration was determined to be \$8.9 million at December 31, 2012 and \$8.7 million at December 31, 2011.

The increase in the balance primarily, which was recorded as a loss and included in Acquisition-related and integration items, net in the accompanying Consolidated Statements of Operations, reflects changes of our present value assumptions associated with our valuation model.

As of December 31, 2012, there were no changes to the range of the undiscounted amounts the Company may be required to pay under the Teva Agreement.

Indevus

The Indevus Contingent Consideration Agreements, which were contingent upon the achievement of commercial and regulatory milestones associated with certain of Indevus' key products in development at the Indevus Acquisition Date, were initially measured and recognized at fair value and were re-measured on a recurring basis, with changes to fair value recorded in Acquisition-related and integration items, net in the Consolidated Statements of Operations. The liability for the Indevus contingent consideration was reduced to zero off in 2011, reflecting management's 2011 probability assessment that it would not be obligated to make contingent consideration payments based on the progress and projected timeline for the related Indevus products in development. The last of the contingent obligations with respect to the Indevus contingent consideration expired in 2012.

Legal Proceedings. We are subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Contingent accruals are recorded when we determine that a loss related to a litigation matter is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgments regarding future events.

For a complete description of legal proceedings, see Note 15. Commitments and Contingencies in the Consolidated Financial Statements, included in Part IV, Item 15. of this report "Exhibits, Financial Statement Schedules".

Contractual Obligations. The following table lists our enforceable and legally binding noncancelable obligations as of December 31, 2012

Contractual Obligations	Payment Due by Period (in thousands)						
	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt obligations(1).....	\$ 4,120,827	\$ 268,169	\$ 283,482	\$ 693,673	\$ 1,027,388	\$ 98,579	\$ 1,749,536
Capital lease obligations(2).....	79,284	8,914	6,418	6,036	6,007	6,112	45,797
Operating lease obligations(3).....	62,317	17,950	16,583	12,656	8,229	4,314	2,585
Minimum Voltaren® royalty obligations due to Novartis(4).....	47,178	32,178	15,000	—	—	—	—
Minimum purchase commitments to Teikoku(5)	40,256	40,256	—	—	—	—	—
Minimum advertising and promotion spend(6).....	1,597	1,597	—	—	—	—	—
Other obligations and commitments(7).....	17,850	3,479	1,371	1,000	1,000	1,000	10,000
Total(8).....	<u>\$ 4,369,309</u>	<u>\$ 372,543</u>	<u>\$ 322,854</u>	<u>\$ 713,365</u>	<u>\$ 1,042,624</u>	<u>\$ 110,005</u>	<u>\$ 1,807,918</u>

- (1) Includes minimum cash payments related to principal and interest, including commitment fees, associated with our indebtedness. Since future interest rates on our variable rate borrowings are unknown, for purposes of this contractual obligations table, amounts scheduled above were calculated using the greater of (i) the respective contractual interest rate spread corresponding to our current leverage ratios or (ii) the respective contractual interest rate floor, if any.
- (2) Includes minimum cash payments related to certain fixed assets, primarily related to technology. In addition, includes minimum cash payments related to the direct financing arrangement for the new company headquarters in Malvern, Pennsylvania.
- (3) Includes minimum cash payments related to our leased automobiles, machinery and equipment and facilities. Under the terms of our leases for our former headquarters' in Chadds Ford, Pennsylvania, we are required to continue to pay all future minimum lease payments to the landlord.
- (4) Under the terms of the five-year Voltaren® Gel Agreement, Endo has agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds all as defined in the Voltaren® Gel Agreement. In addition, subject to certain limitations, Endo has agreed to make certain guaranteed minimum annual royalty payments beginning in the fourth year of the Voltaren® Gel Agreement, which may be reduced under certain circumstances, including Novartis's failure to supply the Licensed Product. These guaranteed minimum royalties will be creditable against royalty payments on a Voltaren® Gel Agreement year basis such that Endo's obligation with respect to each Voltaren® Gel Agreement year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Agreement year. In December 2012, pursuant to the provisions of this Voltaren® Gel Agreement, the term was automatically renewed for an additional one year period.
- (5) On April 24, 2007, we amended our Supply and Manufacturing Agreement with Teikoku Seiyaku Co., Ltd. / Teikoku Pharma USA, Inc. (collectively, Teikoku) dated as of November 23, 1998, pursuant to which Teikoku manufactures and supplies Lidoderm® (lidocaine patch 5%) (the Product) to Endo. This amendment is referred to as the Amended Agreement. Under the terms of the Amended Agreement, Endo agreed to purchase a minimum number of Lidoderm® patches per year through 2012, representing the noncancelable portion of the Amended Agreement. The minimum purchase requirement remains in effect subsequent to 2012, except that Endo has the right to terminate the Amended

Agreement if we fail to meet the annual minimum requirement in subsequent years. The supply price of Lidoderm[®] is adjusted annually based on a price index defined in the Amended Agreement. Since future price changes are unknown, for purposes of this contractual obligations table, all amounts scheduled above represent the minimum patch quantities at the price currently existing under the Amended Agreement. Effective November 1, 2010, the parties amended the Amended Agreement. Pursuant to this amendment, Teikoku has agreed to supply additional Product at no cost to Endo in each of 2011, 2012 and 2013 in the event Endo's firm orders of Product exceed certain thresholds in those years. We will update the Teikoku purchase commitments upon future price changes made in accordance with the Amended Agreement.

- (6) Under the terms of the five-year Voltaren[®] Gel Agreement, Endo has agreed to certain minimum advertising and promotional spending, subject to certain thresholds as defined in the Voltaren[®] Gel Agreement. Future minimum advertising and promotional spending are determined based on a percentage of net sales of the licensed product. On December 31, 2012, Endo and Novartis entered into an amendment to the Voltaren[®] Gel Agreement which reduced the minimum amount of annual advertising and promotional expenses required to be spent by Endo on the commercialization of Voltaren[®] Gel during each year of the Voltaren[®] Gel Agreement.
- (7) Other obligations and commitments include agreements to purchase third-party assets, products and services.
- (8) Total does not include contractual obligations already included in current liabilities on our Consolidated Balance Sheet (except for current portion of long-term debt, short-term capital lease obligations and short-term royalty obligations) or certain purchase obligations, which are discussed below.

For purposes of the table above, obligations for the purchase of goods or services are included only for significant noncancelable purchase orders that are enforceable, legally binding and specify all significant terms including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the timing of the obligation. Our purchase orders are based on our current manufacturing needs and are typically fulfilled by our suppliers within a relatively short period. At December 31, 2012, we have open purchase orders that represent authorizations to purchase rather than binding agreements that are not included in the table above.

As of December 31, 2012, our liability for unrecognized tax benefits amounted to \$65.7 million (including interest and penalties). Due to the nature and timing of the ultimate outcome of these uncertain tax positions, we cannot make a reasonably reliable estimate of the amount and period of related future payments. Therefore, our liability has been excluded from the above contractual obligations table.

Enterprise Resource Planning System Project. As part of our integration efforts, we have decided to implement our historical enterprise resource planning (ERP) system, SAP, at certain of our key subsidiaries which currently use a variety of ERP systems. We expect this ERP system to be implemented no later than 2015. During the implementation process, management will review and evaluate the design and operating effectiveness of key controls within SAP, as well as the accuracy of the data conversion process.

Fluctuations. Our quarterly results have fluctuated in the past, and may continue to fluctuate. These fluctuations may be due to the timing of new product launches, purchasing patterns of our customers, market acceptance of our products, the impact of competitive products and pricing, asset impairment charges, separation benefits, business combination transaction costs, upfront, milestone and certain other payments made or accrued pursuant to licensing agreements and changes in the fair value of financial instruments and contingent assets and liabilities recorded as part of a business combination. Further, a substantial portion of our total revenues are through three wholesale drug distributors who in turn supply our products to pharmacies, hospitals and physicians. Accordingly, we are potentially subject to a concentration of credit risk with respect to our trade receivables.

Growth Opportunities. We continue to evaluate growth opportunities including strategic investments, licensing arrangements, acquisitions of businesses, product rights or technologies, and strategic alliances and promotional arrangements which could require significant capital resources. We intend to continue to focus our business development activities on further diversifying our revenue base through product licensing and company acquisitions, as well as other opportunities to enhance stockholder value. Through execution of our business strategy we intend to focus on developing new products through both an internal and a virtual research and development organization with greater scientific and clinical capabilities; expanding the Company's product line by acquiring new products and technologies in existing therapeutic and complementary areas; increasing revenues and earnings through sales and marketing programs for our innovative product offerings and effectively using the Company's resources; and providing additional resources to support our generics business.

Non-U.S. Operations. Our operations outside of the U.S. were not material during 2012. As a result, fluctuations in foreign currency exchange rates did not have a material effect on our Consolidated Financial Statements.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 2012, the Company has not made a provision for U.S. or additional foreign withholding taxes on approximately \$85.7 million of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

Inflation. We do not believe that inflation had a material adverse effect on our financial statements for the periods presented.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

CRITICAL ACCOUNTING ESTIMATES

To understand our financial statements, it is important to understand our critical accounting estimates. The preparation of our financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are required in the determination of revenue recognition and sales deductions for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances. Significant estimates and assumptions are also required when determining the fair value of financial instruments, the valuation of long-lived assets, income taxes, contingencies and stock-based compensation. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. For any given individual estimate or assumption made by us, there may also be other estimates or assumptions that are reasonable. Although we believe that our estimates and assumptions are reasonable, they are based upon information available at the time the estimates and assumptions were made. Actual results may differ significantly from our estimates.

We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition results of operations or cash flows. Our most critical accounting estimates are described below:

Revenue recognition

Pharmaceutical Products

Our net pharmaceutical product sales consist of revenues from sales of our pharmaceutical products, less estimates for chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances as well as fees for services. We recognize revenue for product sales when title and risk of loss has passed to the customer, which is typically upon delivery to the customer, when estimated provisions for chargebacks, rebates, sales incentives and allowances, certain royalties, distribution service fees, returns and allowances are reasonably determinable, and when collectability is reasonably assured. Revenue from the launch of a new or significantly unique product, for which we are unable to develop the requisite historical data on which to base estimates of returns and allowances due to the uniqueness of the therapeutic area or delivery technology as compared to other products in our portfolio and in the industry, may be deferred until such time that an estimate can be determined and all of the conditions above are met and when the product has achieved market acceptance, which is typically based on dispensed prescription data and other information obtained during the period following launch.

Decisions made by wholesaler customers and large retail chain customers regarding the levels of inventory they hold (and thus the amount of product they purchase from us) can materially affect the level of our sales in any particular period and thus may not correlate to the number of prescriptions written for our products based on external third-party data. We believe that speculative buying of product, particularly in anticipation of possible price increases, has been the historic practice of many pharmaceutical wholesalers. In recent years, our wholesaler customers, as well as others in the industry,

began modifying their business models from arrangements where they derive profits from price arbitrage, to arrangements where they charge a fee for their services. Accordingly, we have entered into Distribution Service Agreements (DSAs) with six of our significant wholesaler customers. These agreements, which pertain to branded products only, obligate the wholesalers to provide us with specific services, including the provision of periodic retail demand information and current inventory levels for our branded products held at their warehouse locations; additionally, under these DSAs, the wholesalers have agreed to manage the variability of their purchases and inventory levels within specified limits based on product demand.

Under the DSAs, we received information from our six wholesaler customers about the levels of inventory they held for our branded products as of December 31, 2012. Based on this information, which we have not independently verified, we believe that total branded inventory held at these wholesalers is within normal levels. In addition, we also evaluate market conditions for products primarily through the analysis of wholesaler and other third party sell-through and market research data, as well as internally-generated information.

Devices

As a result of our acquisition of AMS, Inc., we sell products in this market through a direct sales force. A portion of our revenue is generated from consigned inventory or from inventory with field representatives. For these products, revenue is recognized at the time the product has been used or implanted. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to our customers providing there are no remaining performance obligations required from us or any matters requiring customer acceptance. In cases where we utilize distributors or ship product directly to the end user, we recognize revenue upon shipment provided all revenue recognition criteria have been met. We record estimated sales returns, discounts and rebates as a reduction of net sales in the period the related revenue is recognized.

We provide incentives to customers, including volume based rebates. Customers are not required to provide documentation that would allow us to reasonably estimate the fair value of the benefit received and we do not receive an identifiable benefit in exchange for the consideration. Accordingly, the incentives are recorded as a reduction of revenue.

Our AMS customers have rights of return for the occasional ordering or shipping error. We maintain an allowance for these returns and reduce reported revenue for expected returns from shipments during each reporting period. This allowance is based on historical and current trends in product returns.

Services

In our HealthTronics segment, we recognize revenue generally when services are provided or, in the case of fees for product sales and licensing applications, revenues are generally recognized upon delivery or for licensing fees, when the patient is treated. In our HealthTronics segment, revenue is recognized based on the type of product or service sold, as follows:

- Fees for urology treatments—A substantial majority of our HealthTronics revenues are derived from fees related to lithotripsy treatments performed using our lithotripters. For lithotripsy and prostate treatment services, we, through our partnerships and other entities, facilitate the use of our equipment and provide other support services in connection with these treatments at hospitals and other health care facilities. The professional fee payable to the physician performing the procedure is generally billed and collected by the physician.
- Fees for managing the operation of our lithotripters and prostate treatment devices—Through our partnerships and otherwise directly by us, we provide services related to operating our lithotripters and prostate treatment equipment and receive a management fee for performing these services. We recognize revenue for these services as the services are provided.
- Fees for maintenance services—We provide equipment maintenance services to our partnerships as well as outside parties. These services are billed either on a time and material basis or at a fixed contractual rate, payable monthly, quarterly, or annually. Revenues from these services are recorded when the related maintenance services are performed.
- Fees for equipment sales, consumable sales and licensing applications—We manufacture and sell medical devices focused on minimally invasive technologies for tissue and tumor ablation through cryosurgery, and their related consumables. We also sell and maintain lithotripters and manufacture and sell consumables related to the lithotripters. With respect to some lithotripter sales, in addition to the original sales price, we receive a licensing fee

from the buyer of the lithotripter for each patient treated with such lithotripter. In exchange for this licensing fee, we provide the buyer of the lithotripter with certain consumables. All the sales for equipment and consumables are recognized when the related items are delivered. Revenues from licensing fees are recorded when the patient is treated. In some cases, we lease certain equipment to our partnerships as well as third parties. Revenues from these leases are recognized on a monthly basis or as procedures are performed.

- Fees for anatomical pathology services—We provide anatomical pathology services primarily to the urology community. Revenues from these services are recorded when the related laboratory procedures are performed.

Sales deductions

When we recognize revenue from the sale of our products, we simultaneously record an adjustment to revenue for estimated chargebacks, rebates, sales incentives and allowances, certain royalties, DSA fees, returns and allowances. These provisions, as described in greater detail below, are estimated based on historical experience, estimated future trends, estimated customer inventory levels, current contract sales terms with our wholesale and indirect customers and other competitive factors. If the assumptions we used to calculate these adjustments do not appropriately reflect future activity, our financial position, results of operations and cash flows could be materially impacted. The following table presents the activity and ending balances for our product sales provisions for the last three years (in thousands):

	Returns and Allowances	Rebates	Chargebacks	Other Sales Deductions	Total
Balance at January 1, 2010.....	\$ 48,274	\$ 124,443	\$ 51,904	\$ 6,060	\$ 230,681
Additions related to acquisitions	11,000	11,175	9,703	7,833	39,711
Current year provision.....	20,019	632,034	519,537	54,969	1,226,559
Prior year provision.....	(2,520)	(1,791)	21	—	(4,290)
Payments or credits	(11,752)	(562,636)	(493,345)	(53,542)	(1,121,275)
Balance at December 31, 2010.....	<u>\$ 65,021</u>	<u>\$ 203,225</u>	<u>\$ 87,820</u>	<u>\$ 15,320</u>	<u>\$ 371,386</u>
Additions related to acquisitions	3,594	194	—	—	3,788
Current year provision.....	52,027	842,674	801,543	85,147	1,781,391
Prior year provision.....	3,697	2,312	—	—	6,009
Payments or credits	(34,264)	(739,494)	(772,542)	(79,125)	(1,625,425)
Balance at December 31, 2011.....	<u>\$ 90,075</u>	<u>\$ 308,911</u>	<u>\$ 116,821</u>	<u>\$ 21,342</u>	<u>\$ 537,149</u>
Current year provision.....	39,909	872,709	716,982	87,437	1,717,037
Prior year provision.....	(15,556)	(9,163)	(100)	(709)	(25,528)
Payments or credits	(28,613)	(844,531)	(772,401)	(90,290)	(1,735,835)
Balance at December 31, 2012.....	<u><u>\$ 85,815</u></u>	<u><u>\$ 327,926</u></u>	<u><u>\$ 61,302</u></u>	<u><u>\$ 17,780</u></u>	<u><u>\$ 492,823</u></u>

Returns and Allowances

Our provision for returns and allowances consists of our estimates of future product returns, pricing adjustments and delivery errors. Consistent with industry practice, we maintain a return policy that allows our customers to return product within a specified period of time both prior and subsequent to the product's expiration date. Our return policy allows customers to receive credit for expired products within six months prior to expiration and within one year after expiration. The primary factors we consider in estimating our potential product returns include:

- the shelf life or expiration date of each product;
- historical levels of expired product returns;
- external data with respect to inventory levels in the wholesale distribution channel;
- external data with respect to prescription demand for our products; and
- estimated returns liability to be processed by year of sale based on analysis of lot information related to actual historical returns.

In determining our estimates for returns and allowances, we are required to make certain assumptions regarding the timing of the introduction of new products and the potential of these products to capture market share. In addition, we make

certain assumptions with respect to the extent and pattern of decline associated with generic competition. To make these assessments we utilize market data for similar products as analogs for our estimations. We use our best judgment to formulate these assumptions based on past experience and information available to us at the time. We continually reassess and make the appropriate changes to our estimates and assumptions as new information becomes available to us.

Our estimate for returns and allowances may be impacted by a number of factors, but the principal factor relates to the level of inventory in the distribution channel. When we are aware of an increase in the level of inventory of our products in the distribution channel, we consider the reasons for the increase to determine if the increase may be temporary or other-than-temporary. Increases in inventory levels assessed as temporary will not result in an adjustment to our provision for returns and allowances. Other-than-temporary increases in inventory levels, however, may be an indication that future product returns could be higher than originally anticipated and, accordingly, we may need to adjust our estimate for returns and allowances. Some of the factors that may be an indication that an increase in inventory levels will be temporary include:

- recently implemented or announced price increases for our products; and
- new product launches or expanded indications for our existing products.

Conversely, factors that may be an indication that an increase in inventory levels will be other-than-temporary include:

- declining sales trends based on prescription demand;
- recent regulatory approvals to extend the shelf life of our products, which could result in a period of higher returns related to older product with the shorter shelf life;
- introduction of new product or generic competition;
- increasing price competition from generic competitors; and
- recent changes to the National Drug Codes (NDCs) of our products, which could result in a period of higher returns related to product with the old NDC, as our customers generally permit only one NDC per product for identification and tracking within their inventory systems.

Rebates

We establish contracts with wholesalers, chain stores and indirect customers that provide for rebates, sales incentives, DSA fees, and other allowances. Some customers receive rebates upon attaining established sales volumes. We estimate rebates, sales incentives and other allowances based upon the terms of the contracts with our customers, historical experience, estimated inventory levels of our customers and estimated future trends. Our rebate programs can generally be categorized into the following four types:

- direct rebates;
- indirect rebates;
- managed care rebates; and
- Medicaid and Medicare Part D rebates.

Direct rebates are generally rebates paid to direct purchasing customers based on a percentage applied to a direct customer's purchases from us, including DSA fees paid to wholesalers under our DSA agreements, as described above. Indirect rebates are rebates paid to "indirect customers" which have purchased our products from a wholesaler under a contract with us.

We are subject to rebates on sales made under governmental and managed-care pricing programs. In estimating our provisions for these types of rebates, we consider relevant statutes with respect to governmental pricing programs and contractual sales terms with managed-care providers and group purchasing organizations. We estimate an accrual for managed-care, Medicaid and Medicare Part D rebates as a reduction of revenue at the time product sales are recorded. These rebate reserves are estimated based upon the historical utilization levels, historical payment experience, historical relationship

to revenues and estimated future trends. Changes in the level of utilization of our products through private or public benefit plans and group purchasing organizations will affect the amount of rebates that we owe.

We participate in state government-managed Medicaid programs, as well as certain other qualifying federal and state government programs whereby discounts and rebates are provided to participating government entities. Medicaid rebates are amounts owed based upon contractual agreements or legal requirements with public sector (Medicaid) benefit providers, after the final dispensing of the product by a pharmacy to a benefit plan participant. Medicaid reserves are based on expected payments, which are driven by patient usage, contract performance, as well as field inventory that will be subject to a Medicaid rebate. Medicaid rebates are typically billed up to 180 days after the product is shipped, but can be as much as 270 days after the quarter in which the product is dispensed to the Medicaid participant. As a result, our Medicaid rebate provision includes an estimate of outstanding claims for end-customer sales that occurred but for which the related claim has not been billed, and an estimate for future claims that will be made when inventory in the distribution channel is sold through to plan participants. Our calculation also requires other estimates, such as estimates of sales mix, to determine which sales are subject to rebates and the amount of such rebates. Periodically, we adjust the Medicaid rebate provision based on actual claims paid. Due to the delay in billing, adjustments to actual claims paid may incorporate revisions of this provision for several periods. Medicaid pricing programs involve particularly difficult interpretations of statutes and regulatory guidance, which are complex and thus our estimates could differ from actual experience.

We continually update these factors based on new contractual or statutory requirements, and significant changes in sales trends that may impact the percentage of our products subject to rebates.

Chargebacks

The provision for chargebacks is one of the most significant and the most complex estimates used in the recognition of our revenue. We market and sell products directly to wholesalers, distributors, warehousing pharmacy chains, and other direct purchasing groups. We also market products indirectly to independent pharmacies, non-warehousing chains, managed care organizations, and group purchasing organizations, collectively referred to as “indirect customers.” We enter into agreements with some indirect customers to establish contract pricing for certain products. These indirect customers then independently select a wholesaler from which to purchase the products at these contracted prices. Alternatively, we may pre-authorize wholesalers to offer specified contract pricing to other indirect customers. Under either arrangement, we provide credit to the wholesaler for any difference between the contracted price with the indirect customer and the wholesaler’s invoice price. Such credit is called a chargeback. The primary factors we consider in developing and evaluating our provision for chargebacks include:

- the average historical chargeback credits;
- estimated future sales trends; and
- an estimate of the inventory held by our wholesalers, based on internal analysis of a wholesaler’s historical purchases and contract sales.

Other sales deductions

We offer our customers 2.0% prompt pay cash discounts. Provisions for prompt pay discounts are estimated and recorded at the time of sale. We estimate provisions for cash discounts based on contractual sales terms with customers, an analysis of unpaid invoices and historical payment experience. Estimated cash discounts have historically been predictable and less subjective, due to the limited number of assumptions involved, the consistency of historical experience and the fact that we generally settle these amounts within thirty to sixty days.

Shelf-stock adjustments are credits issued to our customers to reflect decreases in the selling prices of our products. These credits are customary in the industry and are intended to reduce a customer’s inventory cost to better reflect current market prices. The determination to grant a shelf-stock credit to a customer following a price decrease is at our discretion rather than contractually required. The primary factors we consider when deciding whether to record a reserve for a shelf-stock adjustment include:

- the estimated number of competing products being launched as well as the expected launch date, which we determine based on market intelligence;

- the estimated decline in the market price of our product, which we determine based on historical experience and input from customers; and
- the estimated levels of inventory held by our customers at the time of the anticipated decrease in market price, which we determine based upon historical experience and customer input.

Valuation of long-lived assets

Long-lived assets, including property, plant and equipment, licenses, developed technology, tradenames and patents are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset to the forecasted undiscounted future cash flows related to the asset. In the event the carrying value of the asset exceeds its undiscounted future cash flows and the carrying value is not considered recoverable, impairment exists. An impairment loss is measured as the excess of the asset's carrying value over its fair value, generally based on a discounted future cash flow method, independent appraisals or preliminary offers from prospective buyers. An impairment loss would be recognized in the Consolidated Statements of Operations in the period that the impairment occurs. As a result of the significance of our amortizable intangibles, any recognized impairment loss could have a material adverse impact on our financial position and/or results of operations.

Events giving rise to impairment are an inherent risk in the pharmaceutical industry and cannot be predicted. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets.

Our reviews of long-lived assets during the three years ended December 31, 2012 resulted in certain asset impairment charges, which are described above under the caption "RESULTS OF OPERATIONS".

The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from 1 to 15 years, with a weighted average useful life of approximately 9 years. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the license and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease. The value of these licenses is subject to continuing scientific, medical and marketplace uncertainty.

Acquired customer relationships are recorded at fair value upon acquisition and are amortized using estimated useful lives ranging from 13 to 17 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for customer relationships based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the customer relationships, contractual terms and our plans regarding our future relations with our customers. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease.

Acquired tradenames are recorded at fair value upon acquisition and, if deemed to have definite lives, are amortized using estimated useful lives ranging from 15 to 30 years, with a weighted average useful life of approximately 22 years. We determine amortization periods for tradenames based on our assessment of various factors impacting estimated useful lives and cash flows from the acquired assets. Such factors include the strength of the tradename and our plans regarding the future use of the tradename. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating income, net income and net income per share to decrease.

Acquired developed technology is recorded at fair value upon acquisition and amortized using estimated useful lives ranging from 3 to 20 years, with a weighted average useful life of approximately 16 years. We determine amortization periods for developed technology based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired assets. Such factors include the strength of the intellectual property protection of the product and various other competitive and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the asset and an acceleration of related amortization expense, which could cause our operating

income, net income and net income per share to decrease. The value of these assets is subject to continuing scientific, medical and marketplace uncertainty.

Goodwill and indefinite-lived intangible assets

Endo tests goodwill and indefinite-lived intangible assets for impairment annually, or more frequently whenever events or changes in circumstances indicate that the asset might be impaired. Our annual assessment has historically been performed as of January 1st. However, during the third quarter of 2012, we changed our annual goodwill and indefinite-lived intangible assets impairment test date from January 1st to October 1st, which necessitated completing a test as of October 1, 2012 so that no more than 12 months elapsed between annual tests. The goodwill test consists of a Step I analysis that requires a comparison between the respective reporting unit's fair value and carrying amount. A Step II analysis would be required if the fair value of the reporting unit is lower than its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, an impairment does not exist and no further analysis is required. The indefinite-lived intangible asset impairment test consists of a one-step analysis that compares the fair value of the intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Although the Company has four operating segments, Endo Pharmaceuticals, Qualitest, AMS and HealthTronics, we have determined that the Company has seven reporting units; (1) Pain, (2) Generics, (3) Urology, Endocrinology and Oncology (UEO), (4) Anatomical Pathology Services, (5) Urology Services, (6) HealthTronics Information Technology Solutions (HITS) and (7) American Medical Systems (AMS).

As noted above, we completed our annual impairment tests as of October 1, 2012. Based upon recent market conditions, and, in some cases, a lack of comparable market transactions for similar assets, Endo determined that an income approach using a discounted cash flow model was an appropriate valuation methodology to determine each reporting unit's fair value for goodwill impairment testing and each asset's fair value for indefinite-lived intangible asset impairment testing. Our discounted cash flow models are highly reliant on various assumptions, including estimates of future cash flow (including long-term growth rates), discount rate, and expectations about variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows. These assumptions are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy. Discount rates applied to the estimated cash flows for our October 1, 2012 annual goodwill and indefinite-lived intangible assets impairment test ranged from 9.5% to 17.5%, depending on the overall risk associated with the particular assets and other market factors. We believe the discount rates and other inputs and assumptions are consistent with those that a market participant would use.

In order to assess the reasonableness of the calculated fair values of our reporting units, we also compare the sum of the reporting units' fair values to Endo's market capitalization and calculate an implied control premium (the excess sum of the reporting unit's fair values over the market capitalization). The Company evaluates the control premium by comparing it to control premiums of recent comparable market transactions, as applicable. If the control premium is not reasonable in light of comparable recent transactions, we reevaluate the fair value estimates of the reporting units by adjusting discount rates and/or other assumptions. This reevaluation could correlate to lower implied fair values for certain or all of the Company's reporting units.

The results of our Step I analyses showed that the fair values of the Pain, UEO and Generics reporting units exceeded their respective carrying amounts. The excess of fair value over carrying amount for each of these reporting units as of October 1, 2012 ranged from approximately 70% to more than 100% of carrying amount or \$355.8 million to \$1.5 billion, respectively. The results of the analysis for the Urology Services reporting unit, which held \$139.9 million of goodwill as of October 1, 2012, showed fair value that exceeded its carrying amount by 8% or \$16.4 million. An increase of 50 basis points to our assumed discount rates used in testing any of these reporting units would not have changed the results of our Step I analyses. However, we believe there is a risk of potential failure of Step I of the impairment test for the Urology Services reporting unit in future periods given the minimal excess fair value over carrying amount.

The results of the Step I analyses for the AMS, Anatomical Pathology Services, and HITS reporting units showed that the fair values of those reporting units were lower than their respective carrying amounts, thus requiring a Step II analysis for each reporting unit. The declines in these fair values, as well as fair value changes for other assets and liabilities in the Step II goodwill impairment test, resulted in an implied fair value of goodwill below the carrying amount of the goodwill for these reporting units. Accordingly, we recorded combined pre-tax non-cash goodwill impairment charges in the Consolidated Statement of Operations totaling \$557.4 million in 2012. A 50 basis point increase in the assumed discount rates utilized would have resulted in an increased goodwill impairment of approximately \$150 million and \$2 million for the AMS and HITS reporting units, respectively.

These impairment charges are further described above under the caption "RESULTS OF OPERATIONS". Other than these charges, there were no additional impairments of goodwill recorded as a result of performing our annual goodwill assessments during the three years ended December 31, 2012.

Our annual review of indefinite-lived intangible assets during the three years ended December 31, 2012 resulted in certain asset impairment charges, which are described above under the caption "RESULTS OF OPERATIONS". Other than these charges, there were no additional impairments recorded as a result of performing our annual assessments.

Acquisition-related in-process research and development

Acquired businesses are accounted for using the acquisition method of accounting, which requires that the purchase price be allocated to the net assets acquired at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired IPR&D are recorded to the balance sheet at the date of acquisition based on their relative fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, including IPR&D, we typically use the "income method." This method starts with our forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include: the amount and timing of projected future cash flows; the amount and timing of projected costs to develop the IPR&D into commercially viable products; the discount rate selected to measure the risks inherent in the future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry, as well as expected changes in standards of practice for indications addressed by the asset.

Determining the useful life of an intangible asset also requires judgment, as different types of intangible assets will have different useful lives. Acquired IPR&D is designated as an indefinite-lived intangible asset until the associated research and development activities are completed or abandoned.

Income taxes

Provisions for income taxes are calculated on reported pre-tax income based on current tax laws, statutory tax rates and available tax incentives and planning opportunities in various jurisdictions in which we operate. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

At December 31, 2012, we had \$503.1 million of gross deferred tax assets, which included federal and state net operating loss carryforwards (NOLs) of approximately \$125.0 million, research and development credit carryforwards of \$16.2 million, impairment losses that are capital in nature of \$9.6 million, alternative minimum tax and foreign tax credits of \$2.6 million and temporary differences of approximately \$349.7 million. At December 31, 2012, our NOLs and research and development credit carryforwards were related to multiple tax jurisdictions, including federal and various state jurisdictions, which expire at intervals between 2013 and 2033. We evaluate the potential realization of our deferred tax benefits on a jurisdiction-by-jurisdiction basis. Our analysis of the realization considers the probability of generating taxable income or other sources of income as defined within the applicable income tax authoritative guidance, which could be utilized to support the assets over the permitted carryforward period in each jurisdiction. Where we have determined under the more likely than not standard that we do not have a better-than-50% probability of realization, we establish a valuation allowance against that portion of the deferred tax asset where our analysis and judgment indicates a less-than-50% probability of realization. Based on our forecasted taxable income within these jurisdictions, we believe we will generate sufficient future taxable income to realize a significant portion of our deferred tax assets associated with our NOLs and research and

development credit carryforwards. However, the Company does not anticipate future capital gains that would be required to obtain the tax benefit of our impairment capital losses. Accordingly, this deferred tax asset is offset by a valuation allowance of \$9.4 million at December 31, 2012. In addition, due to our historical losses in certain state jurisdictions and the absence of sources of income, we have established a \$9.1 million valuation allowance for our state NOL carryforwards.

On a periodic basis, we evaluate the realizability of our deferred tax assets and liabilities and will adjust such amounts in light of changing facts and circumstances, including but not limited to future projections of taxable income, tax legislation, rulings by relevant tax authorities, tax planning strategies and the progress of ongoing tax audits. Settlement of filing positions that may be challenged by tax authorities could impact the income tax position in the year of resolution.

Contingencies

The Company is subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses. Contingent accruals are recorded in the Consolidated Statements of Operations when the Company determines that a loss related to a litigation matter is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgments regarding future events.

Stock-based compensation

The Company accounts for its stock-based compensation plans in accordance with FASB Codification Topic 718, Stock Compensation. Accordingly, stock-based compensation for employees and non-employee directors is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the requisite service period. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the date of grant requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of employee stock options.

The Black-Scholes option pricing model utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is expected to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company's stock price and other factors. To the extent volatility of our stock price increases in the future, our estimates of the fair value of stock options granted in the future could increase, thereby increasing stock-based compensation expense in future periods. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. We estimate the expected term of options granted based on our historical experience with our employees' exercise of stock options and other factors, including an estimate of the number of share-based awards which will be forfeited due to employee turnover. Changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. Changes in the inputs and assumptions can materially affect the measurement of the estimated fair value of our employee stock options. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Also, the accounting estimate of stock-based compensation expense is reasonably likely to change from period to period as further stock options are granted and adjustments are made for stock option forfeitures and cancellations.

The fair value of our restricted stock grants to employees and non-employee directors is based on the fair market value of our common stock on the date of grant discounted for expected future dividends

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB or the Board) issued Accounting Standards Update (ASU) 2011-05 on the presentation of comprehensive income. This ASU amends FASB Codification Topic 220, Comprehensive Income, to require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011 and early adoption is permitted. In December 2011, the FASB issued ASU 2011-12 which amends ASU 2011-05 to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification

adjustments to allow the Board time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The Company has adopted all current required provisions of ASU 2011-05 and ASU 2011-12.

In July 2012, the FASB issued ASU 2012-02 on impairment testing for indefinite-lived intangible assets. This ASU amends FASB Codification Topic 350, Intangibles-Goodwill and Other to allow, but not require, an entity, when performing its annual or more frequent indefinite-lived intangible asset impairment test, to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company has adopted ASU 2012-02 and determined that the adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, which established the effective date for the requirement to present components of reclassifications out of accumulated other comprehensive income on the face of the income statement. The standard is effective for reporting periods beginning after December 15, 2012. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in the financial markets, including interest rates and foreign currency exchange rates.

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our Term Loan Facility, money market funds, and long-term marketable debt securities portfolio. Additionally, if we were to utilize amounts under our Revolving Credit Facility, we could be exposed to interest rate risk. At December 31, 2012, our Term Loan Facility includes floating-rate debt of approximately \$1.5 billion. Based on this amount, a 1% rise in interest rates would result in approximately \$15 million in incremental annual interest expense.

In general, our investments in marketable securities are governed by our investment policy, which has been approved by our Board of Directors. Our investment policy seeks to preserve the value of capital, consistent with maximizing return on the Company's investment, while maintaining adequate liquidity. To achieve this objective, we maintain our portfolio in a variety of high credit quality debt securities. Generally, our interest rate risk with respect to these investments is limited due to yields earned, which approximate current interest rates. We attempt to mitigate default risk by maintaining our portfolio investments in diversified, high-quality investment grade securities with limited time to maturity. We constantly monitor our investment portfolio and position our portfolio to respond appropriately to a reduction in credit rating of any investment issuer, guarantor or depository.

As of December 31, 2012 and 2011, we had no other assets or liabilities with significant interest rate sensitivity.

Investment Risk

At December 31, 2012 and 2011, we had publicly traded equity securities totaling \$1.7 million and \$1.6 million, respectively, included in long-term marketable securities. The fair values of our investments are subject to significant fluctuations due to the volatility of the stock market, changes in general economic conditions and changes in the financial condition of the companies we invest in. Based on the fair value of the publicly traded equity securities we held at December 31, 2012, an assumed 25%, 40% and 50% adverse change in the market prices of these securities would result in a corresponding decline in total fair value of approximately \$0.4 million, \$0.7 million and \$0.9 million, respectively. Based on the fair value of the publicly traded equity securities we held at December 31, 2011, an assumed 25%, 40% and 50% adverse change in the market prices of these securities would result in a corresponding decline in total fair value of approximately \$0.4 million, \$0.7 million and \$0.8 million, respectively. Any decline in value below our original investments will be evaluated to determine if the decline in value is considered temporary or other-than-temporary. An other-than-temporary decline in fair value would be included as a charge to earnings.

Foreign Currency Risk

Our operations outside of the U.S. are maintained primarily in their local currency. All assets and liabilities of our international subsidiaries, which maintain their financial statements in local currency, are translated to U.S. dollars at period-end exchange rates. Translation adjustments arising from the use of differing exchange rates are included in accumulated other comprehensive income in stockholders' equity. Gains and losses on foreign currency transactions and short term inter-company receivables from foreign subsidiaries are included in Other income, net.

The reported results of our foreign operations will be influenced by their translation into U.S. dollars by currency movements against the U.S. dollar. We have entered into various foreign exchange forward contracts to manage a portion of our exposure to foreign exchange rate fluctuations on our forecasted sales to and receivables from certain subsidiaries, denominated in euros, British pounds, Canadian dollars, Australian dollars, and Swedish krona.

In addition, we purchase Lidoderm®, in U.S. dollars, from Teikoku Seiyaku Co., Ltd., a Japanese manufacturer. As part of the purchase agreement with Teikoku, there is a price adjustment feature that prevents the cash payment in U.S. dollars from falling outside of a certain pre-defined range in Japanese yen even if the spot rate is outside of that range. In addition, we have certain licensing arrangements which could require us to make payments upon certain regulatory and sales milestones, denominated in euros.

A 10% change in foreign currency exchange rates would not have a material impact on our financial condition, results of operations or cash flows.

Inflation

We do not believe that inflation has had a significant impact on our revenues or operations

Financial Statements and Supplementary Data

The information required by this item is contained in the financial statements set forth in Item 15(a) under the caption "Consolidated Financial Statements" as part of this Annual Report on Form 10-K.

APPENDIX “I”

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF ENDO

ENDO HEALTH SOLUTIONS INC. CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) (In thousands, except share and per share data)

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 594,085	\$ 547,916
Accounts receivable, net	672,001	690,850
Inventories, net	416,512	357,638
Prepaid expenses and other current assets	97,094	27,750
Income taxes receivable	17,193	36,489
Deferred income taxes	245,458	308,591
Total current assets	<u>\$ 2,042,343</u>	<u>\$ 1,969,234</u>
MARKETABLE SECURITIES	2,433	1,746
PROPERTY, PLANT AND EQUIPMENT, NET	373,990	385,668
GOODWILL	1,980,887	2,014,351
OTHER INTANGIBLES, NET	1,966,645	2,098,973
OTHER ASSETS	88,958	98,587
TOTAL ASSETS	<u><u>\$ 6,455,256</u></u>	<u><u>\$ 6,568,559</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 267,851	\$ 416,882
Accrued expenses	994,771	1,170,945
Current portion of long-term debt	411,694	133,998
Acquisition-related contingent consideration	1,231	6,195
Total current liabilities	<u>\$ 1,675,547</u>	<u>\$ 1,728,020</u>
DEFERRED INCOME TAXES	461,899	516,565
ACQUISITION-RELATED CONTINGENT CONSIDERATION	2,856	2,729
LONG-TERM DEBT, LESS CURRENT PORTION, NET	2,644,628	3,037,947
OTHER LIABILITIES	332,962	150,092
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 40,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 350,000,000 shares authorized; 143,927,490 and 140,040,882 shares issued; 114,838,985 and 110,793,855 shares outstanding at September 30, 2013 and December 31, 2012, respectively	1,439	1,400
Additional paid-in capital	1,143,546	1,035,115
Retained earnings	902,144	811,573
Accumulated other comprehensive loss	(5,939)	(6,802)
Treasury stock, 29,088,505 and 29,247,027 shares at September 30, 2013 and December 31, 2012, respectively	<u>(764,312)</u>	<u>(768,430)</u>
Total Endo Health Solutions Inc. stockholders' equity	<u>\$ 1,276,878</u>	<u>\$ 1,072,856</u>
Noncontrolling interests	60,486	60,350
Total stockholders' equity	<u>\$ 1,337,364</u>	<u>\$ 1,133,206</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 6,455,256</u></u>	<u><u>\$ 6,568,559</u></u>

See Notes to Condensed Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUES:				
Net pharmaceutical product sales	\$ 519,843	\$ 578,780	\$ 1,639,890	\$ 1,681,441
Devices revenues	111,244	113,304	359,867	371,601
Service and other revenues	83,867	58,398	190,225	173,261
TOTAL REVENUES	\$ 714,954	\$ 750,482	\$ 2,189,982	\$ 2,226,303
COSTS AND EXPENSES:				
Cost of revenues	287,970	294,267	883,063	953,657
Selling, general and administrative	199,719	210,446	689,436	698,522
Research and development	38,080	48,952	113,740	183,067
Patent litigation settlement, net	—	(46,238)	—	85,123
Litigation-related and other contingencies	30,895	82,600	159,098	82,600
Asset impairment charges	38,807	11,163	46,994	54,163
Acquisition-related and integration items, net	2,207	5,776	6,165	16,580
OPERATING INCOME	\$ 117,276	\$ 143,516	\$ 291,486	\$ 152,591
INTEREST EXPENSE, NET	43,150	45,505	129,939	138,386
LOSS ON EXTINGUISHMENT OF DEBT	—	1,789	11,312	7,215
OTHER (INCOME) EXPENSE, NET	(17,292)	(250)	(51,873)	498
INCOME BEFORE INCOME TAX	\$ 91,418	\$ 96,472	\$ 202,108	\$ 6,492
INCOME TAX	36,803	28,287	72,779	(9,263)
CONSOLIDATED NET INCOME	\$ 54,615	\$ 68,185	\$ 129,329	\$ 15,755
Less: Net income attributable to noncontrolling interests	14,392	14,376	38,758	39,826
NET INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 40,223	\$ 53,809	\$ 90,571	\$ (24,071)
NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC. COMMON STOCKHOLDERS:				
Basic	\$ 0.35	\$ 0.46	\$ 0.80	\$ (0.21)
Diluted	\$ 0.33	\$ 0.45	\$ 0.77	\$ (0.21)
WEIGHTED AVERAGE SHARES:				
Basic	114,327	116,022	112,691	116,688
Diluted	120,261	119,579	116,890	116,688

See Notes to Condensed Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(In thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
CONSOLIDATED NET INCOME	\$ 54,615		\$ 68,185		\$ 129,329		\$ 15,755	
OTHER COMPREHENSIVE INCOME, NET OF TAX:								
Net unrealized gain on securities:								
Unrealized gains arising during the period	\$ 261		\$ 589		\$ 431		\$ 1,958	
Less: reclassification adjustments for (gains) losses realized in net income (loss)	—	261	—	589	—	431	—	1,958
Foreign currency translation gain		2,996		4,034		27		466
Fair value adjustment on derivatives designated as cash flow hedges:								
Fair value adjustment on derivatives designated as cash flow hedges arising during the period	(234)		(801)		299		(606)	
Less: reclassification adjustments for cash flow hedges settled and included in net income (loss)	(89)	(323)	138	(663)	106	405	114	(492)
OTHER COMPREHENSIVE INCOME	\$ 2,934		\$ 3,960		\$ 863		\$ 1,932	
CONSOLIDATED COMPREHENSIVE INCOME	\$ 57,549		\$ 72,145		\$ 130,192		\$ 17,687	
Less: Comprehensive income attributable to noncontrolling interests	14,392		14,376		38,758		39,826	
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 43,157		\$ 57,769		\$ 91,434		\$ (22,139)	

See Notes to Condensed Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES:		
Consolidated net income	\$ 129,329	\$ 15,755
Adjustments to reconcile consolidated net income to Net cash provided by operating activities:		
Depreciation and amortization	196,422	211,780
Stock-based compensation	31,258	44,532
Amortization of debt issuance costs and premium / discount	27,336	27,101
Provision for bad debts	2,208	—
Selling, general and administrative expenses paid in shares of common stock	203	358
Deferred income taxes	8,191	(87,379)
Net loss (gain) on disposal of property, plant and equipment	2,272	(156)
Change in fair value of acquisition-related contingent consideration	163	28
Loss on extinguishment of debt	11,312	7,215
Asset impairment charges	46,994	54,163
Gain on sale of business	(2,665)	—
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	9,749	(24,666)
Inventories	(59,690)	(101,453)
Prepaid and other assets	(2,305)	3,037
Accounts payable	(140,763)	(1,132)
Accrued expenses	(173,890)	240,880
Other liabilities	174,116	(18,081)
Income taxes payable/receivable	12,232	(74,850)
Net cash provided by operating activities	<u>\$ 272,472</u>	<u>\$ 297,132</u>
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(54,349)	(90,128)
Proceeds from sale of property, plant and equipment	1,553	1,081
Acquisitions, net of cash acquired	(3,645)	(3,210)
Proceeds from sale of investments	—	18,800
Patent acquisition costs and license fees	(10,000)	(5,700)
Sale of business, net	(700)	—
Settlement escrow	(54,500)	—
Other investing activities	(5,348)	—
Net cash used in investing activities	<u>\$ (126,989)</u>	<u>\$ (79,157)</u>

	Nine Months Ended September 30,	
	2013	2012
FINANCING ACTIVITIES:		
Capital lease obligations repayments	(331)	(765)
Direct financing arrangement repayments	(2,589)	—
Proceeds from other indebtedness	1,014	—
Principal payments on Term Loans	(134,688)	(333,950)
Payment on AMS Convertible Notes	—	(66)
Principal payments on other indebtedness	—	(685)
Deferred financing fees	(8,129)	—
Payment for contingent consideration	(5,000)	—
Tax benefits of stock awards	8,415	4,268
Payments of tax withholding for restricted shares	(8,284)	—
Exercise of Endo Health Solutions Inc. stock options	83,743	15,317
Purchase of common stock	—	(156,000)
Issuance of common stock from treasury	4,117	4,606
Cash distributions to noncontrolling interests	(36,709)	(39,234)
Cash buy-out of noncontrolling interests, net of cash contributions	(2,032)	(2,264)
Net cash used in financing activities	<u>\$ (100,473)</u>	<u>\$ (508,773)</u>
Effect of foreign exchange rate	1,159	95
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 46,169</u>	<u>\$ (290,703)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>547,916</u>	<u>547,620</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 594,085</u>	<u>\$ 256,917</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 106,363	\$ 124,723
Cash paid for income taxes	\$ 45,915	\$ 151,924
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property, plant and equipment financed by capital leases	\$ 461	\$ 1,360
Note receivable for sale of business	\$ 8,850	\$ —
Accrual for purchases of property, plant and equipment	\$ 3,946	\$ 3,160

See Notes to Condensed Consolidated Financial Statements.

ENDO HEALTH SOLUTIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Endo Health Solutions Inc., which we refer to herein as the Company, Endo, we, our or us, have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying Condensed Consolidated Financial Statements of Endo and its subsidiaries, which are unaudited, include all normal and recurring adjustments considered necessary to present fairly the Company's financial position as of September 30, 2013 and the results of our operations and our cash flows for the periods presented. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. The amendments in this update provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. This guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 is effective on a retrospective basis for fiscal years and interim periods within those fiscal years beginning after December 15, 2013 and early adoption is permitted. The Company is currently evaluating ASU 2013-04 but does not expect the impact of adoption to be material.

In July 2013, the FASB issued ASU 2013-11, *Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The amendments in this update provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, in order to eliminate the diversity in practice in the presentation of unrecognized tax benefits in such instances. This guidance generally requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company is currently evaluating ASU 2013-11 and plans to comply with all applicable provisions of this ASU no later than the first quarter of 2014.

NOTE 3. FAIR VALUE MEASUREMENTS

The financial instruments recorded in our Condensed Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, marketable securities, equity and cost method investments, accounts payable and accrued expenses, acquisition-related contingent consideration, debt obligations, and derivative instruments. Included in cash and cash equivalents are money market funds representing a type of mutual fund required by law to invest in low-risk securities (for example, U.S. government bonds, U.S. Treasury Bills and commercial paper). Money market funds are structured to maintain

the fund's net asset value at \$1 per unit, which assists in providing adequate liquidity upon demand by the holder. Money market funds pay dividends that generally reflect short-term interest rates. Thus, only the dividend yield fluctuates. Due to their short-term maturity, the carrying amounts of cash and cash equivalents (including money market funds), accounts receivable, accounts payable and accrued expenses approximate their fair values.

The following table presents the carrying amounts and estimated fair values of our other financial instruments at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current assets:				
Derivative instruments	\$ 50	\$ 50	\$ —	\$ —
	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ —</u>
Long-term assets:				
Equity securities	\$ 2,433	\$ 2,433	\$ 1,746	\$ 1,746
Equity and cost method investments	16,177	N/A	15,195	N/A
	<u>\$ 18,610</u>		<u>\$ 16,941</u>	
Current liabilities:				
Acquisition-related contingent consideration—short-term	\$ 1,231	\$ 1,231	\$ 6,195	\$ 6,195
Current portion of 1.75% Convertible Senior Subordinated Notes Due 2015, net	339,159	369,440	—	—
Current portion of Term Loan A Facility Due 2018	69,375	69,375	131,250	131,250
3.25% AMS Convertible Notes due 2036	795	795	795	795
4.00% AMS Convertible Notes due 2041	111	111	111	111
Current portion of other long-term debt	2,254	2,254	1,842	1,842
Derivative instruments	17	17	602	602
Minimum Voltaren® Gel royalties due to Novartis—short-term	22,164	22,164	31,878	31,878
Other	7,000	7,000	1,000	1,000
	<u>\$ 442,106</u>	<u>\$ 472,387</u>	<u>\$ 173,673</u>	<u>\$ 173,673</u>
Long-term liabilities:				
Acquisition-related contingent consideration—long-term	\$ 2,856	\$ 2,856	\$ 2,729	\$ 2,729
1.75% Convertible Senior Subordinated Notes Due 2015, less current portion, net	—	—	321,332	364,444
Term Loan A Facility Due 2018, less current portion	1,283,437	1,283,302	1,256,250	1,259,094
Term Loan B Facility Due 2018	60,550	60,701	160,550	162,260
7.00% Senior Notes Due 2019	500,000	517,500	500,000	536,563
7.00% Senior Notes Due 2020, net	397,124	413,500	396,899	429,000
7.25% Senior Notes Due 2022	400,000	413,750	400,000	431,500
Other long-term debt, less current portion	3,517	3,517	2,916	2,916
Minimum Voltaren® Gel royalties due to Novartis—long-term	—	—	13,846	13,846
Other	8,295	8,295	5,775	5,775
	<u>\$ 2,655,779</u>	<u>\$ 2,703,421</u>	<u>\$ 3,060,297</u>	<u>\$ 3,208,127</u>

Equity securities consist of investments in the stock of publicly traded companies, the values of which are based on a quoted market prices and thus represent Level 1 measurements within the fair value hierarchy, as defined below. These securities are not held to support current operations and are therefore classified as non-current assets.

The fair value of our 1.75% Convertible Senior Subordinated Notes (Convertible Notes) is based on an income approach known as the binomial lattice model which incorporated certain inputs and assumptions, including scheduled coupon and principal payments, the conversion feature inherent in the Convertible Notes, the put feature inherent in the Convertible Notes, and stock price volatility assumptions of 36% at September 30, 2013 and 32% at December 31, 2012 that were based on historic volatility of the Company's common stock and other factors. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy.

The fair values of the Term Loan Facilities and 2019, 2020, and 2022 Notes were based on market quotes and transactions proximate to the valuation date. The Company had previously used an income approach to value these debt instruments; however, the valuation methodology was subsequently transitioned to a market-based approach given the volume of observable market transactions and quoted prices for these debt instruments. Based on this valuation methodology, we determined these debt instruments represent Level 2 measurements within the fair value hierarchy.

We measure our derivative instruments at fair value on a recurring basis using significant observable inputs, hence these instruments represent Level 2 measurements within the fair value hierarchy.

At the inception of the License and Supply Agreement between our subsidiary Endo Pharmaceuticals Inc. (EPI) and Novartis AG in 2008, we recorded a liability representing the fair value of the minimum Voltaren® Gel royalty due to Novartis AG. In December 2012, pursuant to the provisions of this agreement, the term was renewed for an additional one-year period. At this time, an additional liability of \$21.3 million was recorded, representing the fair value of the incremental minimum royalty we expect EPI to pay to Novartis AG over the renewal term. The fair values of these liabilities were determined using an income approach (present value technique) taking into consideration the level and timing of expected cash flows and an assumed discount rate. These assumptions are based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy. The liability is currently being accreted up to the expected minimum payments, less payments made to date. We believe the carrying amount of this minimum royalty guarantee at September 30, 2013 and December 31, 2012 represents a reasonable approximation of the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. Accordingly, the carrying value approximates fair value as of September 30, 2013 and December 31, 2012.

The fair value of equity method and cost method investments is not readily available nor have we estimated the fair value of these investments and disclosure is not required. The Company is not aware of any identified events or changes in circumstances that would have a significant adverse effect on the carrying value of any of our equity or cost method investments included in our Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012.

As of September 30, 2013, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. Fair value guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012 were as follows (in thousands):

Fair Value Measurements at Reporting Date using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2013				
Assets:				
Money market funds	\$ 73,377	\$ —	\$ —	\$ 73,377
Equity securities	2,433	—	—	2,433
Derivative instruments	—	50	—	50
Total	<u>\$ 75,810</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ 75,860</u>
Liabilities:				
Derivative instruments	\$ —	\$ 17	\$ —	\$ 17
Acquisition-related contingent consideration— short-term	\$ —	\$ —	\$ 1,231	\$ 1,231
Acquisition-related contingent consideration— long-term	—	—	2,856	2,856
Total	<u>\$ —</u>	<u>\$ 17</u>	<u>\$ 4,087</u>	<u>\$ 4,104</u>

Fair Value Measurements at Reporting Date using:				
December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	\$ 58,331	\$ —	\$ —	\$ 58,331
Equity securities	1,746	—	—	1,746
Total	<u>\$ 60,077</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 60,077</u>
Liabilities:				
Derivative instruments	\$ —	\$ 602	\$ —	\$ 602
Acquisition-related contingent consideration—short-term	—	—	6,195	6,195
Acquisition-related contingent consideration—long-term	—	—	2,729	2,729
Total	<u>\$ —</u>	<u>\$ 602</u>	<u>\$ 8,924</u>	<u>\$ 9,526</u>

Acquisition-Related Contingent Consideration

On November 30, 2010 (the Qualitest Pharmaceuticals Acquisition Date), the Company acquired Generics International (US Parent), Inc. (doing business as Qualitest Pharmaceuticals), which was party to an asset purchase agreement with Teva Pharmaceutical Industries Ltd (Teva) (the Teva Agreement). Pursuant to this agreement, Qualitest Pharmaceuticals purchased certain pipeline generic products from Teva and could be obligated to pay consideration to Teva upon the achievement of certain future regulatory milestones (the Teva Contingent Consideration).

The current range of the undiscounted amounts the Company could be obligated to pay in future periods under the Teva Agreement is between zero and \$7.5 million, after giving effect to the first quarter 2013 payment. The Company is accounting for the Teva Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Qualitest Pharmaceuticals. Accordingly, the fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points. Using this valuation technique, the fair value of the contractual obligation to pay the Teva Contingent Consideration was determined to be approximately \$4.1 million at September 30, 2013 and \$8.9 million at December 31, 2012. The decrease in the balance primarily relates to a first quarter 2013 payment of \$5.0 million related to the achievement of certain regulatory milestones. The remaining fluctuation resulted from changes in the fair value of the liability, primarily reflecting changes to the present value assumptions associated with our valuation model.

Fair Value Measurements Using Significant Unobservable Inputs

The following table presents changes to the Company's financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2013 (in thousands):

	Acquisition-related Contingent Consideration
Liabilities:	
July 1, 2013	\$ (4,024)
Amounts (acquired) sold or (issued) settled, net	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	(63)
September 30, 2013	<u>\$ (4,087)</u>

The following table presents changes to the Company's financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2012 (in thousands):

	Acquisition-related Contingent Consideration
Liabilities:	
July 1, 2012	\$ (8,619)
Amounts (acquired) sold / (issued) settled, net	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	(96)
September 30, 2012	<u>\$ (8,715)</u>

The following table presents changes to the Company's financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2013 (in thousands):

	Acquisition-related Contingent Consideration
Liabilities:	
January 1, 2013	\$ (8,924)
Amounts (acquired) sold / (issued) settled, net	5,000
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	(163)
September 30, 2013	<u>\$ (4,087)</u>

The following table presents changes to the Company's financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2012 (in thousands):

	Acquisition-related Contingent Consideration
Liabilities:	
January 1, 2012	\$ (8,687)
Amounts (acquired) sold / (issued) settled, net	—
Transfers in and/or (out) of Level 3	—
Changes in fair value recorded in earnings	(28)
September 30, 2012	<u>\$ (8,715)</u>

The following is a summary of available-for-sale securities held by the Company at September 30, 2013 and December 31, 2012 (in thousands):

Available-for-sale			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2013			
Money market funds	\$ 73,377	\$ —	\$ 73,377
<i>Total included in cash and cash equivalents</i>	\$ 73,377	\$ —	\$ 73,377
Equity securities	\$ 1,766	\$ 667	\$ 2,433
<i>Long-term available-for-sale securities</i>	\$ 1,766	\$ 667	\$ 2,433
<i>Total available-for-sale securities</i>	\$ 75,143	\$ 667	\$ 75,810
December 31, 2012			
Money market funds	\$ 58,331	\$ —	\$ 58,331
<i>Total included in cash and cash equivalents</i>	\$ 58,331	\$ —	\$ 58,331
Equity securities	\$ 1,766	\$ (20)	\$ 1,746
<i>Long-term available-for-sale securities</i>	\$ 1,766	\$ (20)	\$ 1,746
<i>Total available-for-sale securities</i>	\$ 60,097	\$ (20)	\$ 60,077

At September 30, 2013 and December 31, 2012, our equity securities consisted of investments in the stock of publicly traded companies. As of September 30, 2013, one investment had been in an unrealized loss position for less than twelve months and one had been in an unrealized loss position for more than twelve months. As of December 31, 2012, one investment had been in an unrealized loss position for less than twelve months and one had been in an unrealized loss position for more than twelve months. The Company does not believe the remaining unrealized losses are other-than-temporary at September 30, 2013 or December 31, 2012 primarily because the Company has both the ability and intent to hold these investments for a period of time we believe will be sufficient to recover such losses.

Nonrecurring Fair Value Measurements

The Company's financial assets measured at fair value on a nonrecurring basis during the three months ended September 30, 2013 were as follows (in thousands):

	Fair Value Measurements at Reporting Date using:			Total (Expense) Income for the Three Months Ended September 30, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
HealthTronics goodwill	\$ —	\$ —	\$ 127,370	\$ (38,000)
Property, plant and equipment	—	—	—	(807)
Total	\$ —	\$ —	\$ 127,370	\$ (38,807)

The Company's financial assets measured at fair value on a nonrecurring basis during the nine months ended September 30, 2013 were as follows (in thousands):

	Fair Value Measurements at Measurement Date using:			Total Expense for the Nine Months Ended September 30, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
HealthTronics goodwill	\$ —	\$ —	\$ 127,370	\$ (38,000)
Assets of anatomical pathology services reporting unit	\$ —	\$ 8,500	\$ —	\$ (4,238)
Property, plant and equipment	—	—	—	(4,756)
Total	\$ —	\$ 8,500	\$ 127,370	\$ (46,994)

See Note 8. Goodwill and Other Intangibles for a discussion of goodwill asset impairment charges.

As further discussed in Note 5. Segment Results and Note 16. Restructuring, on June 4, 2013, the Company's Board of Directors approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value, including cost reduction initiatives and plans to explore strategic alternatives for its HealthTronics business. During the second quarter of 2013, in connection with the planned sale of the anatomical pathology services business, which was subsequently sold to Metamark Genetics, Inc. on August 9, 2013, we recorded asset impairment charges totaling \$4.2 million to write down the book value of this reporting unit's assets to fair value less estimated costs to sell. These charges were assigned to our HealthTronics segment.

In connection with the June 2013 restructuring initiative and other cost reduction initiatives, we determined that the carrying amounts of certain miscellaneous fixed assets were no longer recoverable. During the three and nine months ended September 30, 2013, we recorded asset impairment charges totaling \$0.8 million and \$4.8 million, respectively, primarily to write off these assets, which were assigned to our Endo Pharmaceuticals segment.

The fair value of the anatomical pathology services reporting unit's assets was based on significant observable inputs and thus represented a Level 2 measurement within the fair value hierarchy. The other nonrecurring fair value measurements described above were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value hierarchy.

NOTE 4. INVENTORIES

The following is a summary of inventories held by the Company at September 30, 2013 and December 31, 2012 (in thousands):

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Raw materials	\$ 109,571	\$ 108,460
Work-in-process	60,641	59,763
Finished goods	246,300	189,415
Total	<u>\$ 416,512</u>	<u>\$ 357,638</u>

Inventory amounts in the table above are shown net of obsolescence. Our reserve for obsolescence is not material to the Condensed Consolidated Balance Sheets and therefore has not been separately disclosed.

NOTE 5. SEGMENT RESULTS

The Company has four reportable segments: (1) Endo Pharmaceuticals, (2) Qualitest, (3) AMS and (4) HealthTronics. These segments reflect the level at which executive management regularly reviews financial information to assess performance and to make decisions about resources to be allocated. Each segment derives revenue from the sales or licensing of their respective products or services and is discussed in more detail below.

We evaluate segment performance based on each segment's adjusted income (loss) before income tax, which we define as income before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, net, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income (loss) before income tax by adding the amounts for each of our reportable segments to Corporate unallocated adjusted income (loss) before income tax.

Endo Pharmaceuticals

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm[®], Opana[®] ER, Voltaren[®] Gel, Percocet[®], Frova[®], Fortesta[®] Gel, Supprelin[®] LA, Vantas[®] and Valstar[®].

Qualitest

The Qualitest segment is composed of our legacy non-branded generics portfolio and the portfolio from Qualitest Pharmaceuticals, which we acquired in 2010. The Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. The product offerings of this segment include products in the pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women's health and hypertension markets, among others.

AMS

The AMS segment currently focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and benign prostatic hyperplasia (BPH) therapy. AMS distributes devices through its direct sales force and independent sales representatives in the U.S., Canada, Australia and Western Europe. Additionally, AMS distributes devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of AMS's customers or distributors accounted for ten percent or more of our total revenues during the three or nine months ended September 30, 2013 or 2012. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

HealthTronics

The HealthTronics segment provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics across the U.S. These services are sold primarily through the following business lines: lithotripsy services, prostate treatment services, medical products manufacturing, sales and maintenance and electronic medical records services.

On June 4, 2013, the Company announced, as part of its broader restructuring initiatives, plans to explore strategic alternatives for its HealthTronics business.

In June 2013, the Company's Board of Directors approved a plan to sell the anatomical pathology services reporting unit, a component of the HealthTronics segment. On August 9, 2013, HealthTronics, Inc. sold its anatomical pathology services business to Metamark Genetics, Inc. for a total purchase price of \$9.2 million, including an \$8.9 million note receivable due on or before December 31, 2013, resulting in a pretax gain of \$2.7 million. The Condensed Consolidated Financial Statements include the operating results of the anatomical pathology services business through August 8, 2013. These operating results are not material to the Company's consolidated operating results in any period being presented and therefore, we have not presented the business as discontinued operations in the Condensed Consolidated Statements of Operations. In addition, the assets and liabilities of the business are not presented as held for sale in the Condensed Consolidated Balance Sheets. The \$8.9 million note receivable is included in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

The Company continues to explore strategic alternatives for the remaining HealthTronics businesses.

The following represents selected information for the Company's reportable segments for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net revenues to external customers:				
Endo Pharmaceuticals	\$ 366,136	\$ 416,645	\$ 1,139,372	\$ 1,223,005
Qualitest	183,939	166,070	532,722	471,310
AMS(1)	111,244	113,304	359,867	371,601
HealthTronics(2)	53,635	54,463	158,021	160,387
Total consolidated net revenues to external customers	<u>\$ 714,954</u>	<u>\$ 750,482</u>	<u>\$ 2,189,982</u>	<u>\$ 2,226,303</u>
Adjusted income (loss) before income tax:				
Endo Pharmaceuticals	\$ 224,747	\$ 216,728	\$ 635,168	\$ 624,927
Qualitest	48,630	45,840	141,720	132,500
AMS	29,156	21,081	96,847	77,383
HealthTronics(3)	17,300	16,639	40,278	42,053
Corporate unallocated	(81,916)	(73,854)	(239,916)	(249,934)
Total consolidated adjusted income (loss) before income tax	<u>\$ 237,917</u>	<u>\$ 226,434</u>	<u>\$ 674,097</u>	<u>\$ 626,929</u>

(1) The following table displays our AMS segment revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
AMS:				
United States	\$ 75,484	\$ 75,480	\$ 233,091	\$ 246,385
International	35,760	37,824	126,776	125,216
Total AMS revenues	<u>\$ 111,244</u>	<u>\$ 113,304</u>	<u>\$ 359,867</u>	<u>\$ 371,601</u>

(2) HealthTronics revenue includes amounts related to the anatomical pathology services business through August 8, 2013. This business was sold on August 9, 2013. Anatomical pathology services revenues totaled \$2.5 million and \$13.6 million during the three and nine months ended September 30, 2013, respectively, compared to \$5.2 million and \$15.2 million in the comparable 2012 periods.

(3) HealthTronics adjusted income (loss) before income tax includes amounts related to the anatomical pathology services business through August 8, 2013. This business was sold on August 9, 2013. Anatomical pathology services

adjusted income (loss) before income tax is not material to the Company's consolidated operating results for any of the periods presented.

The table below provides reconciliations of our consolidated adjusted income (loss) before income tax to our income before income tax, which is determined in accordance with U.S. GAAP, for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Total consolidated adjusted income (loss) before income tax:	\$ 237,917	\$ 226,434	\$ 674,097	\$ 626,929
Upfront and milestone payments to partners	(3,092)	(5,338)	(11,064)	(56,905)
Asset impairment charges	(38,807)	(11,163)	(46,994)	(54,163)
Acquisition-related and integration items, net(1)	(2,207)	(5,776)	(6,165)	(16,580)
Separation benefits and other cost reduction initiatives(2)	(22,529)	(11,590)	(91,176)	(26,958)
Amortization of intangible assets	(46,853)	(58,735)	(148,606)	(170,659)
Inventory step-up	—	—	—	(880)
Non-cash interest expense	(5,704)	(5,209)	(16,816)	(15,354)
Loss on extinguishment of debt	—	(1,789)	(11,312)	(7,215)
Watson litigation settlement income, net	14,628	—	50,400	—
Accrual for payment to Impax Laboratories Inc. related to sales of Opana® ER	—	6,000	—	(104,000)
Patent litigation settlement items, net	—	46,238	—	(85,123)
Certain litigation-related charges(3)	(44,600)	(82,600)	(193,969)	(82,600)
Gain on sale of business	2,665	—	2,665	—
Other income (expense), net	—	—	1,048	—
Total consolidated income before income tax	<u>\$ 91,418</u>	<u>\$ 96,472</u>	<u>\$ 202,108</u>	<u>\$ 6,492</u>

- (1) Acquisition-related and integration-items, net, include costs directly associated with the closing of certain immaterial acquisitions, changes in the fair value of contingent consideration and the costs of integration activities related to both current and prior period acquisitions.
- (2) Separation benefits and other cost reduction initiatives include employee separation costs of \$5.6 million and \$46.8 million for the three and nine months ended September 30, 2013, respectively, and \$11.6 million and \$26.4 million for the three and nine months ended September 30, 2012, respectively. Contract termination fees recognized during the third quarter of 2013 totaling \$7.8 million are also included in this amount. Refer to Note 16. Restructuring for discussion of our material restructuring initiatives. Additionally, Separation benefits and other cost reduction initiatives during the nine months ended September 30, 2013 includes an expense recorded upon the cease use date of our Chadds Ford, Pennsylvania properties in the first quarter of 2013, representing a liability for our remaining obligations under the respective lease agreements of \$7.2 million. These expenses were primarily recorded as Selling, general and administrative and Research and development expense in our Condensed Consolidated Statements of Operations.
- (3) This amount includes charges for Litigation-related and other contingencies, consisting primarily of mesh-related product liability charges, as well as mesh litigation-related defense costs for the three and nine months ended September 30, 2013.

The following represents additional selected financial information for our reportable segments for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Depreciation expense:				
Endo Pharmaceuticals	\$ 4,059	\$ 3,539	\$ 14,774	\$ 11,249
Qualitest	3,402	3,106	9,841	9,041
AMS	2,221	2,614	7,876	7,812
HealthTronics	2,506	2,905	8,501	9,230
Corporate unallocated	2,180	1,168	6,374	3,339
Total depreciation expense	<u>\$ 14,368</u>	<u>\$ 13,332</u>	<u>\$ 47,366</u>	<u>\$ 40,671</u>

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Amortization expense:				
Endo Pharmaceuticals	\$ 18,743	\$ 27,318	\$ 64,870	\$ 76,395
Qualitest	10,881	10,381	32,643	31,143
AMS	15,512	19,385	46,263	58,191
HealthTronics	1,867	1,801	5,280	5,380
Total amortization expense	<u>\$ 47,003</u>	<u>\$ 58,885</u>	<u>\$ 149,056</u>	<u>\$ 171,109</u>

Interest income and expense are considered corporate items and are not allocated to our segments. Asset information is not accounted for at the segment level and consequently is not reviewed or included within our internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

NOTE 6. INCOME TAXES

During the three and nine months ended September 30, 2013, we recognized income taxes totaling \$36.8 million of expense and \$72.8 million of expense, respectively. This compares to \$28.3 million of expense and \$9.3 million of benefit, respectively, in the comparable 2012 periods. The effective income tax rate was 40.3% and 36.0% during the three and nine months ended September 30, 2013, respectively, compared to 29.3% and (142.7)%, respectively, in the comparable 2012 periods.

The increase in the effective tax rate during the three months ended September 30, 2013 was primarily attributable to goodwill impairments in the current period at our HealthTronics business that were not deductible for tax purposes and an unfavorable true-up to the non-deductible annual Health Care Reform Fee in 2013. This was partially offset by favorable true-ups as a result of the filing of the 2012 federal consolidated tax return.

The fluctuation in the effective tax rate during the nine months ended September 30, 2013 was primarily attributable to tax benefits in the comparable prior period greater than pretax income, which resulted in a negative effective tax rate. The prior period tax benefits related to the release of reserves for uncertain tax positions and the reversal of a valuation allowance related to the sale of the image guided radiation therapy (IGRT) business. Also contributing to the rate variance are goodwill impairments in the current period that are not deductible for tax purposes, and an unfavorable true-up to the non-deductible annual Health Care Reform Fee in 2013. The variance was partially offset by favorable adjustments for the reinstatement of the research and development credit in 2013, a benefit in the current period for our foreign manufacturing operations as compared to a detriment in the comparable prior period and favorable true-ups in the current period as a result of filing of the 2012 federal consolidated return.

NOTE 7. LICENSE AND COLLABORATION AGREEMENTS

Our subsidiaries have entered into certain license, collaboration and discovery agreements with third parties for the development of pain management and other products. These agreements require our subsidiaries to share in the development costs of such products and grant marketing rights to our subsidiaries for such products.

Our subsidiaries have also licensed from universities, corporations and other similar institutions, rights to certain technologies or intellectual property, generally in the field of pain management. They are generally required to make upfront payments as well as other payments upon successful completion of regulatory or sales milestones. In addition, these

agreements generally require our subsidiaries to pay royalties on sales of the products arising from these agreements. These agreements generally permit our subsidiaries to terminate the agreement with no significant continuing obligation.

For additional discussion of our subsidiaries' material license and collaboration agreements at December 31, 2012, refer to our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

Commercial Products

Novartis AG and Novartis Consumer Health, Inc.

On March 4, 2008, our subsidiary Endo Pharmaceuticals Inc. (EPI) entered into a License and Supply Agreement (the Voltaren[®] Gel Agreement) with and among Novartis AG and Novartis Consumer Health, Inc. (Novartis) to obtain the exclusive U.S. marketing rights for the prescription medicine Voltaren[®] Gel (Voltaren[®] Gel or the Licensed Product). Voltaren[®] Gel received regulatory approval in October 2007 from the U.S. Food and Drug Administration (FDA), becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren[®] Gel was granted marketing exclusivity in the U.S. as a prescription medicine until October 2010.

Under the terms of the Voltaren[®] Gel Agreement, which had an initial term of five years, EPI made an upfront cash payment of \$85 million. EPI agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds as defined in the Voltaren[®] Gel Agreement. In addition, EPI agreed to make certain guaranteed minimum annual royalty payments of \$30 million per year payable in the 4th and 5th year of the Voltaren[®] Gel Agreement, which could be reduced under certain circumstances, including Novartis's failure to supply the Licensed Product, subject to certain limitations including the launch of a generic to the Licensed Product in the U.S. These guaranteed minimum royalties were creditable against royalty payments on an annual basis such that EPI's obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren[®] Gel Agreement year. Novartis is also eligible to receive a one-time milestone payment of \$25 million if annual net sales of Voltaren[®] Gel exceed \$300 million in the U.S. To date, annual net sales have not exceeded this threshold and, therefore, this milestone payment has not been paid.

The \$85 million upfront payment and the present value of the guaranteed minimum royalties was initially capitalized as an intangible asset in the amount of \$129 million, representing the fair value of the exclusive license to market Voltaren[®] Gel over the initial contract term. We amortized this intangible asset into Cost of revenues over an estimated five-year useful life. Due to Novartis's failure to supply Voltaren[®] Gel during the first quarter of 2012 resulting from the shutdown of its Lincoln, Nebraska manufacturing facility, EPI was not obligated to make any first quarter royalty payment, including the \$7.5 million minimum royalty. Accordingly, during the first quarter of 2012, we recorded a reduction to the associated liability and a decrease in the intangible asset. Subsequent to the first quarter of 2012, royalties in the amount \$11.9 million were incurred during the nine months ended September 30, 2012, representing either a percentage of actual net sales of Voltaren[®] Gel or minimum royalties pursuant to the Voltaren[®] Gel Agreement. Voltaren[®] Gel royalties incurred during the nine months ended September 30, 2013 were \$22.5 million, representing minimum royalties pursuant to the Voltaren[®] Gel Agreement.

EPI is solely responsible to commercialize the Licensed Product during the term of the Voltaren[®] Gel Agreement. With respect to each year during the term of the Voltaren[®] Gel Agreement, subject to certain limitations, EPI is required to incur a minimum amount of annual advertising and promotional expenses (A&P Expenditures) on the commercialization of the Licensed Product, which may be reduced under certain circumstances including Novartis's failure to supply the Licensed Product. In addition, EPI is required to perform a minimum number of face-to-face one-on-one discussions with physicians and other healthcare practitioners (Details) for the purpose of promoting the Licensed Product within its approved indication during each year of the Voltaren[®] Gel Agreement, which may be reduced under certain circumstances including Novartis's failure to supply the Licensed Product. Further, during the term of the Voltaren[®] Gel Agreement, EPI will share in the costs of certain clinical studies and development activities initiated at the request of the FDA or as considered appropriate by Novartis and EPI. On December 31, 2012, EPI and Novartis entered into an amendment to the Voltaren[®] Gel Agreement (the Voltaren[®] Gel Amendment) which reduced the minimum number of Details required to be conducted by EPI and the minimum amount of annual advertising and promotional expenses required to be spent by EPI on the commercialization of Voltaren[®] Gel during each remaining year of the Voltaren[®] Gel Agreement.

During the fourth Voltaren[®] Gel Agreement Year beginning on July 1, 2011 and extending through June 30, 2012, EPI agreed to spend 13% of prior year sales or approximately \$16 million on A&P Expenditures. During the fifth Voltaren[®] Gel

Agreement Year beginning on July 1, 2012 and extending through June 30, 2013, EPI agreed to spend approximately \$4.5 million on A&P Expenditures. During the first renewal term year beginning on July 1, 2013 and extending through June 30, 2014, EPI agreed to spend approximately \$5.9 million on A&P Expenditures. In subsequent Agreement Years, the minimum A&P Expenditures set forth in the Voltaren® Gel Agreement are determined based on a percentage of net sales of Voltaren® Gel, which may be reduced under certain circumstances, including Novartis's failure to supply Voltaren® Gel.

Amounts incurred for such A&P Expenditures were \$6.5 million and \$7.9 million for the nine months ended September 30, 2013 and 2012, respectively.

During the term of the Voltaren® Gel Agreement, EPI has agreed to purchase all of its requirements for the Licensed Product from Novartis. The price was fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials. The Voltaren® Gel Amendment reduced the supply price of Voltaren® Gel otherwise payable under the Agreement.

Novartis has the exclusive right, at its sole discretion, to effect a switch of the Licensed Product from a prescription product to an over-the-counter (OTC) product in the U.S. (an OTC Switch) by filing an amendment or supplement to the Licensed Product New Drug Application or taking any other action necessary or advisable in connection therewith to effect the OTC Switch, and thereafter to commercialize such OTC product. Notwithstanding the foregoing, Novartis shall not launch an OTC equivalent product prior to a time specified in the Voltaren® Gel Agreement, and Novartis shall not take any action that results in the loss of the prescription product status for the Licensed Product prior to such time. Novartis is obligated to notify EPI if it submits a filing to the FDA in respect of an OTC equivalent product. In the event that Novartis gains approval of an OTC equivalent product that results in the Licensed Product being declassified as a prescription product, then Novartis will make certain royalty payments to EPI on net sales of such OTC equivalent product in the U.S. by Novartis, its affiliates and their respective licensees or sublicensees as set forth in the Voltaren® Gel Agreement. As a condition to the payment of any and all such royalties, net sales of the Licensed Product in the U.S. must have exceeded a certain threshold prior to the launch of the OTC equivalent product by Novartis or its affiliates.

The initial term of the Voltaren® Gel Agreement expired on June 30, 2013. In December 2012, pursuant to the provisions of the Voltaren® Gel Agreement which had provided EPI with an option to extend the term of the agreement for two successive one year terms, the term was renewed for an additional one-year period. As a result, we capitalized, as an intangible asset, \$21.3 million, representing the present value of the guaranteed minimum royalties we expect to pay to Novartis AG over the renewal term. The Voltaren® Gel Agreement will remain in place unless either (i) EPI provides written notice of non-renewal to the other party at least six months prior to the expiration of the first renewal term or any renewal term thereafter, (ii) Novartis provides written notice of non-renewal to the other party at least six months prior to the expiration of the second renewal term or any renewal term thereafter, or (iii) the Voltaren® Gel Agreement is otherwise terminated in accordance with its terms. Upon extension, EPI is again obligated to make certain guaranteed minimum annual royalty payments of \$30 million per year during each successive one-year renewal term, subject to certain limitations including the launch of a generic to the Licensed Product in the U.S. These guaranteed minimum annual royalty payments may be reduced under certain circumstances, including Novartis's failure to supply the Licensed Product. These guaranteed minimum royalties will be creditable against royalty payments on an annual basis such that EPI's obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren® Gel Agreement year.

Among other standard and customary termination rights granted under the Voltaren® Gel Agreement, the Voltaren® Gel Agreement can be terminated by either party upon reasonable written notice and if either party has committed a material breach that has not been remedied within 90 days from the giving of written notice. EPI may terminate the Voltaren® Gel Agreement by written notice upon the occurrence of several events, including the launch in the U.S. of a generic to the Licensed Product. Novartis may terminate the Voltaren® Gel Agreement upon reasonable written notice (1) if EPI fails to deliver a set percentage of the minimum Details in a certain six-month period under the Voltaren® Gel Agreement; or (2) on or after the launch in the U.S. of an OTC equivalent product by Novartis, its affiliates or any third party that does not result in the declassification of the Licensed Product as a prescription product, following which net sales in a six-month period under the Voltaren® Gel Agreement are less than a certain defined dollar amount.

Products in Development

BayerSchering

In July 2005, Indevus (now, Endo Pharmaceuticals Solutions Inc. or EPSI) licensed exclusive U.S. rights from Schering AG, Germany, now BayerSchering Pharma AG (BayerSchering) to market a long-acting injectable testosterone

preparation for the treatment of male hypogonadism that we refer to as Aveed™ (the BayerSchering Agreement). EPSI is responsible for the development and commercialization of Aveed™ in the U.S. BayerSchering is responsible for manufacturing and supplying EPSI with finished product. As part of the BayerSchering Agreement, Indevus agreed to pay to BayerSchering up to \$30.0 million in up-front, regulatory milestone, and commercialization milestone payments, including a \$5.0 million payment due upon approval by the FDA to market Aveed™. Indevus also agreed to pay to BayerSchering 25% of net sales of Aveed™ to cover both the cost of finished product and royalties.

In October 2006, Indevus entered into a supply agreement with BayerSchering pursuant to which BayerSchering agreed to manufacture and supply Indevus with all of its requirements for Aveed™ for a supply price based on net sales of Aveed™. The supply price is applied against the 25% of net sales owed to BayerSchering pursuant to the BayerSchering Agreement. The BayerSchering Agreement expires 10 years after the first commercial sale of Aveed™. Either party may also terminate the BayerSchering Agreement in the event of a material breach by the other party.

BioDelivery Sciences International, Inc.

In January 2012, EPI signed a worldwide license and development agreement (the BioDelivery Agreement) with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA® Buprenorphine. BEMA® Buprenorphine is a transmucosal form of buprenorphine, a partial mu-opiate receptor agonist, which incorporates a bioerodible mucoadhesive (BEMA®) technology. BEMA® Buprenorphine is currently in Phase III trials for the treatment of moderate to severe chronic pain. EPI made an upfront payment to BioDelivery for \$30.0 million, which was expensed as Research and development in the first quarter of 2012. During the first quarter of 2012, \$15.0 million of additional costs were incurred related to the achievement of certain regulatory milestones and were recorded as Research and development expense. EPI paid this amount in the second quarter of 2012. In the future, EPI could be obligated to pay royalties based on net sales of BEMA® Buprenorphine and commercial and regulatory milestone payments of up to approximately \$135.0 million. Pursuant to its rights under the terms of the BioDelivery Agreement, BioDelivery elected in November 2013 to have a portion of the BEMA® development costs, above a certain amount, paid by EPI. Any such amounts paid by EPI shall be credited against future milestone payments, as defined in the BioDelivery Agreement. EPI may terminate the BioDelivery Agreement at any time upon six months' written notice. Unless terminated earlier, the BioDelivery Agreement shall expire, on a country-by-country basis, upon the later to occur of 10 years from the date of first commercial sale in a particular country or the date on which the last valid claim of the applicable BioDelivery patents in a particular country has expired or been invalidated or found unenforceable.

Orion Corporation

Pursuant to the terms of the January 2011 Discovery, Development and Commercialization Agreement (the Orion Agreement) between EPI and Orion Corporation (Orion), EPI provided the required six-month notice to Orion in September 2013 that it had elected to discontinue its participation in the joint development of ODM-201, Orion's Anti-Androgen program focused on castration-resistant prostate cancer. After receipt of EPI's notice, Orion notified EPI of its election, pursuant to the terms of the Orion Agreement, to continue the ODM-201 program on its own. The Company is obligated to fund approximately \$6.0 million over the contractual six-month transition period for ODM-201 with no continuing obligation thereafter. Accordingly, EPI recorded a \$6.0 million charge in the third quarter of 2013, which is included in the Research and development line of the Condensed Consolidated Statements of Operations. On October 22, 2013, the parties mutually agreed to terminate the Orion Agreement for all programs other than ODM-201 and to return such terminated programs to the respective contributing parties.

NOTE 8. GOODWILL AND OTHER INTANGIBLES

Goodwill

Changes in the carrying amount of our goodwill for the nine months ended September 30, 2013 were as follows:

	Carrying Amount				Total Consolidated
	Endo Pharmaceuticals	Qualitest	AMS	HealthTronics	
Balance as of December 31, 2012:					
Goodwill	\$ 290,793	\$ 275,201	\$ 1,795,100	\$ 210,677	\$ 2,571,771
Accumulated impairment losses	—	—	(507,528)	(49,892)	(557,420)
	<u>\$ 290,793</u>	<u>\$ 275,201</u>	<u>\$ 1,287,572</u>	<u>\$ 160,785</u>	<u>\$ 2,014,351</u>
Goodwill acquired during the period	—	—	—	4,592	4,592
Measurement period adjustments	—	—	—	(6)	(6)
Effect of currency translation	—	—	(50)	—	(50)
Goodwill impairment charges	—	—	—	(38,000)	(38,000)
Balance as of September 30, 2013:					
Goodwill	290,793	275,201	1,795,050	215,263	2,576,307
Accumulated impairment losses	—	—	(507,528)	(87,892)	(595,420)
	<u>\$ 290,793</u>	<u>\$ 275,201</u>	<u>\$ 1,287,522</u>	<u>\$ 127,371</u>	<u>\$ 1,980,887</u>

The goodwill acquired during the period relates to immaterial acquisitions in 2013.

Other Intangible Assets

The following is a summary of other intangible held by the Company at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Indefinite-lived intangibles:		
In-process research and development	\$ 126,400	\$ 165,400
<i>Total indefinite-lived intangibles</i>	<u>\$ 126,400</u>	<u>\$ 165,400</u>
Definite-lived intangibles:		
Licenses (weighted average life of 8 years)	\$ 605,850	\$ 605,850
Less accumulated amortization	(390,456)	(329,120)
Licenses, net	<u>\$ 215,394</u>	<u>\$ 276,730</u>
Customer relationships (weighted average life of 16 years)	160,126	160,210
Less accumulated amortization	(23,321)	(15,682)
Customer relationships, net	<u>\$ 136,805</u>	<u>\$ 144,528</u>
Tradenames (weighted average life of 22 years)	91,600	91,600
Less accumulated amortization	(12,191)	(8,742)
Tradenames, net	<u>\$ 79,409</u>	<u>\$ 82,858</u>
Developed technology (weighted average life of 16 years)	1,744,810	1,694,336
Less accumulated amortization	(342,432)	(266,350)
Developed technology, net	<u>\$ 1,402,378</u>	<u>\$ 1,427,986</u>
Other (weighted average life of 6 years)	7,092	1,742
Less accumulated amortization	(833)	(271)
Other, net	<u>\$ 6,259</u>	<u>\$ 1,471</u>
<i>Total definite-lived intangibles, net (weighted average life of 15 years)</i>	<u>\$ 1,840,245</u>	<u>\$ 1,933,573</u>
Other intangibles, net	<u>\$ 1,966,645</u>	<u>\$ 2,098,973</u>

As of September 30, 2013, the weighted average amortization period for our definite-lived intangible assets in total was approximately 15 years.

Amortization expense for the nine month periods ended September 30, 2013 and 2012 totaled \$149.1 million and \$171.1 million, respectively. Estimated amortization of intangibles for the five years subsequent to December 31, 2012 is as follows (in thousands):

2013	\$ 192,731
2014	\$ 160,318
2015	\$ 155,037
2016	\$ 153,559
2017	\$ 141,383

Changes in the gross carrying amount of our other intangible assets for the nine months ended September 30, 2013 were as follows:

	Gross Carrying Amount
December 31, 2012	<u>\$ 2,719,138</u>
Patents acquired	12,125
Asset impairment charges	(652)
Effect of currency translation	(83)
Other	5,350
September 30, 2013	<u>\$ 2,735,878</u>

Impairments

A summary of intangible asset impairment charges for the three and nine months ended September 30, 2013 and 2012 is included below by reportable segment.

Endo Pharmaceuticals Segment

Pursuant to the Sanctura XR[®] Amended and Restated License, Commercialization and Supply Agreement with Allergan USA, Inc. (Allergan), the Company's Endo Pharmaceuticals Solutions Inc. (EPSI) subsidiary receives royalties based on net sales of Sanctura XR[®] made by Allergan. Following a lengthy patent litigation which began in 2009, the court ultimately found the patents covering Allergan's Sanctura XR[®] (trospium chloride) extended-release capsules were invalid in June 2012. As part of our first quarter 2012 financial close and reporting process, the Company concluded that an impairment assessment was required to evaluate the recoverability of the indefinite-lived intangible asset. The Company assessed the recoverability of this asset and determined the fair value of the Sanctura XR[®] intangible asset to be \$21.6 million at March 31, 2012. Accordingly, the Company recorded a pre-tax non-cash impairment charge of \$40.0 million in March 2012, representing the difference between the carrying amount of the intangible asset and its estimated fair value at March 31, 2012.

In October 2012, Watson announced that it had received FDA approval for its generic version of Sanctura XR[®] and that it intended to begin shipping its product immediately. As a result, the Company reevaluated the recoverability of the asset and determined that an impairment existed. The fair value of the Sanctura XR[®] intangible asset was determined to be \$5.0 million at September 30, 2012. Accordingly, the Company recorded an additional pre-tax non-cash impairment charge of \$11.2 million in September 2012. The remaining net book value was amortized in its entirety by December 31, 2012, commensurate with the expected rate of erosion due to generic competition.

AMS Segment

During the second quarter of 2012, as a result of market and potential regulatory changes affecting the commercial potential in the U.S. for one of the AMS, Inc. in-process research and development (IPR&D) assets, the Company determined that the asset's carrying amount was no longer fully recoverable. Accordingly, in the second quarter of 2012, we recorded a pre-tax non-cash impairment charge of \$3.0 million, representing the difference between the fair value and the carrying amount.

HealthTronics Segment

In June 2013, the Company's Board of Directors approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value, including cost reduction initiatives and plans to explore strategic alternatives for its HealthTronics business. During the third quarter of 2013, the Company determined that a sale of the HealthTronics business was more-likely-than-not to occur over the next twelve months. Accordingly, we initiated an interim goodwill impairment analysis of the HealthTronics reporting units' goodwill balances as of September 30, 2013. The fair value of the Urology Services and HealthTronics Information Technology Solutions (HITS) reporting units were estimated using a number of factors including the fair value currently implied by the ongoing sales process and previously prepared discounted cash flow analyses. As a result of this analysis, the Company determined that the net book value of both our Urology Services reporting unit and our HITS reporting unit exceeded their estimated fair value. The Company has prepared a preliminary analysis to estimate the amount of an impairment charge as of September 30, 2013, and has determined that an impairment is probable and reasonably estimable. However, given the complexities associated with this type of analysis, we have not finalized our calculation of the implied fair value of each of the reporting unit's goodwill as of the date of this filing. The preliminary fair value assessments were performed by the Company taking into consideration a number of factors including the preliminary results of a hypothetical purchase price allocation. As a result of the preliminary analysis, based upon the latest available information, during the three months ended September 30, 2013, the Company recorded a combined estimated goodwill impairment charge of \$38.0 million in the Condensed Consolidated Statements of Operations, representing the difference between the estimated implied fair value of the HealthTronics reporting units' goodwill and their respective net book values. The Company expects to finalize the impairment analysis in the fourth quarter of 2013 and the Company will adjust the estimated impairment charge at that time. As of September 30, 2013, the remaining balance of goodwill for the HealthTronics reporting units was \$127.4 million.

Additionally, as further discussed in Note 5. Segment Results and Note 16. Restructuring, in June 2013, the Company began marketing for sale the anatomical pathology services reporting unit, a component of the HealthTronics segment. In connection with the planned sale of this reporting unit, which was subsequently sold on August 9, 2013, we recorded asset impairment charges during the second quarter of 2013 to write down the book value of this reporting unit's assets to fair value less costs to sell, which included a pre-tax non-cash impairment charge of \$0.7 million to completely write off an anatomical pathology services developed technology intangible asset.

There were no other intangible asset impairment charges for any of our segments for the three and nine months ended September 30, 2013 and 2012.

NOTE 9. OTHER COMPREHENSIVE INCOME

The following table presents the tax effects allocated to each component of Other comprehensive income for the three months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,					
	2013			2012		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gain on securities:						
Unrealized gains arising during the period	\$ 415	\$ (154)	\$ 261	\$ 940	\$ (351)	\$ 589
Less: reclassification adjustments for (gains) losses realized in net income	—	—	—	—	—	—
Net unrealized gains	<u>415</u>	<u>(154)</u>	<u>261</u>	<u>940</u>	<u>(351)</u>	<u>589</u>
Foreign currency translation gain	2,990	6	2,996	4,049	(15)	4,034
Fair value adjustment on derivatives designated as cash flow hedges:						
Fair value adjustment on derivatives designated as cash flow hedges arising during the period	(364)	130	(234)	(1,249)	448	(801)
Less: reclassification adjustments for cash flow hedges settled and included in net income	<u>(138)</u>	<u>49</u>	<u>(89)</u>	<u>216</u>	<u>(78)</u>	<u>138</u>
Net unrealized fair value adjustment on derivatives designated as cash flow hedges	<u>(502)</u>	<u>179</u>	<u>(323)</u>	<u>(1,033)</u>	<u>370</u>	<u>(663)</u>
Other comprehensive income	<u>\$ 2,903</u>	<u>\$ 31</u>	<u>\$ 2,934</u>	<u>\$ 3,956</u>	<u>\$ 4</u>	<u>\$ 3,960</u>

The following table presents the tax effects allocated to each component of Other comprehensive income for the nine months ended September 30, 2013 and 2012 (in thousands):

	Nine Months Ended September 30,					
	2013			2012		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gain on securities:						
Unrealized gains arising during the period	\$ 687	\$ (256)	\$ 431	\$ 2,326	\$ (368)	\$ 1,958
Less: reclassification adjustments for (gains) losses realized in net income (loss)	—	—	—	—	—	—
Net unrealized gains	<u>687</u>	<u>(256)</u>	<u>431</u>	<u>2,326</u>	<u>(368)</u>	<u>1,958</u>
Foreign currency translation gain	5	22	27	409	57	466
Fair value adjustment on derivatives designated as cash flow hedges:						
Fair value adjustment on derivatives designated as cash flow hedges arising during the period	468	(169)	299	(945)	339	(606)
Less: reclassification adjustments for cash flow hedges settled and included in net income (loss)	<u>166</u>	<u>(60)</u>	<u>106</u>	<u>178</u>	<u>(64)</u>	<u>114</u>
Net unrealized fair value adjustment on derivatives designated as cash flow hedges	<u>634</u>	<u>(229)</u>	<u>405</u>	<u>(767)</u>	<u>275</u>	<u>(492)</u>
Other comprehensive income	<u>\$ 1,326</u>	<u>\$ (463)</u>	<u>\$ 863</u>	<u>\$ 1,968</u>	<u>\$ (36)</u>	<u>\$ 1,932</u>

Reclassifications adjustments out of Other comprehensive income are reflected in our Condensed Consolidated Statements of Operations as Other (income) expense, net.

The following is a summary of the accumulated balances related to each component of Other comprehensive income, net of taxes, at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Net unrealized gains (losses)	\$ 254	\$ (177)
Foreign currency translation loss	(5,880)	(5,907)
Fair value adjustment on derivatives designated as cash flow hedges	(313)	(718)
Accumulated other comprehensive loss	<u>\$ (5,939)</u>	<u>\$ (6,802)</u>

NOTE 10. OTHER (INCOME) EXPENSE, NET

The components of Other (income) expense, net for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2013	2012	2013	2012
Watson litigation settlement income, net	\$ (14,628)	\$ —	\$ (50,400)	\$ —
Other (income) expense, net	(2,664)	(250)	(1,473)	498
Other (income) expense, net	<u>\$ (17,292)</u>	<u>\$ (250)</u>	<u>\$ (51,873)</u>	<u>\$ 498</u>

See Note 12. Commitments and Contingencies for a discussion of the Watson litigation settlement income, net.

NOTE 11. STOCKHOLDERS' EQUITY

Stock-Based Compensation

All stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense in the income statement over the requisite service period.

The Company recognized stock-based compensation expense of \$8.5 million and \$31.3 million during the three and nine months ended September 30, 2013, respectively, and \$11.2 million and \$44.5 million during the three and nine months ended September 30, 2012, respectively. As of September 30, 2013, the total remaining unrecognized compensation cost related to all non-vested stock-based compensation awards amounted to \$63.5 million.

Stock Options

During the nine months ended September 30, 2013 and 2012, the Company granted stock options to employees of the Company as part of their annual stock compensation award and, in certain circumstances, upon their commencement of service with the Company. For all of the Company's stock-based compensation plans, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model.

A summary of the activity under the Endo 2000, 2004, 2007, and 2010 Stock Incentive Plans and the Endo Health Solutions Inc. Assumed Stock Incentive Plan for the nine months ended September 30, 2013 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of January 1, 2013	8,824,705	\$ 27.92		
Granted	593,709	\$ 30.81		
Exercised	(3,388,864)	\$ 24.72		
Forfeited	(1,078,454)	\$ 32.78		
Expired	(47,294)	\$ 30.25		
Outstanding as of September 30, 2013	4,903,802	\$ 29.49	5.74	\$ 78,285,309
Vested and expected to vest as of September 30, 2013	4,662,365	\$ 29.33	5.65	\$ 75,169,615
Exercisable as of September 30, 2013	2,344,606	\$ 26.84	4.70	\$ 43,655,089

The total intrinsic value of options exercised during the nine months ended September 30, 2013 and 2012 was \$83.8 million and \$15.3 million, respectively. The weighted average grant date fair value of the stock options granted in the nine months ended September 30, 2013 and 2012 was \$9.37 and \$10.50 per option, respectively, determined using the following assumptions:

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Average expected term (years)	5.0	5.0
Risk-free interest rate	0.8%	0.9%
Dividend yield	—	—
Expected volatility	33%	33%

As of September 30, 2013, the weighted average remaining requisite service period of the non-vested stock options was 2.1 years. As of September 30, 2013, the total remaining unrecognized compensation cost related to non-vested stock options amounted to \$16.4 million.

Restricted Stock Units

During the nine months ended September 30, 2013 and 2012, the Company granted restricted stock units to employees and non-employee directors of the Company as part of their annual stock compensation award and, in certain circumstances, upon their commencement of service with the Company.

A summary of our restricted stock units for the nine months ended September 30, 2013 is presented below:

	Number of Shares	Aggregate Intrinsic Value
Outstanding as of January 1, 2013	2,423,612	
Granted	1,535,511	
Forfeited	(709,002)	
Vested	(740,400)	
Outstanding as of September 30, 2013	2,509,721	\$ 114,079,381
Vested and expected to vest as of September 30, 2013	2,213,578	\$ 96,492,300

As of September 30, 2013, the weighted average remaining requisite service period of the non-vested restricted stock units was 2.2 years. The weighted average grant date fair value of the restricted stock units granted during the nine months ended September 30, 2013 and 2012 was \$31.44 and \$34.81 per unit, respectively. As of September 30, 2013, the total remaining unrecognized compensation cost related to non-vested restricted stock units amounted to \$33.5 million.

Restricted Stock Awards

A summary of our restricted stock awards for the nine months ended September 30, 2013 is presented below:

	Number of Shares	Weighted Average Fair Value Per Share	Aggregate Intrinsic Value
Non-vested as of January 1, 2013	81,651	\$ 31.45	
Granted	—	\$ —	
Forfeited	(11,043)	\$ 30.78	
Vested	(36,818)	\$ 30.28	\$ 1,673,010
Non-vested as of September 30, 2013	33,790	\$ 32.93	

As of September 30, 2013, the weighted average remaining requisite service period of the non-vested restricted stock awards was approximately 1.1 years.

Performance Shares

The Company grants performance stock units (PSU) to certain key employees as part of their annual stock compensation award or as part of a sign-on equity award. For grants prior to the first quarter of 2013, PSUs are tied to both the Company's overall financial performance and its total shareholder return relative to the total shareholder return of a selected industry group. PSUs granted since January 1, 2013 are tied primarily to the Company's total shareholder return relative to the total shareholder return of a selected industry group. PSUs granted during the nine months ended September 30, 2013 and 2012 totaled approximately 457,600 and 193,000, respectively. As of September 30, 2013, there was approximately \$13.6 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted average period of 3.0 years.

Share Repurchase Programs

Pursuant to our share repurchase programs, we did not purchase any shares of our common stock during the nine months ended September 30, 2013. We purchased approximately 4.7 million shares of our common stock during the nine months ended September 30, 2012 totaling \$156.0 million.

Employee Stock Purchase Plan

Compensation expense during the nine months ended September 30, 2013 and 2012 related to the Employee Stock Purchase Plan (ESPP) totaled \$1.6 million and \$1.1 million, respectively. The Company issued 158,550 shares from treasury with a cost totaling \$4.1 million during the nine months ended September 30, 2013 pursuant to the ESPP and 170,124 shares with a cost totaling \$4.6 million during the nine months ended September 30, 2012.

Changes in Stockholders' Equity

The following table displays a reconciliation of our beginning and ending balances in stockholders' equity for the nine months ended September 30, 2013 (dollars in thousands):

	Attributable to:		
	Endo Health Solutions Inc.	Noncontrolling interests	Total Stockholders' Equity
Stockholders' equity at January 1, 2013	\$ 1,072,856	\$ 60,350	\$ 1,133,206
Net income	90,571	38,758	129,329
Other comprehensive income	863	—	863
Compensation related to stock-based awards	31,258	—	31,258
Tax withholding for restricted shares	(8,284)	—	(8,284)
Exercise of options	83,743	—	83,743
Common stock issued from treasury, net of common stock purchased	4,117	—	4,117
Distributions to noncontrolling interests	—	(36,709)	(36,709)
Buy-out of noncontrolling interests, net of contributions	—	(1,913)	(1,913)
Other	1,754	—	1,754
Stockholders' equity at September 30, 2013	<u>\$ 1,276,878</u>	<u>\$ 60,486</u>	<u>\$ 1,337,364</u>

The following table displays a reconciliation of our beginning and ending balances in stockholders' equity for the nine months ended September 30, 2012 (dollars in thousands):

	Attributable to:		
	Endo Health Solutions Inc.	Noncontrolling interests	Total Stockholders' Equity
Stockholders' equity at January 1, 2012	\$ 1,977,690	\$ 61,901	\$ 2,039,591
Net (loss) income	(24,071)	39,826	15,755
Other comprehensive income	1,932	—	1,932
Compensation related to stock-based awards	44,532	—	44,532
Exercise of options	18,220	—	18,220
Common stock purchased, net of common stock issued from treasury	(151,394)	—	(151,394)
Distributions to noncontrolling interests	—	(39,234)	(39,234)
Buy-out of noncontrolling interests, net of contributions	—	(176)	(176)
Other	1,291	—	1,291
Stockholders' equity at September 30, 2012	<u>\$ 1,868,200</u>	<u>\$ 62,317</u>	<u>\$ 1,930,517</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

Manufacturing, Supply and Other Service Agreements

Our subsidiaries contract with various third party manufacturers, suppliers and service providers to provide raw materials used in our subsidiaries' products and semi-finished and finished goods, as well as certain packaging and labeling services. The most significant of these agreements are with Novartis Consumer Health, Inc. and Novartis AG (collectively, Novartis), Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc., Grünenthal GmbH, Sharp Corporation, and UPS Supply Chain Solutions, Inc. If, for any reason, our subsidiaries are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for their products or services needed to conduct their business, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition to the manufacturing and supply agreements described above, our subsidiaries have agreements with various companies for clinical development services. Although we have no reason to believe that the parties to these agreements will not meet their obligations, failure by any of these third parties to honor their contractual obligations may have a materially adverse effect on our business, financial condition, results of operations and cash flows.

For additional discussion of our material manufacturing, supply and other service agreements at December 31, 2012, refer to our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

Novartis Manufacturing Agreement

On May 3, 2001, our Endo Pharmaceuticals Inc. (EPI) subsidiary entered into a long-term manufacturing and development agreement with Novartis Consumer Health, Inc. whereby Novartis Consumer Health, Inc. agreed to manufacture certain of our commercial products and products in development and EPI agreed to purchase, on an annual basis, a minimum amount of product from Novartis Consumer Health, Inc. for the purchase price equal to a predetermined amount per unit, subject to periodic adjustments. This agreement had a five-year initial term, with automatic five-year renewals thereafter. In August 2005, EPI extended this agreement until 2011. On February 23, 2011, EPI gave notice to Novartis Consumer Health, Inc. that it would terminate this agreement effective February 2014. On December 31, 2012, the parties mutually agreed to terminate the agreement effective December 31, 2012. The termination did not give rise to any early termination penalties.

In December 2011, Novartis Consumer Health, Inc.'s Lincoln, Nebraska manufacturing facility was shut down to facilitate its implementation of certain manufacturing process improvements. These improvements were intended to address the possibility of rare instances of errors in the packaging of the tablets, potentially resulting in product mix-ups. The supply disruption was not related to the efficacy or safety of Endo's products. However, Endo experienced short-term supply constraints of certain analgesic products which had been manufactured at this facility prior to the shutdown, including Opana[®], Voltaren[®] Gel, oxymorphone hydrochloride, Percodan[®], Endodan[®], morphine sulfate ER and Zydone[®]. Novartis Consumer Health has agreed to reimburse EPI for certain out-of-pocket costs, including costs related to recalls of certain of our products manufactured at the Lincoln facility and incremental freight charges associated with the transfer of Voltaren[®] Gel to an alternate Novartis manufacturing site.

In the first quarter of 2012, EPI began production of the formulation of Opana[®] ER, designed to be crush-resistant, at a third party manufacturing facility managed by EPI's development partner, Grünenthal GmbH (Grünenthal). EPI began shipping this formulation in March 2012 and completed the transition to this formulation in the second quarter of 2012. EPI also began production of Voltaren[®] Gel at an alternative Novartis manufacturing source and resumed sales of Voltaren[®] Gel in April 2012. We had already initiated the manufacturing of Percocet[®] and Endocet[®] at our Huntsville, Alabama facility as a result of our acquisition of Qualitest Pharmaceuticals in 2010 and, as a result, there was minimal disruption to patients on these products.

Novartis License and Supply Agreement

Pursuant to the March 2008 Voltaren[®] Gel License and Supply Agreement (the Voltaren[®] Gel Agreement) with Novartis AG and Novartis Consumer Health, Inc. EPI has agreed to purchase from Novartis all of its requirements for Voltaren[®] Gel during the entire term of the Voltaren[®] Gel Agreement. The price of product purchased under the Voltaren[®] Gel Agreement is fixed for the first year and subject to annual changes based upon changes in the producer price index and raw materials.

Teikoku Seiyaku Co., Ltd.

Under the terms of EPI's agreement (the Teikoku Agreement) with Teikoku Seiyaku Co. Ltd. (Teikoku), a Japanese manufacturer, Teikoku manufactures Lidoderm[®] at its two Japanese facilities, located on adjacent properties, for commercial sale by EPI in the U.S. EPI also has an option to extend the supply area to other territories. On April 24, 2007, EPI amended the Teikoku agreement (the Amended Agreement). The material components of the Amended Agreement are as follows:

- EPI agreed to purchase a minimum number of patches per year through 2012, representing the noncancelable portion of the Amended Agreement.
- Teikoku agreed to fix the supply price of Lidoderm[®] for a period of time after which the price will be adjusted at future dates certain based on a price index defined in the Amended Agreement. The minimum purchase requirement shall remain in effect subsequent to 2012. EPI has met its minimum purchase requirement for 2013.

- Following cessation of EPI's obligation to pay royalties to Hind Healthcare Inc. (Hind) under the Sole and Exclusive License Agreement dated as of November 23, 1998, as amended, between Hind and EPI (the Hind Agreement), EPI began to pay to Teikoku annual royalties based on annual net sales of Lidoderm®.
- The Amended Agreement will expire on December 31, 2021, unless terminated in accordance with its terms. Either party may terminate the Teikoku Agreement, upon 30 days' written notice, in the event that EPI fails to purchase the annual minimum quantity for each year after 2012 (e.g., 2013 through 2021). Notwithstanding the foregoing, after December 31, 2021, the Amended Agreement shall be automatically renewed on the first day of January each year unless (i) EPI and Teikoku agree to terminate the Amended Agreement upon mutual written agreement or (ii) either EPI or Teikoku terminates the Amended Agreement with 180-day written notice to the other party, which notice shall not in any event be effective prior to July 1, 2022.
- EPI is the exclusive licensee for any authorized generic for Lidoderm®.

On January 6, 2010, the parties amended the Teikoku Agreement, effective December 16, 2009. Pursuant to the amendment, Teikoku has agreed to supply Lidoderm® at a fixed price for a period of time after which the price will be adjusted at certain future dates based on a price index defined in the amendment.

Effective November 1, 2010, the parties again amended the Teikoku Agreement. Pursuant to this amendment, Teikoku agreed to supply certain quantities of additional Lidoderm® at no cost to EPI in each of 2011, 2012 and 2013 in the event EPI's firm orders of Lidoderm® exceeded certain thresholds in those years.

On November 23, 2011, EPI's obligation to pay royalties to Hind under the Hind Agreement ceased. Accordingly, on November 23, 2011, pursuant to the terms of the Teikoku Agreement, EPI began to incur royalties to Teikoku based on annual net sales of Lidoderm®. The royalty rate is 6% of branded Lidoderm® net sales. During the nine months ended September 30, 2013 and 2012, we recorded \$33.5 million and \$39.9 million for these royalties to Teikoku, respectively. These amounts were included in our Condensed Consolidated Statements of Operations as Cost of revenues. At September 30, 2013, \$33.5 million is recorded as a royalty payable and included in Accounts payable in the accompanying Condensed Consolidated Balance Sheets.

On August 3, 2012, Teikoku agreed to provide to EPI, at a discount, any branded Lidoderm® product that was required to be provided to the wholesaler affiliate of Watson Laboratories, Inc. (now doing business as Actavis, Inc. and referred to herein as Watson or Actavis) pursuant to the Watson Settlement Agreement (discussed in the "Legal Proceedings" Section below). The discount will be equal to a 50% reduction to the regular prices that EPI would otherwise have been obligated to pay for this product.

Grünenthal

Under the terms of EPI's December 2007 License, Development and Supply Agreement with Grünenthal (the Grünenthal Agreement), Grünenthal agreed to manufacture and supply to EPI a crush-resistant formulation of Opana® ER based on a supply price equal to a certain percentage of net sales of Opana® ER, subject to a floor price. In the first quarter of 2012, we began production of the crush-resistant formulation of Opana® ER at a third party manufacturing facility managed by Grünenthal. The Grünenthal Agreement will expire on the later of (i) the 15th anniversary of the date of first commercial sale of the product, (ii) the expiration of the last issued patent in the territory claiming or covering products or (iii) the expiration of exclusivity granted by the FDA for the last product developed under the Grünenthal Agreement. Effective December 19, 2012, EPI and Grünenthal amended the Grünenthal Agreement whereby EPI became responsible for the planning of packaging of finished product and certain other routine packaging quality obligations and Grünenthal agreed to reimburse EPI for the third-party costs incurred related to packaging as well as pay EPI a periodic packaging fee. The amendment also changed certain of the terms with respect to the floor price required to be paid by EPI in consideration for product supplied by Grünenthal.

EPI's license and supply payments made to Grünenthal pursuant to the Grünenthal Agreement are recorded in Cost of revenues in our Condensed Consolidated Financial Statements and must be paid in U.S. dollars within 45 days after each calendar quarter. We incurred \$28.4 million during the nine months ended September 30, 2013 for these payments and \$26.9 million during the nine months ended September 30, 2012.

Ventiv Commercial Services, LLC

On December 27, 2011, EPI entered into a Sales and Promotional Services Agreement (the Ventiv Agreement) with Ventiv Commercial Services, LLC (Ventiv), effective as of December 30, 2011. Under the terms of the Ventiv Agreement, Ventiv provided to EPI certain sales and promotional services through a contracted field force of 228 sales representatives, 24 district managers, one project manager, one trainer and one national sales director, collectively referred to as the Ventiv Field Force. The Ventiv Field Force promoted Voltaren[®] Gel, Lidoderm[®], Frova[®], Opana[®] ER, Fortesta[®] Gel and any additional products added by EPI. The sales representatives were required to perform face-to-face, one-on-one discussions with physicians and other health care practitioners promoting these products.

EPI paid to Ventiv a monthly fixed fee during the term of the Ventiv Agreement based on a budget that had been approved by both EPI and Ventiv. During the term of the Ventiv Agreement, Ventiv was also eligible to earn, in addition to the fixed management fee, an at-risk management fee. This at-risk management fee was payable upon the achievement of certain performance metrics mutually agreed upon by the parties.

On September 26, 2012, the Ventiv Agreement was amended to decrease the Ventiv Field Force from 228 to 170 sales representatives and decrease the number of district managers from 24 to 17, as well as to retain one project manager, one trainer and one national sales director, starting on October 5, 2012. In addition, the amendment decreased the fees payable to Ventiv as a result of the decrease in the Ventiv Field Force.

On May 31, 2013, EPI terminated the Ventiv Agreement, effective July 1, 2013. The termination did not give rise to any early termination fees or penalties.

The expenses incurred with respect to Ventiv were \$14.7 million and \$29.2 million for the nine months ended September 30, 2013 and 2012, respectively. These amounts were included within Selling, general and administrative expense in the accompanying Condensed Consolidated Statements of Operations.

UPS Supply Chain Solutions

Under the terms of this agreement, EPI utilizes UPS Supply Chain Solutions (UPS) to provide customer service support and warehouse, freight and distribution services for certain of its products in the U.S. The initial term of the agreement extends through March 31, 2015. The agreement may be terminated by either EPI or UPS (1) without cause upon prior written notice to the other party; (2) with cause in the event of an uncured material breach by the other party; and (3) if the other party become insolvent or bankrupt. In the event of termination of services provided under the Warehouse Distribution Services Schedule to the agreement (i) by EPI without cause or (ii) by UPS due to EPI's breach, failure by EPI to make payments when due, or EPI's insolvency, EPI would be required to pay UPS certain termination costs. Such termination costs would not be material to the Company's Condensed Consolidated Statements of Operations. On February 21, 2012, EPI amended this agreement to provide for a reduced pricing structure, which includes new monthly fees, new variable fees and new termination fees. On August 16, 2013, EPI further amended this agreement to add another mode of transport permissible under the agreement.

Milestones and Royalties

Our subsidiaries have entered into certain other license and collaboration agreements which include provisions for potential milestones and royalties. Refer to Note 7. License and Collaboration Agreements and to our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, for additional discussion of future milestone and royalty commitments pursuant to our acquisitions, license and collaboration agreements.

Our EPI subsidiary has acquired certain intellectual property patents for which it has made payments to date of approximately \$15 million. An additional \$6.0 million of milestone related payments associated with these patents was accrued during the nine months ended September 30, 2013 and is included as Cost of revenues in the accompanying Condensed Consolidated Statements of Operations. We expect this amount to be paid in the first quarter of 2014. Under the terms of the respective patent purchase agreement, EPI could be obligated to make additional material payments upon the achievement of certain commercial and regulatory milestones.

Employment Agreements

We, and in some cases certain of our subsidiaries, have entered into employment agreements with certain members of management.

Research Contracts

Our subsidiaries routinely contract with universities, medical centers, contract research organizations and other institutions for the conduct of research and clinical studies on their behalf. These agreements are generally for the duration of the contracted study and contain provisions that allow our subsidiaries to terminate prior to completion.

Legal Proceedings

We and certain of our subsidiaries are involved in various claims, legal proceedings and governmental investigations that arise from time to time in the ordinary course of our business, including relating to product liability, intellectual property, regulatory compliance and commercial matters. While we cannot predict the outcome of these ongoing legal proceedings and we and our subsidiaries intend to defend vigorously our and their position, an adverse outcome in any of these proceedings could have a material adverse effect on our current and future financial position, results of operations and cash flows.

In view of the inherent difficulty of predicting the outcome of these various claims, legal proceedings and governmental investigations, particularly where there are many claimants, each with their own unique circumstances that give rise to their alleged claims, and the claimants seek indeterminate damages and particularly given the various stages of our proceedings, unless specified otherwise below, we and our subsidiaries are unable to predict the outcome of these matters or the ultimate legal and financial liability, and at this time cannot reasonably estimate the possible loss or range of loss. Accordingly, there are claims, legal proceedings and governmental investigations in which we and certain of our subsidiaries are involved where a loss is reasonably possible in future periods and for which we have not accrued a related liability. In addition, it is reasonably possible that a future loss could exceed the related accrued liability and could have a material adverse effect on our current and future financial position, results of operations and cash flows.

Product Liability

We and certain of our subsidiaries have been named as defendants in numerous lawsuits in various federal and state courts, as well as in Canada, alleging personal injury resulting from the use of certain of our products and the products of our subsidiaries. These matters are described in more detail below.

The Company believes that certain settlements and judgments, as well as legal defense costs, relating to product liability matters are or may be covered in whole or in part under its product liability insurance policies with a limited number of insurance carriers. In certain circumstances, insurance carriers reserve their rights with respect to coverage, or contest or deny coverage. The Company and its subsidiaries intend to contest vigorously all such disputes with respect to their insurance coverage and to enforce their rights under the terms of these insurance policies, and accordingly, the Company will record receivables with respect to amounts due under these policies, only when the resolution of any dispute has been reached and realization of the potential claim for recovery is considered probable. Amounts recovered under the Company's product liability insurance policies may be less than the stated coverage limits and may not be adequate to cover damages and/or costs relating to claims. In addition, there is no guarantee that insurers will pay claims or that coverage will otherwise be available.

Vaginal Mesh Cases. On October 20, 2008, the FDA issued a Public Health Notification regarding potential complications associated with transvaginal placement of surgical mesh to treat pelvic organ prolapse (POP) and stress urinary incontinence (SUI). The notification provides recommendations and encourages physicians to seek specialized training in mesh procedures, to advise their patients about the risks associated with these procedures and to be diligent in diagnosing and reporting complications.

In July 2011, the FDA issued an update to the October 2008 Public Health Notification regarding mesh to further advise the public and the medical community of the potential complications associated with transvaginal placement of surgical mesh to treat POP and SUI. In this July 2011 update, the FDA maintained that adverse events are not rare, as previously reported, and questioned the relative effectiveness of transvaginal mesh as a treatment for POP as compared to non-mesh surgical repair. The July 2011 notification continued to encourage physicians to seek specialized training in mesh procedures, to consider and to advise their patients about the risks associated with these procedures and to be diligent in diagnosing and reporting complications. The FDA also convened an advisory panel which met on September 8-9, 2011 to further address the safety and effectiveness of transvaginal surgical mesh used to treat POP and SUI. At the conclusion of the

meetings, the advisory panel recommended reclassifying transvaginal mesh products used to treat POP to Class III devices (premarket approval) and recommended that manufacturers of these products be required to conduct additional post-market surveillance studies. The advisory panel recommended that transvaginal surgical mesh products used to treat SUI remain as Class II devices. Regarding retropubic and transobturator (TOT) slings, the advisory panel recommended that no additional post-market surveillance studies are necessary. Regarding mini-slings, the advisory panel recommended premarket studies for new devices and additional post-market surveillance studies.

On January 3, 2012, the FDA ordered manufacturers of transvaginal surgical mesh used for POP and of single incision mini-slings for urinary incontinence, such as our subsidiary American Medical Systems, Inc. (AMS, Inc.), to conduct post-market safety studies and to monitor adverse event rates relating to the use of these products. AMS, Inc. received a total of nineteen class-wide post-market study orders regarding its pelvic floor repair and mini-sling products; however, the FDA agreed to place sixteen of these study orders on hold for a variety of reasons. Three of these post-market study orders remain active and AMS, Inc. is continuing the process of complying with these orders. In these orders, the FDA also noted that it is still considering the recommendation of the September 9, 2011 advisory committee that urogynecological surgical mesh for transvaginal repair of POP be reclassified from Class II to Class III.

Since 2008, AMS, Inc., and more recently, in certain cases the Company or certain of its subsidiaries, have been named as defendants in multiple lawsuits in various federal and state courts, as well as in Canada, alleging personal injury resulting from the use of transvaginal surgical mesh products designed to treat POP and SUI. Plaintiffs in these suits allege various personal injuries including chronic pain, incontinence and inability to control bowel function and permanent deformities. On February 7, 2012, a multidistrict litigation (MDL) was formed, and cases pending in federal courts are now consolidated in the Southern District of West Virginia as part of MDL No. 2325. Similar cases in various state courts around the country are also currently pending. As of October 29, 2013, approximately 16,500 filed mesh cases are currently pending against AMS, Inc. and/or the Company or certain of its subsidiaries, some of which may have been filed on behalf of multiples plaintiffs. In addition, other cases have been served upon AMS, Inc. pursuant to a tolling agreement order issued in the MDL in May 2013. Any complaint properly served on AMS, Inc. from the effective date of that order on May 15, 2013 through October 1, 2013, and ultimately filed with the court at a later date, may be deemed filed as of the service date. Some of these cases served pursuant to the tolling agreement have been filed with the court, and we expect that there will be a number of additional complaints filed with the court at a later date pursuant to the tolling agreement order. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. The majority of the currently pending cases are in the MDL. Although the Company cannot predict the ultimate number of cases to be filed against it with certainty, the number of filed cases has increased meaningfully since December 31, 2012, and we expect more cases to be filed in subsequent periods.

On June 14, 2013, AMS, Inc. and certain plaintiffs' counsel representing mesh-related product liability claimants entered into a definitive Master Settlement Agreement (the MSA) regarding a set inventory of filed and unfiled mesh cases handled or controlled by the participating counsel. The MSA was entered into solely by way of compromise and settlement and is not in any way an admission of liability or fault by the Company or AMS, Inc. Under the terms of the MSA, AMS, Inc. paid \$54.5 million in July 2013 into a settlement fund held in escrow by a mutually agreed upon escrow agent. The MSA establishes a claims administration process that includes guidelines and procedures for administering the settlement. Distribution of funds to any individual is conditioned upon a full release and a dismissal with prejudice of the entire action or claim as to all AMS, Inc. parties and affiliates. Prior to receiving an award, an individual claimant shall represent and warrant that liens, assignment rights, or other claims that are identified in the claims administration process have been or will be satisfied by the individual claimant. The amount of settlement awards to participating claimants, the claims evaluation process and procedures used in conjunction with award distributions, and the negotiations leading to the settlement shall be kept confidential by all parties and their counsel. The Company has agreed with plaintiffs' counsel involved in this settlement that a sufficient number of releases have been submitted to permit the parties to proceed with a distribution of certain funds from the escrow. The \$54.5 million settlement fund held in escrow is included in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheet.

At September 30, 2013, the Company's product liability accrual totaled \$246.8 million for all known pending and estimated future claims primarily related to vaginal mesh cases, including cases covered under the MSA, which the Company believes represents the minimum possible amount AMS, Inc. will be required to pay with respect to these cases. The increase in our reserve is primarily based on our ongoing assessment of our product liability portfolio, including the vaginal mesh cases, the status of any settlement negotiations and any changes in the estimate of future claims. The increases to this accrual during the three and nine months ended September 30, 2013 were recorded in our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 as Litigation-related and other contingencies.

AMS, Inc. and the Company intend to contest vigorously all currently pending cases and any future cases that may be brought, if any, and to explore other options as appropriate in the best interests of the Company and AMS, Inc. However, it is not possible at this time to determine with certainty the ultimate outcome of these matters or the effect of potential future claims. We will continue to monitor each related legal claim and adjust the accrual for new information and further developments. Nevertheless, we believe it is possible that the outcomes of such cases could result in losses in excess of insurance reimbursement levels that could have a material adverse effect on our business, financial condition, results of operations and cash flows. As of September 30, 2013, no insurance recoveries for these matters have been recorded.

Although the Company believes there is a reasonable possibility that a loss in excess of the amount recognized exists, we are unable to estimate the possible loss or range of loss in excess of the amount recognized at this time. In most product liability litigations of this nature, plaintiffs allege a wide variety of claims, ranging from allegations of serious injury caused by the products to efforts to obtain compensation notwithstanding the absence of any significant injury. Given the wide range of alleged injuries and the early stage of this litigation, as evidenced in part by the fact that AMS, Inc. has not yet received or had the opportunity to review complete information regarding the plaintiffs and their medical conditions, the Company and AMS, Inc. are unable to fully evaluate the claims at this time.

In addition, we have been contacted regarding a civil investigation that has been initiated by a number of state attorneys general into mesh products, including transvaginal surgical mesh products designed to treat POP and SUI. Neither we nor AMS, Inc. have received a subpoena relating to this investigation, and at this time, we cannot predict or determine the outcome of this investigation or reasonably estimate the amount or range of amounts of fines or penalties, if any, that might result from a settlement or an adverse outcome from this investigation.

Other Product Liability Litigation

MCP Cases. Qualitest Pharmaceuticals, and in certain cases the Company or certain of its subsidiaries, along with several other pharmaceutical manufacturers, have been named as defendants in numerous lawsuits in various federal and state courts alleging personal injury resulting from the use of the prescription medicine metoclopramide. Plaintiffs in these suits allege various personal injuries including tardive dyskinesia, other movement disorders and death. Qualitest Pharmaceuticals and the Company intend to contest all of these cases vigorously and to explore other options as appropriate in the best interests of the Company and Qualitest Pharmaceuticals. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any additional litigation will be brought against the Company or its subsidiaries. Subject to certain terms and conditions, we will be indemnified by the former owners of Qualitest Pharmaceuticals with respect to metoclopramide litigation arising out of the sales of the product by Qualitest Pharmaceuticals between January 1, 2006 and November 30, 2010, the date on which the acquisition was completed, subject to an overall liability cap for all claims arising out of or related to the acquisition, including the claims described above. As of October 29, 2013, approximately 825 MCP cases are currently pending against Qualitest Pharmaceuticals and/or the Company.

Propoxyphene Cases. Qualitest Pharmaceuticals and, in certain cases, the Company or certain of its subsidiaries, along with several other pharmaceutical manufacturers, have been named as defendants in numerous lawsuits originally filed in various federal and state courts alleging personal injury resulting from the use of prescription pain medicines containing propoxyphene. Plaintiffs in these suits allege various personal injuries including cardiac impairment, damage and death. In August 2011, a multidistrict litigation (MDL) was formed, and certain transferable cases pending in federal court were coordinated in the Eastern District of Kentucky as part of MDL No. 2226. On March 5, 2012, June 22, 2012 and, pursuant to a standing show cause order, the MDL Judge dismissed with prejudice certain claims against generic manufacturers, including Qualitest Pharmaceuticals and the Company. Certain plaintiffs have appealed those decisions to the U.S. Court of Appeals for the Sixth Circuit. A consolidated appeal is pending before the Sixth Circuit in certain of these cases. In November 2012, additional cases were filed in various California state courts, and removed to corresponding federal courts. Many of these cases have already been remanded, although appeals are being pursued. A coordinated proceeding was formed in Los Angeles. Qualitest Pharmaceuticals and the Company intend to contest all of these cases vigorously and to explore other options as appropriate in the best interests of the Company and Qualitest Pharmaceuticals. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any additional litigation will be brought against the Company or its subsidiaries. Subject to certain terms and conditions, we will be indemnified by the former owners of Qualitest Pharmaceuticals with respect to propoxyphene litigation arising out of the sales of the product by Qualitest Pharmaceuticals between January 1, 2006 and November 30, 2010, the date on which the acquisition was completed, subject to an overall liability cap for all claims arising out of or related to the acquisition, including the claims described above. As of October 29, 2013, approximately 40 propoxyphene cases are currently pending against Qualitest Pharmaceuticals and/or the Company. There are also approximately 75 propoxyphene cases on appeal to the Sixth Circuit.

The Company and Qualitest Pharmaceuticals have not recorded any losses associated with the MCP or Propoxyphene cases to date. While we cannot predict the outcome of these legal proceedings, we do not believe an adverse outcome would have a material adverse effect on our current and future financial position, results of operations and cash flows.

Department of Health and Human Services Subpoena and Related Matters

As previously reported, in January 2007 and April 2011, the Company received subpoenas issued by the United States Department of Health and Human Services (HHS), Office of Inspector General (OIG) and the United States Department of Justice (DOJ), respectively. The subpoenas request documents relating to Lidoderm[®] (lidocaine patch 5%), focused primarily on the sale, marketing and promotion of Lidoderm[®].

In October 2012, preliminary discussions to resolve potential claims arising from this matter advanced to a point where the Company believed a loss to be probable. The Company recorded a charge of \$53.0 million in the third quarter of 2012, which at that time the Company believed was the minimum possible settlement. Since that time, discussions have progressed and, without admitting any liability or wrongdoing, the Company reached a tentative agreement with the HHS-OIG, DOJ and participating state entities in the fourth quarter of 2012 to resolve this matter for a total of approximately \$194.0 million. Accordingly, we recorded a corresponding charge in our 2012 Consolidated Statement of Operations as Litigation-related and other contingencies. The settlement remains subject to further negotiation of specific terms and to final approval by the federal government and participating state entities, and accordingly, there is no assurance that a resolution will occur. The Company has cooperated fully and continues to cooperate with the government's investigation. Settlements of these investigations have commonly resulted in the payment of substantial damages and fines to the government for alleged civil and criminal violations, and have commonly included a corresponding plea agreement or deferred prosecution agreement, and entry into a corporate integrity agreement with the HHS-OIG.

In September 2013, the State of Louisiana filed a Petition for Civil Penalties and Damages against the Company and its subsidiary, EPI in the Nineteenth Judicial District for the Parish of East Baton Rouge alleging that EPI and the Company engaged in unlawful marketing of Lidoderm[®] in the State of Louisiana. See *State of Louisiana v. Endo Pharmaceuticals, Inc. et al.*, C624672 (19th Jud. Dist. La.). The State seeks civil fines, civil monetary penalties, damages, injunctive relief, attorneys' fees and costs under various causes of action. Any settlement in this case could reduce our liability under the above mentioned \$194.0 million tentative agreement.

The Company and EPI intend to contest the above case vigorously and to explore other options as appropriate in the best interests of EPI and the Company. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company or its subsidiaries.

Pricing Litigation

A number of cases were brought by state government entities that allege generally that our wholly-owned subsidiary, EPI, and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid. These cases generally seek damages, treble damages, disgorgement of profits, restitution and attorneys' fees. There is currently one case that remains pending in the Third Judicial District Court of Salt Lake County, Utah against EPI and numerous other pharmaceutical companies (*State of Utah v. Actavis US, Inc., et al.*).

EPI intends to contest the above unresolved case vigorously and to explore other options as appropriate in the best interests of the Company and EPI. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company or its subsidiaries.

Qualitest Pharmaceuticals Civil Investigative Demands

In April 2013, the Company's subsidiaries, EPI and Qualitest, received Civil Investigative Demands (CIDs) from the U.S. Attorney's Office for the Southern District of New York. The CIDs request documents and information regarding the manufacture and sale of chewable fluoride tablets and other products sold by Qualitest. EPI and Qualitest are cooperating with the government's investigation. At this time, EPI and Qualitest cannot predict or determine the outcome of this matter or reasonably estimate the amount or range of amounts of fines and penalties, if any, that might result from an adverse outcome.

Unapproved Drug Litigation

In September 2013, the State of Louisiana filed a Petition for Damages against EPI and Qualitest and over 50 other pharmaceutical companies alleging the defendants or their subsidiaries marketed products that were not approved by the FDA. See *State of Louisiana v. Abbott Laboratories, Inc., et al.*, C624522 (19th Jud. Dist. La.). The State seeks damages, fines, penalties, attorneys' fees and costs under various causes of action.

EPI and Qualitest intend to contest the above case vigorously and to explore other options as appropriate in the best interests of the Company, EPI and Qualitest. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company or its subsidiaries.

Paragraph IV Certifications on Lidoderm®

As previously reported, on January 15, 2010, the Company's subsidiary, EPI and the holders of the Lidoderm® New Drug Application and relevant patents, Teikoku Seiyaku Co., Ltd., and Teikoku Pharma USA, Inc. (collectively, Teikoku) received a Paragraph IV Certification Notice under 21 U.S.C. 355(j) (a Paragraph IV Notice) from Watson Laboratories, Inc. (now doing business as Actavis, Inc. and referred to herein as Watson or Actavis) advising of its filing of an ANDA for a generic version of Lidoderm® (lidocaine topical patch 5%). The Paragraph IV Notice refers to U.S. Patent No. 5,827,529, which covers the formulation of Lidoderm®, a topical patch to relieve the pain of post herpetic neuralgia launched in 1999. This patent is listed in the FDA's Orange Book and expires in October 2015. As a result of this Notice, on February 19, 2010, EPI and Teikoku filed a lawsuit against Watson in the U.S. District Court of the District of Delaware. This lawsuit was heard by the court and the trial concluded on February 14, 2012. In October 2010, Teikoku Pharma USA listed U.S. Patent No. 5,741,510 in the FDA Orange Book, and this patent expires in March 2014. On June 30, 2011, EPI and Teikoku filed a second lawsuit against Watson in the U.S. District Court of the District of Delaware alleging infringement of U.S. Patent Nos. 5,741,510, 6,096,333, and 6,096,334 which cover lidocaine patch formulations and manufacturing processes.

On May 28, 2012, EPI entered into a Settlement and License Agreement (the Watson Settlement Agreement) among EPI and Teikoku, on the one hand, and Watson, on the other hand. The Watson Settlement Agreement settled all ongoing patent litigation among the parties relating to Watson's generic version of Lidoderm®. Under the terms of the Watson Settlement Agreement, the parties dismissed their respective claims and counterclaims without prejudice. As part of the settlement, Watson agreed not to challenge the validity or enforceability of EPI's and Teikoku's patents relating to Lidoderm® with respect to Watson's generic version of Lidoderm®. Watson received FDA approval of its generic version of Lidoderm® in August 2012 and began selling its generic version of Lidoderm® on September 16, 2013 (the Start Date) pursuant to a license granted by EPI and Teikoku under the Watson Settlement Agreement. The license to Watson is exclusive as to EPI's launch of an authorized generic version of Lidoderm® until the earlier of 1) the introduction of a generic version of Lidoderm® by a company other than Watson or 2) May 1, 2014. EPI receives an at market royalty equal to 25% of the gross profit generated on Watson's sales of its generic version of Lidoderm® during its period of exclusivity. During the three and nine months ended September 30, 2013, we recorded royalty income of \$28.6 million, which is included in Service and other revenues in our Condensed Consolidated Statements of Operations.

Additionally, under the Watson Settlement Agreement, EPI and Teikoku provided, at no cost, to Watson's wholesaler affiliate branded Lidoderm® product for Watson's wholesaler affiliate's distribution, subject to certain terms and conditions. EPI and Teikoku began providing branded Lidoderm® of value totaling \$12.0 million each month (\$96.0 million in total for 2013) (valued at the then-prevailing wholesale acquisition cost) on January 1, 2013 and continued to do so through August 2013. The obligation of EPI and Teikoku to provide this branded product at no cost terminated on August 31, 2013.

EPI is responsible for the payment of all gross-to-net sales adjustments arising from Watson's wholesaler affiliate's sale of the branded Lidoderm® product.

Teikoku agreed to provide a rebate to EPI equal to 50% of the cost of branded Lidoderm® product required to be provided to Watson's wholesaler affiliate pursuant to the Watson Settlement Agreement.

The Company previously concluded that the Watson Settlement Agreement is a multiple-element arrangement and, during the second quarter of 2012, recognized a liability and corresponding charge of \$131.4 million in Patent litigation settlement, net in the Condensed Consolidated Statements of Operations, representing the initial estimated fair value of the settlement component. Fair value of the settlement component was estimated using the probability adjusted expected value of branded Lidoderm® product to be provided to Watson at the anticipated wholesaler acquisition cost (WAC) expected to be in

place at the time of shipment, less a reasonable estimate of Watson's selling costs. The resultant probability-weighted values were then discounted using a discount rate of 5.1%.

The Company believes that the assumptions about the level and timing of branded Lidoderm[®] product to be shipped, discount rate, and probabilities used in the model appropriately reflected market participant assumptions at the date of settlement. Because the liability was recorded at fair value using WAC, the net charge recognized in 2012 was comprised of several elements, including our cost of product to be shipped, estimated gross-to-net deductions to be paid by the Company and the estimated product profit margin. We believe this was the most appropriate measure of fair value as these components combined represented the value accruing to Watson.

Upon Watson receiving FDA approval of its generic version of Lidoderm[®] in August 2012, the Company reassessed EPI's obligation to Watson due to its belief that it would not be obligated to provide to Watson's wholesaler affiliate branded Lidoderm[®] product beyond August 2013. Accordingly, in the third quarter of 2012, the Company recognized a change in estimate with respect to its obligation and reduced its liability associated with the Watson Settlement Agreement by \$46.2 million to \$85.1 million. The corresponding gain of \$46.2 million was recorded in Patent litigation settlement, net in the Condensed Consolidated Statements of Operations.

As a result of using a fair value measurement to record this liability, the charge recorded was greater than the actual cost EPI would subsequently incur. As such, relief of the liability in subsequent periods through shipments of branded Lidoderm[®] product resulted in income recorded as a component of Other (income) expense, net in the Company's Condensed Consolidated Statements of Operations. The related gross-to-net component of the settlement was recognized as product was shipped to Watson, the effect of which was an offset to the portion of the income recognized in Other (income) expense, net in the Company's Condensed Consolidated Statements of Operations, as the settlement liability was relieved. The rebate arrangement with Teikoku was also accounted for prospectively as product purchased from Teikoku was recorded into inventory at the discounted purchase price and relieved as shipments were made to Watson. The benefit associated with this rebate was recorded as a component of Other (income) expense, net in the Company's Condensed Consolidated Statements of Operations.

As of September 30, 2013, there is no remaining liability associated with our Patent litigation settlement. During the three and nine months ended September 30, 2013, the net impact of the Watson Settlement Agreement recorded in Other (income) expense, net totaled \$14.6 million and \$50.4 million, respectively, and consisted of the amounts shown below (in thousands):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Litigation settlement liability relieved during the quarter	\$ 24,135	\$ 85,123
Cost of product shipped to Watson's wholesaler affiliate	(2,674)	(11,093)
Estimated gross-to-net liabilities on product shipped to Watson's wholesaler affiliate	(8,156)	(29,162)
Rebate on product shipped to Watson's wholesaler affiliate	1,323	5,532
Net gain included in Other (income) expense, net	<u>\$ 14,628</u>	<u>\$ 50,400</u>

As previously reported, in January 2011, EPI and Teikoku received a Paragraph IV Notice from Mylan Technologies Inc. (Mylan) advising of its filing of an ANDA for a generic version of Lidoderm[®]. The Paragraph IV Notice refers to U.S. Patent Nos. 5,827,529 and 5,741,510, which cover the formulation of Lidoderm[®]. These patents are listed in the FDA's Orange Book and expire in October 2015 and March 2014, respectively. On March 14, 2011, EPI filed a lawsuit against Mylan in the U.S. District Court for the District of Delaware, claiming that Mylan's submission of its ANDA constitutes infringement of the '510 patent under 35 U.S.C. sec. 271(e)(2)(A). That patent expires on March 30, 2014. On October 4, 2013, the Company dismissed the suit against Mylan.

On May 16, 2012, EPI and Teikoku received a Paragraph IV Notice from Noven Pharmaceuticals, Inc. (Noven) advising of its filing of an ANDA for a generic version of Lidoderm[®]. The Paragraph IV Notice refers to U.S. Patent No. 5,827,529, which covers the formulation of Lidoderm[®]. This patent is listed in the FDA's Orange Book and expires in October 2015. On June 29, 2012, EPI filed a lawsuit against Noven in the U.S. District Court for the District of Delaware. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act.

On May 24, 2012, EPI and Teikoku received a Paragraph IV Notice from TWi Pharmaceuticals, Inc. (TWi) advising of its filing of an ANDA for a generic version of Lidoderm[®]. The Paragraph IV Notice refers to U.S. Patent Nos. 5,827,529 and 5,741,510, which cover the formulation of Lidoderm[®]. These patents are listed in the FDA's Orange Book and expire in October 2015 and March 2014, respectively. On July 5, 2012, EPI filed a lawsuit against TWi in the U.S. District Court for the District of Delaware. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act.

EPI intends, and has been advised by Teikoku that they too intend, to defend vigorously the intellectual property rights relating to Lidoderm[®] and to pursue all available remaining legal and regulatory avenues in defense of Lidoderm[®], including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that EPI and Teikoku will be successful. If EPI and Teikoku are unsuccessful and any one of the above generic manufacturers is able to obtain FDA approval of its product, that generic manufacturer may be able to launch its generic version of Lidoderm[®] prior to the applicable patents' expirations in 2014 and 2015. Additionally, we cannot predict or determine the timing or outcome of ongoing litigation but will explore all options as appropriate in the best interests of the Company and EPI. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Lidoderm[®] and challenge the applicable patents.

Paragraph IV Certifications on Opana[®] ER

As previously reported, starting in December 2007 through December 2011, EPI received Paragraph IV Notices from various generic drug manufacturers, including Impax Laboratories, Inc. (Impax), Actavis South Atlantic LLC (Actavis), Sandoz, Inc. (Sandoz), Barr Laboratories, Inc. (Teva), Watson Laboratories, Inc. (Watson), Roxane Laboratories, Inc. (Roxane) and most recently, Ranbaxy Inc. (Ranbaxy) advising of the filing by each such company of an ANDA for a generic version of the non-crush-resistant formulation of Opana[®] ER (oxymorphone hydrochloride extended-release tablets CII). To date, EPI settled all of the Paragraph IV litigation relating to the non-crush-resistant formulation of Opana[®] ER. Under the terms of the settlements, each generic manufacturer agreed not to challenge the validity or enforceability of patents relating to the non-crush-resistant formulation of Opana[®] ER. As a result, Actavis launched its generic version of non-crush-resistant Opana[®] ER 7.5 and 15 mg tablets on July 15, 2011, and Impax launched its generic version of non-crush-resistant Opana[®] ER 5, 7.5, 10, 15, 20, 30 and 40 mg tablets on January 2, 2013. Pursuant to the terms of the respective settlement agreements, Sandoz, Teva, Watson, Roxane and Actavis were granted licenses to patents listed in the Orange Book at the time each generic filed its ANDA.

In late 2012, two patents (US Patent Nos. 8,309,122 and 8,329,216) issued to EPI covering Opana[®] ER. On December 11, 2012, EPI filed a Complaint against Actavis in U.S. District Court for the Southern District of New York for patent infringement based on its ANDA for a non-crush-resistant generic version of Opana[®] ER. Between May 22 and June 21, 2013, EPI filed similar suits in the U.S. District Court for the Southern District of New York against the following applicants for non-crush-resistant Opana[®] ER: Par Pharmaceuticals, Teva Pharmaceuticals, Mallinckrodt LLC, Sandoz Inc., Roxane Laboratories, and Ranbaxy. Those suits allege infringement of US Patent Nos. 7,851,482, 8,309,122, and 8,329,216. In July 2013, Actavis and Roxane were granted FDA approval to market all strengths of their respective non-crush-resistant formulations of Opana[®] ER. On August 1, 2013, EPI dismissed its suit against Teva Pharmaceuticals based on its demonstration to EPI that it does not, at this time, intend to pursue an ANDA for non-crush-resistant Opana[®] ER. On August 6, 2013, EPI filed motions for preliminary injunctions against Actavis and Roxane requesting the court enjoin Actavis and Roxane from launching additional Opana[®] ER generics pending the outcome of the patent case. On September 12, 2013, the court denied the Company's motions for preliminary injunction. On that day, Actavis launched its generic version of non-crush-resistant Opana[®] ER 5, 10, 20, 30 and 40 mg tablets. EPI has appealed the denial of a preliminary injunction.

EPI intends to defend vigorously its intellectual property rights and to pursue all available legal and regulatory avenues in defense of the non-crush-resistant formulation Opana[®] ER, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that EPI will be successful. If EPI is unsuccessful, competitors that already have obtained, or are able to obtain, FDA approval of their products may be able to launch their generic versions of non-crush-resistant Opana[®] ER prior to the applicable patents' expirations. Additionally, we cannot predict or determine the timing or outcome of related litigation but will explore all options as appropriate in the best interests of the Company and EPI. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of non-crush-resistant Opana[®] ER and challenge the applicable patents.

Pursuant to the June 2010 Settlement and License Agreement (the Impax Settlement Agreement) with Impax, EPI agreed to provide a payment to Impax should prescription sales of the non-crush-resistant formulation of Opana[®] ER, as defined in the Impax Settlement Agreement, fall below a predetermined contractual threshold in the quarter immediately prior to the date on which Impax was authorized to launch its generic version of the non-crush-resistant formulation of

Opana® ER, which occurred on January 2, 2013. During the first quarter of 2012, the Novartis shut-down of its Lincoln, Nebraska manufacturing facility and resulting lack of 2012 oxymorphone active pharmaceutical ingredient (API) quota granted by the Drug Enforcement Agency to Novartis caused EPI to attempt an accelerated launch of the crush-resistant formulation of Opana® ER. While significant uncertainties existed throughout the first quarter of 2012 about EPI's ability to rapidly ramp up production of the formulation designed to be crush-resistant and produce finished goods at a new, untested manufacturing facility in a very short period of time, it was able to do so in March 2012. Accordingly, the Company recognized a liability under the Impax Settlement Agreement upon the Company's sale of the formulation designed to be crush-resistant, which occurred in March 2012. The total 2012 charge of \$102.0 million was recorded in Cost of revenues in our 2012 Consolidated Financial Statements. This amount was subsequently paid in April 2013.

From September 21, 2012 through October 30, 2013, EPI and its partner Grünenthal received Paragraph IV Notices from each of Teva Pharmaceuticals USA, Inc. (Teva), Amneal Pharmaceuticals, LLC, Sandoz Inc., ThoRx Laboratories, Inc. (ThoRx), Par Pharmaceuticals (Par), Actavis South Atlantic LLC (Actavis), Impax Pharmaceuticals (Impax) and Ranbaxy Laboratories Limited (Ranbaxy), advising of the filing by each such company of an ANDA for a generic version of the formulation of Opana® ER designed to be crush-resistant. These Paragraph IV Notices refer to U.S. Patent Nos. 8,075,872, 8,114,383, 8,192,722, 7,851,482, 8,309,060, 8,309,122 and 8,329,216, which variously cover the formulation of Opana® ER, a highly pure version of the active pharmaceutical ingredient and the release profile of Opana® ER. EPI filed lawsuits against each of these filers in the U.S. District Court for the Southern District of New York. Each lawsuit was filed within the 45-day deadline to invoke a 30-month stay of FDA approval pursuant to the Hatch-Waxman legislative scheme. EPI intends, and has been advised by Grünenthal that it too intends, to defend vigorously the intellectual property rights covering the formulation of Opana® ER designed to be crush-resistant and to pursue all available legal and regulatory avenues in defense of crush-resistant Opana® ER, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that EPI and Grünenthal will be successful. If we are unsuccessful and Teva, Amneal, Sandoz, ThoRx, Par, Actavis or Impax is able to obtain FDA approval of its product, generic versions of crush-resistant Opana® ER may be launched prior to the applicable patents' expirations in 2023 through 2029. Additionally, we cannot predict or determine the timing or outcome of this defense but will explore all options as appropriate in the best interests of the Company and EPI. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of crush-resistant Opana® ER and challenge the applicable patents.

Paragraph IV Certification on Fortesta® Gel

On January 18, 2013, EPI and its licensor Strakan Limited received a notice from Watson advising of the filing by Watson of an ANDA for a generic version of Fortesta® (testosterone) Gel. On February 28, 2013, EPI filed a lawsuit against Watson in the U.S. District Court for the Eastern District of Texas, Marshall division. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act.

EPI intends, and has been advised by Strakan Limited that it too intends, to defend vigorously Fortesta® Gel and to pursue all available legal and regulatory avenues in defense of Fortesta® Gel, including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that EPI and Strakan will be successful. If EPI and Strakan are unsuccessful and Watson is able to obtain FDA approval of its product, Watson may be able to launch its generic version of Fortesta® Gel prior to the applicable patents' expirations in 2018. Additionally, we cannot predict or determine the timing or outcome of this litigation but will explore all options as appropriate in the best interests of the Company. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Fortesta® Gel and challenge the applicable patents.

Paragraph IV Certification on Frova®

As previously reported, in July 2011, EPI and its licensor, Vernalis Development Limited received a notice from Mylan Technologies Inc. (Mylan) advising of the filing by Mylan of an ANDA for a generic version of Frova® (frovatriptan succinate) 2.5 mg tablets. Mylan's notice included a Paragraph IV Notice with respect to U.S. Patent Nos. 5,464,864, 5,561,603, 5,637,611, 5,827,871 and 5,962,501, which cover Frova®. These patents are listed in the FDA's Orange Book and expire between 2013 and 2015. As a result of this Paragraph IV Notice, on August 16, 2011, EPI filed a lawsuit against Mylan in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent Nos. 5,464,864, 5,637,611 and 5,827,871. Because the suit was filed within the 45-day period under the Hatch-Waxman Act for filing a patent infringement action, we believe that it triggered an automatic 30-month stay of approval under the Act. On September 22, 2011, Mylan filed an Answer and Counterclaims, claiming the asserted patents are invalid or not infringed. A trial in this case is currently set for November 12, 2013.

EPI intends to defend vigorously its intellectual property rights and to pursue all available legal and regulatory avenues in defense of Frova[®], including enforcement of the product's intellectual property rights and approved labeling. However, there can be no assurance that EPI will be successful. If EPI is unsuccessful and Mylan is able to obtain FDA approval of its product, Mylan may be able to launch its generic version of Frova[®] prior to the applicable patents' expirations in 2014 and 2015. Additionally, we cannot predict or determine the timing or outcome of this litigation but will explore all options as appropriate in the best interests of the Company and EPI. In addition to the above litigation, it is possible that another generic manufacturer may also seek to launch a generic version of Frova[®] and challenge the applicable patents.

Other Legal Proceedings

In addition to the above proceedings, proceedings similar to those described above may also be brought in the future. Additionally, we and our subsidiaries are involved in, or have been involved in, arbitrations or various other legal proceedings that arise from the normal course of our business. We cannot predict the timing or outcome of these claims and other proceedings. Currently, neither we nor our subsidiaries are involved in any other legal proceedings that we expect to have a material effect on our business, financial condition, results of operations and cash flows.

NOTE 13. NET INCOME (LOSS) PER SHARE

The following is a reconciliation of the numerator and denominator of basic and diluted net income (loss) per share (in thousands, except per share data):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Numerator:				
Net income (loss) attributable to Endo Health Solutions Inc. common stockholders	\$ 40,223	\$ 53,809	\$ 90,571	\$ (24,071)
Denominator:				
For basic per share data—weighted average shares	114,327	116,022	112,691	116,688
Dilutive effect of common stock equivalents	2,301	2,628	2,168	—
Dilutive effect of 1.75% Convertible Senior Subordinated Notes and warrants	3,633	929	2,031	—
For diluted per share data—weighted average shares	<u>120,261</u>	<u>119,579</u>	<u>116,890</u>	<u>116,688</u>

Basic net income (loss) per share data is computed based on the weighted average number of common shares outstanding during the period. Diluted income per common share is computed based on the weighted average number of common shares outstanding and, if there is net income during the period, the dilutive impact of common stock equivalents outstanding during the period. Common stock equivalents are measured under the treasury stock method.

The 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes) are only included in the dilutive net income (loss) per share calculations using the treasury stock method during periods in which the average market price of our common stock was above the applicable conversion price of the Convertible Notes, or \$29.20 per share and the impact would not be anti-dilutive. In these periods, under the treasury stock method, we calculated the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and included that number in the total diluted shares outstanding for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the Convertible Notes. However, we separately analyze the impact of the convertible note hedge and the warrant agreements on diluted weighted average shares outstanding. As a result, the purchases of the convertible note hedges are excluded because their impact would be anti-dilutive. The treasury stock method is applied when the warrants are in-the-money with the proceeds from the exercise of the warrant used to repurchase shares based on the average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that could potentially be included if the warrants were exercised is approximately 13.0 million at September 30, 2013.

The following reconciliation shows the maximum potential dilution of shares currently excluded from the diluted net income (loss) per share calculations for the nine months ended September 30, 2013 and 2012 (in thousands):

	Nine Months Ended September 30,	
	2013	2012
Weighted average shares excluded:		
1.75% Convertible senior subordinated notes due 2015 and warrants(1)	23,962	25,993
Employee stock-based awards	2,902	4,106
	<u>26,864</u>	<u>30,099</u>

- (1) Amounts represent the incremental potential total dilution that could occur if our Convertible Notes and warrants were converted to shares of our common stock.

NOTE 14. COST OF REVENUES

The components of Cost of revenues for the three and nine months ended September 30, 2013 and 2012 (in thousands) were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cost of net pharmaceutical product sales	\$ 221,823	\$ 222,830	\$ 673,643	\$ 735,359
Cost of devices revenues	36,012	40,886	111,986	121,972
Cost of service and other revenues	30,135	30,551	97,434	96,326
Total cost of revenues	<u>\$ 287,970</u>	<u>\$ 294,267</u>	<u>\$ 883,063</u>	<u>\$ 953,657</u>

NOTE 15. DEBT

The following is a summary of the Company's total indebtedness at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
1.75% Convertible Senior Subordinated Notes due 2015	\$ 379,500	\$ 379,500
Unamortized discount on 1.75% Convertible Senior Subordinated Notes due 2015	(40,341)	(58,168)
<i>1.75% Convertible Senior Subordinated Notes due 2015, net</i>	<u>\$ 339,159</u>	<u>\$ 321,332</u>
<i>7.00% Senior Notes due 2019</i>	\$ 500,000	\$ 500,000
<i>7.00% Senior Notes due 2020</i>	\$ 400,000	\$ 400,000
Unamortized initial purchaser's discount	(2,876)	(3,101)
<i>7.00% Senior Notes due 2020, net</i>	<u>\$ 397,124</u>	<u>\$ 396,899</u>
<i>7.25% Senior Notes due 2022</i>	\$ 400,000	\$ 400,000
<i>3.25% AMS Convertible Notes due 2036</i>	\$ 795	\$ 795
<i>4.00% AMS Convertible Notes due 2041</i>	\$ 111	\$ 111
<i>Term Loan A Facility Due 2018</i>	\$ 1,352,812	\$ 1,387,500
<i>Term Loan B Facility Due 2018</i>	\$ 60,550	\$ 160,550
<i>Other long-term debt</i>	<u>\$ 5,771</u>	<u>\$ 4,758</u>
Total long-term debt, net	<u>\$ 3,056,322</u>	<u>\$ 3,171,945</u>
Less current portion, net	<u>\$ 411,694</u>	<u>\$ 133,998</u>
Total long-term debt, less current portion, net	<u>\$ 2,644,628</u>	<u>\$ 3,037,947</u>

Credit Facility

On March 26, 2013, we made a prepayment of \$100.0 million on our Term Loan B Facility. In accordance with the applicable accounting guidance for debt modifications and extinguishments, approximately \$2.2 million of the remaining unamortized financing costs was written off in connection with this prepayment and included in the Condensed Consolidated Statements of Operations as a Loss on extinguishment of debt.

Also on March 26, 2013, we entered into an amendment and restatement agreement, pursuant to which we amended and restated our existing credit agreement to extend its term by approximately two years and modify its covenants to provide us with greater financial and operating flexibility. The amended and restated agreement (the 2013 Credit Agreement) extends the maturity dates of our \$500 million Revolving Credit Facility and our Term Loan A Facility which, at the time of the amendment and restatement, had a remaining principal balance of \$1,387.5 million, to March 15, 2018. The 2013 Credit Agreement provides the Company with greater flexibility under certain of its affirmative and negative covenants, including, without limitation, the designation of unrestricted subsidiaries, capital expenditures, asset sales, indebtedness and restricted payments. Under the 2013 Credit Agreement, the Company is required to maintain a leverage ratio (as the definition of such ratio has been modified in the 2013 Credit Agreement) of no greater than 3.75 to 1.00, which provides the Company with greater financial and operating flexibility than the prior credit agreement. The 2013 Credit Agreement continues to require the Company to maintain a minimum interest coverage ratio of 3.50 to 1.00.

The 2013 Credit Agreement keeps in place the Company's Term Loan B Facility which matures on June 17, 2018 and, at the time of the amendment and restatement, had a remaining principal balance of \$60.6 million. The 2013 Credit Agreement also permits additional revolving or term loan commitments up to \$500 million (or an unlimited amount in certain circumstances) from one or more of the existing lenders or other lenders with the consent of the Administrative Agent without the need for consent from any of the existing lenders under our credit facility.

The obligations of the Company under our credit facility continue to be guaranteed by certain of the Company's domestic subsidiaries (the Subsidiary Guarantors) and continue to be secured by substantially all of the assets of the Company and the Subsidiary Guarantors, subject to certain exceptions. The 2013 Credit Agreement contains affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with the Company's affiliates.

As set forth in the 2013 Credit Agreement, borrowings under our credit facility will continue to bear interest at an amount equal to a rate calculated based on the type of borrowing and the Company's leverage ratio, as defined in the 2013 Credit Agreement. For the Term Loan A Facility and Revolving Credit Facility, the Company may elect to pay interest based on an adjusted London Inter-Bank Offer Rate (LIBOR) plus between 1.75% and 2.50% or an Alternate Base Rate (as defined in the 2013 Credit Agreement) plus between 0.75% and 1.50%. For the Term Loan B Facility, the Company may elect to pay interest based on an adjusted LIBOR plus 3.00% or an Alternate Base Rate plus 2.00%. The Company will pay a commitment fee of between 37.5 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

In connection with the 2013 Credit Agreement, we incurred new debt issuance costs of approximately \$8.1 million, \$7.6 million of which was deferred and will be amortized over the term of the 2013 Credit Agreement. The remaining \$0.5 million and previously deferred debt issuance costs of \$8.6 million associated with the 2011 Credit Agreement were charged to expense upon the amendment and restatement of the 2013 Credit Agreement. These expenses were included in the Condensed Consolidated Statements of Operations as a Loss on extinguishment of debt.

1.75% Convertible Senior Subordinated Notes Due 2015

At September 30, 2013, our indebtedness includes \$379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes), which became convertible at the option of holders beginning October 1, 2013. The conversion right was triggered on September 17, 2013, when the closing sale price of the Company's common stock on the NASDAQ Stock Exchange exceeded \$37.96 (130% of the conversion price of \$29.20) for the 20th trading day in the 30 consecutive trading days ending on September 30, 2013.

We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the Convertible Notes. It is our current intention to settle the principal amount of any conversion consideration in cash. As a result of the Convertible Notes becoming convertible, the Company has included the Convertible Notes in the current portion of long-term debt on its consolidated balance sheet as of September 30, 2013. The Convertible Notes will remain convertible through December 31, 2013, at which point they will be reassessed based on the conversion right trigger described above. Holders of the Convertible Notes may surrender their notes for conversion after October 15, 2014 at any time prior to the close of business on the second business day immediately preceding the stated maturity date. Accordingly, the Company will treat the Convertible Notes as short-term in nature hereafter. In the event that a holder exercises the right to convert his Convertible Notes, the Company will write-off a ratable portion of the associated debt issuance costs. There have been no conversions as of the date of this filing.

Concurrently with the issuance of the Convertible Notes, we entered into a privately negotiated convertible note hedge transaction with affiliates of the initial purchasers. Pursuant to the hedge transaction we purchased common stock call options intended to reduce the potential dilution to our common stock upon conversion of the Convertible Notes by effectively increasing the initial conversion price of the Convertible Notes to \$40.00 per share, representing a 61.1% conversion premium over the closing price of our common stock on April 9, 2008 of \$24.85 per share. The call options allow us to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$29.20 per share. The call options expire on April 15, 2015 and must be net-share settled. The cost of the call option was approximately \$107.6 million. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$40.00 per share. The warrants expire on various dates from July 14, 2015 through October 6, 2015 and must be net-share settled. We received approximately \$50.4 million in cash proceeds from the sale of these warrants. The warrant transaction could have a dilutive effect on our net income per share to the extent that the price of our common stock exceeds the strike price of the warrants at exercise.

As discussed in Note 13. Net Income (Loss) Per Share, in periods in which our common stock price exceeds the conversion price of the Convertible Notes or the strike price of the warrants, we include the effects of the additional shares that may be issued in our diluted net income per share calculation using the treasury stock method.

Other than as described above, there have been no material changes to our other indebtedness from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

NOTE 16. RESTRUCTURING

June 2013 Restructuring Initiative

On June 4, 2013, the Company's Board of Directors (the Board) approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value. These actions were the result of a comprehensive assessment of the Company's strengths and challenges, its cost structure and execution capabilities, and its most promising opportunities to drive future cash flow and earnings growth. The cost reduction initiatives include a reduction in headcount of approximately 15% worldwide, streamlining of general and administrative expenses, optimizing commercial spend and refocusing research and development efforts.

As a result of the June 2013 restructuring initiative, the Company incurred restructuring expenses of approximately \$9.9 million and \$56.8 million during the three and nine months ended September 30, 2013, respectively. During the three months ended September 30, 2013, these restructuring expenses consisted of approximately \$2.2 million of employee severance and other benefit-related costs and \$7.8 million of contract termination fees. During the nine months ended September 30, 2013, these restructuring expenses consisted of approximately \$41.5 million of employee severance and other benefit-related costs, \$2.8 million of asset impairment charges and \$12.5 million of other restructuring costs, including contract termination fees, respectively. The Company anticipates there will be additional pre-tax restructuring expenses of approximately \$4.8 million, primarily attributable to certain facility exit costs and employee severance and other benefit-related costs which will be incurred throughout the remainder of 2013 and 2014. The majority of these restructuring costs are included in Selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

As of September 30, 2013, the accrual related to the June 2013 restructuring initiative was \$29.4 million and is included in Accrued expenses in the Condensed Consolidated Balance Sheet. There was no such restructuring accrual for these actions as of December 31, 2012. Changes to this accrual for the nine months ended September 30, 2013 were as follows (in thousands):

	Employee Severance and Other Benefit- Related Costs	Asset Impairment Charges	Other Restructuring Costs	Total
Liability balance as of December 31, 2012	\$ —	\$ —	\$ —	\$ —
Expenses	41,460	2,849	12,540	56,849
Cash distributions	(22,362)	—	(1,288)	(23,650)
Other non-cash adjustments	—	(2,849)	(971)	(3,820)
Liability balance as of September 30, 2013	<u>\$ 19,098</u>	<u>\$ —</u>	<u>\$ 10,281</u>	<u>\$ 29,379</u>

A summary of expenses related to the June 2013 restructuring initiatives is included below by reportable segment for the three months ended September 30, 2013 (in thousands):

	Employee Severance and Other Benefit- Related Costs	Asset Impairment Charges	Other Restructuring Costs	Total
Endo Pharmaceuticals	\$ 701	\$ —	\$ 7,750	\$ 8,451
Qualitest	(15)	—	—	(15)
AMS	68	—	—	68
HealthTronics	974	—	—	974
Corporate unallocated	440	—	—	440
Total	<u>\$ 2,168</u>	<u>\$ —</u>	<u>\$ 7,750</u>	<u>\$ 9,918</u>

A summary of expenses related to the June 2013 restructuring initiatives is included below by reportable segment for the nine months ended September 30, 2013 (in thousands):

	Employee Severance and Other Benefit- Related Costs	Asset Impairment Charges	Other Restructuring Costs	Total
Endo Pharmaceuticals	\$ 20,802	\$ 2,849	\$ 9,354	\$ 33,005
Qualitest	1,011	—	1,142	2,153
AMS	8,033	—	2,004	10,037
HealthTronics	3,193	—	40	3,233
Corporate unallocated	8,421	—	—	8,421
Total	<u>\$ 41,460</u>	<u>\$ 2,849</u>	<u>\$ 12,540</u>	<u>\$ 56,849</u>

Of the approximate \$4.8 million of additional pre-tax restructuring expenses the Company expects to incur, \$0.6 million relates to the Endo Pharmaceuticals segment, \$1.2 million relates to the AMS segment, \$0.1 million relates to the HealthTronics segment and \$2.9 million relates to Corporate. Segment operating results do not include restructuring expenses as segment performance is evaluated excluding such expenses. See further discussion in Note 5. Segment Results.

Other Restructuring Initiatives

During 2012 and 2013, the Company undertook certain other restructuring initiatives that were individually not material to the Company's Condensed Consolidated Financial Statements for any of the periods presented. On an aggregate basis, the Company recorded charges related to these initiatives totaling \$3.5 million and \$9.0 million during the three and nine months ended September 30, 2013, respectively. The charges for the three months ended September 30, 2013 primarily related to employee severance and other benefit-related costs. The charges for the nine months ended September 30, 2013 primarily related to employee severance and other benefit-related costs, accelerated depreciation and asset impairment charges. Additionally, the Company recorded \$7.8 million during the nine months ended September 30, 2013 for expenses recorded upon the cease use dates of our Chadds Ford, Pennsylvania and Westbury, New York properties, related to the remaining obligations under the respective lease agreements. During the three and nine months ended September 30, 2012, the Company recorded charges related to these initiatives, primarily related to employee severance and other benefit-related costs, totaling \$11.6 million and \$26.4 million, respectively. The majority of these costs are included in Selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

The liability related to these initiatives totaled \$15.7 million and \$19.2 million at September 30, 2013 and December 31, 2012, respectively. The liability is included in Accrued expenses in the Condensed Consolidated Balance Sheets. The change in the liability relates primarily to cash payments made during 2013, partially offset by the recognition of the expenses mentioned in the preceding paragraph.

NOTE 17. SUPPLEMENTAL GUARANTOR INFORMATION

In connection with the 2019 Notes, 2020 Notes and 2022 Notes, we have included this supplemental guarantor disclosure in accordance with Rule 3-10 of Regulation S-X. The 2019 Notes, 2020 Notes, and 2022 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the following nineteen subsidiaries (together, the Guarantor Subsidiaries):

- Endo Pharmaceuticals Inc.
- Endo Pharmaceuticals Valera Inc.
- American Medical Systems Holdings, Inc.
- AMS Research Corporation
- AMS Sales Corporation
- Generics International (US Midco), Inc.
- Generics International (US), Inc.
- Generics Bidco II, LLC
- Wood Park Properties LLC
- Quartz Specialty Pharmaceuticals, LLC
- Endo Pharmaceuticals Solutions Inc.
- Ledgemont Royalty Sub LLC
- American Medical Systems, Inc.
- Laserscope
- Generics International (US Parent), Inc.
- Generics International (US Holdco), Inc.
- Generics Bidco I, LLC
- Moores Mill Properties LLC
- Vintage Pharmaceuticals, LLC

Each of the Guarantor Subsidiaries is 100 percent owned by us.

The following supplemental consolidating financial information presents the Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012, the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2013 and 2012 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, for the Guarantor Subsidiaries as a group, and separately for our non-Guarantor Subsidiaries as a group.

The Condensed Consolidating Financial Statements are presented using the equity method of accounting for investments in 100% owned subsidiaries. Under the equity method, the investments in subsidiaries are recorded at cost and adjusted for our share of the subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. The elimination entries principally eliminate investments in subsidiaries and intercompany balances and transactions. The financial information in this footnote should be read in conjunction with the Condensed Consolidated Financial Statements presented and other notes related thereto contained in this Quarterly Report on Form 10-Q.

CONDENSED CONSOLIDATING BALANCE SHEET
(In thousands)

	September 30, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 3,090	\$ 548,398	\$ 42,597	\$ —	\$ 594,085
Accounts receivable, net	—	573,614	70,597	27,790	672,001
Inventories, net	—	399,428	23,756	(6,672)	416,512
Prepaid expenses and other current assets	—	102,096	15,923	(20,925)	97,094
Income taxes receivable	58,686	(64,919)	23,317	109	17,193
Deferred income taxes	—	235,479	9,979	—	245,458
Total current assets	61,776	1,794,096	186,169	302	2,042,343
INTERCOMPANY RECEIVABLES	1,743,214	8,380,701	193,567	(10,317,482)	—
MARKETABLE SECURITIES	—	2,433	—	—	2,433
PROPERTY, PLANT AND EQUIPMENT, NET	—	349,257	25,040	(307)	373,990
GOODWILL	—	1,798,492	182,395	—	1,980,887
OTHER INTANGIBLES, NET	—	1,890,659	75,986	—	1,966,645
INVESTMENT IN SUBSIDIARIES	5,286,976	318,872	—	(5,605,848)	—
OTHER ASSETS	54,324	28,825	23,585	(17,776)	88,958
TOTAL ASSETS	<u>\$ 7,146,290</u>	<u>\$ 14,563,335</u>	<u>\$ 686,742</u>	<u>\$ (15,941,111)</u>	<u>\$ 6,455,256</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ (989)	\$ 264,255	\$ 4,585	\$ —	\$ 267,851
Accrued expenses	24,560	934,063	36,153	(5)	994,771
Current portion of long-term debt	408,534	906	2,254	—	411,694
Acquisition-related contingent consideration	—	1,231	—	—	1,231
Total current liabilities	432,105	1,200,455	42,992	(5)	1,675,547
INTERCOMPANY PAYABLES	2,787,712	7,428,210	101,560	(10,317,482)	—
DEFERRED INCOME TAXES	8,484	454,691	(1,276)	—	461,899
ACQUISITION-RELATED CONTINGENT CONSIDERATION	—	2,856	—	—	2,856
LONG-TERM DEBT, LESS CURRENT PORTION, NET	2,641,111	—	3,517	—	2,644,628
OTHER LIABILITIES	—	340,765	9,973	(17,776)	332,962
STOCKHOLDERS' EQUITY:					
Preferred Stock	—	—	—	—	—
Common Stock	1,439	—	30,430	(30,430)	1,439
Additional paid-in capital	1,143,546	4,183,617	573,414	(4,757,031)	1,143,546
Retained earnings (deficit)	902,144	959,202	(135,350)	(823,852)	902,144
Accumulated other comprehensive (loss) income	(5,939)	(6,461)	996	5,465	(5,939)
Treasury stock	(764,312)	—	—	—	(764,312)
Total Endo Health Solutions Inc. stockholders' equity	1,276,878	5,136,358	469,490	(5,605,848)	1,276,878
Noncontrolling interests	—	—	60,486	—	60,486
Total stockholders' equity	1,276,878	5,136,358	529,976	(5,605,848)	1,337,364
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,146,290</u>	<u>\$ 14,563,335</u>	<u>\$ 686,742</u>	<u>\$ (15,941,111)</u>	<u>\$ 6,455,256</u>

CONDENSED CONSOLIDATING BALANCE SHEET
(In thousands)

	December 31, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 512	\$ 499,932	\$ 47,472	\$ —	\$ 547,916
Accounts receivable, net	—	601,967	75,752	13,131	690,850
Inventories, net	—	354,150	23,774	(20,286)	357,638
Prepaid expenses and other current assets	—	12,675	8,591	6,484	27,750
Income taxes receivable	39,503	(35,708)	32,585	109	36,489
Deferred income taxes	—	296,027	11,906	658	308,591
Total current assets	40,015	1,729,043	200,080	96	1,969,234
INTERCOMPANY RECEIVABLES	2,039,648	8,233,831	193,673	(10,467,152)	—
MARKETABLE SECURITIES	—	1,746	—	—	1,746
PROPERTY, PLANT AND EQUIPMENT, NET	—	356,427	29,573	(332)	385,668
GOODWILL	—	1,798,493	215,858	—	2,014,351
OTHER INTANGIBLES, NET	—	2,020,942	78,031	—	2,098,973
INVESTMENT IN SUBSIDIARIES	5,162,874	313,978	—	(5,476,852)	—
OTHER ASSETS	65,727	27,766	24,122	(19,028)	98,587
TOTAL ASSETS	<u>\$ 7,308,264</u>	<u>\$ 14,482,226</u>	<u>\$ 741,337</u>	<u>\$ (15,963,268)</u>	<u>\$ 6,568,559</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$ 90	\$ 410,532	\$ 6,492	\$ (232)	\$ 416,882
Accrued expenses	31,981	1,096,261	42,708	(5)	1,170,945
Current portion of long-term debt	131,250	906	1,842	—	133,998
Acquisition-related contingent consideration	—	6,195	—	—	6,195
Total current liabilities	163,321	1,513,894	51,042	(237)	1,728,020
INTERCOMPANY PAYABLES	3,031,742	7,351,093	84,317	(10,467,152)	—
DEFERRED INCOME TAXES	5,314	512,118	(867)	—	516,565
ACQUISITION-RELATED CONTINGENT CONSIDERATION	—	2,729	—	—	2,729
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,035,031	—	2,916	—	3,037,947
OTHER LIABILITIES	—	159,319	9,800	(19,027)	150,092
STOCKHOLDERS' EQUITY:					
Preferred Stock	—	—	—	—	—
Common Stock	1,400	—	30,430	(30,430)	1,400
Additional paid-in capital	1,035,115	4,195,802	571,928	(4,767,730)	1,035,115
Retained earnings (deficit)	811,573	754,551	(70,203)	(684,348)	811,573
Accumulated other comprehensive (loss) income	(6,802)	(7,280)	1,624	5,656	(6,802)
Treasury stock	(768,430)	—	—	—	(768,430)
Total Endo Health Solutions Inc. stockholders' equity	1,072,856	4,943,073	533,779	(5,476,852)	1,072,856
Noncontrolling interests	—	—	60,350	—	60,350
Total stockholders' equity	<u>1,072,856</u>	<u>4,943,073</u>	<u>594,129</u>	<u>(5,476,852)</u>	<u>1,133,206</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,308,264</u>	<u>\$ 14,482,226</u>	<u>\$ 741,337</u>	<u>\$ (15,963,268)</u>	<u>\$ 6,568,559</u>

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

Three Months Ended September 30, 2013					
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES	\$ —	\$ 652,773	\$ 91,753	\$ (29,572)	\$ 714,954
COSTS AND EXPENSES:					
Cost of revenues	—	258,574	53,297	(23,901)	287,970
Selling, general and administrative	—	180,692	19,043	(16)	199,719
Research and development	—	37,733	347	—	38,080
Litigation-related and other contingencies	—	30,895	—	—	30,895
Asset impairment charges	—	807	38,000	—	38,807
Acquisition-related and integration items, net	—	1,493	714	—	2,207
OPERATING INCOME (LOSS)	\$ —	\$ 142,579	\$ (19,648)	\$ (5,655)	\$ 117,276
INTEREST EXPENSE, NET	11,023	32,056	71	—	43,150
OTHER (INCOME) EXPENSE, NET	—	(22,422)	3,045	2,085	(17,292)
(LOSS) INCOME BEFORE INCOME TAX	\$ (11,023)	\$ 132,945	\$ (22,764)	\$ (7,740)	\$ 91,418
INCOME TAX	(3,955)	26,746	17,296	(3,284)	36,803
EQUITY FROM INCOME IN SUBSIDIARIES	47,291	789	—	(48,080)	—
CONSOLIDATED NET INCOME (LOSS)	\$ 40,223	\$ 106,988	\$ (40,060)	\$ (52,536)	\$ 54,615
Less: Net income attributable to noncontrolling interests	—	—	14,392	—	14,392
NET INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 40,223	\$ 106,988	\$ (54,452)	\$ (52,536)	\$ 40,223

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

	Nine Months Ended September 30, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES	\$ —	\$ 1,998,999	\$ 291,119	\$ (100,136)	\$ 2,189,982
COSTS AND EXPENSES:					
Cost of revenues	—	793,291	174,014	(84,242)	883,063
Selling, general and administrative	—	621,673	67,804	(41)	689,436
Research and development	—	110,449	3,291	—	113,740
Litigation-related and other contingencies	—	159,098	—	—	159,098
Asset impairment charges	—	4,756	42,238	—	46,994
Acquisition-related and integration items, net	—	3,876	2,289	—	6,165
OPERATING INCOME	\$ —	\$ 305,856	\$ 1,483	\$ (15,853)	\$ 291,486
INTEREST EXPENSE, NET	33,638	96,047	254	—	129,939
LOSS ON EXTINGUISHMENT OF DEBT	11,312	—	—	—	11,312
OTHER (INCOME) EXPENSE, NET	—	(72,583)	13,504	7,206	(51,873)
(LOSS) INCOME BEFORE INCOME TAX	\$ (44,950)	\$ 282,392	\$ (12,275)	\$ (23,059)	\$ 202,108
INCOME TAX	(16,010)	82,634	14,114	(7,959)	72,779
EQUITY FROM INCOME IN SUBSIDIARIES	119,511	4,893	—	(124,404)	—
CONSOLIDATED NET INCOME (LOSS)	\$ 90,571	\$ 204,651	\$ (26,389)	\$ (139,504)	\$ 129,329
Less: Net income attributable to noncontrolling interests	—	—	38,758	—	38,758
NET INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 90,571	\$ 204,651	\$ (65,147)	\$ (139,504)	\$ 90,571

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

	Three Months Ended September 30, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES	\$ —	\$ 687,675	\$ 85,496	\$ (22,689)	\$ 750,482
COSTS AND EXPENSES:					
Cost of revenues	—	259,967	54,695	(20,395)	294,267
Selling, general and administrative	—	191,540	18,938	(32)	210,446
Research and development	—	47,128	1,824	—	48,952
Patent litigation settlement, net	—	(46,238)	—	—	(46,238)
Litigation-related and other contingencies	—	82,600	—	—	82,600
Asset impairment charges	—	11,163	—	—	11,163
Acquisition-related and integration items, net	—	4,764	1,012	—	5,776
OPERATING INCOME	\$ —	\$ 136,751	\$ 9,027	\$ (2,262)	\$ 143,516
INTEREST EXPENSE, NET	10,573	34,932	—	—	45,505
LOSS ON EXTINGUISHMENT OF DEBT	1,789	—	—	—	1,789
OTHER INCOME, NET	—	(249)	(2,749)	2,748	(250)
(LOSS) INCOME BEFORE INCOME TAX	\$ (12,362)	\$ 102,068	\$ 11,776	\$ (5,010)	\$ 96,472
INCOME TAX	(4,442)	36,147	(2,099)	(1,319)	28,287
EQUITY FROM INCOME IN SUBSIDIARIES	61,729	745	—	(62,474)	—
CONSOLIDATED NET INCOME	\$ 53,809	\$ 66,666	\$ 13,875	\$ (66,165)	\$ 68,185
Less: Net income attributable to noncontrolling interests	—	—	14,376	—	14,376
NET INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 53,809	\$ 66,666	\$ (501)	\$ (66,165)	\$ 53,809

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(In thousands)

0

	Nine Months Ended September 30, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
TOTAL REVENUES	\$ —	\$ 2,034,768	\$ 259,412	\$ (67,877)	\$ 2,226,303
COSTS AND EXPENSES:					
Cost of revenues	—	855,418	161,724	(63,485)	953,657
Selling, general and administrative	—	632,202	66,368	(48)	698,522
Research and development	—	179,695	3,372	—	183,067
Patent litigation settlement, net	—	85,123	—	—	85,123
Litigation-related and other contingencies	—	82,600	—	—	82,600
Asset impairment charges	—	54,163	—	—	54,163
Acquisition-related and integration items, net	—	14,294	2,286	—	16,580
OPERATING INCOME	\$ —	\$ 131,273	\$ 25,662	\$ (4,344)	\$ 152,591
INTEREST EXPENSE, NET	33,320	105,039	27	—	138,386
LOSS ON EXTINGUISHMENT OF DEBT	7,215	—	—	—	7,215
OTHER EXPENSE (INCOME), NET	—	5	(2,418)	2,911	498
(LOSS) INCOME BEFORE INCOME TAX	\$ (40,535)	\$ 26,229	\$ 28,053	\$ (7,255)	\$ 6,492
INCOME TAX	(14,562)	15,487	(8,326)	(1,862)	(9,263)
EQUITY FROM INCOME (LOSS) IN SUBSIDIARIES	1,902	(1,167)	—	(735)	—
CONSOLIDATED NET (LOSS) INCOME	\$ (24,071)	\$ 9,575	\$ 36,379	\$ (6,128)	\$ 15,755
Less: Net income attributable to noncontrolling interests	—	—	39,826	—	39,826
NET (LOSS) INCOME ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ (24,071)	\$ 9,575	\$ (3,447)	\$ (6,128)	\$ (24,071)

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended September 30, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET INCOME (LOSS)	\$ 40,223	\$ 106,988	\$ (40,060)	\$ (52,536)	\$ 54,615
OTHER COMPREHENSIVE INCOME (LOSS)	2,934	(66)	3,051	(2,985)	2,934
CONSOLIDATED COMPREHENSIVE INCOME (LOSS)	\$ 43,157	\$ 106,922	\$ (37,009)	\$ (55,521)	\$ 57,549
Less: Comprehensive income attributable to noncontrolling interests	—	—	14,392	—	14,392
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ 43,157	\$ 106,922	\$ (51,401)	\$ (55,521)	\$ 43,157

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Nine Months Ended September 30, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET INCOME (LOSS)	\$ 90,571	\$ 204,651	\$ (26,389)	\$ (139,504)	\$ 129,329
OTHER COMPREHENSIVE INCOME (LOSS)	863	819	(628)	(191)	863
CONSOLIDATED COMPREHENSIVE INCOME (LOSS)	<u>\$ 91,434</u>	<u>\$ 205,470</u>	<u>\$ (27,017)</u>	<u>\$ (139,695)</u>	<u>\$ 130,192</u>
Less: Comprehensive income attributable to noncontrolling interests	<u>—</u>	<u>—</u>	<u>38,758</u>	<u>—</u>	<u>38,758</u>
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	<u><u>\$ 91,434</u></u>	<u><u>\$ 205,470</u></u>	<u><u>\$ (65,775)</u></u>	<u><u>\$ (139,695)</u></u>	<u><u>\$ 91,434</u></u>

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
(In thousands)

Three Months Ended September 30, 2012					
	<u>Endo Health Solutions Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
CONSOLIDATED NET INCOME	\$ 53,809	\$ 66,666	\$ 13,875	\$ (66,165)	\$ 68,185
OTHER COMPREHENSIVE INCOME (LOSS)	3,960	(79)	4,397	(4,318)	3,960
CONSOLIDATED COMPREHENSIVE INCOME	<u>\$ 57,769</u>	<u>\$ 66,587</u>	<u>\$ 18,272</u>	<u>\$ (70,483)</u>	<u>\$ 72,145</u>
Less: Comprehensive income attributable to noncontrolling interests	<u>—</u>	<u>—</u>	<u>14,376</u>	<u>—</u>	<u>14,376</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	<u><u>\$ 57,769</u></u>	<u><u>\$ 66,587</u></u>	<u><u>\$ 3,896</u></u>	<u><u>\$ (70,483)</u></u>	<u><u>\$ 57,769</u></u>

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME
(In thousands)

	Nine Months Ended September 30, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
CONSOLIDATED NET (LOSS) INCOME	\$ (24,071)	\$ 9,575	\$ 36,379	\$ (6,128)	\$ 15,755
OTHER COMPREHENSIVE INCOME	1,932	1,463	662	(2,125)	1,932
CONSOLIDATED COMPREHENSIVE (LOSS) INCOME	\$ (22,139)	\$ 11,038	\$ 37,041	\$ (8,253)	\$ 17,687
Less: Comprehensive income attributable to noncontrolling interests	—	—	39,826	—	39,826
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO ENDO HEALTH SOLUTIONS INC.	\$ (22,139)	\$ 11,038	\$ (2,785)	\$ (8,253)	\$ (22,139)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30, 2013				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash provided by operating activities	\$ 13,412	\$ 227,802	\$ 31,258	\$ —	\$ 272,472
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	—	(45,888)	(8,461)	—	(54,349)
Proceeds from sale of property, plant and equipment	—	145	1,408	—	1,553
Acquisitions, net of cash acquired	—	—	(3,645)	—	(3,645)
Patent acquisition costs and license fees	—	(10,000)	—	—	(10,000)
Sale of business, net	—	—	(700)	—	(700)
Settlement escrow	—	(54,500)	—	—	(54,500)
Other investing activities	—	—	(5,348)	—	(5,348)
Net cash used in investing activities	\$ —	\$ (110,243)	\$ (16,746)	\$ —	\$ (126,989)
FINANCING ACTIVITIES:					
Capital lease obligations repayments	—	(166)	(165)	—	(331)
Direct financing arrangement repayments	—	(2,589)	—	—	(2,589)
Proceeds from other indebtedness	—	—	1,014	—	1,014
Principal payments on Term Loans	(134,688)	—	—	—	(134,688)
Deferred financing fees	(8,129)	—	—	—	(8,129)
Payment for contingent consideration	—	(5,000)	—	—	(5,000)
Tax benefits of stock awards	—	8,415	—	—	8,415
Payments of tax withholding for restricted shares	(8,284)	—	—	—	(8,284)
Exercise of Endo Health Solutions Inc. stock options	83,743	—	—	—	83,743
Issuance of common stock from treasury	4,117	—	—	—	4,117
Cash distributions to noncontrolling interests	—	—	(36,709)	—	(36,709)
Cash buy-out of noncontrolling interests, net of cash contributions	—	—	(2,032)	—	(2,032)
Intercompany activity	52,407	(69,753)	17,346	—	—
Net cash used in financing activities	\$ (10,834)	\$ (69,093)	\$ (20,546)	\$ —	\$ (100,473)
Effect of foreign exchange rate	—	—	1,159	—	1,159
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 2,578	\$ 48,466	\$ (4,875)	\$ —	\$ 46,169
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	512	499,932	47,472	—	547,916
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,090	\$ 548,398	\$ 42,597	\$ —	\$ 594,085

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30, 2012				
	Endo Health Solutions Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated Total
OPERATING ACTIVITIES:					
Net cash provided by operating activities(1)	\$ 23,435	\$ 256,313	\$ 17,384	\$ —	\$ 297,132
INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	—	(79,310)	(10,818)	—	(90,128)
Proceeds from sale of property, plant and equipment	—	17	1,064	—	1,081
Acquisitions, net of cash acquired	—	—	(3,210)	—	(3,210)
Proceeds from sale of investments	—	18,800	—	—	18,800
Patent acquisition costs and license fees	—	(5,000)	(700)	—	(5,700)
Net cash used in investing activities	<u>\$ —</u>	<u>\$ (65,493)</u>	<u>\$ (13,664)</u>	<u>\$ —</u>	<u>\$ (79,157)</u>
FINANCING ACTIVITIES:					
Capital lease obligations repayments	—	(615)	(150)	—	(765)
Principal payments on Term Loans	(333,950)	—	—	—	(333,950)
Principal payments on other indebtedness	—	—	(685)	—	(685)
Payment on AMS Convertible Notes	—	(66)	—	—	(66)
Tax benefits of stock awards	—	4,268	—	—	4,268
Exercise of Endo Health Solutions Inc. stock options	15,317	—	—	—	15,317
Purchase of common stock	(156,000)	—	—	—	(156,000)
Issuance of common stock from treasury	4,606	—	—	—	4,606
Cash distributions to noncontrolling interests	—	—	(39,234)	—	(39,234)
Cash buy-out of noncontrolling interests, net of cash contributions	—	—	(2,264)	—	(2,264)
Intercompany activity(1)	398,461	(432,262)	33,801	—	—
Net cash used in financing activities(1)	<u>\$ (71,566)</u>	<u>\$ (428,675)</u>	<u>\$ (8,532)</u>	<u>\$ —</u>	<u>\$ (508,773)</u>
Effect of foreign exchange rate	—	—	95	—	95
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (48,131)</u>	<u>\$ (237,855)</u>	<u>\$ (4,717)</u>	<u>\$ —</u>	<u>\$ (290,703)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	48,318	455,756	43,546	—	547,620
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 187</u></u>	<u><u>\$ 217,901</u></u>	<u><u>\$ 38,829</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 256,917</u></u>

- (1) Subsequent to the issuance of the third quarter 2012 financial statements, the Company determined that a revision was required to correct the classification of certain intercompany cash transfers among Endo Health Solutions Inc., referred to herein as the Parent, and Guarantor and Non-Guarantor Subsidiaries. The intercompany transfers for the nine months ended September 30, 2012, which were previously included as a component of operating activities and are now being reclassified as a component of financing activities, included \$398.4 million of net cash inflows received by the Parent, \$415.3 million of net cash outflows paid by Guarantor Subsidiaries and \$16.9 million of net cash inflows received by the Non-Guarantor Subsidiaries. In order to reclassify these transfers, adjustments have been made. The net effect of these adjustments was to include the impact of these intercompany cash transfers within financing activities. These adjustments had no effect on the consolidated Net cash provided by operating activities or Net cash used in financing activities for the nine months ended September 30, 2012 and the change did not impact the Condensed Consolidating Balance Sheets or Condensed Consolidating Statements of Operations.

NOTE 18. SUBSEQUENT EVENTS

Boca Pharmacal, LLC Acquisition

In October 2013, we received a second request for information from the U.S. Federal Trade Commission (FTC) with respect to Generics International (US) Inc.'s (d/b/a Qualitest Pharmaceuticals) purchase of Boca Pharmacal, LLC (Boca). The Company and Qualitest Pharmaceuticals are cooperating, and have been advised by Boca that it too is cooperating, with the government's request. This information request relates to the August 27, 2013 agreement to purchase all of the issued and outstanding membership interests of Boca, a privately held specialty generics company located in Coral Springs, Florida, for \$225.0 million in cash, subject to certain adjustments as set forth in the agreement.

Paladin Labs Inc. Acquisition

On November 5, 2013, the Company announced that it had reached a definitive agreement to acquire Paladin Labs Inc. (Paladin Labs) in a stock and cash transaction valued at approximately \$1.6 billion. Pursuant to the acquisition, each of Endo and Paladin Labs will be acquired by a newly-formed Irish holding company (New Endo).

Paladin Labs is a specialty pharmaceutical company headquartered in Montreal, Canada, focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian and world markets. Key products serve growing drug markets including ADHD, pain, urology and allergy. In addition to its Canadian operations, Paladin Labs owns a controlling stake in Ativa Pharma S.A. in Mexico and a 61.5% ownership stake in publicly traded Litha Healthcare Group Limited in South Africa.

Paladin's stable and growing cash flows and strong Canadian franchise complement Endo's existing portfolio and further diversifies Endo's pharmaceutical product mix and geographic reach. The Company believes the transaction will generate operational and tax synergies and will create a financial platform to facilitate organic growth with broader options for future strategic activity.

Under the terms of the transaction, Paladin Labs shareholders will receive 1.6331 shares of New Endo stock and C\$1.16 in cash, subject to adjustment, for each Paladin Labs share they own upon closing, pursuant to a plan of arrangement under Canadian law. Current Endo shareholders will receive one share of New Endo for each share of Endo they own upon closing. Upon closing of the transaction, Endo shareholders are expected to own approximately 77.5% of New Endo, and Paladin Labs shareholders are expected to own approximately 22.5%.

In addition, pursuant to the plan of arrangement, for each Paladin Labs share owned upon closing, shareholders of Paladin Labs will also receive one share of Knight Therapeutics Inc. (Knight Therapeutics), a newly formed Canadian company that will be separated as part of the transaction. Knight Therapeutics will hold rights to Impavido and certain related rights.

The cash consideration to be received by Paladin Labs shareholders will be increased if Endo's volume weighted average share price during an agreed reference period declines more than 7%. Cash compensation will be provided by Endo to Paladin Labs shareholders if the share price declines more than 7% but less than 20%. If Endo's share price declines between 20% and 24% during the agreed reference period, Endo will provide partial cash compensation to Paladin Labs shareholders. Any decline in Endo's share price beyond 24% will not be subject to further cash compensation to Paladin Labs shareholders. The maximum amount by which the aggregate cash consideration to be received by Paladin Labs shareholders would be increased by this price protection mechanism is approximately \$233 million.

Endo does not expect the transaction, as structured, to be taxable to its U.S. shareholders. However, the ultimate tax treatment of the transaction is not certain, could be affected by actions taken by Endo and other events, and cannot be determined until the end of the year in which the transaction is completed, which the Company expects will be 2014.

Following completion of the transaction, the combined company will be led by Endo's current management team. Paladin Labs will continue to be led by Paladin Labs' current management team and will maintain its current headquarters location in Montreal. The Canadian operations will continue under the Paladin Labs name.

While the Paladin Labs acquisition is primarily equity based, Endo will adjust certain parts of its capital structure to complete the transaction. The Company has secured committed financing that it plans to use to refinance certain elements of its existing indebtedness. Upon closing of the transaction, a change in control would occur under the terms of our existing senior secured credit facilities (the Credit Facilities), and the terms of each of the indentures governing our existing 7.00%

Senior Notes due 2019 (the 2019 Notes), 7.00% Senior Notes due 2020 (the 2020 Notes) and 7.25% Senior Notes due 2022 (the 2022 Notes and, together with the 2019 Notes and the 2020 Notes, the Existing Notes). If for any reason the committed financing is not available, and Endo is unable to refinance the Credit Facilities prior to the closing of the transaction, the change in control under the Credit Facilities would be considered an event of default, which would permit the lenders to cause all amounts outstanding with respect to that debt to be due and payable immediately and terminate all commitments to extend further credit. An acceleration of the debt under the Credit Facilities, if not repaid, could result in an event of default under our other debt agreements, including the Existing Notes. A change in control under the Existing Notes would require the Company to offer to purchase the Existing Notes at a price of 101%.

The transaction is currently expected to close in the first half of 2014, subject to certain conditions and approvals, including regulatory approvals in the United States, Canada and South Africa, the approval of both companies' shareholders, the approval of the Superior Court of Quebec, the registration and listing of New Endo shares and customary closing conditions. Shareholders representing approximately 34% of Paladin Labs outstanding shares have agreed to vote in favor of the transaction. These shareholders have the right to terminate this agreement if Endo's volume weighted average share price declines more than 24% during an agreed reference period. Shares of New Endo are expected to trade on the NASDAQ.

APPENDIX “J”

MANAGEMENT’S DISCUSSION AND ANALYSIS IN RESPECT OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF ENDO

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations describes the principal factors affecting the results of operations, liquidity and capital resources and critical accounting estimates of Endo. This discussion should be read in conjunction with the accompanying quarterly unaudited Condensed Consolidated Financial Statements and our Annual Report on Form 10-K, for the year ended December 31, 2012 (Annual Report). Our Annual Report includes additional information about our significant accounting policies, practices and the transactions that underlie our financial results, as well as a detailed discussion of the most significant risks and uncertainties associated with our financial and operating results. Except for the historical information contained in this Report, including the following discussion, this Report contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements” beginning on page i of this Report.

EXECUTIVE SUMMARY

During the first quarter of 2013, Rajiv De Silva was appointed as our new President and Chief Executive Officer. Mr. De Silva was also appointed to the Board of Directors (the Board) effective March 18, 2013. Prior to joining Endo, Mr. De Silva served as the President of Valeant Pharmaceuticals International, Inc. and served as its Chief Operating Officer. Prior to joining Valeant in 2009, Mr. De Silva held various leadership positions with Novartis AG.

With Mr. De Silva's arrival, the Company initiated an enterprise-wide business assessment of the Company's strategy, cost structure and operating model to develop a plan to accelerate both our short-term and long-term growth while focusing on further enhancing operating efficiency and effectiveness. Upon the completion of this assessment in June 2013, the Company outlined strategic, operational and organizational steps it is taking to refocus the Company and enhance shareholder value. These actions are the result of a comprehensive assessment of Endo’s strengths and challenges, its cost structure and execution capabilities, and its most promising opportunities to drive future cash flow and earnings growth. Specifically, the Company announced plans to reduce annual operating expenses in 2013 and beyond, explore strategic alternatives for its HealthTronics business and branded pharmaceutical discovery platform, enhance organic growth drivers across business lines through more effective execution, pursue accretive acquisitions within a disciplined capital allocation framework and attract, retain and develop talent across the organization within the context of a lean operating model. The cost reduction initiatives include a reduction in headcount of approximately 15% worldwide, streamlining of general and administrative expenses, optimizations related to commercial spend and a refocusing of research and development efforts. Additionally, in June 2013, the Board approved a plan to sell the anatomical pathology services business. On August 9, 2013, HealthTronics, Inc. sold its anatomical pathology services business to Metamark Genetics, Inc. The Company continues to explore strategic alternatives for the remaining HealthTronics businesses.

During the first quarter of 2013, our subsidiary Endo Pharmaceuticals Inc. (EPI) commenced Lidoderm[®] shipments to the wholesaler affiliate of Watson pursuant to the 2012 Watson Settlement Agreement. Units shipped to Watson's wholesaler affiliate through September 30, 2013 totaled approximately 382,900. EPI's obligation to provide branded product to the wholesaler affiliate of Watson ended on August 31, 2013. On September 16, 2013, Actavis launched its lidocaine patch 5%, its generic version of Lidoderm[®].

On March 26, 2013, we amended and restated our existing credit agreement to extend its term by approximately two years and modify its covenants to provide us with greater financial and operating flexibility. The amended and restated agreement (the 2013 Credit Agreement) extends the maturity dates of our \$500 million Revolving Credit Facility and our Term Loan A Facility to March 15, 2018. The 2013 Credit Agreement keeps in place the Company’s Term Loan B Facility which matures on June 17, 2018. The 2013 Credit Agreement also permits additional revolving or term loan commitments up to \$500 million (or an unlimited amount in certain circumstances) from one or more of the existing lenders or other lenders with the consent of the Administrative Agent without the need for consent from any of the existing lenders under our credit facility.

In April 2013, in a joint meeting of the Advisory Committee for Reproductive Health Drugs and the Drug Safety and Risk Management Advisory Committee, panelists voted on whether Endo Pharmaceuticals Solutions Inc.'s (EPSI's) product

AveedTM is safe as a testosterone replacement therapy for men diagnosed with hypogonadism. The results of this vote were split 9 - 9. Panelists also voted on whether the proposed instructions for use in AveedTM's product labeling are sufficient to ameliorate the risk of severe post-injection reactions. The results of this vote were 17 against, 1 in favor. In May 2013, the FDA issued EPSI a complete response letter regarding the new drug application (NDA) for AveedTM. The complete response letter did not include requests for additional clinical studies. The FDA outlined the steps necessary to support approval of the NDA and updated the requirement for a Risk Evaluation and Mitigation Strategy (REMS). Specifically, the FDA requested that the REMS include a Medication Guide as well as Elements to Assure Safe Use (ETASU) to mitigate the risks and severe complications related to post-injection reactions. The Company subsequently submitted a complete response with respect to the NDA for AveedTM. This complete response was accepted for review by the FDA in September 2013. In connection with this acceptance, the FDA assigned Endo's NDA a new Prescription Drug User Fee Act (PDUFA) action date of February 28, 2014.

On May 10, 2013, the FDA denied EPI's August 13, 2012 Citizen Petition requesting that the FDA (1) determine that the discontinued, non-crush-resistant version of Opana[®] ER approved under NDA 21-610 was discontinued for safety and can no longer serve as a Reference List Drug (RLD) for an ANDA or generic applicant; (2) refuse to approve any pending ANDA for a generic version of the non-crush-resistant version of Opana[®] ER approved under NDA 21-610; and (3) suspend and withdraw the approval of any ANDA referencing Opana[®] ER approved under NDA 21-610 as the RLD. The FDA decided that the original formulation of Opana[®] ER was not withdrawn from sale for reasons of safety or effectiveness. As a result, generic versions of the original formulation referencing NDA 21-610 may be approved as long as they meet all other legal and regulatory requirements for approval and the FDA will not begin procedures to suspend or withdraw approval of ANDAs that reference NDA 21-610. Additionally, the FDA issued a completed response letter to EPI's supplemental new drug application requesting the addition of labeling language describing the abuse deterrent properties of Opana[®] ER.

On May 29, 2013, we announced that Julie H. McHugh, Chief Operating Officer, would be leaving the Company, effective immediately. Also, on May 29, 2013, we announced that Alan G. Levin, Executive Vice President and Chief Financial Officer, would be leaving the Company in the fall of 2013, subsequent to the appointment of his successor. On September 9, 2013, we announced the appointment of Suketu P. Upadhyay to the position of Executive Vice President and Chief Financial Officer of the Registrant, effective September 23, 2013. Mr. Upadhyay succeeds Mr. Levin, who left the position as Executive Vice President and Chief Financial Officer upon Mr. Upadhyay's start. Prior to joining Endo, Mr. Upadhyay served in various finance leadership roles at Becton, Dickinson, & Company (BD) including, among others, Principal Accounting Officer, Interim Chief Financial Officer and Senior Vice President of Finance and Corporate Controller. Prior to BD, Mr. Upadhyay served in various finance leadership roles at AstraZeneca and Johnson & Johnson.

On July 22, 2013, Endo announced the appointment of Don DeGolyer as Chief Operating Officer, Pharmaceuticals, which includes our Endo Pharmaceuticals and Qualitest segments, effective August 1, 2013. Prior to joining Endo, Mr. DeGolyer served as President & CEO of Sandoz Inc., Novartis' North America generic products division. Prior to joining Novartis in 2002, he spent eleven years at Johnson & Johnson in pharmaceutical commercial roles, including the positions of Vice President of Marketing and Sales of the Ortho Dermatological business and Vice President of Managed Care.

In October 2013, we received a second request for information from the U.S. Federal Trade Commission (FTC) with respect to Generics International (US) Inc.'s (d/b/a Qualitest Pharmaceuticals) purchase of Boca Pharmacal, LLC (Boca). The Company and Qualitest Pharmaceuticals are cooperating, and have been advised by Boca that it too is cooperating, with the government's request. This information request relates to the August 27, 2013 agreement to purchase all of the issued and outstanding membership interests of Boca, a privately held specialty generics company located in Coral Springs, Florida, for \$225.0 million in cash, subject to certain adjustments as set forth in the agreement.

On November 5, 2013, the Company announced that it had reached a definitive agreement to acquire Paladin Labs Inc. (Paladin Labs) in a stock and cash transaction valued at approximately \$1.6 billion. Pursuant to the acquisition, each of Endo and Paladin Labs will be acquired by a newly-formed Irish holding company (New Endo).

RESULTS OF OPERATIONS

Our quarterly results have fluctuated in the past, and may continue to fluctuate. These fluctuations are primarily due to (1) the timing of mergers, acquisitions and other business development activity, (2) the timing of new product launches, (3) purchasing patterns of our customers, (4) market acceptance of our products, (5) the impact of competitive products and products we recently acquired and (6) pricing. These fluctuations are also attributable to charges incurred for compensation

related to stock compensation, amortization of intangible assets, asset impairment charges and certain upfront, milestone and other payments made or accrued pursuant to acquisition or licensing agreements.

Consolidated Results Review

Revenues. Revenues for the three and nine months ended September 30, 2013 decreased 5% to \$715.0 million and 2% to \$2,190.0 million, respectively, from the comparable 2012 periods. These decreases in revenues were primarily attributable to decreases at our Endo Pharmaceuticals, AMS and HealthTronics segments, partially offset revenue growth from our Qualitest segment.

The following table displays our revenues by category and as a percentage of total revenues for the three and nine months ended September 30, 2013 and 2012 (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	\$	%	\$	%	\$	%	\$	%
Lidoderm®	\$ 149,946	21	\$ 238,282	32	\$ 566,626	26	\$ 676,302	30
Opana® ER	59,936	8	62,232	8	174,214	8	236,731	11
Voltaren® Gel	45,044	6	35,483	5	123,937	6	79,173	4
Percocet®	26,250	4	24,209	3	78,818	4	73,413	3
Frova®	16,027	2	15,706	2	44,116	2	45,352	2
Fortesta® Gel	15,025	2	8,823	1	47,156	2	21,526	1
Supprelin® LA	14,105	2	14,534	2	44,128	2	42,777	2
Other brands	39,803	6	17,376	2	60,377	3	47,731	2
Total Endo Pharmaceuticals*	366,136	51	416,645	56	\$ 1,139,372	52	\$ 1,223,005	55
Qualitest	183,939	26	166,070	22	532,722	24	471,310	21
AMS	111,244	16	113,304	15	359,867	16	371,601	17
HealthTronics	53,635	8	54,463	7	158,021	7	160,387	7
Total revenues*	\$ 714,954	100	\$ 750,482	100	\$ 2,189,982	100	\$ 2,226,303	100

* Percentages may not add due to rounding.

Lidoderm®. Net sales of Lidoderm® for the three and nine months ended September 30, 2013 decreased 37% to \$149.9 million and 16% to \$566.6 million, respectively, from the comparable 2012 periods. Net sales were negatively impacted during both the three and nine months ended September 30, 2013 by the September 16, 2013 launch of Actavis's lidocaine patch 5%, a generic version of Lidoderm®. Prior to the launch of Actavis's generic, 2013 net sales were negatively impacted by our obligation under the Watson Settlement Agreement to supply Lidoderm® at zero cost to Watson's wholesaler affiliate from January to August of 2013. Refer to Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q for further discussion of the Watson Settlement Agreement. Although the Company believes it has successfully contracted with certain Managed Care providers and government agencies, we do expect future net sales of Lidoderm® to continue to be impacted due to generic competition, resulting in additional decreases in Lidoderm® net sales.

Opana® ER. Net Sales of Opana® ER for the three and nine months ended September 30, 2013 decreased 4% to \$59.9 million and 26% to \$174.2 million, respectively, from the comparable 2012 periods. In the first half of 2012, after our first quarter supply disruption associated with the shutdown of Novartis's Lincoln, Nebraska manufacturing facility, we transitioned to our formulation of Opana® ER that is designed to be crush-resistant. While we believe our ongoing commercial efforts, which include direct and indirect sales efforts, coupon programs, education and promotion within targeted customer channels, have contributed positively to the uptake of our crush-resistant formulation, revenues since the transition have not returned to historical pre-transition levels. 2012 revenues included the favorable effects of wholesaler restocking efforts to transition to the crush-resistant formulation of Opana® ER, which did not reoccur during the comparable 2013 periods. In addition, Impax and Actavis launched generic versions of the non-crush-resistant formulation Opana® ER on January 2, 2013 and September 12, 2013, respectively, negatively impacting revenues.

In late 2012, two patents covering Opana[®] ER issued to our subsidiary Endo Pharmaceuticals Inc. (EPI). On December 11, 2012, EPI filed a Complaint against Actavis in U.S. District Court for the Southern District of New York for patent infringement based on its ANDA for a non-crush-resistant generic version of Opana[®] ER. Between May 22 and June 21, 2013, EPI filed similar suits in the U.S. District Court for the Southern District of New York against the following applicants for non-crush-resistant Opana[®] ER: Par Pharmaceuticals, Teva Pharmaceuticals, Mallinckrodt LLC, Sandoz Inc., Roxane Laboratories, and Ranbaxy. In July 2013, Actavis and Roxane were granted FDA approval to market all strengths of their respective non-crush-resistant formulations of Opana[®] ER. On August 1, 2013, EPI dismissed its suit against Teva Pharmaceuticals based on its demonstration to EPI that it does not, at this time, intend to pursue an ANDA for non-crush-resistant Opana[®] ER. On August 6, 2013, EPI filed motions for preliminary injunctions against Actavis and Roxane requesting the court enjoin Actavis and Roxane from launching additional Opana[®] ER generics pending the outcome of the patent case. On September 12, 2013, the court denied the Company's motions for preliminary injunction. On that day, Actavis launched its generic version of non-crush-resistant Opana[®] ER 5, 10, 20, 30 and 40 mg tablets. EPI has appealed the denial of a preliminary injunction. If these lawsuits are unsuccessful and we are unable to defend our non-crush-resistant formulation of Opana[®] ER from one or more additional generic competitors, our revenues could decline further to the extent additional manufacturers obtain FDA approval for, and are able to launch, their respective formulations of non-crush-resistant Opana[®] ER.

Voltaren[®] Gel. Net Sales of Voltaren[®] Gel for the three and nine months ended September 30, 2013 increased 27% to \$45.0 million and 57% to \$123.9 million, respectively, from the comparable 2012 periods. Due to short-term Voltaren[®] Gel supply constraints resulting from the temporary shutdown of Novartis's Lincoln, Nebraska manufacturing facility in early 2012, there were no sales of Voltaren[®] Gel during the three months ended March 31, 2012. In April 2012, production and sale of Voltaren[®] Gel resumed, resulting in relatively higher revenues for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, as the 2013 amount included a full period's revenues as compared to a partial period's during the nine months ended September 30, 2012. As a result of the first quarter 2012 supply constraints, sales during the second quarter of 2012 included the favorable effects of wholesaler restocking efforts, which did not reoccur during the third quarter of 2012, resulting in relatively lower sales during the third quarter of 2012. The increase for the three months ended September 30, 2013 from the comparable 2012 period resulted from sales returning to more normal levels. Subject to FDA approval, we believe one or more competing products could potentially enter the market during the second quarter of 2014, negatively impacting future sales of Voltaren[®] Gel.

Percocet[®]. Net sales of Percocet[®] for the three and nine months ended September 30, 2013 increased 8% to \$26.3 million and 7% to \$78.8 million, respectively, from the comparable 2012 periods. These increases were primarily attributable to price increases, partially offset by reduced volumes.

Frova[®]. Net sales of Frova[®] for the three and nine months ended September 30, 2013 increased 2% to \$16.0 million and decreased 3% to \$44.1 million, respectively, from the comparable 2012 periods. The increase during the three months ended September 30, 2013 was primarily attributable to increased price, partially offset by reduced volume. The decrease during the nine months ended September 30, 2013 was primarily attributable to reduced volume, partially offset by increased price.

Fortesta[®] Gel. Net sales of Fortesta[®] Gel for the three and nine months ended September 30, 2013 increased 70% to \$15.0 million and 119% to \$47.2 million, respectively, from the comparable 2012 periods. These increases were primarily attributable to increased volumes resulting from improved formulary access to this product.

Supprelin[®] LA. Net sales of Supprelin[®] LA for the three and nine months ended September 30, 2013 decreased 3% to \$14.1 million and increased 3% to \$44.1 million, respectively, from the comparable 2012 periods. The decrease during the three months ended September 30, 2013 was primarily attributable to decreased price. The increase during the nine months ended September 30, 2013 was primarily attributable to increased volume.

Other brands. Net sales of EPI's other branded products for the three and nine months ended September 30, 2013 increased 129% to \$39.8 million and 26% to \$60.4 million, respectively, from the comparable 2012 periods. These increases were primarily attributable to the increase in royalty income from Actavis, under the terms of the Watson Settlement Agreement, based on Actavis's gross profit generated on sales of its generic version of Lidoderm[®], which commenced on September 16, 2013. This increase was partially offset by decreased sales of Valstar[®] and Vantas[®]. Refer to Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q for further discussion of the Watson Settlement Agreement.

A discussion of revenues by reportable segment is included below under the caption "Business Segment Results Review".

Gross Margin, Costs and Expenses. The following table sets forth costs and expenses for the three and nine months ended September 30, 2013 and 2012 (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Cost of revenues	\$ 287,970	40	\$ 294,267	39	\$ 883,063	40	\$ 953,657	43
Selling, general and administrative	199,719	28	210,446	28	689,436	31	698,522	31
Research and development	38,080	5	48,952	7	113,740	5	183,067	8
Patent litigation settlement, net	—	—	(46,238)	(6)	—	—	85,123	4
Litigation-related and other contingencies	30,895	4	82,600	11	159,098	7	82,600	4
Asset impairment charges	38,807	5	11,163	1	46,994	2	54,163	2
Acquisition-related and integration items, net	2,207	—	5,776	1	6,165	—	16,580	1
Total costs and expenses*	\$ 597,678	84	\$ 606,966	81	\$ 1,898,496	87	\$ 2,073,712	93

* Percentages may not add due to rounding.

Cost of Revenues and Gross Margin. Cost of revenues for the three and nine months ended September 30, 2013 decreased 2% to \$288.0 million and 7% to \$883.1 million, respectively, from the comparable 2012 periods. The decrease during the three months ended September 30, 2013 was primarily attributable to a decrease in cost of revenues at Endo Pharmaceuticals due to decreased demand for Lidoderm® and the related decrease in Lidoderm® related royalty payments to Teikoku. This decrease was partially offset by an increase in cost of revenues at Qualitest due to increased demand for certain existing products and new products launched in the second half of 2012 and first quarter of 2013. The decrease during the nine months ended September 30, 2013 was primarily attributable to the inclusion, during the nine months ended September 30, 2012, of a \$104.0 million charge related to our Impax Settlement Agreement which did not reoccur during the nine months ended September 30, 2013. Also contributing to this decrease was a reduction in cost of revenues at Endo Pharmaceuticals due to decreased demand for Lidoderm® and the related decrease in Lidoderm® related royalty payments to Teikoku. These decreases were partially offset by an increase in cost of revenues at Qualitest due to increased demand for certain existing products and new products launched in the second half of 2012 and first quarter of 2013. Gross margins for the three months ended September 30, 2013 decreased to 60% from 61% in the comparable 2012 period, due primarily to a decrease in revenues from our higher margin Endo Pharmaceuticals segment. Gross margins for the nine months ended September 30, 2013 increased to 60% from 57% in the comparable 2012 period, due primarily to the previously described charge related to the Impax Settlement Agreement, partially offset by growth in lower margin generic pharmaceutical product sales and a decline in higher margin branded pharmaceutical sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three and nine months ended September 30, 2013 decreased 5% to \$199.7 million and 1% to \$689.4 million, respectively, from the comparable 2012 periods. These decreases were primarily attributable to cost savings resulting from ongoing cost reduction initiatives including, among others, the June 2013 restructuring and were partially offset by severance and other restructuring charges recorded as part of these initiatives.

Research and Development Expenses. Research and development expenses for the three and nine months ended September 30, 2013 decreased 22% to \$38.1 million and 38% to \$113.7 million, respectively, from the comparable 2012 periods. These decreases reflect the company-wide refocusing of our research and development efforts being undertaken as part of the Company's broader strategic, operational and organizational steps announced in June 2013. Additionally, the decrease during the nine months ended September 30, 2013 reflects a decline in milestone-related expenses. In January 2012, EPI signed a worldwide license and development agreement (the BioDelivery Agreement) with BioDelivery Sciences International, Inc. (BioDelivery) for the exclusive rights to develop and commercialize BEMA® Buprenorphine. EPI made an upfront payment to BioDelivery for \$30.0 million and incurred \$15.0 million of additional costs related to the achievement of

certain regulatory milestones during the first quarter of 2012, which were recorded as Research and development expenses. Similar expenses were not material in 2013.

Patent litigation settlement, net. Amounts related to Patent litigation settlement, net for the three and nine months ended September 30, 2012 totaled \$46.2 million of income and \$85.1 million of expense, with no comparable amounts during the three and nine months ended September 30, 2013. These amounts relate to the initial establishment of and subsequent change in estimate for the liability related to the Watson Settlement Agreement, as described in more detail in Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Litigation-Related and Other Contingencies. Charges for Litigation-related and other contingencies for the three and nine months ended September 30, 2013 totaled \$30.9 million and \$159.1 million, respectively, compared to \$82.6 million during both the three and nine months ended September 30, 2012. These amounts relate to charges associated with certain of the legal proceedings and other contingent matters that are described in more detail in Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q. Additionally, during the third quarter of 2012, we recorded charges totaling \$29.6 million for certain previously disclosed pricing litigation matters. For further description of these pricing litigation matters, refer to our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

Asset Impairment Charges. Asset impairment charges for the three and nine months ended September 30, 2013 totaled \$38.8 million and \$47.0 million, respectively, compared to \$11.2 million and \$54.2 million, respectively, in the comparable 2012 periods. The amounts incurred during the three and nine months ended September 30, 2013 related primarily to assets written down in connection with the Company's cost reduction initiatives, including our consideration of strategic alternatives for the HealthTronics business. During the three months ended September 30, 2013, the Company recorded a combined estimated goodwill impairment charge of \$38.0 million, representing the difference between the estimated implied fair value of the HealthTronics reporting units' goodwill and the carrying amount. The Company expects to finalize the impairment analysis in the fourth quarter of 2013. Any adjustment in the estimated impairment charge will be recognized at that time. These impairment charges are further discussed in Note 3. Fair Value Measurements and Note 8. Goodwill and Other Intangibles of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q. Asset impairment charges for the three and nine months ended September 30, 2012 related to writing down our Sanctura XR[®] and AMS IPR&D intangible assets. Further discussion of intangible asset impairment charges is included in Note 8. Goodwill and Other Intangibles of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

As previously disclosed, the Company performed its 2012 annual goodwill and indefinite-lived intangible asset impairment testing as of October 1, 2012. In connection with this testing, we recorded certain asset impairment charges including, among others, impairment to our AMS reporting unit's goodwill of \$507.5 million. Immediately following the 2012 AMS reporting unit impairment charges, the fair value of the AMS reporting unit approximated its carrying amount. This AMS reporting unit impairment charge was largely the result of a reduction to projected revenue growth and profitability levels, which were identified as part of our fourth quarter 2012 strategic planning and budgeting processes and resulted from various challenges our AMS business faced in 2012. Since October 1, 2012, the AMS business has faced continued challenges reflecting on-going industry shifts following the FDA's September 2011 advisory committee regarding the use of surgical mesh in pelvic organ prolapse, resulting in revenues and profitability levels below the projections contemplated in connection with our 2012 annual impairment testing. The AMS reporting unit currently has a goodwill balance of approximately \$1.3 billion.

In response to these challenges and in an effort to offset continued declines in revenues and profitability levels, the Company has recently decided, as part of the broader strategic, operational and organizational actions announced in June 2013, to take certain actions to reduce AMS's operating expenses. We began to implement these actions in June 2013. As a result of our already captured and projected cost savings from these initiatives, we believe that we will maintain consistent profitability levels forecasted at the time of our 2012 annual impairment test.

On an ongoing basis, we evaluate potential triggering events that may affect the estimated fair value of our reporting units to assess whether any goodwill impairments exist. Based upon our consideration of these events and circumstances, we concluded that it was more likely than not that the fair value of our AMS reporting unit exceeds its carrying amount, and thus, no further impairment analysis was performed. Our belief is based on a number of forward-looking assumptions, including, but not limited to, the leveling-off of revenue declines and a return to modest growth for our AMS women's health

business; achieving a certain level of cost savings committed to as part of our recently announced restructuring initiatives; and the ultimate number of mesh-related claims filed against the Company and the eventual outcome of those claims.

The Company also monitors external factors that could impact the estimated fair value, such as changes in the Company's overall market capitalization and interest rates. The Company believes the year-over-year increase in our market capitalization due to the significant increase in our share price, could have a favorable impact on the estimated fair value of each of our reporting units. However, the Company also notes that there has been a slight rise in the risk-free rate of return since the date of our last assessment which could have a potential unfavorable impact on the discount rate that was utilized in our 2012 AMS reporting unit annual impairment test. We consider the discount rate to be one of the more sensitive assumptions utilized in our annual impairment test. We also consider the level of earnings before interest, taxes, depreciation and amortization (EBITDA), to be another sensitive assumption utilized in our discounted cash flow analysis. For example, a 50 basis point change in the discount rate used in the 2012 annual AMS reporting unit goodwill impairment test would have resulted in a change to the 2012 goodwill impairment charge of approximately \$170 million, while a 1% change in each year's EBITDA cash flow projections would have resulted in a change to the 2012 goodwill impairment charge of approximately \$25 million. These sensitivities are provided for context around future potential variability of key impairment testing assumptions. We will continue to monitor all the AMS reporting unit's sensitive assumptions in our annual goodwill impairment test that will occur during the fourth quarter of 2013. For additional discussion of our impairment testing methodology and our 2012 impairment testing results, refer to our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013. Due to the significance of AMS's goodwill, any future impairment resulting from such an assessment could have a material adverse effect on our results of operations and financial position.

Acquisition-Related and Integration Items, net. Acquisition-related and integration items, net totaled \$2.2 million and \$6.2 million in expense for the three and nine months ended September 30, 2013, respectively, compared to \$5.8 million and \$16.6 million in expense, respectively, in the comparable 2012 periods. These decreases are primarily due to lower integration costs related to our acquisitions.

Interest Expense, net. The components of interest expense, net for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest expense	\$ 43,357	\$ 45,620	\$ 130,788	\$ 138,706
Interest income	(207)	(115)	(849)	(320)
Interest expense, net	<u>\$ 43,150</u>	<u>\$ 45,505</u>	<u>\$ 129,939</u>	<u>\$ 138,386</u>

Interest expense for the three and nine months ended September 30, 2013 totaled \$43.4 million and \$130.8 million, respectively, compared to \$45.6 million and \$138.7 million, respectively, in the comparable 2012 periods. These decreases are primarily due to a decrease in our average total indebtedness from \$3.35 billion over the nine months ended September 30, 2012 to \$3.11 billion over the nine months ended September 30, 2013.

Loss on Extinguishment of Debt. In February 2012, we made a prepayment of \$205.0 million on our Term Loan B Facility. Approximately \$5.4 million of the remaining unamortized financing costs associated with this facility was written off in connection with the February 2012 prepayment.

On March 26, 2013, we made an additional prepayment of \$100.0 million on our Term Loan B Facility. Approximately \$2.2 million of the remaining unamortized financing costs was written off in connection with this prepayment.

Also, in March 2013, we amended and restated our Credit Agreement. Upon the closing of 2013 Credit Agreement, related debt issuance costs of \$0.5 million and previously deferred debt issuance costs of \$8.6 million associated with the 2011 Credit Agreement were charged to expense.

Other (Income) Expense, Net. Other (income) expense, net for the three and nine months ended September 30, 2013 totaled \$17.3 million of income and \$51.9 million of income, respectively, compared to \$0.3 million of income and \$0.5 million of expense, respectively, in the comparable 2012 periods. Approximately \$14.6 million and \$50.4 million of income was recognized and included in Other (income) expense, net during the three and nine months ended September 30, 2013, respectively, related to the Watson Settlement Agreement. For a complete description of the accounting for the Watson Settlement Agreement, see Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q. Also included in Other (income) expense, net during the three and nine months ended September 30, 2013 is a gain of \$2.7 million related to the sale of our anatomical pathology services business.

Income Tax. During the three and nine months ended September 30, 2013, we recognized income taxes totaling \$36.8 million of expense and \$72.8 million of expense, respectively. This compares to \$28.3 million of expense and \$9.3 million of benefit, respectively, in the comparable 2012 periods. The effective income tax rate was 40.3% and 36.0% during the three and nine months ended September 30, 2013, respectively, compared to 29.3% and (142.7)%, respectively, in the comparable 2012 periods.

The increase in the effective tax rate during the three months ended September 30, 2013 was primarily attributable to goodwill impairments in the current period at our HealthTronics business that were not deductible for tax purposes and an unfavorable true-up to the non-deductible annual Health Care Reform Fee in 2013. This was partially offset by favorable true-ups as a result of the filing of the 2012 federal consolidated tax return.

The fluctuation in the effective tax rate during the nine months ended September 30, 2013 was primarily attributable to tax benefits in the comparable prior period greater than pretax income, which resulted in a negative effective tax rate. The prior period tax benefits related to the release of reserves for uncertain tax positions and the reversal of a valuation allowance related to the sale of the image guided radiation therapy (IGRT) business. Also contributing to the rate variance are goodwill impairments in the current period that are not deductible for tax purposes, and an unfavorable true-up to the non-deductible annual Health Care Reform Fee in 2013. The variance was partially offset by favorable adjustments for the reinstatement of the research and development credit in 2013, a benefit in the current period for our foreign manufacturing operations as compared to a detriment in the comparable prior period and favorable true-ups in the current period as a result of filing of the 2012 federal consolidated return.

Net Income Attributable to Noncontrolling Interests. HealthTronics, Inc. owns interests in various partnerships and limited liability corporations (LLCs) where HealthTronics, Inc., as the general partner or managing member, exercise effective control. Accordingly, we consolidate various entities where HealthTronics, Inc. does not own 100% of the entity in accordance with the accounting consolidation principles. Net income attributable to noncontrolling interests relates to the portion of the net income of these partnerships and LLCs not attributable, directly or indirectly, to our ownership interests. Net income attributable to noncontrolling interests totaled \$14.4 million and \$38.8 million during the three and nine months ended September 30, 2013, respectively, and \$14.4 million and \$39.8 million, respectively, in the comparable 2012 periods.

2013 Outlook. We estimate that our 2013 total revenues will be between \$2.75 billion and \$2.80 billion. This estimate is based on our expectation of growth in Qualitest, offset by a decrease in Endo Pharmaceuticals revenues resulting from the entry of a single generic competitor to Lidoderm[®], and erosion in market share for Opana[®] ER reflecting current generic competition and the potential for additional generic competition in light of the FDA's May 2013 denial of our Opana[®] ER Citizen Petition. Cost of revenues as a percent of total revenues is expected to increase when compared to 2012 as a result of the simultaneous growth in lower margin generic pharmaceutical product sales and decline in higher margin branded pharmaceutical sales in 2013. Operating expenses are expected to decrease as a result of the cost reduction initiatives we announced in June 2013, which include reducing headcount by approximately 15% worldwide, streamlining general and administrative expenses, optimizing commercial spend and refocusing research and development efforts onto lower-risk projects and higher-return investments in generic pharmaceuticals. The Company also intends to seek growth both internally and through acquisitions. There can be no assurance that the Company will achieve these results.

Business Segment Results Review

The Company has four reportable segments: (1) Endo Pharmaceuticals, (2) Qualitest, (3) AMS and (4) HealthTronics. These segments reflect the level at which executive management regularly reviews financial information to assess performance and to make decisions about resources to be allocated. Each segment derives revenue from the sales or licensing of their respective products or services and is discussed in more detail below.

We evaluate segment performance based on each segment's adjusted income (loss) before income tax, a financial measure not determined in accordance with GAAP, which we define as income before income tax before certain upfront and milestone payments to partners, acquisition-related and integration items, net, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, litigation-related and other contingent matters and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income (loss) before income tax by adding the amounts for each of our reportable segments to Corporate unallocated adjusted income (loss) before income tax.

We refer to adjusted income (loss) before income tax in making operating decisions because we believe it provides meaningful supplemental information regarding the Company's operational performance. For instance, we believe that this measure facilitates its internal comparisons to its historical operating results and comparisons to competitors' results. The Company believes this measure is useful to investors in allowing for greater transparency related to supplemental information used by us in our financial and operational decision-making. In addition, we have historically reported similar financial measures to our investors and believe that the inclusion of comparative numbers provides consistency in our financial reporting at this time. Further, we believe that adjusted income (loss) before income tax may be useful to investors as we are aware that certain of our significant stockholders utilize adjusted income (loss) before income tax to evaluate our financial performance. Finally, adjusted income (loss) before income tax is utilized in the calculation of adjusted diluted net income per share, which is used by the Compensation Committee of the Company's Board of Directors in assessing the performance and compensation of substantially all of our employees, including our executive officers.

There are limitations to using financial measures such as adjusted income (loss) before income tax. Other companies in our industry may define adjusted income (loss) before income tax differently than we do. As a result, it may be difficult to use adjusted income (loss) before income tax or similarly named adjusted financial measures that other companies may use to compare the performance of those companies to our performance. Because of these limitations, adjusted income (loss) before income tax should not be considered as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business. The Company compensates for these limitations by providing reconciliations of our consolidated adjusted income (loss) before income tax to our consolidated income before income tax, which is determined in accordance with U.S. GAAP and included in our Condensed Consolidated Statements of Operations.

Endo Pharmaceuticals

The Endo Pharmaceuticals segment includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm[®], Opana[®] ER, Voltaren[®] Gel, Percocet[®], Frova[®], Fortesta[®] Gel, Supprelin[®] LA, Vantas[®] and Valstar[®].

Qualitest

The Qualitest segment is composed of our legacy non-branded generics portfolio and the portfolio from Qualitest Pharmaceuticals, which we acquired in 2010. The Qualitest segment has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. The product offerings of this segment include products in the pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women's health and hypertension markets, among others.

AMS

The AMS segment currently focuses on providing technology solutions to physicians treating men's and women's pelvic health conditions and operates in the following business lines: men's health, women's health, and benign prostatic

hyperplasia (BPH) therapy. AMS distributes devices through its direct sales force and independent sales representatives in the U.S., Canada, Australia and Western Europe. Additionally, AMS distributes devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of AMS's customers or distributors accounted for ten percent or more of our total revenues during the three or nine months ended September 30, 2013 or 2012. Foreign subsidiary sales are predominantly to customers in Canada, Australia and Western Europe.

HealthTronics

The HealthTronics segment provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics across the U.S. These services are primarily sold through the following business lines: lithotripsy services, prostate treatment services, medical products manufacturing, sales and maintenance and electronic medical records services.

On June 4, 2013, the Company announced, as part of its broader restructuring initiatives, plans to explore strategic alternatives for its HealthTronics business.

In June 2013, the Company's Board of Directors approved a plan to sell the anatomical pathology services reporting unit, a component of the HealthTronics segment. On August 9, 2013, HealthTronics, Inc. sold its anatomical pathology services business to Metamark Genetics, Inc. for a total purchase price of \$9.2 million, including an \$8.9 million note receivable due on or before December 31, 2013, resulting in a pretax gain of \$2.7 million. The Condensed Consolidated Financial Statements include the operating results of the anatomical pathology services business through August 8, 2013. These operating results are not material to the Company's consolidated operating results in any period being presented and therefore, we have not presented the business as discontinued operations in the Condensed Consolidated Statements of Operations. In addition, the assets and liabilities of the business are not presented as held for sale in the Condensed Consolidated Balance Sheets. The \$8.9 million note receivable is included in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

The Company continues to explore strategic alternatives for the remaining HealthTronics businesses.

Revenues. The following table displays our revenue by reportable segment for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net revenues to external customers:				
Endo Pharmaceuticals	\$ 366,136	\$ 416,645	\$ 1,139,372	\$ 1,223,005
Qualitest	183,939	166,070	532,722	471,310
AMS(1)	111,244	113,304	359,867	371,601
HealthTronics(2)	53,635	54,463	158,021	160,387
Total consolidated net revenues to external customers	<u>\$ 714,954</u>	<u>\$ 750,482</u>	<u>\$ 2,189,982</u>	<u>\$ 2,226,303</u>

(1) The following table displays our AMS segment revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
AMS:				
United States	\$ 75,484	\$ 75,480	\$ 233,091	\$ 246,385
International	35,760	37,824	126,776	125,216
Total AMS revenues	<u>\$ 111,244</u>	<u>\$ 113,304</u>	<u>\$ 359,867</u>	<u>\$ 371,601</u>

(2) HealthTronics revenue includes amounts related to the anatomical pathology services business through August 8, 2013. This business was sold on August 9, 2013. Anatomical pathology services revenues totaled \$2.5 million and \$13.6 million during the three and nine months ended September 30, 2013, respectively, compared to \$5.2 million and \$15.2 million in the comparable 2012 periods.

Endo Pharmaceuticals. Revenues from our Endo Pharmaceuticals segment for the three and nine months ended September 30, 2013 decreased 12% to \$366.1 million and 7% to \$1,139.4 million, respectively, from the comparable 2012 periods. These decreases were primarily attributable to decreased revenues from Lidoderm® and Opana® ER, partially offset by increases from both Voltaren® Gel and Fortesta® Gel. Additionally, royalty income from Actavis based on its gross profit generated on sales of its generic version of Lidoderm® commenced on September 16, 2013.

Qualitest. Net sales of our generic products for the three and nine months ended September 30, 2013 increased 11% to \$183.9 million and 13% to \$532.7 million, respectively, from the comparable 2012 periods. These increases were primarily attributable to strong demand for Qualitest's diversified product portfolio, including significant revenue growth from certain existing products and new products launched in the second half of 2012 and first quarter of 2013. However, during the three and nine months ended September 30, 2013, this growth was partially offset by reductions in Qualitest's top 15 products, which decreased 18% to \$86.5 million and 10% to \$273.7 million, respectively, from the comparable 2012 periods, primarily attributable to supply constraints for certain analgesic products.

AMS. Revenues from our AMS segment for the three and nine months ended September 30, 2013 decreased 2% to \$111.2 million and 3% to \$359.9 million, respectively, from the comparable 2012 periods. These decreases were primarily attributable to lower sales in the women's health line, which relates primarily to a reduction in mesh procedural volumes, particularly as to pelvic organ prolapse (POP) repair procedures. This reduction in mesh procedural volumes is likely in response to a July 2011 update to the October 2008 Public Health Notification issued by the FDA to further advise the public and medical community regarding potential complications associated with transvaginal placement of surgical mesh to treat POP and stress urinary incontinence (SUI), as well as to the attorney advertising associated with transvaginal mesh litigation. These decreases were partially offset by increases in the Men's Health business due to increased volumes.

HealthTronics. Revenues from our HealthTronics segment for the three and nine months ended September 30, 2013 decreased 2% to \$53.6 million and 1% to \$158.0 million, respectively, from the comparable 2012 periods. These decreases were primarily attributable to lower treatment volumes in the prostate treatment services business line.

Adjusted income (loss) before income tax. The following table displays our adjusted income (loss) before income tax by reportable segment for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Adjusted income (loss) before income tax:				
Endo Pharmaceuticals	\$ 224,747	\$ 216,728	\$ 635,168	\$ 624,927
Qualitest	48,630	45,840	141,720	132,500
AMS	29,156	21,081	96,847	77,383
HealthTronics(1)	17,300	16,639	40,278	42,053
Corporate unallocated	(81,916)	(73,854)	(239,916)	(249,934)
Total consolidated adjusted income (loss) before income tax	<u>\$ 237,917</u>	<u>\$ 226,434</u>	<u>\$ 674,097</u>	<u>\$ 626,929</u>

(1) HealthTronics adjusted income (loss) before income tax includes amounts related to the anatomical pathology services business through August 8, 2013. This business was sold on August 9, 2013. Anatomical pathology services adjusted income (loss) before income tax is not material to the Company's consolidated operating results for any of the periods presented.

Endo Pharmaceuticals. Adjusted income (loss) before income tax for the three and nine months ended September 30, 2013 increased 4% to \$224.7 million and 2% to \$635.2 million, respectively, from the comparable 2012 periods. These increases were primarily attributable to cost reductions realized in connection with our June 2013 restructuring and other cost reduction initiatives, particularly with respect to sales and marketing expenses, partially offset by decreased revenues.

Qualitest. Adjusted income (loss) before income tax for the three and nine months ended September 30, 2013 increased 6% to \$48.6 million and 7% to \$141.7 million, respectively, from the comparable 2012 periods. During both the three and nine months ended September 30, 2013, revenues increased and operating expenses decreased, primarily with respect to research and development expense. Additionally, both periods were impacted as margins returned to more normal levels from the comparably higher 2012 amounts, which benefited from favorable pricing on certain of our generic products resulting from market opportunities.

AMS. Adjusted income (loss) before income tax for the three and nine months ended September 30, 2013 increased 38% to \$29.2 million and 25% to \$96.8 million, respectively, from the comparable 2012 periods. These increases were primarily attributable to cost reductions realized in connection with our June 2013 restructuring and other cost reduction initiatives, partially offset by decreased revenues.

HealthTronics. Adjusted income (loss) before income tax for the three and nine months ended September 30, 2013 increased 4% to \$17.3 million and decreased 4% to \$40.3 million, respectively, from the comparable 2012 periods. The increase during the three months ended September 30, 2013 was primarily attributable to decreased operating expenses, partially offset by decreased revenues. The decrease during the nine months ended September 30, 2013 was primarily attributable to decreased revenue, partially offset by decreased operating expenses.

Corporate unallocated. Corporate unallocated Adjusted loss before income tax for the three and nine months ended September 30, 2013 increased 11% to \$81.9 million and decreased 4% to \$239.9 million, respectively, from the comparable 2012 periods. The increase during the three months ended September 30, 2013 was primarily attributable to an overall increase in general and administrative expenses related primarily to adjustments to our incentive compensation accrual, partially offset by cost savings resulting from our June 2013 restructuring and other cost reduction initiatives, as well as the previously discussed decrease in interest expense. The decrease during the nine months ended September 30, 2013 was primarily attributable to decreased research and development, general and administrative and other costs, resulting from our June 2013 restructuring and other cost reduction initiatives, as well as the previously discussed decrease in interest expense.

Reconciliation to GAAP. The table below provides reconciliations of our consolidated adjusted income (loss) before income tax to our income before income tax, which is determined in accordance with U.S. GAAP, for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total consolidated adjusted income (loss) before income tax:	\$ 237,917	\$ 226,434	\$ 674,097	\$ 626,929
Upfront and milestone payments to partners	(3,092)	(5,338)	(11,064)	(56,905)
Asset impairment charges	(38,807)	(11,163)	(46,994)	(54,163)
Acquisition-related and integration items, net(1)	(2,207)	(5,776)	(6,165)	(16,580)
Separation benefits and other cost reduction initiatives(2)	(22,529)	(11,590)	(91,176)	(26,958)
Amortization of intangible assets	(46,853)	(58,735)	(148,606)	(170,659)
Inventory step-up	—	—	—	(880)
Non-cash interest expense	(5,704)	(5,209)	(16,816)	(15,354)
Loss on extinguishment of debt	—	(1,789)	(11,312)	(7,215)
Watson litigation settlement income, net	14,628	—	50,400	—
Accrual for payment to Impax Laboratories Inc. related to sales of Opana® ER	—	6,000	—	(104,000)
Patent litigation settlement items, net	—	46,238	—	(85,123)
Certain litigation-related charges(3)	(44,600)	(82,600)	(193,969)	(82,600)
Gain on sale of business	2,665	—	2,665	—
Other income (expense), net	—	—	1,048	—
Total consolidated income before income tax	<u>\$ 91,418</u>	<u>\$ 96,472</u>	<u>\$ 202,108</u>	<u>\$ 6,492</u>

- (1) Acquisition-related and integration-items, net, include costs directly associated with the closing of certain immaterial acquisitions, changes in the fair value of contingent consideration and the costs of integration activities related to both current and prior period acquisitions.
- (2) Separation benefits and other cost reduction initiatives include employee separation costs of \$5.6 million and \$46.8 million for the three and nine months ended September 30, 2013, respectively, and \$11.6 million and \$26.4 million for the three and nine months ended September 30, 2012, respectively. Contract termination fees recognized during the third quarter of 2013 totaling \$7.8 million are also included in this amount. Refer to Note 16. Restructuring of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q for discussion of our material restructuring initiatives. Additionally, Separation benefits and other cost reduction initiatives during the nine months ended September 30, 2013 includes an expense recorded upon the cease use date of our Chadds Ford, Pennsylvania properties in the first quarter of 2013, representing a liability for our remaining obligations under the respective lease agreements of \$7.2 million. These expenses were primarily recorded as Selling, general and administrative and Research and development expense in our Condensed Consolidated Statements of Operations.
- (3) This amount includes charges for Litigation-related and other contingencies, consisting primarily of mesh-related product liability charges, as well as mesh litigation-related defense costs for the three and nine months ended September 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is cash generated from operations. Our principal liquidity requirements are for working capital for operations, licenses, milestone payments, capital expenditures and debt service payments. The Company continues to maintain a sufficient level of working capital, which was approximately \$366.8 million at September 30, 2013 compared to \$241.2 million at December 31, 2012. In addition, we have historically had broad access to financial markets that provide liquidity. Cash and cash equivalents, which primarily consisted of bank deposits, time deposits and/or money market accounts, totaled approximately \$594.1 million at September 30, 2013 compared to \$547.9 million at December 31, 2012.

In 2013, we expect that sales of our subsidiaries' current portfolios of products and services will allow us to continue to generate positive cash flow from operations. We expect cash generated from operations together with our cash, cash equivalents and unused Revolving Credit Facility to be sufficient to cover cash needs for working capital and general corporate purposes, including our pending acquisition of Boca, certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, common stock repurchases and any regulatory and/or sales milestones that may become due.

We depend on patents or other forms of intellectual property protection for most of our branded pharmaceutical revenues, cash flows and earnings. In recent years, various generic manufacturers have filed ANDAs seeking FDA approval for generic versions of certain of the EPI's key pharmaceutical products, including but not limited to Lidoderm® and both the original and crush-resistant formulations of Opana® ER. In connection with such filings, these manufacturers have challenged the validity and/or enforceability of one or more of the underlying patents protecting our products. To the extent these manufacturers are successful in these patent challenges and in obtaining FDA approval of these generic products, the impact of generic competition may cause a decline in future revenue from the affected products. Such revenue declines could have a material adverse effect on our future liquidity and financial position. However, the extent to which our revenues will be affected in future periods is subject to a number of uncertainties. Our goal is to mitigate the effect of these competitive activities by leveraging growth across the remainder of our portfolio and by acquiring and in-licensing additional products, product rights or technologies. Additionally, the Company has recently outlined strategic, operational and organizational steps it is taking to reduce annual operating expenses in 2013 and beyond, explore strategic alternatives for its HealthTronics business and branded pharmaceutical discovery platform, enhance organic growth drivers across business lines through more effective execution, pursue accretive acquisitions within a disciplined capital allocation framework and attract, retain and develop talent across the organization within the context of a lean operating model.

Beyond 2013, we expect cash generated from operations together with our cash, cash equivalents and unused Revolving Credit Facility to continue to be sufficient to cover cash needs for working capital and general corporate purposes, including certain contingent liabilities, payment of contractual obligations, principal and interest payments on our indebtedness, capital expenditures, our currently approved common stock repurchase plan and any regulatory and/or sales milestones that may become due. At this time, we cannot accurately predict the effect of certain developments on the rate of sales growth, such as the degree of market acceptance, patent protection and exclusivity of our products, the impact of competition, the effectiveness of our sales and marketing efforts and the outcome of our current efforts to develop, receive approval for and successfully launch our near-term product candidates. Additionally, we may not be successful in implementing, or may face unexpected changes or expenses in connection with our announced strategic, operational and organizational changes, including the potential for opportunistic corporate development transactions such as the recently announced agreement to acquire Paladin Labs Inc. as discussed in more detail below. Any of the above could adversely affect our future cash flows. We may need to obtain additional funding for future strategic transactions, to repay our outstanding indebtedness, or for our future operational needs, and we cannot be certain that funding will be available on terms acceptable to us, or at all. Any issuances of equity securities or convertible securities could have a dilutive effect on the ownership interest of our current shareholders and may adversely impact net income per share in future periods. An acquisition may be accretive or dilutive and, by its nature, involves numerous risks and uncertainties.

On November 5, 2013, the Company announced that it had reached a definitive agreement to acquire Paladin Labs Inc. (Paladin Labs) in a stock and cash transaction valued at approximately \$1.6 billion. Pursuant to the acquisition, each of Endo and Paladin Labs will be acquired by a newly-formed Irish holding company (New Endo).

Paladin Labs is a specialty pharmaceutical company headquartered in Montreal, Canada, focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian and world markets. Key products serve growing drug markets including ADHD, pain, urology and allergy. In addition to its Canadian operations, Paladin Labs owns a controlling stake in Ativa Pharma S.A. in Mexico and a 61.5% ownership stake in publicly traded Litha Healthcare Group Limited in South Africa.

Paladin's stable and growing cash flows and strong Canadian franchise complement Endo's existing portfolio and further diversifies Endo's pharmaceutical product mix and geographic reach. The Company believes the transaction will generate operational and tax synergies and will create a financial platform to facilitate organic growth with broader options for future strategic activity.

Under the terms of the transaction, Paladin Labs shareholders will receive 1.6331 shares of New Endo stock and C\$1.16 in cash, subject to adjustment, for each Paladin Labs share they own upon closing, pursuant to a plan of arrangement

under Canadian law. Current Endo shareholders will receive one share of New Endo for each share of Endo they own upon closing. Upon closing of the transaction, Endo shareholders are expected to own approximately 77.5% of New Endo, and Paladin Labs shareholders are expected to own approximately 22.5%.

In addition, pursuant to the plan of arrangement, for each Paladin Labs share owned upon closing, shareholders of Paladin Labs will also receive one share of Knight Therapeutics Inc. (Knight Therapeutics), a newly formed Canadian company that will be separated as part of the transaction. Knight Therapeutics will hold rights to Impavido and certain related rights.

The cash consideration to be received by Paladin Labs shareholders will be increased if Endo's volume weighted average share price during an agreed reference period declines more than 7%. Cash compensation will be provided by Endo to Paladin Labs shareholders if the share price declines more than 7% but less than 20%. If Endo's share price declines between 20% and 24% during the agreed reference period, Endo will provide partial cash compensation to Paladin Labs shareholders. Any decline in Endo's share price beyond 24% will not be subject to further cash compensation to Paladin Labs shareholders. The maximum amount by which the aggregate cash consideration to be received by Paladin Labs shareholders would be increased by this price protection mechanism is approximately \$233 million.

Endo does not expect the transaction, as structured, to be taxable to its U.S. shareholders. However, the ultimate tax treatment of the transaction is not certain, could be affected by actions taken by Endo and other events, and cannot be determined until the end of the year in which the transaction is completed, which the Company expects will be 2014.

Following completion of the transaction, the combined company will be led by Endo's current management team. Paladin Labs will continue to be led by Paladin Labs' current management team and will maintain its current headquarters location in Montreal. The Canadian operations will continue under the Paladin Labs name.

While the Paladin Labs acquisition is primarily equity based, Endo will adjust certain parts of its capital structure to complete the transaction. The Company has secured committed financing that it plans to use to refinance certain elements of its existing indebtedness. Upon closing of the transaction, a change in control would occur under the terms of our existing senior secured credit facilities (the Credit Facilities), and the terms of each of the indentures governing our existing 7.00% Senior Notes due 2019 (the 2019 Notes), 7.00% Senior Notes due 2020 (the 2020 Notes) and 7.25% Senior Notes due 2022 (the 2022 Notes and, together with the 2019 Notes and the 2020 Notes, the Existing Notes). If for any reason the committed financing is not available, and Endo is unable to refinance the Credit Facilities prior to the closing of the transaction, the change in control under the Credit Facilities would be considered an event of default, which would permit the lenders to cause all amounts outstanding with respect to that debt to be due and payable immediately and terminate all commitments to extend further credit. An acceleration of the debt under the Credit Facilities, if not repaid, could result in an event of default under our other debt agreements, including the Existing Notes. A change in control under the Existing Notes would require the Company to offer to purchase the Existing Notes at a price of 101%.

The transaction is currently expected to close in the first half of 2014, subject to certain conditions and approvals, including regulatory approvals in the United States, Canada and South Africa, the approval of both companies' shareholders, the approval of the Superior Court of Quebec, the registration and listing of New Endo shares and customary closing conditions. Shareholders representing approximately 34% of Paladin Labs outstanding shares have agreed to vote in favor of the transaction. These shareholders have the right to terminate this agreement if Endo's volume weighted average share price declines more than 24% during an agreed reference period. Shares of New Endo are expected to trade on the NASDAQ.

Borrowings. On March 26, 2013, we entered into an amendment and restatement agreement, pursuant to which we amended and restated our existing credit agreement to extend its term and modify its covenants to provide us with greater financial and operating flexibility. The amended and restated agreement (the 2013 Credit Agreement) extends the maturity dates of our \$500 million Revolving Credit Facility and our Term Loan A Facility which, at the time of the amendment and restatement, had a remaining principal balance of \$1,387.5 million, to March 15, 2018. The 2013 Credit Agreement provides the Company with greater flexibility under certain of its affirmative and negative covenants, including, without limitation, the designation of unrestricted subsidiaries, capital expenditures, asset sales, indebtedness and restricted payments. Under the 2013 Credit Agreement, the Company is required to maintain a leverage ratio (as the definition of such ratio has been modified in the 2013 Credit Agreement) of no greater than 3.75 to 1.00, which provides the Company with greater financial and operating flexibility than the prior credit agreement. The 2013 Credit Agreement continues to require the Company to maintain a minimum interest coverage ratio of 3.50 to 1.00.

The 2013 Credit Agreement keeps in place the Company's Term Loan B Facility which matures on June 17, 2018 and, at the time of the amendment and restatement, had a remaining principal balance of \$60.6 million. The 2013 Credit Agreement also permits additional revolving or term loan commitments up to \$500 million (or an unlimited amount in certain circumstances) from one or more of the existing lenders or other lenders with the consent of the Administrative Agent without the need for consent from any of the existing lenders under our credit facility.

The obligations of the Company under our credit facility continue to be guaranteed by certain of the Company's domestic subsidiaries (the Subsidiary Guarantors) and continue to be secured by substantially all of the assets of the Company and the Subsidiary Guarantors, subject to certain exceptions. The 2013 Credit Agreement contains affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with the Company's affiliates.

As set forth in the 2013 Credit Agreement, borrowings under our credit facility will continue to bear interest at an amount equal to a rate calculated based on the type of borrowing and the Company's leverage ratio, as defined in the 2013 Credit Agreement. For the Term Loan A Facility and Revolving Credit Facility, the Company may elect to pay interest based on an adjusted London Inter-Bank Offer Rate (LIBOR) plus between 1.75% and 2.50% or an Alternate Base Rate (as defined in the 2013 Credit Agreement) plus between 0.75% and 1.50%. For the Term Loan B Facility, the Company may elect to pay interest based on an adjusted LIBOR plus 3.00% or an Alternate Base Rate plus 2.00%. The Company will pay a commitment fee of between 37.5 to 50 basis points, payable quarterly, on the average daily unused amount of the Revolving Credit Facility.

At September 30, 2013, the Company's indebtedness also includes senior notes with aggregate principal amounts totaling \$1.3 billion. These notes mature between 2019 and 2022, subject to earlier repurchase or redemption in accordance with the terms of the respective indentures. Interest rates on these notes range from 7.00% to 7.25%. These notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries.

At September 30, 2013, the Company's indebtedness also includes \$379.5 million in aggregate principal amount of 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes), which became convertible at the option of holders beginning October 1, 2013. The conversion right was triggered on September 17, 2013, when the closing sale price of the Company's common stock on the NASDAQ Stock Exchange exceeded \$37.96 (130% of the conversion price of \$29.20) for the 20th trading day in the 30 consecutive trading days ending on September 30, 2013.

We will be permitted to deliver cash, shares of Endo common stock or a combination of cash and shares, at our election, to satisfy any future conversions of the Convertible Notes. It is our current intention to settle the principal amount of any conversion consideration in cash. As a result of the Convertible Notes becoming convertible, the Company has included the Convertible Notes in the current portion of long-term debt on its consolidated balance sheet as of September 30, 2013. The Convertible Notes will remain convertible through December 31, 2013, at which point they will be reassessed based on the conversion right trigger described above. Holders of the Convertible Notes may surrender their notes for conversion after October 15, 2014 at any time prior to the close of business on the second business day immediately preceding the stated maturity date. Accordingly, the Company will treat the Convertible Notes as short-term in nature hereafter. There have been no conversions as of the date of this filing.

Concurrently with the issuance of the Convertible Notes, we entered into a privately negotiated convertible note hedge transaction with affiliates of the initial purchasers. Pursuant to the hedge transaction we purchased common stock call options intended to reduce the potential dilution to our common stock upon conversion of the Convertible Notes by effectively increasing the initial conversion price of the Convertible Notes to \$40.00 per share, representing a 61.1% conversion premium over the closing price of our common stock on April 9, 2008 of \$24.85 per share. The call options allow us to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$29.20 per share. The call options expire on April 15, 2015 and must be net-share settled. The cost of the call option was approximately \$107.6 million. In addition, we sold warrants to affiliates of certain of the initial purchasers whereby they have the option to purchase up to approximately 13.0 million shares of our common stock at an initial strike price of \$40.00 per share. The warrants expire on various dates from July 14, 2015 through October 6, 2015 and must be net-share settled. We received approximately \$50.4 million in cash proceeds from the sale of these warrants. The warrant transaction could have a dilutive effect on our net income per share to the extent that the price of our common stock exceeds the strike price of the warrants at exercise.

The Convertible Notes are only included in the dilutive net income (loss) per share calculations using the treasury stock method during periods in which the average market price of our common stock was above the applicable conversion price of the Convertible Notes, or \$29.20 per share and the impact would not be anti-dilutive. In these periods, under the treasury stock method, we calculated the number of shares issuable under the terms of these notes based on the average market price of the stock during the period, and included that number in the total diluted shares outstanding for the period.

We have entered into convertible note hedge and warrant agreements that, in combination, have the economic effect of reducing the dilutive impact of the Convertible Notes. However, we separately analyze the impact of the convertible note hedge and the warrant agreements on diluted weighted average shares outstanding. As a result, the purchases of the convertible note hedges are excluded because their impact would be anti-dilutive. The treasury stock method is applied when the warrants are in-the-money with the proceeds from the exercise of the warrant used to repurchase shares based on the average stock price in the calculation of diluted weighted average shares. Until the warrants are in-the-money, they have no impact to the diluted weighted average share calculation. The total number of shares that could potentially be included if the warrants were exercised is approximately 13.0 million at September 30, 2013.

The following table provides the range of shares that would be included in the dilutive net income (loss) per share calculations for the convertible notes and warrants based on share price sensitivity (in thousands except per share data):

	Three Months Ended March 31, 2013				Three Months Ended June 30, 2013			
	-5%	Actual	+5%	+10%	-5%	Actual	+5%	+10%
Average market price of Endo common stock:	\$ 27.79	\$ 29.25	\$ 30.71	\$ 32.18	\$ 34.15	\$ 35.95	\$ 37.75	\$ 39.55
Impact on dilutive shares:								
Convertible notes	—	21	639	1,204	1,884	2,439	2,944	3,401
Warrants	—	—	—	—	—	—	—	—
	<u>—</u>	<u>21 (1)</u>	<u>639</u>	<u>1,204</u>	<u>1,884</u>	<u>2,439 (1)</u>	<u>2,944</u>	<u>3,401</u>
	Three Months Ended September 30, 2013							
	-5%	Actual	+5%	+10%				
Average market price of Endo common stock:	\$ 38.21	\$ 40.22	\$ 42.23	\$ 44.24				
Impact on dilutive shares:								
Convertible Notes	3,065	3,561	4,010	4,418				
Warrants	—	72	686	1,246				
	<u>3,065</u>	<u>3,633 (1)</u>	<u>4,696</u>	<u>5,664</u>				

(1) Amounts included in total diluted shares outstanding of 113.2 million, 117.2 million and 120.3 million for the three month periods ended March 31, 2013, June 30, 2013 and September 30, 2013 respectively.

Share Repurchase Programs. Pursuant to our share repurchase programs, we did not purchase any shares of our common stock during the nine months ended September 30, 2013. We purchased approximately 4.7 million shares of our common stock during the nine months ended September 30, 2012 totaling \$156.0 million.

Working Capital. The components of our working capital and our current ratio at September 30, 2013 and December 31, 2012 are below (in thousands):

	September 30, 2013	December 31, 2012
Total current assets	\$ 2,042,343	\$ 1,969,234
Less: total current liabilities	(1,675,547)	(1,728,020)
Working capital	<u>\$ 366,796</u>	<u>\$ 241,214</u>
Current ratio	1.2:1	1.1:1

Working capital increased by \$125.6 million from December 31, 2012 to September 30, 2013. This increase related primarily to cash from operations and cash from the exercise of stock options, partially offset by the reclassification of our convertible notes from non-current to current and the prepayment on the Term Loan B Facility.

The following table summarizes our Condensed Consolidated Statements of Cash Flows and liquidity for the nine months ended September 30, 2013 and 2012 (dollars in thousands):

	Nine Months Ended September 30,	
	2013	2012
Net cash flow provided by (used in):		
Operating activities	\$ 272,472	\$ 297,132
Investing activities	(126,989)	(79,157)
Financing activities	(100,473)	(508,773)
Effect of foreign exchange rate	1,159	95
Net increase (decrease) in cash and cash equivalents	\$ 46,169	\$ (290,703)
Cash and cash equivalents, beginning of period	\$ 547,916	\$ 547,620
Cash and cash equivalents, end of period	<u>\$ 594,085</u>	<u>\$ 256,917</u>
Days sales outstanding	44	49

Net cash provided by operating activities. Net cash provided by operating activities was \$272.5 million for the nine months ended September 30, 2013 compared to \$297.1 million provided by operating activities in the comparable 2012 period. Significant components of our operating cash flows for the nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	Nine Months Ended September 30,	
	2013	2012
Cash Flow Data-Operating Activities:		
Consolidated net income	\$ 129,329	\$ 15,755
Depreciation and amortization	196,422	211,780
Stock-based compensation	31,258	44,532
Amortization of debt issuance costs and premium / discount	27,336	27,101
Deferred income taxes	8,191	(87,379)
Loss on extinguishment of debt	11,312	7,215
Asset impairment charges	46,994	54,163
Changes in assets and liabilities which provided (used) cash	(180,551)	23,735
Other, net	2,181	230
Net cash provided by operating activities	<u>\$ 272,472</u>	<u>\$ 297,132</u>

Net cash provided by operating activities represents the cash receipts and cash disbursements from all of our activities other than investing activities and financing activities. Operating cash flow is derived by adjusting our Consolidated net income for non-cash operating items, gains and losses attributed to investing and financing activities and changes in operating assets and liabilities resulting from timing differences between the receipts and payments of cash and when the transactions are recognized in our results of operations. As a result, changes in cash from operating activities reflect, among other things, the timing of cash collections from customers, payments to suppliers, managed care organizations and government agencies, collaborative partners, employees, and tax payments in the ordinary course of business.

The \$24.7 million decrease in Net cash provided by operating activities for the nine months ended September 30, 2013 compared to the comparable 2012 period was primarily the result of the timing of cash collections and cash payments, including payment of approximately \$102 million related to the Impax Settlement Agreement, the first annual royalty payment to Teikoku in the amount of approximately \$56 million and payments to settle pricing litigation cases of approximately \$29 million. These decreases were largely offset by an increase in cash due to improved operating performance generated by the 2013 restructuring initiatives.

Net cash used in investing activities. Net cash used in investing activities was \$127.0 million for the nine months ended September 30, 2013 compared to \$79.2 million used in investing activities in the comparable 2012 period. This \$47.8 million increase in cash used in investing activities relates primarily to the establishment of a \$54.5 million escrow settlement fund related to the mesh Master Settlement Agreement, which is further described in Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q. Also contributing to this fluctuation are a decrease in proceeds from investments of \$18.8 million associated with the 2012 repayment at par value of our remaining auction-rate securities, an increase in patent acquisition costs and license

fees of \$4.3 million and an increase in cash used for other investing activities of \$5.3 million. These items were partially offset by a decrease in purchases of property, plant and equipment of \$35.8 million.

Net cash used in financing activities. Net cash used in financing activities was \$100.5 million for the nine months ended September 30, 2013 compared to \$508.8 million used in financing activities in the comparable 2012 period. Items contributing to this \$408.3 million decrease in cash used in financing activities include a decrease in principal payments on term loan indebtedness totaling \$199.3 million, a decrease in cash used to repurchase stock of \$156.0 million and an increase in cash from the exercise of stock options of \$68.4 million. These items were partially offset by an increase in payments of tax withholding for restricted shares of \$8.3 million and an increase in cash paid for deferred financing fees of \$8.1 million.

Research and Development. Over the past few years, we have incurred significant expenditures related to conducting clinical studies to develop new products and exploring the value of our existing products in treating disorders beyond those currently approved in their respective labels. We may seek to mitigate the risk in, and expense of, our research and development programs by entering into collaborative arrangements with third parties. However, we intend to retain a portion of the commercial rights to these programs and, as a result, we still expect to spend significant funds on our share of the cost of these programs, including the costs of research, preclinical development, clinical research and manufacturing.

As previously disclosed, we have recently undertaken initiatives to optimize commercial spend and refocus our research and development efforts. Accordingly, we expect our research and development costs to decrease in future periods. However, we expect to continue to incur moderate levels of research and development expenditures as we focus on the development and advancement of our product pipeline. There can be no assurance that results of any ongoing or future preclinical or clinical trials related to these projects will be successful, that additional trials will not be required, that any drug or product under development will receive FDA approval in a timely manner or at all, or that such drug or product could be successfully manufactured in accordance with U.S. current Good Manufacturing Practices, or successfully marketed in a timely manner, or at all, or that we will have sufficient funds to develop or commercialize any of our products.

Manufacturing, Supply and Other Service Agreements. Our subsidiaries contract with various third party manufacturers, suppliers and service providers to provide raw materials used in our subsidiaries' products and semi-finished and finished goods, as well as certain packaging and labeling services. The most significant of these agreements are with Novartis Consumer Health, Inc. and Novartis AG (collectively, Novartis), Teikoku Seiyaku Co., Ltd., Mallinckrodt Inc., Noramco, Inc., Grünenthal GmbH, Sharp Corporation, and UPS Supply Chain Solutions, Inc. If, for any reason, our subsidiaries are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for their products or services needed to conduct their business, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. For additional discussion of commitments under manufacturing, supply and other service agreements, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

License and Collaboration Agreements. Our subsidiaries have agreed to certain contingent payments in certain license, collaboration and other agreements. Payments under these agreements generally become due and payable only upon the achievement of certain developmental, regulatory, commercial and/or other milestones. Due to the fact that it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded in our Condensed Consolidated Balance Sheets. In addition, under certain arrangements, we or our subsidiaries may have to make royalty payments based on a percentage of future sales of the products in the event regulatory approval for marketing is obtained. From a business perspective, we view these payments favorably as they signify that the products are moving successfully through the development phase toward commercialization. For additional discussion of our contingent payments involving our license and collaboration agreements, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 7. License and Collaboration Agreements and Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Acquisitions. As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue stock or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings for merger and related expenses (whether or not our efforts are successful) that may include transaction costs, closure costs or costs of restructuring activities.

Legal Proceedings. We are subject to various patent, product liability, government investigations and other legal proceedings in the ordinary course of business. Contingent accruals are recorded when we determine that a loss related to a litigation matter is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgments regarding future events. For additional discussion of legal proceedings, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013, and Note 12. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Fluctuations. Our quarterly results have fluctuated in the past, and may continue to fluctuate. These fluctuations may be due to the timing of new product launches, purchasing patterns of our customers, market acceptance of our products, the impact of competitive products and pricing, asset impairment charges, restructuring costs, including separation benefits, business combination transaction costs, upfront, milestone and certain other payments made or accrued pursuant to licensing agreements and changes in the fair value of financial instruments and contingent assets and liabilities recorded as part of a business combination. Further, a substantial portion of our total revenues are through three wholesale drug distributors who in turn supply our products to pharmacies, hospitals and physicians. Accordingly, we are potentially subject to a concentration of credit risk with respect to our trade receivables.

Growth Opportunities. We continue to evaluate growth opportunities including strategic investments, licensing arrangements, acquisitions of businesses, product rights or technologies, and strategic alliances and promotional arrangements which could require significant capital resources. We intend to continue to focus our business development activities on further diversifying our revenue base through product licensing and company acquisitions, as well as other opportunities to enhance stockholder value. Through execution of our business strategy we intend to focus on developing new products through both an internal and a virtual research and development organization with greater scientific and clinical capabilities; expanding the Company's subsidiaries' product lines by acquiring new products and technologies in existing therapeutic and complementary areas, including international opportunities; increasing revenues and earnings through sales and marketing programs for our subsidiaries' innovative product offerings and effectively using the Company's and its subsidiaries' resources; and providing additional resources to support our generics business.

Non-U.S. Operations. Our operations outside of the U.S. were not material during the nine months ended September 30, 2013. As a result, fluctuations in foreign currency exchange rates did not have a material effect on our Condensed Consolidated Financial Statements.

Inflation. We do not believe that inflation had a material adverse effect on our financial statements for the periods presented.

Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates have not changed materially since December 31, 2012. For additional discussion of the Company's critical accounting estimates, see "Critical Accounting Estimates" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

In June 2013, the Company's Board of Directors approved certain strategic, operational and organizational steps for the Company to take to refocus its operations and enhance shareholder value, including cost reduction initiatives and plans to explore strategic alternatives for its HealthTronics business. During the third quarter of 2013, the Company determined that a sale of the HealthTronics business was more-likely-than-not to occur over the next twelve months. Accordingly, we initiated an interim goodwill impairment analysis of the HealthTronics reporting units' goodwill balances as of September 30, 2013. The fair value of the Urology Services and HealthTronics Information Technology Solutions (HITS) reporting units were estimated using a number of factors including the fair value currently implied by the ongoing sales process and previously prepared discounted cash flow analyses. As a result of this analysis, the Company determined that the net book value of both our Urology Services reporting unit and our HITS reporting unit exceeded their estimated fair value. The Company has prepared a preliminary analysis to estimate the amount of an impairment charge as of September 30, 2013, and has determined that an impairment is probable and reasonably estimable. However, given the complexities associated with this type of analysis, we have not finalized our calculation of the implied fair value of each of the reporting unit's goodwill as of the date of this filing. The preliminary fair value assessments were performed by the Company taking into consideration a

number of factors including the preliminary results of a hypothetical purchase price allocation. As a result of the preliminary analysis, based upon the latest available information, during the three months ended September 30, 2013, the Company recorded a combined estimated goodwill impairment charge of \$38.0 million in the Condensed Consolidated Statements of Operations, representing the difference between the estimated implied fair value of the HealthTronics reporting units' goodwill and their respective net book values. The Company expects to finalize the impairment analysis in the fourth quarter of 2013 and the Company will adjust the estimated impairment charge at that time. As of September 30, 2013, the remaining balance of goodwill for the HealthTronics reporting units was \$127.4 million.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB or the Board) issued Accounting Standards Update (ASU) 2013-04. The amendments in this update provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. This guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 is effective on a retrospective basis for fiscal years and interim periods within those fiscal years beginning after December 15, 2013 and early adoption is permitted. The Company is currently evaluating ASU 2013-04 but does not expect the impact of adoption to be material.

In July 2013, the FASB issued ASU 2013-11, *Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The amendments in this update provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, in order to eliminate the diversity in practice in the presentation of unrecognized tax benefits in such instances. This guidance generally requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company is currently evaluating ASU 2013-11 and plans to comply with all applicable provisions of this ASU no later than the first quarter of 2014.

APPENDIX “K”

NEW ENDO MEMORANDUM AND ARTICLES OF ASSOCIATION

COMPANIES ACTS, 1963 TO 2013

A PUBLIC COMPANY LIMITED BY SHARES

MEMORANDUM

AND

ARTICLES OF ASSOCIATION

OF

ENDO INTERNATIONAL PUBLIC LIMITED COMPANY

(As adopted by Special Resolution dated [●])

**A&L Goodbody
Solicitors**

COMPANIES ACTS, 1963 to 2013
A PUBLIC COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION
OF
ENDO INTERNATIONAL PUBLIC LIMITED COMPANY

1. The name of the Company is: Endo International public limited company.
2. The Company is to be a public limited company.
3. The objects for which the Company is established are:
 - 3.1. To carry on all or any of the businesses of manufacturers, buyers, sellers, and distributing agents of and dealers in all kinds of patent, pharmaceutical, medicinal, and medicated preparations, patent medicines, drugs, herbs, and of and in pharmaceutical, medicinal, proprietary and industrial preparations, compounds, and articles of all kinds; and to manufacture, make up, prepare, buy, sell, and deal in all articles, substances, and things commonly or conveniently used in or for making up, preparing, or packing any of the products in which the Company is authorised to deal, or which may be required by customers of or persons having dealings with the Company.
 - 3.2. To invest in pharmaceutical and related assets, including, amongst other items, investments in pharmaceutical companies, products, businesses, divisions, technologies, devices, sales force and other marketing capabilities, development projects and related activities, licences, intellectual and similar property rights, premises and equipment, royalty rights and all other assets needed to operate a pharmaceuticals business.
 - 3.3. To establish, maintain and operate laboratories for the purpose of carrying on chemical, physical and other research in medicine, chemistry, industry or other unrelated or related fields.
 - 3.4. To invest (including long-term investments in, and acquisitions of, the shares of pharmaceutical companies) any monies of the Company in such investments and in such manner as may from time to time be determined, and to hold, sell or deal with such investments and generally to purchase, take on lease or in exchange or otherwise acquire any real and personal property and rights or privileges.
 - 3.5. To develop and turn to account any land acquired by the Company or in which it is interested and in particular by laying out and preparing the same for building purposes, constructing, altering, pulling down, decorating, maintaining, fitting up and improving buildings and conveniences, and by planting, paving, draining, farming, cultivating, letting on building lease or building agreement and by advancing money to and entering into contracts and arrangements of all kinds with builders, tenants and others.
 - 3.6. To acquire and hold shares and stocks of any class or description, debentures, debenture stock, bonds, bills, mortgages, obligations, investments and securities of all descriptions and of any kind issued or guaranteed by any company, corporation or undertaking of whatever nature and wheresoever constituted or carrying on business or issued or guaranteed by any government, state, dominion, colony, sovereign ruler, commissioners, trust, public; municipal, local or other authority or body of whatsoever nature and wheresoever situated and investments, securities and property of all descriptions and of any kind, including real and

chattel real estates, mortgages, reversions, assurance policies, contingencies and choses in action.

- 3.7. To remunerate by cash payments or allotment of shares or securities of the Company credited as fully paid up or otherwise any person or company for services rendered or to be rendered to the Company or any parent or subsidiary body corporate whether in the conduct or management of its business, or in placing or assisting to place or guaranteeing the placing of any of the shares of the Company's capital, or any debentures or other securities of the Company or in or about the formation or promotion of the Company.
- 3.8. To purchase for investment only property of any tenure and any interest therein, and to make advances upon the security of land or other similar property or any interest therein.
- 3.9. To acquire by purchase, exchange, lease, fee farm grant or otherwise, either for an estate in fee simple or for any less estate or other estate or interest, whether immediate or reversionary and whether vested or contingent, any lands, tenements or hereditaments of any tenure, whether subject or not to any charges or encumbrances, and to hold, farm, work and manage and to let, sublet, mortgage or charge land and buildings of any kind, reversions, interests, annuities, life policies, and any other property real or personal, movable or immovable, either absolutely or conditionally, and either subject or not to any mortgage, charge, ground rent or other rents or encumbrances.
- 3.10. To erect or secure the erection of buildings of any kind with a view of occupying or letting them and to enter into any contracts or leases and to grant any licences necessary to effect the same.
- 3.11. To maintain and improve any lands, tenements or hereditaments acquired by the Company or in which the Company is interested, in particular by decorating, maintaining, furnishing, fitting up and improving houses, shops, flats, maisonettes and other buildings and to enter into contracts and arrangements of all kinds with tenants and others.
- 3.12. To sell, exchange, mortgage (with or without power of sale), assign, turn to account or otherwise dispose of and generally deal with the whole or any part of the property, shares, stocks, securities, estates, rights or undertakings of the Company, real, chattels real or personal, movable or immovable, either in whole or in part, upon whatever terms and whatever consideration the Company shall think fit.
- 3.13. To take part in the management, supervision, or control of the business or operations of any company or undertaking, and for that purpose to appoint and remunerate any directors, accountants, or other experts or agents to act as consultants, supervisors and agents of other companies or undertakings and to provide managerial, advisory, technical, design, purchasing and selling services.
- 3.14. To make, draw, accept, endorse, negotiate, issue, execute, discount and otherwise deal with bills of exchange, promissory notes, letters of credit, circular notes, and other negotiable or transferable instruments.
- 3.15. To redeem, purchase, or otherwise acquire in any manner permitted by law and on such terms and in such manner as the Company may think fit any shares in the Company's capital.
- 3.16. To guarantee, support or secure whether by personal covenant or by mortgaging or charging all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company or by both such methods the performance of the obligations of, and the repayment or payment of the principal amounts of and the premiums, interest and dividends on any security of any person, firm or company including (without prejudice to the generality of the foregoing) any company which is for the time being the Company's holding company or subsidiary as defined by section 155 of the Companies Act 1963 or another subsidiary as

defined by the said section of the Company's holding company or otherwise associated with the Company in business notwithstanding the fact that the Company may not receive any consideration, advantage or benefit, direct or indirect from entering into such guarantee or other arrangement or transaction contemplated herein.

- 3.17. To lend the funds of the Company with or without security and at interest or free of interest and on such terms and conditions as the directors shall from time to time determine.
- 3.18. To raise or borrow or secure the payment of money in such manner and on such terms as the directors may deem expedient whether or not by the issue of bonds, debentures or debenture stock, perpetual or redeemable, or by mortgage, charge, lien or pledge upon the whole or any part of the undertaking, property, assets and rights of the Company, present or future, including its uncalled capital and generally in any other manner as the directors shall from time to time determine and to enter into or issue interest and currency hedging and swap agreements, forward rate agreements, interest and currency futures or options and other forms of financial instruments, and to purchase, redeem or pay off any of the foregoing and to guarantee the liabilities of the Company or any other person, and any debentures, debenture stock or other securities may be issued at a discount, premium or otherwise, and with any special privileges as to redemption, surrender, transfer, drawings, allotments of shares; attending and voting at general meetings of the Company, appointment of directors and otherwise.
- 3.19. To accumulate capital for any of the purposes of the Company, and to appropriate any of the Company's assets to specific purposes, either conditionally or unconditionally, and to admit any class or section of those who have any dealings with the Company to any share in the profits thereof or in the profits of any particular branch of the Company's business or to any other special rights, privileges, advantages or benefits.
- 3.20. To reduce the share capital of the Company in any manner permitted by law.
- 3.21. To make gifts or grant bonuses to officers or other persons who are or have been in the employment of the Company and to allow any such persons to have the use and enjoyment of such property, chattels or other assets belonging to the Company upon such terms as the Company shall think fit.
- 3.22. To establish and maintain or procure the establishment and maintenance of any pension or superannuation fund (whether contributory or otherwise) for the benefit of and to give or procure the giving of donations, gratuities, pensions, annuities, allowances, emoluments or charitable aid to any persons who are or were at any time in the employment or service of the Company or any of its predecessors in business, or of any company which is a subsidiary of the Company or who may be or have been directors or officers of the Company, or of any such other company as aforesaid, or any persons in whose welfare the Company or any such other company as aforesaid may be interested and the wives, husbands, widows, widowers, families, relatives or dependants of any such persons and to make payments towards insurance and assurance and to form and contribute to provident and benefit funds for the benefit of such persons and to remunerate any person, firm or company rendering services to the Company, whether by cash payment, gratuities, pensions, annuities, allowances, emoluments or by the allotment of shares or securities of the Company credited as paid up in full or in part or otherwise.
- 3.23. To employ experts to investigate and examine into the conditions, prospects, value, character and circumstances of any business concerns, undertakings, assets, property or rights.
- 3.24. To insure the life of any person who may, in the opinion of the Company, be of value to the Company, as having or holding for the Company interests, goodwill, or influence or otherwise and to pay the premiums on such insurance.

- 3.25. To distribute either upon a distribution of assets or division of profits among the Members of the Company in kind any property of the Company, and in particular any shares, debentures or securities of other companies belonging to the Company or of which the Company may have the power of disposing.
- 3.26. To give, whether directly or indirectly, and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any shares in the Company, or, where the Company is a subsidiary company, in its holding company.
- 3.27. To do and carry out all or any of the foregoing objects in any part of the world and either as principals, agents, contractors, trustees or otherwise, and either by or through agents, trustees or otherwise and either alone or in partnership or in conjunction with any other company, firm or person, provided that nothing herein contained shall empower the Company to carry on the businesses of insurance.
- 3.28. Apply for, purchase or otherwise acquire any patents, brevets d'invention, licences, trademarks, industrial designs, know-how, concessions and other forms of intellectual property rights and the like conferring any exclusive or non-exclusive or limited or contingent rights to use, or any secret or other information as to any invention or process of the Company, or the acquisition of which may seem calculated directly or indirectly to benefit the Company, and to use, exercise, develop, or grant licences in respect of, or otherwise turn to account the property, rights or information so acquired.
- 3.29. Enter into partnership or into any arrangement for sharing profits, union of interests, co-operation, joint venture, reciprocal concession or otherwise with any person or company carrying on or engaged in or about to carry on or engage in any business or transaction which the Company is authorised to carry on or engage in or any business or transaction capable of being conducted so as directly or indirectly to benefit the Company.
- 3.30. Acquire and undertake the whole or any part of the undertaking, business, property and liabilities of any person or company carrying on any business which the Company is authorised to carry on or which is capable of being conducted so as to benefit the Company directly or indirectly or which is possessed of assets suitable for the purposes of the Company.
- 3.31. Adopt such means of making known the Company and its products and services as may seem expedient.
- 3.32. Acquire and carry on any business carried on by a subsidiary or a holding company of the Company or another subsidiary of a holding company of the Company.
- 3.33. Promote any company or companies for the purpose of acquiring all or any of the property and liabilities of this Company or for any other purpose which may seem directly or indirectly calculated to benefit this Company.
- 3.34. Amalgamate with, merge with or otherwise become part of or associated with any other company or association in any manner permitted by law.
- 3.35. To do and carry out all such other things, except the issuing of policies of insurance, as may be deemed by the Company capable of being conveniently carried on in connection with the above objects or any of them or calculated to enhance the value of or render profitable any of the Company's properties or rights.

And it is hereby declared that the word "company" in this clause, except where used in reference to this Company, shall be deemed to include any person, partnership or other body of persons whether incorporated or not incorporated and whether domiciled in the State or elsewhere and that the objects of the Company as specified in each of the foregoing paragraphs of this clause shall be separate and

distinct objects and shall not be in anyway limited or restricted by reference to or inference from the terms of any other paragraph or the name of the Company.

4. The liability of each Member is limited to the amount from time to time unpaid on such Member's Shares.
5. The authorised share capital of the Company is €40,000 and US\$100,000 divided into 4,000,000 euro deferred shares of €0.01 each and 1,000,000,000 ordinary shares of US\$0.0001 each.
6. The shares forming the capital, increased or reduced, may be increased or reduced and be divided into such classes and issued with any special rights, privileges and conditions or with such qualifications as regards preference, dividend, capital, voting or other special incidents, and be held upon such terms as may be attached thereto or as may from time to time be provided by the original or any substituted or amended Articles of Association and regulations of the Company for the time being, but so that where shares are issued with any preferential or special rights attached thereto such rights shall not be alterable otherwise than pursuant to the provisions of the Company's Articles of Association for the time being.
7. Capitalised terms that are not defined in this Memorandum of association bear the same meaning as those given in the Articles of Association of the Company.

We, the corporate body whose name and address is subscribed, wish to be formed into a company in pursuance of this memorandum of association, and we agree to take the number of shares in the capital of the Company set opposite our respective names.

Name, Address and Description of the Subscriber	Number of shares taken by the Subscriber
For and on behalf of Goodbody Subscriber One Limited IFSC, North Wall Quay, Dublin 1 Limited Liability Company	One Ordinary Share of EUR€1.00 each
For and on behalf of Goodbody Subscriber Two Limited IFSC, North Wall Quay, Dublin 1 Limited Liability Company	One Ordinary Share of EUR€1.00 each

Total Number of Shares Taken: 2

Dated

Witness to the above signature:

Name:

Address:

Occupation:

Companies Acts 1963 to 2013
A PUBLIC COMPANY LIMITED BY SHARES
ARTICLES OF ASSOCIATION
of
ENDO INTERNATIONAL PUBLIC LIMITED COMPANY

PRELIMINARY

1. The regulations contained in Table A in the First Schedule to the 1963 Act shall not apply to the Company.

2.

2.1. In these Articles:

"1963 Act" means the Companies Act 1963.

"1983 Act" means the Companies (Amendment) Act 1983.

"1990 Act" means the Companies Act 1990.

"Address" includes, without limitation, any number or address used for the purposes of communication by way of electronic mail or other electronic communication.

"Adoption Date" means the date of adoption of these Articles.

"Articles" or "Articles of Association" means these articles of association of the Company, as amended from time to time by Special Resolution.

"Assistant Secretary" means any person appointed by the Secretary from time to time to assist the Secretary.

"Auditors" means the persons for the time being performing the duties of auditors of the Company.

"Board" means the board of Directors for the time being of the Company.

"Chairman" means the chairman of the Board from time to time and/or chairman of a general meeting of the Company

as the context may require.

"clear days"	means, in relation to a period of notice, that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect.
"Companies Acts"	means the Companies Acts 1963-2013.
"Company"	means the above-named company.
"Court"	means the Irish High Court.
"Directors"	means the directors for the time being of the Company.
"dividend"	includes interim dividends and bonus dividends.
"electronic communication"	shall have the meaning given to those words in the Electronic Commerce Act 2000.
"electronic signature"	shall have the meaning given to those words in the Electronic Commerce Act 2000.
"Exchange"	means any securities exchange or other system on which the Shares of the Company may be listed or otherwise authorised for trading from time to time.
"Exchange Act"	means the Securities Exchange Act of 1934 of the United States of America.
"Member"	means a person who has agreed to become a Member of the Company and whose name is entered in the Register of Members as a registered holder of Shares.
"Member Associated Person"	means (in connection to a Member) (A) any person controlling, directly or indirectly, or acting as a "group" (as such term is used in Rule 13d-5(b) under the Exchange Act) with, such Member, (B) any beneficial owner of shares of the Company owned of record or beneficially by such Member and (C) any person controlling, controlled by or under common control with such Member director by whatever name called.
"Memorandum"	means the memorandum of association of the Company as amended from time to time by Special Resolution.

"month"	means a calendar month.
"Ordinary Resolution"	means an ordinary resolution of the Company's Members within the meaning of section 141 of the 1963 Act.
"paid-up"	means paid-up in accordance with the 1983 Act as to the nominal value and any premium payable in respect of the issue of any Shares and includes credited as paid-up.
"Redeemable Shares"	means redeemable shares in accordance with section 206 of the 1990 Act.
"Register of Members" or "Register"	means the register of Members of the Company maintained by or on behalf of the Company, in accordance with the Companies Acts and includes (except where otherwise stated) any duplicate Register of Members.
"registered office"	means the registered office for the time being of the Company.
"Seal"	means the seal of the Company, if any, and includes every duplicate seal.
"Secretary"	means the person appointed by the Board to perform any or all of the duties of secretary of the Company and includes an Assistant Secretary and any person appointed by the Board to perform the duties of secretary of the Company.
"Share" and "Shares"	means a share or shares in the capital of the Company.
"Special Resolution"	means a special resolution of the Company's Members within the meaning of section 141 of the 1963 Act.

2.2. In these Articles:

- 2.2.1. words importing the singular number include the plural number and vice-versa;
- 2.2.2. words importing the feminine gender include the masculine gender;
- 2.2.3. words importing persons include any company, partnership or other body of persons, whether corporate or not, any trust and any government, governmental body or agency or public authority, whether of Ireland or elsewhere;

- 2.2.4. expressions referring to "written" and "in writing" shall be construed, unless the contrary intention appears, as including references to printing, lithography, photography and any other modes of representing or reproducing words in a visible form except as provided in these Articles and/or where it constitutes writing in electronic form sent to the Company, and the Company has agreed to its receipt in written form;
- 2.2.5. expressions referring to execution of any document shall include any mode of execution whether under seal or under hand or any mode of electronic signature as shall be approved by the Directors;
- 2.2.6. expressions referring to receipt of any electronic communications shall, unless the contrary intention appears, be limited to receipt in such manner as the Company has approved;
- 2.2.7. references to a company include any body corporate or other legal entity, whether incorporated or established in Ireland or elsewhere;
- 2.2.8. references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time;
- 2.2.9. any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;
- 2.2.10. reference to "officer" or "officers" in these Articles means any executive that has been designated by the Company as an "officer" and, for the avoidance of doubt, shall not have the meaning given to such term in the 1963 Act and any such officers shall not constitute officers of the Company within the meaning of section 2(1) of the 1963 Act;
- 2.2.11. headings are inserted for reference only and shall be ignored in construing these Articles; and
- 2.2.12. references to US\$, USD, \$ or dollars shall mean United States dollars, the lawful currency of the United States of America and references to €, euro, or EUR shall mean the euro, the lawful currency of Ireland.

REGISTERED OFFICE

- 3. The registered office shall be at such place in Ireland as the Board from time to time shall decide.

SHARE CAPITAL; ISSUE OF SHARES

- 4. The authorised share capital of the Company is €40,000 and US\$100,000 divided into 4,000,000 euro deferred shares of €0.01 each and 1,000,000,000 ordinary shares of US\$0.0001 each.
- 5. Subject to the provisions of these Articles relating to new Shares, the Shares shall be at the disposal of the Directors, and they may (subject to the provisions of the Companies Acts) allot, grant options over or otherwise dispose of them to such persons, on such terms and conditions and at such times as they may consider to be in the best interests of the Company and its Members, but so that no Share shall be issued at a discount save in accordance with sections 26(5) and 28 of the 1983 Act, and so that, in the case of Shares offered to the public for subscription, the amount payable on application on each Share shall not be less than one-quarter of the nominal amount of the Share and the whole of any premium thereon.
- 6. Subject to any requirement to obtain the approval of Members under any laws, regulations or the rules of any Exchange, the Board is authorised, from time to time, in its discretion, to grant such persons, for such periods and upon such terms as the Board deems advisable, options to purchase or subscribe for any number of Shares of any class or classes or of any series of any class as the Board may deem

advisable, and to cause warrants or other appropriate instruments evidencing such options to be issued.

7.

7.1. The Directors are, for the purposes of section 20 of the 1983 Act, generally and unconditionally authorised to exercise all powers of the Company to allot and issue relevant securities (as defined by the said section 20) up to the amount of Company's authorised share capital as at the date of adoption of these Articles and to allot and issue any Shares purchased or redeemed by or on behalf of the Company pursuant to the provisions of Part XI of the 1990 Act and held as treasury shares and this authority shall expire five years from the date of adoption of these Articles.

7.2. The Directors are hereby empowered pursuant to sections 23 and 24(1) of the 1983 Act to allot equity securities within the meaning of the said section 23 for cash pursuant to the authority conferred by Article 7.1 as if section 23(1) of the said 1983 Act did not apply to any such allotment. The Company may before the expiry of such authority make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred by Article 7.1 had not expired.

7.3. The Company may issue share warrants to bearer pursuant to section 88 of the 1963 Act.

8. Without prejudice to any special rights previously conferred on the holders of any existing Shares or class of Shares, any Share in the Company may be issued with such preferred or deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may from time to time by Ordinary Resolution determine.

9. The Company may pay commission to any person in consideration of any person subscribing or agreeing to subscribe, whether absolutely or conditionally, for the Shares in the Company or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any Shares in the Company on such terms and, subject to the provisions of the Companies Acts and to such conditions as the Board may determine, including, without limitation, by paying cash or allotting and issuing fully or partly paid Shares or any combination of the two. The Company may also on any issue of Shares pay such brokerage as may be lawful.

ORDINARY SHARES

10. The holder of an ordinary share shall be:

10.1. entitled to dividends on a *pro rata* basis in accordance with the relevant provisions of these Articles;

10.2. entitled to participate *pro rata* in the distribution of the total assets of the Company in the event of the Company's winding up; and

10.3. entitled, subject to the right of the Company to set record dates for the purpose of determining the identity of Members entitled to notice of and/or vote at a general meeting, to attend general meetings of the Company and shall be entitled to one vote for each Ordinary Share registered in his or her name in the Register of Members, in accordance with the relevant provisions of these Articles.

11. An ordinary share shall be deemed to be a Redeemable Share on, and from the time of, the existence or creation of an agreement, transaction or trade between the Company (including any agent or broker acting on behalf of the Company) and any third party pursuant to which the Company acquires or will acquire ordinary shares, or an interest in ordinary shares, from the relevant third party. In these circumstances, the acquisition of such shares by the Company shall constitute the redemption of a Redeemable Share in accordance with Part XI of the 1990 Act.

12. All ordinary shares shall rank *pari passu* with each other in all respects.

EURO DEFERRED SHARES

13. The holders of the euro deferred shares shall not be entitled to receive any dividend or distribution and shall not be entitled to receive notice of, nor to attend, speak or vote at any general meeting of the Company. On a return of assets, whether on liquidation or otherwise, the euro deferred shares shall entitle the holder thereof only to the repayment of the amounts paid up on such shares after repayment of the capital paid up on the ordinary shares plus the payment of \$5,000,000 on each of the ordinary shares and the holders of the euro deferred shares (as such) shall not be entitled to any further participation in the assets or profits of the Company.
14. The Special Resolution adopting these Articles passed on the Adoption Date shall be deemed to confer irrevocable authority on the Company at any time after the Adoption Date:
 - 14.1. to acquire all or any of the fully paid euro deferred shares otherwise than for valuable consideration in accordance with section 41(2) of the 1983 Act and without obtaining the sanction of the holders thereof;
 - 14.2. to appoint any person to execute on behalf of the holders of the euro deferred shares remaining in issue (if any) a transfer thereof and/or an agreement to transfer the same otherwise than for valuable consideration to the Company or to such other person as the Company may nominate;
 - 14.3. to cancel any acquired euro deferred shares; and
 - 14.4. pending such acquisition and/or transfer and/or cancellation to retain the certificate (if any) for such euro deferred shares.
15. In accordance with section 43(3) of the 1983 Act the Company shall, not later than three (3) years after any acquisition by it of any euro deferred shares as aforesaid, cancel such shares (except those which, or any interest of the Company in which, it shall have previously disposed of) and reduce the amount of the share capital by the nominal value of the shares so cancelled and the Board may take such steps as are requisite to enable the Company to carry out its obligations under that subsection without complying with sections 72 and 73 of the 1963 Act including passing resolutions in accordance with section 43(5) of the 1983 Act.
16. Neither the acquisition by the Company otherwise than for valuable consideration of all or any of the euro deferred shares nor the redemption thereof nor the cancellation thereof by the Company in accordance with this Article shall constitute a variation or abrogation of the rights or privileges attached to the euro deferred shares, and accordingly the euro deferred shares or any of them may be so acquired, redeemed and cancelled without any such consent or sanction on the part of the holders thereof. The rights conferred upon the holders of the euro deferred shares shall not be deemed to be varied or abrogated by the creation of further shares ranking in priority thereto or *pari passu* therewith.

ISSUE OF WARRANTS

17. The Board may issue warrants to subscribe for any class of Shares or other securities of the Company on such terms as it may from time to time determine.

CERTIFICATES FOR SHARES

18. Unless otherwise provided for by the Board or the rights attaching to or by the terms of issue of any particular Shares, or to the extent required by any Exchange, depository or any operator of any clearance or settlement system, no person whose name is entered as a Member in the Register of Members shall be entitled to receive a share certificate for all Shares of each class held by him or her (nor on transferring a part of holding, to a certificate for the balance).
19. Any share certificate, if issued, shall specify the number of Shares in respect of which it is issued and the amount paid thereon or the fact that they are fully paid, as the case may be, and may otherwise be in such form as shall be determined by the Board. Such certificates may be under Seal. All certificates

for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. The name and address of the person to whom the Shares represented thereby are issued, with the number of Shares and date of issue, shall be entered in the Register of Members of the Company. All certificates surrendered to the Company for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of Shares shall have been surrendered and cancelled. The Board may authorise certificates to be issued with the Seal and authorised signature(s) affixed by some method or system of mechanical process. In respect of a Share or Shares held jointly by several persons, the Company shall not be bound to issue a certificate or certificates to each such person, and the issue and delivery of a certificate or certificates to one of several joint holders shall be sufficient delivery to all such holders.

20. If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating such evidence, as the Board may prescribe, and, in the case of defacement or wearing out, upon delivery of the old certificate.

REGISTER OF MEMBERS

21. The Company shall maintain or cause to be maintained a Register of its Members in accordance with the Companies Acts.
22. If the Board considers it necessary or appropriate, the Company may establish and maintain a duplicate Register or Registers of Members at such location or locations within or outside Ireland as the Board thinks fit. The original Register of Members shall be treated as the Register of Members for the purposes of these Articles and the Companies Acts.
23. The Company, or any agent(s) appointed by it to maintain the duplicate Register of Members in accordance with these Articles, shall as soon as practicable and on a regular basis record or procure the recording in the original Register of Members all transfers of Shares effected on any duplicate Register of Members and shall at all times maintain the original Register of Members in such manner as to show at all times the Members for the time being and the Shares respectively held by them, in all respects in accordance with the Companies Acts.
24. The Company shall not be bound to register more than four (4) persons as joint holders of any Share. If any Share shall stand in the names of two (2) or more persons, the person first named in the Register of Members shall be deemed the sole holder thereof as regards service of notices and, subject to the provisions of these Articles, all or any other matters connected with the Company.

TRANSFER OF SHARES

25. Subject to such of the restrictions of these Articles and to such of the conditions of issue or transfer as may be applicable, all transfers of Shares shall be effected by an instrument in writing (an "instrument of transfer") in such form as the Board may approve. All such instruments of transfer must be left at the registered office or at such other place as the Board may specify and all such instruments of transfer shall be retained by the Company. An instrument of transfer need not be executed by the transferee.
- 26.
- 26.1. The instrument of transfer of any Share shall be executed by the transferor or alternatively for and on behalf of the transferor by the Secretary (or such other person as may be nominated by the Secretary for this purpose) on behalf of the Company, and the Company, the Secretary (or relevant nominee) shall be deemed to have been irrevocably appointed agent for the transferor of such Share or Shares with full power to execute, complete and deliver in the name of and on behalf of the transferor of such Share or Shares all such transfers of Shares held by the Members in the share capital of the Company. Any document which records the name of the transferor, the name of the transferee, the class and number of Shares agreed to be transferred, the date of the agreement to transfer Shares, shall, once

executed in accordance with this Article, be deemed to be a proper instrument of transfer for the purposes of section 81 of the 1963 Act.

- 26.2. The transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered on the Register in respect thereof, and neither the title of the transferee nor the title of the transferor shall be affected by any irregularity or invalidity in the proceedings in reference to the sale should the Board so determine.
- 26.3. The Company, at its absolute discretion and insofar as the Companies Acts or any other applicable law permits, may, or may procure that a subsidiary of the Company shall, pay Irish stamp duty arising on a transfer of Shares on behalf of the transferee of such Shares of the Company. If stamp duty resulting from the transfer of Shares in the Company which would otherwise be payable by the transferee is paid by the Company or any subsidiary of the Company on behalf of the transferee, then in those circumstances, the Company shall, on its behalf or on behalf of its subsidiary (as the case may be), be entitled to (i) seek reimbursement of the stamp duty from the transferee, (ii) set-off the stamp duty against any dividends payable to the transferee of those Shares and (iii) to claim a first and permanent lien on the Shares on which stamp duty has been paid by the Company or its subsidiary for the amount of stamp duty paid.
- 26.4. Notwithstanding the provisions of these Articles and subject to any regulations made under section 239 of the 1990 Act, title to any Shares in the Company may also be evidenced and transferred without a written instrument in accordance with section 239 of the 1990 Act or any regulations made thereunder. The Board shall have power to permit any class of Shares to be held in uncertificated form and to implement any arrangements they think fit for such evidencing and transfer which accord with such regulations and in particular shall, where appropriate, be entitled to disapply or modify all or part of the provisions in these Articles with respect to the requirement for written instruments of transfer and share certificates (if any), in order to give effect to such regulations.
27. The Board may in its absolute discretion and without assigning any reason for its decision, decline to register any transfer of any Share which is not a fully paid Share. The Board may also, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share unless:
- 27.1. The instrument of transfer is fully and properly completed and is lodged with the Company accompanied by the certificate for the Shares (if any) to which it relates (which shall upon registration of the transfer be cancelled) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- 27.2. the instrument of transfer is in respect of only one class of Shares;
- 27.3. a registration statement under the Securities Act of 1933 of the United States of America is in effect with respect to such transfer or such transfer is exempt from registration and, if requested by the Board, a written opinion from counsel reasonably acceptable to the Board is, obtained to the effect that such transfer is exempt from registration;
- 27.4. the instrument of transfer is properly stamped (in circumstances where stamping is required);
- 27.5. in the case of a transfer to joint holders, the number of joint holders to which the Share is to be transferred does not exceed four;
- 27.6. it is satisfied, acting reasonably, that all applicable consents, authorisations, permissions or approvals of any governmental body or agency in Ireland or any other applicable jurisdiction required to be obtained under relevant law prior to such transfer have been obtained; and
- 27.7. it is satisfied, acting reasonably, that the transfer would not violate the terms of any agreement to which the Company (or any of its subsidiaries) and the transferor are party or subject.

28. If the Board shall refuse to register a transfer of any Share, it shall, within two (2) months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.
29. The Company shall not be obligated to make any transfer to an infant or to a person in respect of whom an order has been made by a competent court or official on the grounds that he or she is or may be suffering from mental disorder or is otherwise incapable of managing his or her affairs or under other legal disability.
30. Upon every transfer of Shares the certificate (if any) held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and subject to Article 18 a new certificate may be issued without charge to the transferee in respect of the Shares transferred to him or her, and if any of the Shares included in the certificate so given up shall be retained by the transferor, a new certificate in respect thereof may be issued to him or her without charge.

REDEMPTION AND REPURCHASE OF SHARES

31. Subject to the provisions of Part XI of the 1990 Act and the other provisions of this Article 31, the Company may:
 - 31.1. pursuant to section 207 of the 1990 Act, issue any Shares of the Company which are to be redeemed or are liable to be redeemed at the option of the Company or the Member on such terms and in such manner as may be determined by the Company in general meeting (by Special Resolution) on the recommendation of the Board;
 - 31.2. redeem Shares of the Company on such terms as may be contained in, or be determined pursuant to the provisions of, these Articles. Subject as aforesaid, the Company may cancel any Shares so redeemed or may hold them as treasury shares and re-issue such treasury shares as Shares of any class or classes or cancel them;
 - 31.3. subject to or in accordance with the provisions of the Companies Acts and without prejudice to any relevant special rights attached to any class of Shares, pursuant to section 211 of the 1990 Act, purchase any of its own Shares (including any Redeemable Shares and without any obligation to purchase on any *pro rata* basis as between Members or Members of the same class) and may cancel any Shares so purchased or hold them as treasury (as defined by section 209 of the 1990 Act) and may reissue any such Shares as Shares of any class or classes or cancel them; or
 - 31.4. pursuant to section 210 of the 1990 Act, convert any of its Shares into Redeemable Shares provided that the total number of Shares which shall be redeemable pursuant to this authority shall not exceed the limit in section 210(4) of the 1990 Act.
32. The Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Companies Acts.
33. The holder of the Shares being purchased shall be bound to deliver up to the Company at its registered office or such other place as the Board shall specify, the certificate(s) (if any) thereof for cancellation and thereupon the Company shall pay to him or her the purchase or redemption monies or consideration in respect thereof.

VARIATION OF RIGHTS OF SHARES

34. If at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may be varied or abrogated with the consent in writing of the holders of three-quarters of all the votes of the issued Shares of that class, or with the sanction of a Special Resolution passed at a general meeting of the holders of the Shares of that class.

35. The provisions of these Articles relating to general meetings of the Company shall apply *mutatis mutandis* to every such general meeting of the holders of one class of Shares except that the necessary quorum shall be one or more persons holding or representing by proxy at least one-half of the issued Shares of the class.
36. The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by (i) the creation or issue of further Shares ranking *pari passu* therewith; (ii) a purchase or redemption by the Company of its own Shares; or (iii) the creation or issue for value (as determined by the Board) of further Shares ranking as regards participation in the profits or assets of the Company or otherwise in priority to them.

LIEN ON SHARES

37. The Company shall have a first and paramount lien on every Share (not being a fully paid Share) for all monies (whether presently payable or not) payable at a fixed time or called in respect of that Share. The Board, at any time, may declare any Share to be wholly or in part exempt from the provisions of this Article 37. The Company's lien on a Share shall extend to all monies payable in respect of it.
38. The Company may sell in such manner as the Board determines any Share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within fourteen (14) clear days after notice demanding payment, and stating that if the notice is not complied with the Share may be sold, has been given to the holder of the Share or to the person entitled to it by reason of the death or bankruptcy of the holder.
39. To give effect to a sale, the Board may authorise some person to execute an instrument of transfer of the Share(s) sold to, or in accordance with, the directions of, the transferee. The transferee shall be entered in the Register as the holder of the Share(s) comprised in any such transfer and he or she shall not be bound to see to the application of the purchase monies nor shall his or her title to the Share be affected by any irregularity in, or invalidity of, the proceedings in reference to the sale, and after the name of the transferee has been entered in the Register, the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.
40. The net proceeds of the sale, after payment of the costs, shall be applied in payment of so much of the sum for which the lien exists as is presently payable and any residue (upon surrender to the Company for cancellation of the certificate for the Shares sold and subject to a like lien for any monies not presently payable as existed upon the Shares before the sale) shall be paid to the person entitled to the Shares at the date of the sale.
41. Whenever any law for the time being of any country, state or place imposes or purports to impose any immediate or future or possible liability upon the Company to make any payment or empowers any government or taxing authority or government official to require the Company to make any payment in respect of any Shares registered in the Register as held either jointly or solely by any Members or in respect of any dividends, bonuses or other monies due or payable or accruing due or which may become due or payable to such Member by the Company on, or in respect of, any Shares registered as mentioned above or for or on account or in respect of any Member and whether in consequence of:
- a) the death of such Member;
 - b) the non-payment of any income tax or other tax by such Member;
 - c) the non-payment of any estate, probate, succession, death, stamp or other duty by the executor or administrator of such Member or by or out of his or her estate; or
 - d) any other act or thing;

in every such case (except to the extent that the rights conferred upon holders of any class of Shares renders the Company liable to make additional payments in respect of sums withheld on account of the foregoing):

- 41.1. the Company shall be fully indemnified by such Member or his or her executor or administrator from all liability;
- 41.2. the Company shall have a lien upon all dividends and other monies payable in respect of the Shares registered in the Register as held either jointly or solely by such Member for all monies paid or payable by the Company as referred to above in respect of such Shares or in respect of any dividends or other monies thereon or for or on account or in respect of such Member under or in consequence of any such law, together with interest at the rate of fifteen percent (15%) per annum (or such other rate as the Board may determine) thereon from the date of payment to date of repayment, and the Company may deduct or set off against such dividends or other monies so payable any monies paid or payable by the Company as referred to above together with interest at the same rate;
- 41.3. the Company may recover as a debt due from such Member or his or her executor or administrator (wherever constituted) any monies paid by the Company under or in consequence of any such law and interest thereon at the rate and for the period referred to above in excess of any dividends or other monies then due or payable by the Company; and
- 41.4. the Company may if any such money is paid or payable by it under any such law as referred to above refuse to register a transfer of any Shares by any such Member or his or her executor or administrator until such money and interest is set off or deducted as referred to above or in the case that it exceeds the amount of any such dividends or other monies then due or payable by the Company, until such excess is paid to the Company.

Subject to the rights conferred upon the holders of any class of Shares, nothing in this Article 41 will prejudice or affect any right or remedy which any law may confer or purport to confer on the Company. As between the Company and every such Member as referred to above (and, his or her executor, administrator and estate, wherever constituted), any right or remedy which such law shall confer or purport to confer on the Company shall be enforceable by the Company.

CALLS ON SHARES

- 42. Subject to the terms of allotment, the Board may make calls upon the Members in respect of any monies unpaid on their Shares and each Member (subject to receiving at least fourteen (14) clear days' notice specifying when and where payment is to be made) shall pay to the Company as required by the notice the amount called on his or her Shares. A call may be required to be paid by instalments. A call may be revoked before receipt by the Company of a sum due thereunder, in whole or in part and payment of a call may be postponed in whole or in part.
- 43. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed.
- 44. A person on whom a call is made shall (in addition to a transferee) remain liable notwithstanding the subsequent transfer of the Share in respect of which the call is made.
- 45. The joint holders of a Share shall be jointly and severally liable to pay all calls in respect thereof.
- 46. If a call remains unpaid after it has become due and payable, the person from whom it is due and payable shall pay interest on the amount unpaid from the day it became due until it is paid at the rate fixed by the terms of allotment of the Share or in the notice of the call or, if no rate is fixed, at the appropriate rate (as defined by the Companies Acts) but the Board may waive payment of the interest wholly or in part.

47. An amount payable in respect of a Share on allotment or at any fixed date, whether in respect of nominal value by way of premium, shall be deemed to be a call and if it is not paid, the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call.
48. Subject to the terms of allotment, the Board may make arrangements on the issue of Shares for a difference between the holders in the amounts and times of payment of calls on their Shares.
49. The Directors may, if they think fit, receive from any Member willing to advance the same all or any part of the monies uncalled and unpaid upon any Shares held by him or her, and upon all or any of the monies so advanced may pay (until the same would, but for such advance, become payable) interest at such rate as may be agreed upon between the Directors and the Member paying such sum in advance.

FORFEITURE

50. If a Member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors, at any time thereafter during such times as any part of the call or instalment remains unpaid, may serve a notice on him or her requiring payment of so much of the call or instalment as is unpaid together with any interest which may have accrued.
51. The notice shall state a further day (not earlier than the expiration of fourteen (14) clear days from the date of service of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.
52. If the requirements of any such notice as aforesaid are not complied with, then at any time thereafter before the payment required by the notice has been made, any Shares in respect of which the notice has been given may be forfeited by a resolution of the Directors to that effect. The forfeiture shall include all dividends or other monies payable in respect of the forfeited Shares and not paid before forfeiture. The Board may accept a surrender of any Share liable to be forfeited hereunder.
53. On the trial or hearing of any action for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the Shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book and that notice of such call was duly given to the Member sued, in pursuance of these Articles, and it shall not be necessary to prove the appointment of the Directors who made such call nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.
54. A forfeited Share may be sold or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the Directors think fit. Where for the purposes of its disposal, such a Share is to be transferred to any person, the Board may authorise some person to execute an instrument of transfer of the Share to that person. The Company may receive the consideration, if any, given for the Share on any sale or disposition thereof and may execute a transfer of the Share in favour of the person to whom the Share is sold or disposed of and thereupon he or she shall be registered as the holder of the Share and shall not be bound to see to the application of the purchase money, if any, nor shall his or her title to the Share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the Share.
55. A person whose Shares have been forfeited shall cease to be a Member in respect of the forfeited Shares, but nevertheless shall remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him or her to the Company in respect of the Shares, without any deduction or allowance for the value of the Shares at the time of forfeiture but his or her liability shall cease if and when the Company shall have received payment in full of all such monies in respect of the Shares.
56. A statutory declaration or affidavit that the declarant is a Director or the Secretary of the Company, and that a Share in the Company has been duly forfeited on the date stated in the declaration, shall be

conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the Share.

57. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the nominal value of the Share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.
58. The Directors may accept the surrender of any Share which the Directors have resolved to have been forfeited upon such terms and conditions as may be agreed and, subject to any such terms and conditions, a surrendered Share shall be treated as if it has been forfeited.

NON-RECOGNITION OF TRUSTS

59. The Company shall not be obligated to recognise any person as holding any Share upon any trust (except as is otherwise provided in these Articles or to the extent required by law) and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future, or partial interest in any Share, or any interest in any fractional part of a Share, or (except only as is otherwise provided by these Articles or the Companies Acts) any other rights in respect of any Share except an absolute right to the entirety thereof in the registered holder. This shall not preclude the Company from requiring the Members or a transferee of Shares to furnish to the Company with information as to the beneficial ownership of any Share when such information is reasonably required by the Company.

TRANSMISSION OF SHARES

60. If a Member dies, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he or she was a sole holder or the only survivor of joint holders, shall be the only persons recognised by the Company as having any title to his or her interest in the Shares; but nothing herein contained shall release the estate of any deceased holder from any liability in respect of any Share which had been jointly held by him or her solely or jointly with other persons.
61. A person becoming entitled to a Share in consequence of the death, bankruptcy, liquidation or insolvency of a Member, or otherwise becoming entitled to a Share by operation of any law, directive or regulation (whether of the State, the European Union, or any other jurisdiction) may elect, upon such evidence of title being produced as the Directors may reasonably require at any time and from time to time, and subject as further provided in this Article, either to become the holder of the Share or to have some person nominated by him or her registered as the transferee. If he or she elects to become the holder of the Share, he or she shall give notice to the Company to that effect and, where the Directors are satisfied with the evidence of title produced to them, they may register such persons as the holder of the Share, subject to the other provisions of these Articles and of the Acts. If he or she elects to have another person registered he or she shall execute an instrument of transfer of the Share to that person. All of these Articles relating to the transfer of Shares shall apply to the notice or instrument of transfer as if it were an instrument of transfer executed by the Member and the event giving rise to the entitlement of the relevant person to the Shares had not occurred.
62. A person becoming entitled to a Share by transmission shall have the rights to which he or she would be entitled if he or she were the holder of the Share (including, without limitation, the right to receive and give a valid discharge for any dividends, distributions or other moneys payable on or in respect of the Share), except that, before being registered as the holder of the Share he or she shall not be entitled in respect of it to receive notices of, or to attend or vote at any meeting of the Company or at any separate meeting of holders of any class of Shares in the Company, so, however, that the Directors, at any time, may give notice requiring any such person to elect either to be registered himself or herself to transfer the Share and, if the notice is not complied with within ninety (90) days, the Directors thereupon may withhold payment of all dividends, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

**AMENDMENT OF MEMORANDUM OF ASSOCIATION;
CHANGE OF LOCATION OF REGISTERED OFFICE; AND
ALTERATION OF CAPITAL**

63. The Company may by Ordinary Resolution:
- 63.1. divide its share capital into several classes and attach to them respectively any preferential, deferred, qualified or special rights, privileges or conditions;
 - 63.2. increase the authorised share capital by such sum to be divided into Shares of such nominal value, as such Ordinary Resolution shall prescribe;
 - 63.3. consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;
 - 63.4. by subdivision of its existing Shares or any of them, divide the whole or any part of its share capital into Shares of smaller nominal value than is fixed by the Memorandum subject to section 68(1)(d) of the 1963 Act, so, however, that in the sub-division, the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in the case of the Share from which the reduced Share is derived;
 - 63.5. cancel any Shares that at the date of the passing of the relevant Ordinary Resolution have not been taken or agreed to be taken by any person; and
 - 63.6. subject to applicable law, change the currency denomination of its share capital.
64. Subject to the provisions of the Companies Acts, the Company may:
- 64.1. by Special Resolution change its name, alter or add to the Memorandum with respect to any objects, powers or other matters specified therein or alter or add to these Articles;
 - 64.2. by Special Resolution reduce its issued share capital and any capital redemption reserve fund or any share premium account. In relation to such reductions, the Company may by Special Resolution determine the terms upon which the reduction is to be effected, including in the case of a reduction of part only of any class of Shares, those Shares to be affected; and
 - 64.3. by resolution of the Directors, change the location of its registered office.
65. Whenever as a result of an alteration or reorganisation of the share capital of the Company any Members would become entitled to fractions of a Share, the Board may, on behalf of those Members, sell the Shares representing the fractions for the best price reasonably obtainable to any person and distribute the proceeds of sale in due proportion among those Members, and the Board may authorise any person to execute an instrument of transfer of the Shares to, or in accordance with the directions of, the purchaser. The transferee shall not be bound to see to the application of the purchase money nor shall his or her title to the Shares be affected by any irregularity in or invalidity of the proceedings in reference to the sale.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

66. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any dividend, or in order to make a determination of Members for any other proper purpose, the Board may provide, subject to the requirements of section 121 of the 1963 Act, that the Register of Members shall be closed for transfers at such times and for such periods, not exceeding in the whole thirty (30) days in each year. If the Register of Members shall be so closed for the purpose of determining Members entitled to notice of, or to vote at, a meeting of Members, such Register of Members shall be so closed for at least five (5) days

immediately preceding such meeting and the record date for such determination shall be the date of the closure of the Register of Members.

67. In lieu of, or apart from, closing the Register of Members, the Board may fix in advance a date as the record date (a) for any such determination of Members entitled to notice of or to vote at a meeting of the Members, which record date shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, and (b) for the purpose of determining the Members entitled to receive payment of any dividend, or in order to make a determination of Members for any other proper purpose, which record date shall not be more than sixty (60) days prior to the date of payment of such dividend or the taking of any action to which such determination of Members is relevant.
68. If the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of or to vote at a meeting of Members, the date immediately preceding the date on which notice of the meeting is deemed given under these Articles shall be the record date for such determination of Members. Where a determination of Members entitled to vote at any meeting of Members has been made as provided in these Articles, such determination shall apply to any adjournment thereof; provided, however, that the Directors may fix a new record date of the adjourned meeting, if they think fit.

GENERAL MEETINGS

69. The Board shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Companies Acts.
70. The Board may, whenever it thinks fit, and shall, on the requisition in writing of Members holding such number of Shares as is prescribed by, and made in accordance with, section 132 of the 1963 Act, convene a general meeting in the manner required by the Companies Acts. All general meetings other than annual general meetings shall be called extraordinary general meetings.
71. The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meeting in that year, and shall specify the meeting as such in the notice calling it. Not more than fifteen (15) months shall elapse between the date of one annual general meeting of the Company and that of the next. Each general meeting shall be held at such time and place as designated by the Board and as specified in the notice of meeting. Subject to section 140 of the 1963 Act, all general meetings may be held outside of Ireland.
72. The Board may, in its absolute discretion, authorise the Secretary to postpone any general meeting called in accordance with the provisions of these Articles (other than a meeting requisitioned under Article 70 or the postponement of which would be contrary to the Companies Acts, law or a Court order pursuant to the Companies Acts) if the Board considers that, for any reason, it is impractical or unreasonable to hold the general meeting, provided that notice of postponement is given to each Member before the time for such meeting. Fresh notice of the date, time and place for the postponed meeting shall be given to each Member in accordance with the provisions of these Articles.

NOTICE OF GENERAL MEETINGS

73. Subject to the provisions of the Companies Acts allowing a general meeting to be called by shorter notice, an annual general meeting, and an extraordinary general meeting called for the passing of a Special Resolution, shall be called by at least twenty-one (21) clear days' notice and all other extraordinary general meetings shall be called by at least fourteen (14) clear days' notice. Such notice shall state the date, time, place of the meeting and, in the case of an extraordinary general meeting, the general nature of the business to be considered. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day of the meeting and shall specify such other details as are required by applicable law or the relevant code, rules and regulations applicable to the listing of the Shares on the Exchange.

74. A general meeting of the Company shall, whether or not the notice specified in this Article 74 has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if applicable law so permits and it is so agreed by the Auditors and by all the Members entitled to attend and vote thereat or by their proxies.
75. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a Special Resolution shall specify the intention to propose the resolution as a Special Resolution. Notice of every general meeting shall be given in any manner permitted by these Articles to all Members other than such as, under the provisions hereof or the terms of issue of the Shares they hold, those who are not entitled to receive such notice from the Company.
76. There shall appear with reasonable prominence in every notice of general meetings of the Company a statement that a Member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him or her and that a proxy need not be a Member of the Company.
77. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings of that meeting.
78. In cases where instruments of proxy are sent out with notices, the accidental omission to send such instrument of proxy to, or the non-receipt of such instrument of proxy by, any person entitled to receive notice shall not invalidate any resolution passed or any proceeding at any such meeting. A Member present, either in person or by proxy, at any general meeting of the Company or of the holders of any class of Shares in the Company, will be deemed to have received notice of that meeting and, where required, of the purpose for which it was called.

PROCEEDINGS AT GENERAL MEETINGS

79. All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of declaring a dividend, the consideration of the accounts, balance sheets and the reports of the Directors and Auditors, the election of Directors, the re-appointment of the retiring Auditors and the fixing of the remuneration of the Auditors.
80. No business shall be transacted at any general meeting unless a quorum is present. One or more Members present in person or by proxy holding not less than a majority of the issued and outstanding ordinary shares of the Company entitled to vote at the meeting in question shall be a quorum.
81. If within one hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place or to such other time or such other place as the Board may determine and if at the adjourned meeting a quorum is not present within one hour from the time appointed for the meeting the Members present shall be a quorum.
82. If the Board wishes to make this facility available to Members for a specific or all general meetings of the Company, a Member may participate in any general meeting of the Company, by means of a telephone, video, electronic or similar communication equipment by way of which all persons participating in such meeting can communicate with each other simultaneously and instantaneously and such participation shall be deemed to constitute presence in person at the meeting.
83. Each Director and the Auditors shall be entitled to attend and speak at any general meeting of the Company.
84. The Chairman, or in his absence some other Director nominated by the Directors, shall preside at every general meeting of the Company, but if at any meeting neither the Chairman, nor such other Director is present within fifteen minutes after the time appointed for the holding of the meeting, or if none of them are willing to act as Chairman, the Directors present shall choose some Director present to be

Chairman, or if no Director is present, or if all the Directors present decline to take the chair, the Members present shall choose some Member present to be Chairman.

85. The Chairman of the meeting may, with the consent of any general meeting duly constituted hereunder, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished, or which might have been transacted, at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting; save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned general meeting.
86. No business may be transacted at a general meeting of the Company or of any class of Members, other than business that is either proposed by or at the direction of the Board; proposed at the direction of a court of competent jurisdiction; proposed on the requisition in writing of such number of Members as is prescribed by, and is made in accordance with, the relevant provisions of the Companies Acts and, in respect of an annual general meeting only, these Articles; or the Chairman determines in his or her absolute discretion that the business may properly be regarded as within the scope of the meeting. For business or nominations to be properly brought by a Member at any general meeting, the Member proposing such business must be a Member at the time of giving the notice provided for in Articles 73 to 78 and must be entitled to vote at such meeting and any proposed business must be a proper matter for Member action.
- 87.
- 87.1. Subject to the Companies Acts, a resolution may only be put to a vote at a general meeting of the Company or of any class of Members if:
- a) it is specified in the notice of meeting;
 - b) it is proposed by or at the direction of the Board;
 - c) it is proposed at the direction of a court of competent jurisdiction;
 - d) it is proposed pursuant to, and in accordance with, the procedures and requirements of Article 146;
 - e) it is proposed on the requisition in writing of such number of Members as is prescribed by, and is made in accordance with, section 132 of the 1963 Act; or
 - f) the Chairman of the meeting in his or her absolute discretion decides that the resolution may properly be regarded as within the scope of the meeting.
- 87.2. No amendment may be made to a resolution, at or before the time when it is put to a vote, unless the Chairman of the meeting in his or her absolute discretion decides that the amendment or the amended resolution may properly be put to a vote at that meeting.
- 87.3. If the Chairman of the meeting rules a resolution or an amendment to a resolution admissible or out of order (as the case may be), the proceedings of the meeting or on the resolution in question shall not be invalidated by any error in his or her ruling. Any ruling by the Chairman of the meeting in relation to a resolution or an amendment to a resolution shall be final and conclusive.
- 88.
- 88.1. For business to be properly requested by a Member to be brought before an annual general meeting, the Member must:
- a) be a Member of the Company at the time of the giving of the notice for such annual general meeting;

- b) be entitled to vote at such meeting; and
 - c) have given timely and proper notice in writing to the Secretary in accordance with this Article 88.
- 88.2. To be timely for an annual general meeting, a Member's notice to the Secretary must be delivered to or mailed and received at the registered office of the Company not less than sixty (60) days nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual general meeting of Members (save that in the case of the Company's first annual general meeting, references to the preceding year's annual general meeting will be to the annual general meeting of Endo Health Solutions, Inc. held that preceding year); provided, however, that in the event that the annual general meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the Member in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual general meeting was mailed or such public disclosure of the date of the annual general meeting was made, whichever first occurs.
- 88.3. To be in proper written form, a Member's notice must set forth as to each matter such Member proposes to bring before the meeting:
- 88.3.1. A brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and if such business includes a proposal to amend the Articles, the text of the proposed amendment) and the reasons for conducting such business at the meeting;
 - 88.3.2. As to the member giving notice:
 - (i) the name and address, as they appear in the Register of Members, of such Member and any Member Associated Person covered by this Article 88.3.2(i) and Article 88.3.2(ii) below;
 - (ii) (A) the class and number of Shares of the Company which are held of record or are beneficially owned by the Member and by any Member Associated Person with respect to the Company's securities; (B) a description of any agreement, arrangement or understanding in connection with the proposal of such business between or among such Member and any Member Associated Person, any of their respective affiliates or associates, and any others (including their names) acting as a "group" (as such term is used in Rule 13d-5(b) under the Exchange Act) with any of the foregoing; (C) a description of any agreement, arrangement or understanding (including, regardless of the form of settlement, any derivative, long or short positions, profit interests, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions, and borrowed or loaned securities) that has been entered into, the effect or intent of which is to mitigate loss to, manage risk or benefit from share price changes for, or increase or decrease the voting power of, such Member or such Member Associated Person, with respect to shares of the Company; (D) a representation that the Member is a holder of Shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business; (E) a representation whether the Member or the Member Associated Person, if any, intends or is part of a group which intends (x) to deliver a proxy statement and / or form of proxy to holders of at least the percentage of the Company's outstanding Shares required to adopt the proposal and / or (y) otherwise to solicit proxies from Members in support of such proposal. If requested by the Company, the information required under clauses (A), (B) and (C) of the preceding sentence shall be supplemented by such Member and any Member Associated Person not later than ten days after the later of the record date for the meeting or the date

notice of the record date is first publicly disclosed to disclose such information as of the record date; and

- (iii) any material interest of the Member or any Member Associated Person in such business.

The Chairman shall have the power and duty to determine whether any business proposed to be brought before the meeting was made or proposed in accordance with the procedures set forth in this Article, and if any proposed business is not in compliance with this Article 88, to declare that such defective proposal shall be disregarded. The Chairman shall, if the facts reasonably warrant, refuse to acknowledge that a proposal that is not made in compliance with the procedure specified in this Article, and any such proposal not properly brought before the meeting, be considered.

- 89. Except where a greater majority is required by the Companies Acts or these Articles, any question proposed for a decision of the Members at any general meeting of the Company or a decision of any class of Members at a separate meeting of any class of Shares shall be decided by an Ordinary Resolution.
- 90. At any general meeting, a resolution put to the vote of the meeting shall be decided on a poll. The Board or the Chairman may determine the manner in which the poll is to be taken and the manner in which the votes are to be counted.
- 91. A poll demanded on the election of the Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time, not being more than ten days from the date of the meeting or adjourned meeting at which the vote was taken, as the Chairman of the meeting directs, and any business other than that on which a poll has been demanded may be proceeded with pending the taking of the poll.
- 92. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded. On a poll, a Member entitled to more than one vote need not use all his or her votes or cast all the votes he or she uses in the same way.
- 93. If authorised by the Board, any vote taken by written ballot may be satisfied by a ballot submitted by electronic or telephonic transmission, provided that any such electronic or telephonic submission must either set forth or be submitted with information from which it can be determined that the electronic submission has been authorised by the Member or proxy.
- 94. The Board may, and at any general meeting, the Chairman of such meeting may make such arrangement and impose any requirement or restriction it or he or she considers appropriate to ensure the security of a general meeting including, without limitation, requirements for evidence of identity to be produced by those attending the meeting, the searching of personal property and the restriction of items that may be taken into the meeting place. The Board and, at any general meeting, the Chairman of such meeting are entitled to refuse entry to a person who refuses to comply with such arrangements, requirements or restrictions.
- 95. Subject to section 141 of the 1963 Act, a resolution in writing signed by all of the Members for the time being entitled to attend and vote on such resolution at a general meeting (or being bodies corporate by their duly authorised representatives) shall be as valid and effective for all purposes as if the resolution had been passed at a general meeting of the Company duly convened and held, and may consist of several documents in like form each signed by one or more persons, and if described as a special resolution shall be deemed to be a special resolution within the meaning of the 1963 Act. Any such resolution shall be served on the Company.

VOTES OF MEMBERS

96. Subject to any rights or restrictions for the time being attached to any class or classes of Shares, every Member of record present in person or by proxy shall have one vote for each Share registered in his or her name in the Register of Members.
97. In the case of joint holders of record the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
98. A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote by his or her committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other persons may vote by proxy.
99. No Member shall be entitled to vote at any general meeting unless he or she is registered as a Member on the record date for such meeting.
100. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at such general meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the general meeting whose decision shall be final and conclusive.
101. Votes may be given either personally or by proxy. A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting and may appoint a proxy to vote both in favour of and against the same resolution in such proportion as specified in the instrument appointing the proxy.

PROXIES AND CORPORATE REPRESENTATIVES

- 102.
- 102.1. Every Member entitled to attend and vote at a general meeting may appoint a proxy to attend, speak and vote on his or her behalf and may appoint more than one proxy to attend, speak and vote at the same meeting. The appointment of a proxy or corporate representative shall be in such form and may be accepted by the Company at such place and at such time as the Board or the Secretary shall from time to time determine, subject to applicable requirements of the United States Securities and Exchange Commission and the Exchange on which the Shares are listed. No such instrument appointing a proxy or corporate representative shall be voted or acted upon after two (2) years from its date.
- 102.2. Without limiting the foregoing, the Board may from time to time permit appointments of a proxy to be made by means of an electronic or internet communication or facility and may in a similar manner permit supplements to, or amendments or revocations of, any such electronic or internet communication or facility to be made. The Board may in addition prescribe the method of determining the time at which any such electronic or internet communication or facility is to be treated as received by the Company. The Board may treat any such electronic or internet communication or facility which purports to be or is expressed to be sent on behalf of a Member as sufficient evidence of the authority of the person sending that instruction to send it on behalf of that Member.
103. Any body corporate which is a Member of the Company may authorise such person or persons as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company and the person or persons so authorised shall be entitled to exercise the same powers on behalf of the body corporate which he or she represents as that body corporate could exercise if it were an individual Member of the Company. The Company may require evidence from the body corporate of the due authorisation of such person or persons to act as the representative of the relevant body corporate.

104. An appointment of proxy relating to more than one meeting (including any adjournment thereof) having once been received by the Company for the purposes of any meeting shall not require to be delivered, deposited or received again by the Company for the purposes of any subsequent meeting to which it relates.
105. Receipt by the Company of an appointment of proxy in respect of a meeting shall not preclude a Member from attending and voting at the meeting or at any adjournment thereof which attendance and voting will automatically cancel any proxy previously submitted.
106. An appointment proxy shall be valid, unless the contrary is stated therein, for any adjournment of the meeting as well as for the meeting to which it relates.
- 107.
- 107.1. A vote given in accordance with the terms of an appointment of proxy or a resolution authorising a representative to act on behalf of a body corporate shall be valid notwithstanding the death or insanity of the principal, or the revocation of the appointment of proxy or of the authority under which the proxy was appointed or of the resolution authorising the representative to act or transfer of the Share in respect of which the proxy was appointed or the authorisation of the representative to act was given, provided that no direction in writing (whether in electronic form or otherwise) of such death, insanity, revocation or transfer shall have been received by the Company at the Office, at least one hour before the commencement of the meeting or adjourned meeting at which the appointment of proxy is used or at which the representative acts; PROVIDED, HOWEVER, that where such direction is given in electronic form, it shall have been received by the Company at least 24 hours (or such lesser time as the Directors may specify) before the commencement of the meeting.
- 107.2. The Board may send, at the expense of the Company, by post, electronic mail or otherwise, to the Members, forms for the appointment of a proxy (with or without stamped envelopes for their return) for use at any general meeting or at any class meeting, either in blank or nominating any one or more of the Directors or any other persons in the alternative.

DIRECTORS

108. Unless otherwise determined by the Company by Ordinary Resolution, the number of Directors on the Board shall be not less than five (5) nor more than twelve (12). The exact number of Directors shall be fixed from time to time by resolution of the Board.
109. The remuneration to be paid to the Directors shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid their travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Board from time to time, or a combination partly of one such method and partly the other.
110. The Board may approve additional remuneration to any Director undertaking any special work or services for, or undertaking any special mission on behalf of, the Company other than his or her ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his or her remuneration as a Director.
111. Members of special or standing committees may be allowed like compensation for attending committee meetings.

DIRECTORS' AND OFFICERS' INTERESTS

112. A Director or an officer of the Company who is in any way, whether directly or indirectly, interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the

Company shall, in accordance with section 194 of the 1963 Act, declare the nature of his or her interest at the first opportunity either (a) at a meeting of the Board at which the question of entering into the contract, transaction or arrangement is first taken into consideration, if the Director or officer of the Company knows this interest then exists, or in any other case, at the first meeting of the Board after learning that he or she is or has become so interested or (b) by providing a general notice to the Directors declaring that he or she is a Director or an officer of, or has an interest in, a person and is to be regarded as interested in any transaction or arrangement made with that person, and after giving such general notice it shall not be necessary to give special notice relating to any particular transaction.

113. A Director may hold any other office or place of profit under the Company (other than the office of its Auditors) in conjunction with his or her office of Director for such period and on such terms as to remuneration and otherwise as the Board may determine.
114. A Director may act by himself or herself or by his or her firm in a professional capacity for the Company (other than as its Auditors) and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a Director.
115. A Director may be or become a Director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or Member of any other company or otherwise interested in any company promoted by the Company or in which the Company may be interested as Member or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received by him or her as a Director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or Member of such other company; provided that he or she has declared the nature of his or her position with, or interest in, such company to the Board in accordance with Article 112.
116. No person shall be disqualified from the office of Director or from being an officer of the Company or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or officer of the Company shall be in any way interested be or be liable to be avoided, nor shall any Director or officer of the Company so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or transaction by reason of such Director or officer of the Company holding office or of the fiduciary relation thereby established; provided that:
 - 116.1. he has declared the nature of his or her interest in such contract or transaction to the Board in accordance with Article 112; and
 - 116.2. the contract or transaction is approved by a majority of the disinterested Directors, notwithstanding the fact that the disinterested Directors may represent less than a quorum.
117. A Director may be counted in determining the presence of a quorum at a meeting of the Board which authorises or approves the contract, transaction or arrangement in which he or she is interested and he or she shall be at liberty to vote in respect of any contract, transaction or arrangement in which he or she is interested, provided that the nature of the interest of any Director in any such contract or transaction shall be disclosed by him or her in accordance with Article 112, at or prior to its consideration and any vote thereon.
118. For the purposes of Article 112:
 - 118.1. a general notice given to the Directors that a Director is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person or class of persons is interested shall be deemed to be a disclosure that the Director has an interest in any such transaction of the nature and extent so specified;
 - 118.2. an interest of which a Director has no knowledge and of which it is unreasonable to expect him or her to have knowledge shall not be treated as an interest of his or hers; and

- 118.3. a copy of every declaration made and notice given under Article 112 shall be entered within three (3) days after the making or giving thereof in a book kept for this purpose. Such book shall be open for inspection without charge by any Director, Secretary, the Auditors or Member of the Company at the registered office and shall be produced at every general meeting of the Company and at any meeting of the Directors if any Director so requests in sufficient time to enable the book to be available at the meeting.

POWERS AND DUTIES OF DIRECTORS

119. The business of the Company shall be managed by the Directors, who may pay all expenses incurred in promoting and registering the Company and may exercise all such powers of the Company as are not, by the Companies Acts or by these Articles, required to be exercised by the Company in general meeting, subject, nevertheless, to any of these Articles and to the provisions of the Companies Acts. No resolution made by the Company in general meeting shall invalidate any prior act of the Directors that would have been valid if that resolution had not been made.
120. The Board shall have the power to appoint and remove officers on such terms as the Board sees fit and to give such titles and delegate such responsibilities to those executives as it sees fit.
121. The Company may exercise the powers conferred by section 41 of the 1963 Act with regard to having an official seal for use abroad and such powers shall be vested in the Directors.
122. Subject as otherwise provided with these Articles, the Directors may exercise the voting powers conferred by shares of any other company held or owned by the Company in such manner in all respects as they think fit and in particular they may exercise their voting powers in favour of any resolution appointing the Directors or any of them as Director or officers of such other company or providing for the payment of remuneration or pensions to the Directors or officers of such other company.
123. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for money paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, by such person or persons and in such manner as the Directors shall from time to time by resolution determine.
124. The Directors may from time to time authorise such person or persons as they see fit to perform all acts, including without prejudice to the foregoing, to effect a transfer of any Shares, bonds, or other evidences of indebtedness or obligations, subscription rights, warrants, and other securities in another body corporate in which the Company holds an interest and to issue the necessary powers of attorney for the same; and each such person is authorised on behalf of the Company to vote such securities, to appoint proxies with respect thereto, and to execute consents, waivers and releases with respect thereto, or to cause any such action to be taken.
125. The Board may exercise all powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds or such other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.
126. The Directors may procure the establishment and maintenance of or participate in, or contribute to, any non-contributory or contributory pension or superannuation fund, scheme or arrangement or life assurance scheme or arrangement for the benefit of, and pay, provide for or procure the grant of donations, gratuities, pensions, allowances, benefits or emoluments to any persons (including Directors or other officers) who are or shall have been at any time in the employment or service of the Company or of any company which is or was a subsidiary of the Company or of the predecessor in business of the Company or any such subsidiary or holding Company and the wives, husbands, widows, widowers, families, relatives or dependants of any such persons. The Directors may also procure the establishment and subsidy of or subscription to and support of any institutions, associations, clubs, funds or trusts calculated to be for the benefit of any such persons as aforesaid or otherwise to

advance the interests and well-being of the Company or of any such other company as aforesaid or its Members, and payments for or towards the issuance of any such persons as aforesaid and subscriptions or guarantees of money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. Provided that any Director shall be entitled to retain any benefit received by him or her under this Article 126, subject only, where the Companies Acts require, to disclosure to the Members and the approval of the Company in general meeting.

127. The Board may from time to time provide for the management of the affairs of the Company in such manner as it shall think fit and the specific delegation provisions contained in the Articles shall not limit the general powers conferred by these Articles.

MINUTES

128. The Board shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Board, all resolutions and proceedings at meetings of the Company or the holders of any class of Shares, of the Directors and of committees of Directors, including the names of the Directors present at each meeting.

DELEGATION OF THE BOARD'S POWERS

129. The Board may delegate any of its powers (with power to sub-delegate) to any committee consisting of one or more Directors. The Board may also delegate to any Director, officer or member of the management of the Company or any of its subsidiaries such of its powers as it considers desirable to be exercised by him or her. The Board may also designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. Any such delegation may be made subject to any conditions the Board may impose, and either collaterally with or to the exclusion of its own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee of the Board shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying. Each committee shall keep regular minutes and report to the Board when required.
130. The Board may, by power of attorney or otherwise, appoint any person to be the agent of the Company on such conditions as the Board may determine, provided that the delegation is not to the exclusion of its own powers and may be revoked by the Board at any time.
131. The Board may, by power of attorney or otherwise, appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Board, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Board may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him or her.

CHAIRMAN AND EXECUTIVE OFFICERS

132. The Board may elect any Director as Chairman of the Board and determine the period for which he or she is to hold office.
133. In addition to the Chairman, the Directors and the Secretary, the Company may have such officers as the Board may from time to time determine and, without limitation to the foregoing, may appoint any person (whether or not a Director) to fill the position of chief executive officer.
134. The use of the word "officer" (or similar words) in the title of any executive or other position shall not be deemed to imply that the person holding such executive or other position is an "officer" of the Company within the meaning of the Companies Acts.

PROCEEDINGS OF DIRECTORS

135. Except as otherwise provided by these Articles, the Directors shall meet together for the despatch of business, convening, adjourning and otherwise regulating their meetings and procedures as they think fit. Questions arising at any meeting shall be decided by a majority of votes of the Directors present at a meeting at which there is a quorum. Each Director shall have one vote.
136. Regular meetings of the Board may be held at such times and places as may be provided for in resolutions adopted by the Board. No additional notice of a regularly scheduled meeting of the Board shall be required.
137. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors by at least 24 hours' notice in writing to every Director, which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors either at, before or after the meeting is held and provided further if notice is given in person, by telephone, cable, telex, telecopy or email, the same shall be deemed to have been given on the day it is delivered to the Directors or transmitting organisation as the case may be. The accidental omission to give notice of a meeting of the Directors to, or the non-receipt of notice of a meeting by any person entitled to receive notice, shall not invalidate the proceedings of that meeting.
138. The quorum necessary for the transaction of the business of the Board may be fixed by the Board from time to time and unless so fixed shall be a majority of the Directors in office. If a quorum shall not be present at any meeting of the Board, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.
139. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.
140. Any casual vacancy shall only be filled by decision of a majority of the Board then in office, provided that a quorum is present. Any Director elected to fill a vacancy not resulting from an increase in the number of Directors shall have the same remaining term as that of his or her predecessor. Any vacancy on the Board, including a vacancy that results from an increase in the number of Directors or from the death, resignation, retirement, disqualification or removal of a Director, shall be deemed a casual vacancy.
141. If no Chairman is elected, or if at any meeting the Chairman is not present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be the Chairman of the meeting.
142. All acts done by any meeting of the Directors or of a committee of Directors shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director.
143. Members of the Board or of any committee thereof may participate in a meeting of the Board or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the telephone call or similar communication was initiated.

144. A resolution in writing (in one or more counterparts), signed by all the Directors for the time being or all the members of a committee of Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors or committee as the case may be duly convened and held.

RESIGNATION AND DISQUALIFICATION OF DIRECTORS

145. The office of a Director shall be vacated ipso facto:
- 145.1. if he or she resigns his or her office, on the date on which notice of his or her resignation is delivered to the registered office or tendered at a meeting of the Board or on such later date as may be specified in such notice; or
- 145.2. on him or her being prohibited by law from being a Director; or
- 145.3. on him or her ceasing to be a Director by virtue of any provision of the Companies Acts.

APPOINTMENT, ROTATION, REMOVAL AND NOMINATION OF DIRECTORS

- 146.
- 146.1. No person shall be appointed a Director, unless nominated in accordance with the provisions of this Article 146. Nominations of persons for election to the Board at a general meeting may be made:
- (a) by the affirmative vote of the Board;
 - (b) with respect to election at an annual general meeting, by any Member who holds ordinary Shares or other Shares carrying the general right to vote at general meetings of the Company, who is a Member at the time of the giving of the notice provided for in Article 146.2 and at the time of the relevant annual general meeting, and who timely complies with the notice procedures set forth in this Article 146; and
 - (c) with respect to election at an extraordinary general meeting requisitioned in accordance with section 132 of the 1963 Act, by a Member or Members who hold ordinary Shares or other Shares carrying the general right to vote at general meetings of the Company and who make such nomination in the written requisition of the extraordinary general meeting in accordance with these Articles and the Companies Acts relating to nominations of Directors and the proper bringing of special business before an extraordinary general meeting,
- (sub-clauses (b) and (c) being the exclusive means for a Member to make nominations of persons for election to the Board).
- 146.2. For nominations of persons for election as Directors at an annual general meeting to be timely, a Member's notice must comply with the requirements of Article 88.2.
- 146.3. To be in proper written form, a Member's notice for nomination(s) of person(s) for election must in addition to any other applicable requirements set forth:
- (a) as to each person whom the Member proposes to nominate for election or re-election as a Director:
 - (i) the name, age, business address and residence address of such person;
 - (ii) the principal occupation or employment of such person;
 - (iii) the class and number of Shares of which are beneficially owned by such person in the Company and any other direct or indirect pecuniary or economic interest in any Shares of the Company of such person, including, without limitation, any derivative

instrument, swap, option, warrant, short interest, hedge or profit sharing arrangement; and

- (iv) any other information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to section 14 of the Exchange Act, and the rules and regulations promulgated thereunder (including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected),
 - (b) as to the Member giving the notice and the beneficial owner, if any, on whose behalf the nomination is made:
 - (i) the name and address, as they appear on the Company's Register of Members, of such Member, and of such beneficial owner;
 - (ii) the class and number of Shares in the Company which are beneficially owned by such Member and such beneficial owner and any other direct or indirect pecuniary or economic interest in any capital Shares of the Company of such Member and such beneficial owner, including, without limitation, any derivative instrument, swap, option, warrant, short interest, hedge or profit sharing arrangement;
 - (iii) a description of any arrangements or understandings between such Member and each proposed nominee and any other person (including their names) pursuant to which the nomination(s) are to be made by such Member and such beneficial owner;
 - (iv) a representation that such Member intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and
 - (v) any other information relating to such Member and such beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of Directors, or may otherwise be required, in each case pursuant to section 14 of the Exchange Act and the rules and regulations promulgated thereunder.
- 146.4. Notwithstanding the foregoing provisions of this Article 146, unless otherwise required by law, if the Member (or a qualified representative of the Member) does not appear at the meeting of Members of the Company to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Company.
- 146.5. The Chairman of the meeting shall determine whether a nomination was not made in accordance with the procedures prescribed by these Articles, and if he or she should so determine, he or she shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.
- 146.6. The Company may require any proposed nominee to furnish such other information as it may reasonably require, including the completion of any questionnaires to determine the eligibility of such proposed nominee to serve as a Director of the Company and the impact that such service would have on the ability of the Company to satisfy the requirements of laws, rules, regulations and listing standards applicable to the Company or its Directors.
147. At every annual general meeting of the Company, all of the Directors shall retire from office unless re-elected by Ordinary Resolution at the annual general meeting. A Director retiring at a meeting shall retain office until the close of that meeting (including any adjournment thereof).

148. Every Director shall be eligible to stand for re-election at an annual general meeting.
149. If a Director offers himself for re-election, he shall be deemed to have been re-elected, unless at such meeting the Ordinary Resolution for the re-election of such Director has been defeated.
150. The Company may, by Ordinary Resolution, of which extended notice has been given in accordance with section 142 of the 1963 Act, remove any Director before the expiration of his or her period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director. Such removal shall be without prejudice to any claim such Director may have for damages for breach of any contract of service between him or her and the Company.
151. The Company may, by Ordinary Resolution, appoint another person in place of a Director removed from office under Article 147 and without prejudice to the powers of the Directors under Article 108, the Company in general meeting by Ordinary Resolution may appoint any person to be a Director either to fill a casual vacancy or as an additional Director, subject to the maximum number of Directors set out in Article 108.
152. Notwithstanding any other provision of these Articles, the Directors may appoint a person who is willing to act to be a Director, either to fill a vacancy or as an additional Director, provided that the appointment does not cause the number of Directors to exceed the number fixed by or in accordance with these Articles as the maximum number of Directors. A Director so appointed shall hold office only until the next following annual general meeting. If not reappointed at such annual general meeting, such Director shall vacate office at the conclusion thereof.

ALTERNATE DIRECTORS

- 153.
- 153.1. Any Director may appoint by writing under his or her hand one or more persons (including another Director) to be his or her alternate provided always that no such appointment of any person(s) other than a Director as an alternate shall be operative unless and until such appointment(s) shall have been approved by resolution of the Directors.
- 153.2. An alternate Director shall be entitled, subject to him or her giving to the Company an address, to receive notices of all meetings of the Directors and of all meetings of committees of Directors of which his or her appointor is a member, to attend and vote at any such meeting at which the Director appointing him or her is not personally present and in the absence of his or her appointor to exercise all the powers, rights, duties and authorities of his or her appointor as a Director (other than the right to appoint an alternate hereunder).
- 153.3. Save as otherwise provided in these Articles, an alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his or her own acts and defaults and he or she shall not be deemed to be the agent of the Director appointing him or her. The remuneration of any such alternate Director shall be payable out of the remuneration paid to the Director appointing him or her and shall consist of such portion of the last mentioned remuneration as shall be agreed between the alternate and the Director appointing him or her.
- 153.4. A Director may revoke at any time the appointment of any alternate appointed by him or her. If a Director shall die or cease to hold the office of Director, the appointment of his or her alternate shall thereupon cease and determine but if a Director retires by rotation or otherwise but is reappointed or deemed to have been reappointed at the meeting at which he or she retires, any appointment of an alternate Director made by him or her which was in force immediately prior to his or her retirement shall continue after his or her re-appointment.
- 153.5. Any appointment or revocation pursuant to this Article 153 may be sent by delivery, post, cable, commercial courier, telegram, telex, telefax, electronic mail or any other means of communication

approved by the Directors and may bear a printed or facsimile signature of the Director making such appointment or revocation or in any other manner approved by the Directors.

SECRETARY

- 154. The Secretary shall be appointed by the Board at such remuneration (if any) and on such terms as the Board sees fit and any Secretary so appointed may be removed by the Board at any time.
- 155. The duties of the Secretary shall be those prescribed by the Companies Acts, together with such other duties as shall from time to time be prescribed by the Board, and in any case, shall include the making and keeping of records of the votes, doings and proceedings of all meetings of the Members and the Board of the Company, and committees, and the authentication of records of the Company.
- 156. A provision of the Companies Acts or these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as, or in the place of, the Secretary.

SEAL

- 157. The Company may, if the Board so determines, have a Seal (including any official seals kept pursuant to the Companies Acts) which shall only be used by the authority of the Board or of a committee of the Board authorised by the Board in that regard and every instrument to which the Seal has been affixed shall be signed by any person who shall be either a Director or the Secretary or some other person authorised by the Board, either generally or specifically, for the purpose.
- 158. The Company may have for use in any place or places outside Ireland, a duplicate Seal or Seals each of which shall be a duplicate of the Seal of the Company except, in the case of a seal for use in sealing documents creating or evidencing securities issued by the Company, for the addition on its face of the word "Securities" and if the Board so determines, with the addition on its face of the name of every place where it is to be used.

DIVIDENDS, DISTRIBUTIONS AND RESERVES

- 159. The Company in general meeting may declare dividends, but no dividends shall exceed the amount recommended by the Board. Any general meeting declaring a dividend and any resolution of the Directors declaring an interim dividend may direct payment of such dividend or interim dividend wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stocks of any other company or in any one or more of such ways, and the Board shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Board may settle the same as they think expedient, and in particular may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed, in order to adjust the rights of all the parties, and may vest any such specific assets in trustees as may seem expedient to the Board.
- 160. Subject to the Companies Acts, the Board may from time to time declare dividends (including interim dividends) and distributions on Shares outstanding and authorise payment of the same out of the funds of the Company lawfully available therefore and in any currency chosen at its discretion.
- 161. The Board may, before declaring any dividends or distributions, set aside such sums as it thinks proper as a reserve or reserves which shall at the discretion of the Board, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business of the Company. The Directors may also, without placing the same to reserve, carry forward any profits which they may think it prudent not to divide.
- 162. No dividend, interim dividend or distribution shall be paid otherwise than in accordance with the provisions of Part IV of the 1983 Act.

163. Subject to the rights of persons, if any, entitled to Shares with special rights as to dividends or distributions, if dividends or distributions are to be declared on a class of Shares, they shall be declared and paid according to the amounts paid or credited as paid on the Shares of such class outstanding on the record date for such dividend or distribution as determined in accordance with these Articles.
164. The Directors may deduct from any dividend payable to any Member all sums of money (if any) immediately payable by him or her to the Company in relation to his or her Shares.
165. The Board or any general meeting declaring a dividend (upon the recommendation of the Board), may direct that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock or similar instrument of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Board may settle the same as it thinks expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Board.
166. Any dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by cheque or warrant sent through the post, or sent by any electronic or other means of payment, directed to the registered address of the holder or, in the case of joint holders, to the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant, electronic or other payment shall be made payable to the order of the person to whom it is sent and payment of the cheque or warrant shall be a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses, or other monies payable in respect of the Share held by them as joint holders. Any such dividend or other distribution may also be paid by any other method (including payment in a currency other than US\$, electronic funds transfer, direct debit, bank transfer or by means of a relevant system) which the Directors consider appropriate and any Member who elects for such method of payment shall be deemed to have accepted all of the risks inherent therein. The debiting of the Company's account in respect of the relevant amount shall be evidence of good discharge of the Company's obligations in respect of any payment made by any such methods.
167. No dividend or distribution shall bear interest against the Company.
168. If the Directors so resolve, any dividend which has remained unclaimed for six (6) years from the date of its declaration shall be forfeited and cease to remain owing by the Company. The payment by the Directors of any unclaimed dividend or other monies payable in respect of a Share into a separate account shall not constitute the Company a trustee in respect thereof.

CAPITALISATION

169. Without prejudice to any powers conferred on the Directors as aforesaid, and subject to the Board's authority to issue and allot Shares under Articles 6 and 7, the Board may:
- 169.1. resolve to capitalise an amount standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution;
- 169.2. appropriate the sum resolved to be capitalised to the Members in proportion to the nominal amount of Shares held by them respectively and apply that sum on their behalf in or towards paying up in full unissued Shares or debentures of a nominal amount equal to that sum, and allot the Shares or debentures, credited as fully paid, to the Members (or as the Board may direct) in those proportions, or partly in one way and partly in the other, but the share premium account, the capital redemption reserve and profits that are not available for distribution may, for the purposes of this Article 169, only be applied in paying up unissued Shares to be allotted to Members credited as fully paid;

- 169.3. make any arrangements it thinks fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular, without limitation, where Shares or debentures become distributable in fractions, the Board may deal with the fractions as it thinks fit;
- 169.4. authorise a person to enter (on behalf of all the Members concerned) into an agreement with the Company providing for the allotment to the Members respectively, credited as fully paid, of Shares or debentures to which they may be entitled on the capitalisation and any such agreement made under this authority being effective and binding on all those Members; and
- 169.5. generally do all acts and things required to give effect to the resolution.

ACCOUNTS

- 170. The Board shall cause to be kept proper books of account, whether in the form of documents, electronic form or otherwise, that:
 - 170.1. correctly record and explain the transactions of the Company;
 - 170.2. will at any time enable the financial position of the Company to be determined with reasonable accuracy;
 - 170.3. will enable the Board to ensure that any balance sheet, profit and loss account or income and expenditure account of the Company complies with the requirements of the Companies Acts;
 - 170.4. will record all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company; and
 - 170.5. will enable the accounts of the Company to be readily and properly audited.
- 171. Books of account shall be kept on a continuous and consistent basis and entries therein shall be made in a timely manner and be consistent from year to year. The Company may send by post, electronic mail or any other means of electronic communication a summary financial statement to its Members or persons nominated by any Member. The Company may meet, but shall be under no obligation to meet, any request from any of its Members to be sent additional copies of its full report and accounts or summary financial statement or other communications with its Members.
- 172. The books of account shall be kept at the registered office of the Company or, subject to the provisions of the Companies Acts, at such other place as the Directors think fit and shall be open at all reasonable times to the inspection of the Directors.
- 173. Proper books shall not be deemed to be kept as required by Articles 170 to 172, if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.
- 174. In accordance with the provisions of the Companies Acts, the Board may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.
- 175. A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the annual general meeting of the Company together with a copy of the Directors' report and Auditors' report shall be sent by post, electronic mail or any other means of communication (electronic or otherwise), not less than twenty-one (21) clear days before the date of the annual general meeting, to every person entitled under the provisions of the Companies Acts to receive them; provided that in the case of those documents sent by electronic mail or any other means of electronic communication, such documents shall be sent with the consent of the recipient, to the Address of the recipient notified to the Company by the recipient for such purposes.

AUDIT

176. Auditors shall be appointed and their duties regulated in accordance with sections 160 to 163 of the 1963 Act or any statutory amendment thereof, any other applicable law and such requirements not inconsistent with the Companies Acts as the Board may from time to time determine.

NOTICES

177. Any notice to be given, served, sent or delivered pursuant to these Articles shall be in writing (whether in electronic form or otherwise).
- 177.1. A notice or document to be given, served, sent or delivered in pursuance of these Articles, and the annual report of the Company, may be given to, served on or delivered to any Director, Member or committee member by the Company:
- (a) by handing same to their authorised agent;
 - (b) by delivering same to their registered address;
 - (c) by sending same by the post in a pre-paid cover addressed to their registered address; or
 - (d) by sending, with the consent of the Director, Member or committee member to the extent required by law, same by means of electronic mail or other means of electronic communication approved by the Directors, to the Address of the Director, Member or committee member notified to the Company by the Director, Member or committee member for such purpose (or if not so notified, then to the Address of the Director, Member or committee member last known to the Company).
- 177.2. For the purposes of these Articles and the Companies Act, a document shall be deemed to have been sent to a Director, Member or committee member if a notice is given, served, sent or delivered to the Director, Member or committee member and the notice specifies the website or hotlink or other electronic link at or through which the Director, Member or committee member may obtain a copy of the relevant document.
- 177.3. Where a notice or document is given, served or delivered pursuant to sub-paragraph 177.1(a) or 177.1(b) of this Article, the giving, service or delivery thereof shall be deemed to have been effected at the time the same was handed to the Director, Member or committee member or his or her authorised agent, or left at his or her registered Address (as the case may be).
- 177.4. Where a notice or document is given, served or delivered pursuant to sub-paragraph 177.1(c) of this Article, the giving, service or delivery thereof shall be deemed to have been effected at the expiration of twenty-four (24) hours after the cover containing it was posted. In proving service or delivery it shall be sufficient to prove that such cover was properly addressed, stamped and posted.
- 177.5. Where a notice or document is given, served or delivered pursuant to sub-paragraph 177.1(d) of this Article, the giving, service or delivery thereof shall be deemed to have been effected at the expiration of forty-eight (48) hours after despatch.
- 177.6. Every legal personal representative, committee, receiver, curator bonis or other legal curator, assignee in bankruptcy, examiner or liquidator of a Member shall be bound by a notice given as aforesaid if sent to the last registered Address of such Member, or, in the event of notice given or delivered pursuant to sub-paragraph 177.1(d), if sent to the Address notified by the Company by the Member for such purpose notwithstanding that the Company may have notice of the death, lunacy, bankruptcy, liquidation or disability of such Member.

- 177.7. Notwithstanding anything contained in this Article, the Company shall not be obliged to take account of or make any investigations as to the existence of any suspension or curtailment of postal services within or in relation to all or any part of any jurisdiction.
- 177.8. Any requirement in these Articles for the consent of a Member in regard to the receipt by such Member of electronic mail or other means of electronic communications approved by the Directors, including the receipt of the Company's annual report, audited accounts and the Directors' and auditor's reports thereon, shall be deemed to have been satisfied where the Company has written to the Member informing him or her of its intention to use electronic communications for such purposes and the Member has not, within four (4) weeks of the issue of such notice, served an objection in writing on the Company to such proposal. Where a Member has given, or is deemed to have given, his/her consent to the receipt by such Member of electronic mail or other means of electronic communications approved by the Directors, she/he may revoke such consent at any time by requesting the Company to communicate with him or her in documented form; provided, however, that such revocation shall not take effect until five (5) days after written notice of the revocation is received by the Company.
- 177.9. Without prejudice to the provisions of sub-paragraphs 177.1(a) and 177.1(b) of this Article, if at any time by reason of the suspension or curtailment of postal services in any territory, the Company is unable effectively to convene a general meeting by notices sent through the post, a general meeting may be convened by a public announcement (as defined below) and such notice shall be deemed to have been duly served on all Members entitled thereto at noon (New York time) on the day on which the said public announcement is made. In any such case the Company shall put a full copy of the notice of the general meeting on its website. A "public announcement" shall mean disclosure in a press release reported by a financial news service or in a document publicly filed by the Company with the U.S. Securities and Exchange Commission pursuant to sections 13, 14 or 15(d) of the Exchange Act and the rules and regulations promulgated thereunder.
178. Notice may be given by the Company to the joint holders of a Share by giving the notice to the joint holder whose name stands first in the Register in respect of the Share and notice so given shall be sufficient notice to all the joint holders.
- 179.
- 179.1. Every person who becomes entitled to a Share shall before his or her name is entered in the Register in respect of the Share, be bound by any notice in respect of that Share which has been duly given to a person from whom he or she derives his or her title.
- 179.2. A notice may be given by the Company to the persons entitled to a Share in consequence of the death or bankruptcy of a Member by sending or delivering it, in any manner authorised by these Articles for the giving of notice to a Member, addressed to them at the address, if any, supplied by them for that purpose. Until such an address has been supplied, a notice may be given in any manner in which it might have been given if the death or bankruptcy had not occurred.
180. The signature (whether electronic signature, an advanced electronic signature or otherwise) to any notice to be given by the Company may be written (in electronic form or otherwise) or printed.
181. A Member present, either in person or by proxy, at any meeting of the Company or the holders of any class of Shares in the Company shall be deemed to have received notice of the meeting and, where requisite, of the purposes for which it was called.

UNTRACED HOLDERS

- 182.
- 182.1. The Company shall be entitled to sell at the best price reasonably obtainable, any Share or stock of a Member or any Share or stock to which a person is entitled by transmission if and provided that:

- (a) for a period of six (6) years (not less than three (3) dividends having been declared and paid) no cheque or warrant sent by the Company through the post in a prepaid letter addressed to the Member or to the person entitled by transmission to the Share or stock at his or her address on the Register or other than the last known address given by the Member or the person entitled by transmission to which cheques and warrants are to be sent has been cashed and no communication has been received by the Company from the Member or the person entitled by transmission; and
 - (b) at the expiration of the said period of six (6) years the Company has given notice by advertisement in a leading newspaper circulating in the area in which the address referred to in paragraph (a) of this Article is located of its intention to sell such Share or stock; and
 - (c) the Company has not during the further period of three (3) months after the date of the advertisement and prior to the exercise of the power of sale received any communication from the Member or person entitled by transmission.
- 182.2. To give effect to any such sale, the Company may appoint any person to execute as transferor an instrument of transfer of such Share or stock and such instrument of transfer shall be as effective as if it had been executed by the Member or person entitled by transmission to such Share or stock. The Company shall account to the Member or other person entitled to such Share or stock for the net proceeds of such sale by carrying all monies in respect thereof to a separate account which shall be a permanent debt of the Company and the Company shall be deemed to be a debtor and not a trustee in respect thereof for such Member or other person. Monies carried to such separate account may either be employed in the business of the Company or invested in such investments (other than shares of the Company or its holding company if any) as the Directors may from time to time think fit.

DESTRUCTION OF DOCUMENTS

183. Former shareholders of Paladin Labs Inc. ("Paladin") who do not deliver their Paladin share certificates and all other required documentation to Paladin's exchange agent on or before the second anniversary of the completion of the Company's indirect acquisition of Paladin (the "Paladin Acquisition") may in the absolute discretion of the Board, have their relevant Shares repurchased by the Company for nil consideration in accordance with the procedures set out in Article 31.3 and thereafter shall cease to have a claim or interest of any kind or nature as a Member and shall lose their right to receive any dividend or other distribution declared by the Company with respect to his or her relevant Shares after the completion of the Paladin Acquisition.
184. The Company may destroy:
- 184.1. any dividend mandate or any variation or cancellation thereof or any notification of change of name or address, at any time after the expiry of two (2) years from the date such mandate variation, cancellation or notification was recorded by the Company;
 - 184.2. any instrument of transfer of Shares which has been registered, at any time after the expiry of six (6) years from the date of registration; and
 - 184.3. any other document on the basis of which any entry in the Register was made, at any time after the expiry of six (6) years from the date an entry in the Register was first made in respect of it;
 - 184.4. and it shall be presumed conclusively in favour of the Company that every share certificate (if any) so destroyed was a valid certificate duly and properly sealed and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company provided always that:

- (a) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim;
- (b) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (a) above are not fulfilled; and
- (c) references in this Article to the destruction of any document include references to its disposal in any manner.

WINDING UP

185. If the Company shall be wound up and the assets available for distribution among the Members as such shall be insufficient to repay the whole of the paid up or credited as paid up share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up or credited as paid up at the commencement of the winding up on the Shares held by them respectively. And if in a winding up the assets available for distribution among the Members shall be more than sufficient to repay the whole of the share capital paid up or credited as paid up at the commencement of the winding up, the excess shall be distributed among the Members in proportion to the capital at the commencement of the winding up paid up or credited as paid up on the said Shares held by them respectively. Provided that this Article shall not affect the rights of the Members holding Shares issued upon special terms and conditions.
- 185.1. In case of a sale by the liquidator under section 260 of the 1963 Act, the liquidator may by the contract of sale agree so as to bind all the Members, for the allotment to the Members directly, of the proceeds of sale in proportion to their respective interests in the Company and may further, by the contract, limit a time at the expiration of which obligations or Shares not accepted or required to be sold shall be deemed to have been irrevocably refused and be at the disposal of the Company, but so that nothing herein contained shall be taken to diminish, prejudice or affect the rights of dissenting Members conferred by the said section.
- 185.2. The power of sale of the liquidator shall include a power to sell wholly or partially for debentures, debenture stock, or other obligations of another company, either then already constituted or about to be constituted for the purpose of carrying out the sale.
186. If the Company is wound up, the liquidator, with the sanction of a Special Resolution and any other sanction required by the Companies Acts, may divide amongst the Members *in specie* or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not), and, for such purpose, may value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator, with the like sanction, may vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as, with the like sanction, he or she determines, but so that no Member shall be compelled to accept any assets upon which there is a liability.

INDEMNITY

- 187.
- 187.1. Subject to the provisions of, and so far as may be permitted by, the Companies Acts, every Director and Secretary shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company and in which judgement is given in his or her favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his or her part)

or in which he or she is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted to him by the Court.

- 187.2. As far as permissible under the Companies Acts, the Company shall indemnify any current or former executive or officer of the Company (excluding any Directors or Secretary) or any person who is serving or has served at the request of the Company as a Director, executive, officer or trustee of another company, joint venture, trust or other enterprise against expenses, including attorneys' fees, judgments, fines, and amounts paid in settlement actually and reasonably incurred by him or her in connection with any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the Company, to which he or she was, is, or is threatened to be, made a party by reason of the fact that he or she is or was such a Director, executive, officer or trustee, provided always that the indemnity contained in this Article 187.2 shall not extend to any matter which would render it void pursuant to the Companies Acts.
- 187.3. In the case of any threatened, pending or completed action, suit or proceeding by or in the right of the Company, the Company shall indemnify each person indicated in Article 187.2 against expenses, including attorneys' fees, actually and reasonably incurred in connection with the defence or the settlement thereof, except no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for fraud or dishonesty in the performance of his or her duty to the Company unless and only to the extent that the Court or the Court in which such action or suit was brought shall determine upon application that despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the Court shall deem proper.
- 187.4. As far as permissible under the Companies Acts, expenses, including attorneys' fees, incurred in defending any action, suit or proceeding referred to in Articles 187.2 and 187.3 may be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorised by the Board in the specific case upon receipt of an undertaking by or on behalf of the Director, executive, officer or trustee, or other indemnitee to repay such amount, unless it shall ultimately be determined that he or she is entitled to be indemnified by the Company as authorised by these Articles.
- 187.5. It being the policy of the Company that indemnification of the persons specified in this Article shall be made to the fullest extent permitted by law, the indemnification provided by this Article shall not be deemed exclusive (a) of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Memorandum, Articles, any agreement, any insurance purchased by the Company, any vote of Members or disinterested Directors, or pursuant to the direction (however embodied) of any court of competent jurisdiction, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, or (b) of the power of the Company to indemnify any person who is or was an employee or agent of the Company or of another company, joint venture, trust or other enterprise which he or she is serving or has served at the request of the Company, to the same extent and in the same situations and subject to the same determinations as are hereinabove set forth with respect to a Director, executive, officer or trustee. As used in this Article 187.5, references to the "Company" include all constituent companies in a consolidation or merger in which the Company or a predecessor to the Company by consolidation or merger was involved. The indemnification provided by this Article shall continue as to a person who has ceased to be a Director, executive, officer or trustee and shall inure to the benefit of the heirs, executors, and administrators of such a person.
- 187.6. The Directors shall have power to purchase and maintain for any Director, the Secretary or other officers or employees of the Company insurance against any such liability as referred to in section 200 of the 1963 Act.
- 187.7. The Company may additionally indemnify any employee or agent of the Company or any Director, executive, officer, employee or agent of any of its subsidiaries to the fullest extent permitted by law.

FINANCIAL YEAR

188. The financial year of the Company shall be as prescribed by the Board from time to time.

SHAREHOLDER RIGHTS PLAN

189. The Board is hereby expressly authorised to adopt any shareholder rights plan, upon such terms and conditions as the Board deems expedient and in the best interests of the Company, subject to applicable law.

Name, Address and Description of the Subscriber	Number of shares taken by the Subscriber
For and on behalf of Goodbody Subscriber One Limited IFSC, North Wall Quay, Dublin 1 Limited Liability Company	One Ordinary Share of EUR€1.00 each
For and on behalf of Goodbody Subscriber Two Limited IFSC, North Wall Quay, Dublin 1 Limited Liability Company	One Ordinary Share of EUR€1.00 each

Total Number of Shares Taken: 2

Dated

Witness to the above signature:

Name:

Address:

Occupation:

APPENDIX “L”
INFORMATION CONCERNING ENDO’S COMPENSATION POLICY

Glossary of Terms

All capitalized terms used in this Appendix and otherwise undefined in the Circular or in this Appendix shall have the meaning ascribed to such terms in the “Glossary of Terms”, words importing the singular number only shall include the plural and vice versa, and words importing the use of any gender shall include all genders. Unless otherwise indicated herein, references to “\$” or “U.S. dollars” are to United States dollars. Unless expressly stated otherwise, all references in this Appendix to “we”, “us”, “our” or similar references refer to Endo Health Solutions Inc.

“**AMS**” means American Medical Systems.

“**Board of Directors**” means the Board of Directors of Endo.

“**Company**” or “**Endo**” means Endo Health Solutions Inc.

“**EPS**” means earnings per share.

“**LTI**” means long-term incentive.

“**NEO**” means the named executive officers of Endo as disclosed in the “Compensation Discussion and Analysis” and tabular disclosures of this Appendix. For purposes of this Appendix, Endo’s NEOs include the individuals who served as Endo’s principal executive officer and principal financial officer during 2012 as well as Endo’s three other most highly compensated executive officers during 2012. David P. Holveck, former Chief Executive Officer, retired from Endo effective March 18, 2013. Endo’s current Chief Executive Officer is Rajiv De Silva. Alan G. Levin, former Chief Financial Officer, retired from Endo effective as of September 23, 2013 and terminated his employment on December 6, 2013. Endo’s current Chief Financial Officer is Suketu P. Upadhyay. Julie McHugh terminated her employment as Chief Operating Officer effective as of May 29, 2013.

“**PSU**” means a performance share unit.

“**RSU**” means a restricted stock unit.

“**TSR**” means total shareholder return.

Compensation Discussion and Analysis

Pay-for-performance underlies Endo’s compensation philosophy. The Compensation Committee believes that the most effective executive compensation program is one that is designed to provide incentives that advance the interests of stockholders and deliver levels of compensation that are commensurate with performance. Endo’s compensation philosophy is designed to support our business strategy by attracting and retaining highly-talented individuals and motivating them to achieve competitive corporate performance, while embracing the Company’s values and leadership attributes.

Our executive compensation program seeks to:

- Create long-term stockholder value;
- Link compensation with Company and individual performance;
- Reward high performance as measured against the Company’s strategic and business plans;
- Provide appropriate compensation for achieving annual results while fostering a long-term performance orientation;
- Reflect the competitive market for talent; and
- Mitigate risk.

Elements of Executive Compensation

The Company's compensation programs consist of elements designed to complement each other and reward achievement of short-term and long-term objectives tied to the Company's performance through the establishment and achievement of strategic operating metrics or as a function of the Company's total shareholder return. In support of our compensation philosophy, we have chosen selected metrics to align employee compensation, including compensation for the NEOs, to the Company's strategic operating results and business strategy. The three principal components of the Company's total compensation are base salary, annual cash incentive compensation and equity-based LTI compensation.

- Base Salary reflects job responsibilities, value to the Company and individual performance while also taking into consideration market competitiveness.
- Annual cash IC is a short-term program that reinforces the Company's pay-for-performance approach, rewarding the achievement of annual goals and objectives.
- LTI compensation provides an equity-based award that is performance-based. The objective of the program is to align compensation for NEOs over a multi-year period directly with the interests of stockholders of the Company by motivating and rewarding the creation and preservation of long-term stockholder value.

Say-on-Pay Consideration

In establishing 2013 compensation, the Compensation Committee also considered the results of the most recent stockholder advisory vote on executive compensation (the "say-on-pay vote") at our annual meeting of stockholders held in May 2012, where over 88% of the votes cast on the say-on-pay proposal were voted in favor of the proposal. The Compensation Committee believes this result affirms stockholder support for our executive compensation decisions and policies, and as such, the Compensation Committee did not implement any changes as a result of this vote. The Compensation Committee will continue to consider the results of future say-on-pay votes when making executive compensation decisions and policies.

Company Implemented Actions

In response to the evolving nature of our business structure and our goal to strengthen our executive pay decisions, emphasis has been placed on enhancing the effectiveness of our executive compensation policies in an effort to increase stockholder value creation. The following reflects the leading practices implemented and maintained by the Company in an effort to achieve pay-for-performance, while maintaining good corporate governance:

Item

Competitive Considerations	• Established and maintained "Data Point Companies" to appropriately compare NEO total compensation levels; and • Assess relative total shareholder return (TSR) performance for its PSU awards against the current Standard and Poor's (S&P) 1500 Healthcare Index peer group.
Incentive Compensation	• Short- and long-term incentive programs are performance-based, designed to closely link pay and performance with the ultimate objective of enhancing stockholder value; • Equity plans prohibit the re-pricing of equity awards without stockholder approval and the Company affirmed that Endo does not allow for cash buyouts of underwater options;

Item

	• Implemented a “double trigger” change in control provision in our 2010 Stock Incentive Plan; Affirmed that all future non-Director LTI awards under the current stock plans will vest over time, but in no event will 100% be vested sooner than 3-years from the date of the grant; • Changed the PSU performance criteria to be based exclusively on TSR performance; and • Increased the portion of LTI awarded as PSUs from 33% to 50% to further strengthen the focus on stockholder value creation.
Employment Agreement	• Affirmatively determined not to offer new employees gross-up payments related to excise tax liabilities resulting from a change in control of the Company; and • The Company will not enter into any new NEO employment agreements with automatic renewal provisions.
Risk Management	• Conduct assessments at least annually of the potential risks associated with compensation arrangements, policies and practices to confirm that they are not reasonably likely to have material adverse effect on Endo; • Adopted a compensation recovery policy (clawback) relating to repayment of cash incentive awards by an executive in the event of a restatement of the Company’s financial results; • Adopted a policy prohibiting the hedging and pledging of Company stock by employees and/or non-employee Directors; • Adopted stock ownership guidelines for both non-employee Directors and for executive management to align their interests with the interests of Endo stockholders; • Affirmed non-employee Directors will not sell any shares of Endo common stock until Ownership Guidelines have been attained; and • The Compensation Committee retained Hay Group as its independent compensation consultant.

The Company’s Executive Compensation Program

Overall Program Objectives

The Company’s primary objectives with respect to the development and implementation of executive compensation programs are to attract, retain and motivate highly qualified talent, as well as align executive compensation with the Company’s overall operating performance and business strategies, closely linked to the enhancement of stockholder value. The Compensation Committee believes that the most effective executive compensation program is one that is designed to recognize the achievement of specific annual, long-term and strategic goals of the Company, rewarding executives who contribute to meeting and exceeding the Company’s business objectives, with the ultimate objective of improving stockholder value.

Accordingly, the Company provides incentives to advance the interests of stockholders and deliver levels of compensation that are commensurate with performance. Overall, the Company designs its compensation program to:

- create a strong performance alignment with stockholders’ interests;
- support the corporate business strategy and business plan by clearly communicating what is expected of executives with respect to goals and results and by rewarding achievement; and
- recruit, retain and motivate superior executive talent.

The Company seeks to achieve these objectives through three key compensation elements:

- a base salary;
- a performance-based annual cash incentive (i.e., annual IC program); and
- an annual (and, under certain circumstances, periodic) grant of long-term, equity-based compensation (i.e., a long-term incentive), comprised of PSUs that have performance-based vesting requirements, RSUs subject to time-based vesting requirements, and stock options.

The Compensation Committee reviews compensation information for each NEO which includes the following information:

- the annual compensation and benefit values that are being offered to each executive;
- the value of all outstanding equity awards; and
- the value of all other compensation.

The Compensation Committee also meets with our Chairman, President and Chief Executive Officer and other senior management in connection with compensation matters and regularly meets in executive sessions with and without Hay Group Compensation Committee consultants.

Competitive Considerations

In making compensation decisions with respect to each element of compensation, the Compensation Committee considers the competitive market for executives and compensation levels provided by comparable companies. The Compensation Committee regularly reviews the compensation practices at companies with which it competes for talent, including businesses engaged in activities similar to those of the Company, including branded pharmaceuticals, generics, devices and services. While we do not believe that it is appropriate to establish compensation levels based primarily on benchmarking, we believe that information regarding pay practices at other companies is nevertheless useful in two respects. First, we recognize that our compensation practices must be competitive in the marketplace. Second, independent marketplace information is one of the many factors that we consider in assessing the reasonableness of compensation.

The Compensation Committee generally aligns target executive compensation at the median of compensation packages for executives in similar positions and with similar responsibilities and experience at similar companies of comparable size with the opportunity for top quartile actual compensation based upon individual and Company performance. We recognize, however, that positions with similar titles at the Data Point Companies are not always comparable in terms of responsibility to such positions at the Company. The Compensation Committee's choice of this target percentile reflects the Company's consideration for our stockholders' interests in paying what is competitive, but not significantly more than that which is competitive, to achieve our corporate goals, while conserving cash and equity as much as practicable.

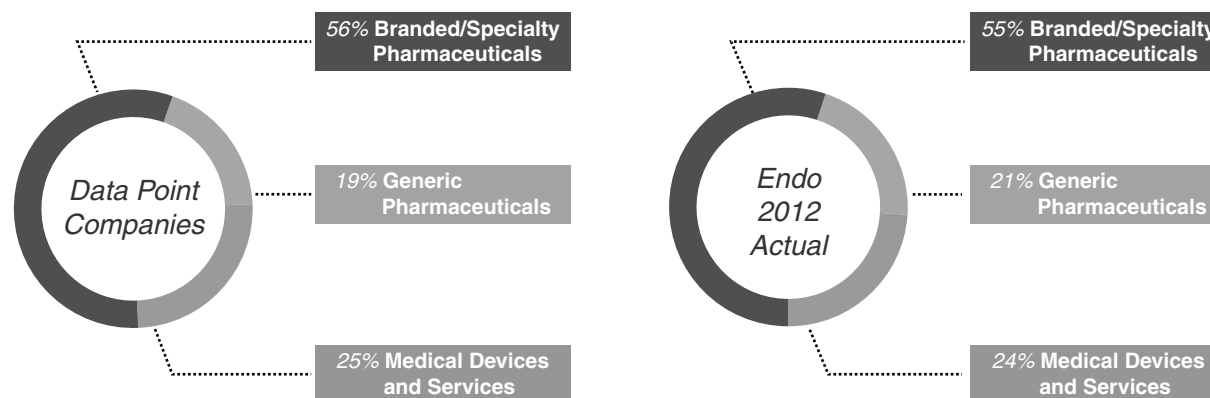
We believe that, given the industries in which we operate and our compensation philosophy and objectives, compensation targeted at the median of similar-situated companies with the opportunity for top quartile total compensation based upon performance is generally sufficient to retain our current executive officers and to hire new executive officers when and as required. In setting compensation for the NEOs, the Compensation Committee considers comparative market data requested from Hay Group, its compensation consultant. In gathering relevant competitive market compensation data, the Compensation Committee approved the use of a sample of mid-sized companies with similar operations as Endo.

We refer to all of these sample companies as the “Data Point Companies.” The Committee believes that Endo competes with the Data Point Companies for talent and for stockholder investment. The Data Point Companies typically have similar executive officer positions and create a range of comparative compensation values that are utilized by the Compensation Committee to confirm that salary levels and overall incentive opportunities approved by the Compensation Committee are consistent with the Company’s overall objectives. Hay Group makes regular recommendations to the Committee regarding the recalibration of the Data Point Companies referenced, which includes a cross-industry composite of companies that reflects the Company’s current business segments. On an annual basis, the Compensation Committee re-evaluates the Data Point Companies from a business revenue allocation perspective once any respective segment shifts significantly in a given year. As a result of this annual review, the Company maintained the current Data Point Companies, since the current composition continues to approximate Endo’s 2012 segment allocation. The Compensation Committee approved Data Point Companies for 2012 are listed in the table below.

2012 Data Point Companies

Allergan Inc.	Celgene Corporation	Intuitive Surgical, Inc.	Salix Pharmaceuticals Ltd.
Biogen Idec Inc.	Edwards Lifesciences Corporation	Medicis Pharmaceutical Corporation	Valeant Pharmaceuticals Inc.
C.R. Bard, Inc.	Forest Laboratories Inc.	Mylan Inc.	Warner Chilcott Ltd.
CareFusion Corporation	Gilead Sciences, Inc.	Par Pharmaceuticals	Watson Pharmaceuticals Inc.

The graphs below reflect the Data Point Companies’ revenue composition for 2012, as well as Endo’s actual revenue allocation across business segments for 2012.



The Compensation Committee does not attempt to set each compensation element for each executive within a particular range related to levels provided by the Data Point Companies. Instead, the Compensation Committee uses market comparisons as one factor in making compensation decisions. Among other factors considered when making individual executive compensation decisions include individual contribution and performance, reporting structure, complexity and importance of role and responsibilities, leadership and growth potential.

In establishing 2013 compensation, the Compensation Committee also considered the results of the most recent stockholder advisory vote on executive compensation (the “say-on-pay vote”) at our annual meeting of stockholders held in May 2012, where a substantial majority of the votes cast on the say-on-pay proposal were voted in favor of the proposal. The Compensation Committee believes these results affirm stockholder support for our executive compensation decisions and policies, and as such, the Compensation Committee did not implement any changes as a result of this vote. The Compensation Committee will continue to consider the results of future say-on-pay votes when making executive compensation decisions and policies.

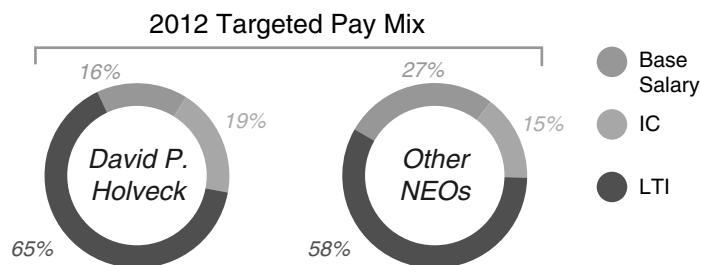
Pay Risk

At least on an annual basis, the Company's management team conducts an assessment of the potential risks associated with the Company's compensation arrangements, policies and practices. The assessment is then reviewed by the Company's Compensation Committee. A key objective is to determine whether the Company's compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the Company. This risk assessment process includes:

- A comprehensive review of compensation programs with the highest potential for material adverse effect;
- Identification of key Company positions and business areas that could potentially carry a significant portion of the Company's risk profile;
- Identification of compensation programs for the key Company positions and/or business areas;
- An analysis of employee compensation plans with the highest potential for risk pursuant to which we:
 - Identify the features within the plans that could potentially encourage excessive or imprudent risk taking;
 - Identify business risks that these features could potentially encourage;
 - Identify controls and plan features that mitigate the risks identified;
 - Determine residual risk remaining after having identified mitigating controls and features; and
 - Assess whether residual risk is reasonably likely to have a material adverse effect on the Company as a whole.

The Compensation Committee also reviews the Company's compensation programs that allow for variable payouts. A key consideration is the establishment of an appropriate mix of performance metrics. The Compensation Committee also oversees the plans so that they reward both annual goal achievement and the long-term sustainable success of the Company. In addition, the reviews focus on plans where an employee might be able to influence payout factors and programs that involve our executives, with a focus on analyzing whether any of the performance targets encourage excessive risk taking. During the assessment, several control and design features of the Company's compensation program that are intended to mitigate the risk of excessive risk-taking are evaluated. Risk profiles are also evaluated on an on-going basis as new program designs are considered.

Based on the process described above, it was concluded that the potential risks associated with the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on Endo. Management will continue to review the Company's compensation programs at least annually to identify and address potential risks that may have a material adverse effect on the Company.



Compensation Components

The three principal components of the Company's total compensation are: base salary, annual cash incentive compensation and equity-based LTI compensation. In allocating compensation among these elements, we believe that the majority of the compensation of our senior-most levels of management—the levels of management having the greatest ability to influence the Company's performance—should be performance-based, while lower levels of management should receive a greater portion of their compensation in base salary.

In making decisions with respect to any element of a named executive officer's compensation, the Compensation Committee considers the total compensation that may be awarded to the officer, including salary, annual IC cash bonus and long-term incentive compensation. In addition, in reviewing and approving employment agreements for NEOs, the Compensation Committee considers the other benefits to which the officer is entitled by the agreement, including compensation payable upon termination of the agreement under a variety of circumstances. The Compensation Committee's goal is to award compensation that is competitive to attract and retain highly qualified leaders and motivate high business performance. The Compensation Committee believes that its compensation programs align executive and stockholder interests as well as vary compensation based on individual and Company performance.

Base Salary

Purpose: The objective of base salary is to reflect job responsibilities, value to the Company and individual performance while taking into consideration market competitiveness. We seek to provide our executive officers with competitive annual base salaries in order to attract and retain them. The base salary component of our executive officer compensation program is not designed to incentivize our near-term performance (as performance-based cash bonuses are designed to do), but rather to provide the baseline level of compensation to executive officers.

Considerations: Salaries for the NEOs are determined initially by each individual's employment agreement which are described under "Employment and Change in Control Agreements; Severance Agreements" below. These salaries and the amount of any increase over these salaries are determined by the Compensation Committee based on a variety of factors, including:

- the nature and responsibility of the position and, to the extent available, salary norms for persons in comparable positions at the Data Point Companies;
- the expertise and competencies of the individual executive;
- the competitiveness of the market for the executive's services;
- internal review of the executive's compensation, both individually and relative to other NEOs;
- the recommendations of the President and Chief Executive Officer (except in the case of the President and Chief Executive Officer's own compensation); and
- individual performance of the NEO, which includes:
 - achievement of individual annual goals and objectives, the risks and challenges involved, and the impact of the results;
 - performance of day-to-day responsibilities;
 - increases in competencies and skill development;
 - value of their contribution to function and Company goal achievement; and
 - behaviors aligned with Endo core values.

Base salaries are generally reviewed annually. In reviewing salaries, the Compensation Committee adjusts salaries from time to time to realign salaries with market levels, individual performance and incumbent experience. The Compensation Committee also considers salaries relative to those of others within the Company and may, on occasion, make adjustments to salaries or other elements of total compensation, such as incentive compensation and long-term incentive opportunities, where such an adjustment would correct a compensation imbalance, as the Compensation Committee deems appropriate.

2012 Decisions Regarding Base Salary: In December 2012, as part of the Compensation Committee's annual review of compensation, Hay Group provided the Compensation Committee with a market assessment of the

competitive compensation for the Company's executive officers. This assessment included reviewing the Data Point Companies and:

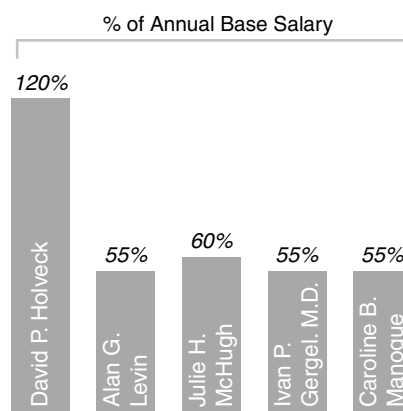
- establishing a benchmark match for each of the positions;
- gathering and analyzing competitive compensation from relevant labor markets; and
- developing competitive market medians of compensation for the positions.

Based on the competitive market data referred to above, the Compensation Committee developed, with the assistance of Hay Group, market medians of compensation for each of Endo's compensation elements (base salary, target annual incentive compensation, and expected value of long-term incentive compensation) and then compared each NEO's current compensation to the market median for each data sample. The market data and the performance of each of Endo's NEOs are reviewed each year, but there is no assurance that any of their individual compensation packages will be aligned with the market. The Compensation Committee reviewed the competitive market data in the context of both Company and individual performance for 2012, and concluded that base salary increases would not be awarded to any of the NEOs in 2013, as indicated in the "Individual Compensation Determination" section.

Performance-Based Annual Cash Incentive Compensation (IC)

Purpose: The compensation program provides for an annual cash incentive that reinforces the Company's pay-for-performance approach. This incentive compensation, or IC, program is a short-term performance-based incentive plan that rewards achievement of annual goals and objectives. The objective of the program is to compensate individuals based on the achievement of specific goals that are intended to correlate closely with stockholder value.

The respective annual cash IC target for each named executive officer related to 2012, to be paid in early 2013, is expressed in the graph to the right.



Considerations: The annual cash IC program includes relative incentive levels based on the NEO's accountabilities, performance objectives and impact on Company operations, with target award opportunities established as a percentage of base salary. Each NEO's target IC bonus is established pursuant to their respective employment agreement, which is determined based on all factors that the Compensation Committee deems relevant, including (but not limited to) a review of the Data Point Companies' compensation. The annual bonus process for our NEOs involves two basic steps:

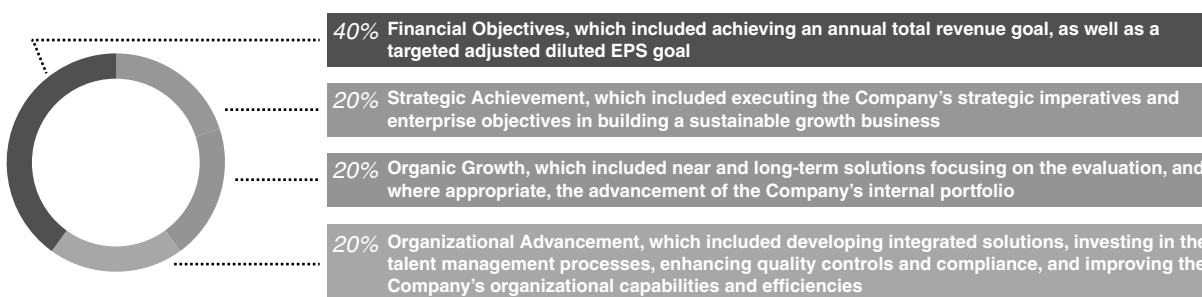
- At the outset of the year:
 - Set overall Company performance goals using a scorecard process; and
 - Set individual objectives aligned with the business strategy and Company scorecard for the year.
- At the end of the year:
 - Measure actual performance (individual and Company-wide) against the predetermined Company performance goals and individual performance measures to determine the appropriate award.

These two steps are further described below:

- (1) Setting Company performance goals. Early in each year, the Compensation Committee, working with senior management, sets performance goals for the Company. The bonus determination for each NEO is primarily based upon the Company's performance against these goals. The goals that were established for 2012 are discussed below under "2012 Decisions Regarding Incentive Compensation."
- (2) Measuring performance. After the end of the year, the Compensation Committee reviews the Company's actual performance against each of the performance goals established at the outset of the year. The Compensation Committee assesses the Company's performance as well as each NEO's performance against the individual goals set at the outset of the year. This assessment allows bonus decisions to take into account overall Company performance and each NEO's personal performance and contribution during the year. In determining the extent to which the pre-set performance goals are met for a given period, the Compensation Committee exercises its judgment whether to reflect or exclude the impact of changes in accounting principles and extraordinary, unusual or infrequently occurring events reported in the Company's public filings.

Discretion: Under the IC program, the Compensation Committee has discretion, in appropriate circumstances (e.g., should the individual's performance in any particular year be evaluated as outstanding), to pay incentive compensation at less than or in excess of target levels, but no more than the lesser of 1) the maximum aggregate amount of the annual incentive pool based on a pre-established fixed percentage of consolidated adjusted net income or 2) a maximum individual amount of \$3,000,000 for the President and Chief Executive Officer and three other highest-paid executive officers (not including the Company's Executive Vice President & Chief Financial Officer in accordance with IRC 162(m)), which is the amount approved by stockholders in accordance with IRC 162(m) of the Internal Revenue Code under Endo's 2010 Stock Incentive Plan. Further, pursuant to each of our NEOs' employment agreements, target IC as a percentage of annual base salary may subsequently be increased at the discretion of the Compensation Committee. The Committee did not implement any IC target changes for the Company's NEOs for the 2012 performance year.

2012 Decisions Regarding Incentive Compensation: The following information summarizes the components of the Company's IC program and the basis for the actual award granted by the Compensation Committee for 2012. With respect to 2012, the annual award to each of the NEOs was based on the achievement of corporate goals as well as each NEO's individual performance and demonstrated leadership. The Compensation Committee established corporate performance goals for 2012, placing emphasis on the Company's most important strategic and operating objectives. For 2012, the IC weightings were recalibrated to place balanced emphasis on strategic and operational activities. The performance goals were weighted as follows (specific targets are discussed in the following section heading "2012 Company Performance Against Objectives"):

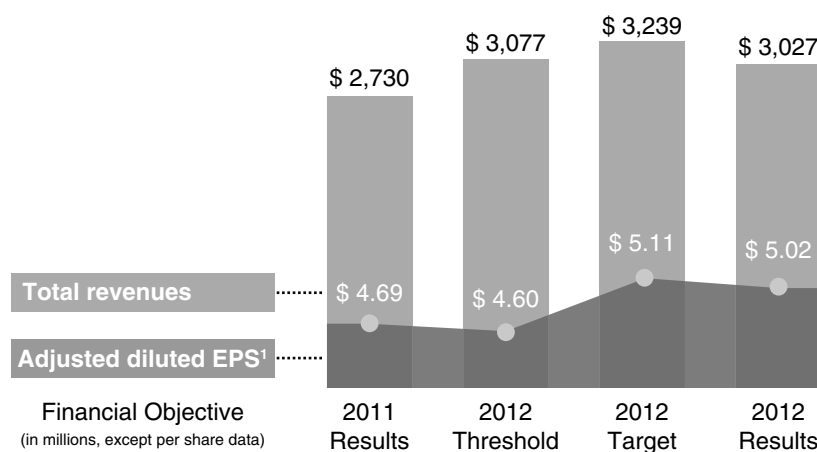


The above "scorecard" is calibrated so that results will generally range between 50% and 150% of target award opportunity, commensurate with performance. These goals are set so that the Company's financial performance achieved in each scenario will appropriately fund the cost of the cash incentives. The Compensation Committee, however, has the discretion to withhold annual cash incentives that otherwise would be made to any employees,

including the NEOs, if it determines, either on a quantitative or a qualitative basis, that overall performance is too low. Moreover, the scorecard achievements are assessed based on whether the Company achieved the scorecard results considering (1) current healthcare compliance as reflected by a robust internal compliance program and as determined by outcomes of regulatory review and inspections, such as those of the Food and Drug Administration, and (2) progress on health and safety outcomes as determined by other regulatory and environmental matters.

2012 Company Performance Against Objectives: The Company faced significant challenges in 2012 ranging from pharmaceutical supply disruptions to softness of the AMS business due in part to a decline of mesh-related procedures. These challenges contributed to the significant charges relating to the impairment of certain assets, primarily driven by the reduction in fair value underlying goodwill and other intangible assets attributable to the Company's AMS segment and the impact of accruals for legal and other contingencies. The graph below summarizes Management's key 2012 accomplishments (numbers are reported in millions, other than per share information).

- Financial Objectives:
 - Achieved \$3.027 billion in revenue compared to 2012 plan of \$3.239 billion (93.5% of plan), representing an increase of 11% compared to 2011; and
 - Achieved adjusted diluted EPS of \$5.02 compared to target of \$5.11, representing a 7% increase compared to 2011.



- Adjusted diluted EPS is not prepared in accordance with U.S. generally accepted accounting principles (GAAP) and may be different from non-GAAP financial measures used by other companies. Endo refers to this non-GAAP financial measure in making operating decisions because it believes it provides meaningful supplemental information regarding the Company's operational performance. For instance, Endo believes that adjusted diluted EPS facilitates its internal comparisons to its historical operating results and comparisons to competitors' results. The Company includes adjusted diluted EPS in its earnings announcements because it believes it is useful to investors in allowing for greater transparency related to supplemental information used by Endo in its financial and operational decision-making. In addition, Endo has historically reported similar non-GAAP financial measures to its investors and believes that the inclusion of comparative numbers provides consistency in its financial reporting. Further, Endo believes that adjusted diluted EPS may be useful to investors as it is aware that certain of its significant stockholders utilize this measure to evaluate its financial performance. Finally, adjusted diluted EPS is considered by the Compensation Committee of Endo's Board of Directors in assessing the performance and compensation of substantially all of its employees, including its executive officers. Investors are encouraged to review the following reconciliation of adjusted diluted EPS to its most directly comparable GAAP financial measure-diluted EPS.

	<u>2012</u>	<u>2011</u>
Adjusted diluted EPS	\$ 5.02	\$ 4.69
Upfront and milestone payments to partners	\$(0.51)	\$(0.23)
Acquisition-related and integration items, net	\$(0.19)	\$(0.28)
Separation benefits and other cost reduction initiatives	\$(0.39)	\$(0.18)
Asset impairment charges	\$(6.43)	\$(0.96)
Amortization of intangible assets related to marketed products and customer relationships	\$(1.89)	\$(1.57)
Inventory step-up	\$(0.01)	\$(0.41)
Non-cash interest expense	\$(0.17)	\$(0.16)
Net loss on extinguishment of debt	\$(0.06)	\$(0.10)
Accrual for payment to Impax related to sales of OPANA® ER	\$(0.85)	\$ —
Patent litigation settlement items, net	\$(0.71)	\$ —
Litigation-related and other contingencies	\$(2.65)	\$(0.09)
Other income, net	\$ —	\$ 0.02
Income tax	\$ 2.65	\$ 0.82
Exclusion of dilutive securities due to net loss	\$(0.21)	\$ —
Diluted EPS	\$(6.40)	\$(1.55)

Other performance goals are established in alignment with the Company’s strategic priorities. Further, the goals are developed to deliver strong annual operating performance results, while positioning the Company for longer-term success and enhanced stockholder value. Performance goals are set to be challenging, while reasonably attainable given a concerted effort on the part of the Company’s NEOs and employees in consideration of conditions and trends. NEO compensation is closely aligned with the achievement of performance goals, including:

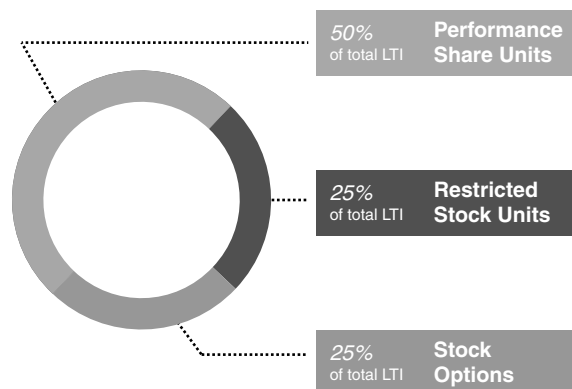
- Strategic Achievement;
- Organic Growth; and
- Organizational Advancement

The Compensation Committee reviewed the Company’s achievement of the financial and other objectives set forth above as well as each named executive officer’s contributions and concluded that incentive payments would not be awarded to the NEOs for the 2012 performance year, as indicated in the “Individual Compensation Determination” section.

See also below under the heading “Retirement and Post-Termination Benefits” regarding how each named executive officer with an employment agreement is entitled to cash incentive compensation as a percentage of salary under certain circumstances.

Equity-Based Long-term Incentive Compensation

Purpose: The LTI program provides an annual award (and, under certain circumstances, a periodic award) that is performance-based. The objective of the program is to align compensation for NEOs over a multi-year period directly with the interests of stockholders of the Company by motivating and rewarding creation and preservation of long-term stockholder value. The level of LTI compensation is determined based on an evaluation of competitive factors in conjunction with total compensation provided to NEOs and the goals of the compensation program described above. Currently, LTI awards are equity-based and provide for the awarding of PSUs, RSUs, and stock options. The timing of our equity grants, including stock options, is not coordinated in a manner that intentionally benefits our executive officers or coincides with the release of material non-public information.



The Company believes that a combination of PSUs, RSUs, and stock options closely equates the value of the benefit received by the recipient to the accounting expense of the benefit to the Company. The Company also believes that the resulting blend of PSUs, RSUs, and stock options is supported by the pattern of equity-based awards that prevails in the Data Point Companies and in the external market generally. For 2012 grants, the targeted LTI mix of PSUs, RSUs, and stock options for senior management was equally weighted at 33% each.

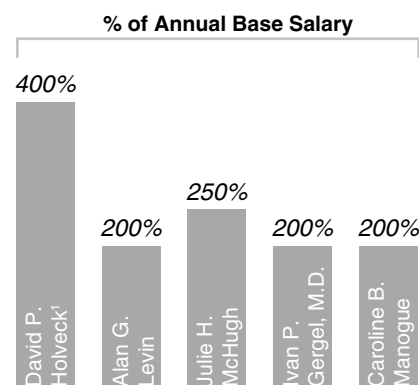
Effective with the 2013 grants, senior management's targeted mix was recalibrated to assign a higher portion of performance-based equity compensation, specifically through the expanded use of PSUs. This change is intentionally designed to motivate senior management to increase the creation of stockholder value. The new equity mix is reflected in the graph to the left.

In determining the annual LTI grants for the NEOs, the Compensation Committee considered market data on total compensation packages, the value of long-term incentive grants at the Data Point Companies, total shareholder return, share usage and stockholder dilution and, except in the case of the award to the President and Chief Executive Officer, the recommendations of the President and Chief Executive Officer.

The respective equity-based LTI compensation target for each named executive officer related to 2012, to be paid in early 2013, is reflected in the graph to the right.

Further, Company and individual performance are considered in the awarding of annual equity-based compensation to NEOs:

- Overall Company results versus performance scorecard. Company performance is measured as described above in the "Performance-Based Annual Cash Incentive Compensation (IC)" section." Annual goals were set in four categories, financial objectives, strategic achievement, organic growth and organization advancement objectives. At the end of the performance year, an assessment is made of Company results versus pre-determined objectives.
- Individual performance determined by assessing each named executive officer's achievements versus annual performance objectives. Regarding individual performance, each named executive officer has annual performance objectives that contribute to the growth and development of the Company. At the end of the performance year, each named executive officer is assessed and given an overall performance rating. The final rating is then factored into the awarding of equity-based compensation.



¹ Not applicable with the retirement of Mr. Holveck effective March 18, 2013

Based upon the achievement of Company goals and individual objectives, our Chief Executive Officer recommends an adjustment to each named executive officer's target annual equity-based LTI compensation target based upon performance related to key job accountabilities and annual performance objectives. The recommendation is then reviewed by the Compensation Committee, which has discretion to modify the final award. Regarding the award for the Company's President and Chief Executive Officer, the Compensation Committee follows a similar process and has the ultimate discretion for determining the annual equity award.

Discretion: Mr. Holveck's employment agreement did not prescribe a specific LTI target but instead provided that his LTI compensation would be determined at the sole discretion of the Compensation Committee if the Company and executive achieve certain performance targets set by the Committee with respect to each year ending during Mr. Holveck's employment term. All other NEOs are eligible to receive LTI compensation in an amount equal to a fixed percentage of their annual base salary for such year (or such lesser (including zero) or greater percent of the base salary for such year as is recommended to the Compensation Committee by the CEO and approved by the Compensation Committee).

Performance Share Units: Beginning in 2010, PSU awards were and now continue to be granted annually, with each award covering a three-year performance period. Through this program, senior leaders are eligible to earn a specified target number of shares of Company stock at the end of a minimum three-year performance period. The actual stock award is paid out at the end of the three-year plan period depending on how well the Company performed against the targets set at the beginning of the three-year program.

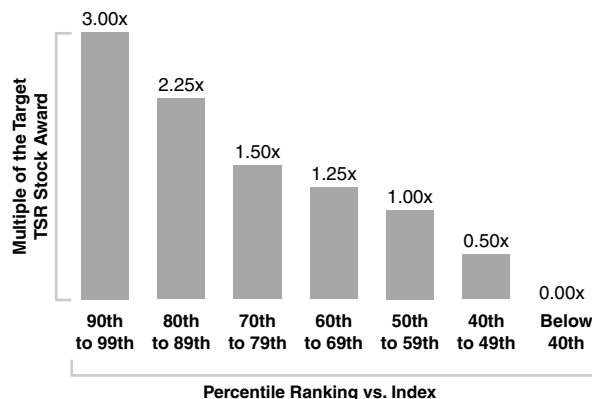
This portion of the Company's LTI program focuses the Company's leaders on delivering business performance over the next three years against certain key financial metrics that are designed to increase long-term stockholder value as defined in each year's performance award agreements. Specifically, for PSUs granted in 2010, 2011 and 2012, the payouts are made in shares of common stock, with the actual number of shares awarded dependent upon:

- 50% tied to the Company's TSR performance over the performance period relative to the TSR performance of the NASDAQ Biotechnology Index for 2010 & 2011 grants, and the S&P 1500 Health Care Index for grants starting in 2012 (the TSR Stock Award); and
- 50% tied to cumulative net sales over the performance period (the Net Sales Stock Award).

The number of PSUs awarded to each executive is based on a targeted percentage of the executive's base salary with the actual number of shares awarded adjusted to between zero and 200% of the target award amount based upon achievement of pre-determined TSR performance and cumulative net sales goals.

In March 2013, the Compensation Committee reviewed and approved a new PSU design effective with the 2013 grants and awarded PSUs to its NEOs. In an effort to increase the level of focus placed on increasing stockholder value, the Compensation Committee approved the implementation of a single performance measure based exclusively on three-year TSR performance. The number of PSUs awarded to each executive is based on a targeted percentage of the executive's base salary with the actual number of shares awarded adjusted to between zero and 300% of the target award amount based upon achievement of pre-determined TSR performance goals. The performance period for these awards began on January 1, 2013 and ends on December 31, 2015. Payouts with respect to these PSUs, if any, will be made in shares of Company common stock in March 2016, following the close of the three-year performance cycle. In determining the extent to which the pre-set performance measures are met for a given period, the Compensation Committee may exercise its judgment whether to reflect or exclude the impact of changes in accounting principles and extraordinary, unusual or infrequently occurring events reported in the Company's public filings.

Starting with 2013 grants, holders of PSUs will be entitled to receive a number of shares of Company common stock equal to a multiple of the award based on the Company's relative TSR (as specifically defined below) for the performance period as compared to the TSR for the performance period of companies comprising the S&P 1500 Health Care Index as of the last day of the performance period, in accordance with the adjacent graph; provided, however, that, notwithstanding the adjacent graph, a maximum of 0.5x of the award shall vest if the Company's Total Shareholder Return for the performance period is negative. In addition to achieving percentile rankings at or above the 80th percentile, the following absolute performance levels must be achieved in order to attain a payout above 1.5x:



- To attain a 2.25x payout, TSR must also reach an absolute performance level threshold equal to a minimum of 200% of the Per Share Price at the beginning of the measurement period
- To attain a 3x payout, TSR must also reach an absolute performance level threshold equal to a minimum of 220% of the Per Share Price at the beginning of the measurement period.

“Total Shareholder Return” shall mean the appreciation of the Per Share Price during the performance period, plus any dividends paid on the applicable company's common stock during such performance period.

“Per Share Price” shall mean the average of the closing prices of common shares for the applicable company during the eighty consecutive trading days ending on the day prior to the applicable measurement date.

The determination of TSR will be made at the sole discretion of Board. The Board also has discretion to accelerate the vesting of all or a portion of the Participant's Performance Award based upon the overall performance of the Company and/ or the Participant or based upon any change in business conditions, provided that the exercise of such discretion would not cause a Performance Award that would otherwise be deductible as “performance-based” compensation within the meaning of Section 162(m) of the Code to become non-deductible.

Restricted Stock Units: In addition to the PSUs described above, our NEOs also are granted time-based RSUs, which are the second element of our equity-based LTI compensation package. RSUs are valued based on the closing price of our common stock on the NASDAQ on the date of grant, and each RSU represents the right to receive one share of Company common stock as of the date of vesting. RSUs granted to the NEOs generally vest ratably over four years, and in no case will the entire award vest over less than three years, based on continued employment.

Stock Options: The Company's LTI compensation has historically taken the form of stock option awards. Stock options represent the third element of our equity-based LTI compensation package, and are designed to reward NEOs only if the stock price increases. The LTI program calls for stock options to be granted with exercise prices of not less than the closing price of our common stock as quoted on the NASDAQ on the date of grant and generally to vest ratably over four years, and in no case will the entire award vest less than three years for all future grants, based on continued employment. The Compensation Committee will not reduce the exercise price of stock options (except in connection with adjustments to reflect recapitalizations, stock or extraordinary

dividends, stock splits, mergers, spin-offs and similar events permitted by the relevant plan) without stockholder approval. Stock options grants to NEOs have historically been awarded with a term of ten years, although effective with the 2013 grants, annual option awards will generally be granted with a term of 7 years. In the case of Mr. De Silva's initial equity award, his stock options were awarded with a term of 10 years.

Considerations: The Company believes that the most effective means to encourage long-term performance by our NEOs is to create an ownership culture. This philosophy is implemented through the granting of the equity-based awards described above. The LTI program described above is designed so that Company leaders hold a competitive stake in the Company's financial future. The LTI program provides a future reward structure so that employees who have an impact on the Company's performance share in the results of that impact.

The LTI pool is established annually based on the Company's achievement of goals and objectives, and can vary significantly from year to year. The share pool is also managed in a manner that focuses on optimizing share utilization, while remaining aligned with competitive eligibility and grant practices. Key dilution metrics such as burn rate and overhang are regularly evaluated against external benchmarks, but also considered in the context of 1) the Company's significant growth in recent years, and 2) Endo's declining outstanding share base over the same time period due to the recent implementation of the Company's share repurchase program.

The Company generally establishes eligibility at the manager-equivalent level to more closely align Company and industry practices. The approved Employee Stock Purchase Plan (ESPP) was introduced in 2012 to reinforce the Company's emphasis on building an ownership culture for all eligible employees regardless of whether or not they participate in the LTI program. LTI opportunities remain an important component of the Company's compensation philosophy, and are allocated most heavily to:

- Reward consistently high performing individuals who we expect will increase the future value of the Company;
- Reward individuals at various levels who have high impact relative to the expectations of their role; and
- Retain eligible individuals who have skills critical to the long-term success of the Company and who exemplify our core value behavior.

Timing of Grants: Annual grants of PSUs, RSUs, and stock options to our NEOs are made at a regularly scheduled meeting of the Board of Directors held during the first quarter of each year, and the grant date is the date of that meeting. The Compensation Committee may also make occasional grants during the year to employees of the Company. These grants are typically associated with promotions and hiring, and are typically made on the effective date of the promotion or the first day of work.

2012 Decisions Regarding Equity-Based LTI Program: In 2012, the Compensation Committee awarded LTI compensation for NEOs pursuant to the program described above resulting in the awards of PSUs, RSUs, and stock options identified in the Summary Compensation Table and the 2012 Grants of Plan-Based Awards Table. For grants awarded in 2013, the Compensation Committee concluded that LTI awards for the Company's NEOs would be awarded at reduced levels, as indicated in the "Individual Compensation Determination" section.

Periodic Review: The Compensation Committee reviews both the annual IC program and the LTI program annually to confirm that their key elements continue to meet the objectives described above.

Ownership Guidelines for Executive Management: The current Ownership Guidelines for executive management are as follows:



Multiple of base salary

**President and Chief
Executive Officer**



Multiple of base salary

**Chief Operating Officer,
Business Unit Presidents and
Executive Vice Presidents**



Multiple of base salary

**Chief Accounting Officer and
Senior Vice Presidents**

Executive management is expected to achieve the Ownership Guidelines within five years of joining the Company, or, if in the case of individuals serving in this capacity at the time the Ownership Guidelines were adopted, within five years of the date of adoption of the Ownership Guidelines. Executive management is also expected to continuously own sufficient shares to meet the Ownership Guidelines once attained. Members of executive management who subsequently get promoted to a higher level will have five years from the date of promotion to achieve their new ownership target.

Individual Compensation Determination

Under our compensation structure, the mix of base salary, cash IC and equity-based LTI compensation varies depending on each named executive officer's level. Annual compensation determinations are based on factors including the Company's performance, individual performance, and the competitiveness of each NEO's pay as reported by the Compensation Committee's consultant, Hay Group. The following summarizes the incentive compensation decisions for the named executive officers based on 2012 performance:

Name	Base Salary as of December 31, 2012	2012 IC Target	2012 IC Actual	2012 Long-Term Equity Incentive Compensation Target	2012 Long-Term Equity Incentive Compensation Actual(1)
David P. Holveck	\$1,155,000	\$1,386,000	\$—	\$4,620,000	\$ —
Alan G. Levin	\$ 670,000	\$ 368,500	\$—	\$1,340,000	\$ 911,934
Julie H. McHugh	\$ 590,000	\$ 354,000	\$—	\$1,475,000	\$1,003,814
Ivan P. Gergel, M.D.	\$ 655,100	\$ 360,305	\$—	\$1,310,200	\$ 990,730
Caroline B. Manogue	\$ 562,000	\$ 309,100	\$—	\$1,124,000	\$ 983,022

- The amounts shown in this column include the fair value under ASC 718 of the 2012 option awards on the date of grant determined using the Black-Scholes or Monte-Carlo variant valuation model, as appropriate. Additionally, amounts reflect the grant-date fair value of the PSUs which include both a performance and market-based variable as defined within ASC 718. Although the fair value of executive award grants listed above has been determined in accordance with the applicable accounting standards, values may not be indicative of the fair value observed in a willing buyer / willing seller market transaction.

Each named executive officer's target percentage and actual number of PSUs, RSUs, and stock options granted in 2013 based on 2012 performance were as follows:

<u>Name</u>	<u>LTI Target % of Base Salary</u>	<u>PSUs Actually Granted</u>	<u>RSUs Actually Granted</u>	<u>Options Actually Granted</u>
David P. Holveck	400%	—	—	—
Alan G. Levin	200%	14,683	7,342	24,325
Julie H. McHugh	250%	16,163	8,081	26,776
Ivan P. Gergel, M.D.	200%	15,952	7,976	26,427
Caroline B. Manogue	200%	15,828	7,914	26,221

David P. Holveck
President and Chief Executive Officer

To provide further assurance of independence, the compensation recommendation for the President and Chief Executive Officer is developed by Hay Group. Hay Group prepares analyses showing competitive Chief Executive Officer compensation among the Data Point Companies for the individual elements of compensation and total direct compensation. The consultant develops a range of recommendations, based on various company and individual performance assumptions, for any change in the President and Chief Executive Officer's base salary, annual cash incentive, equity grant value, and equity mix. The recommendations take into account the competitive Data Point Company pay analysis, expected future pay trends, and the position of the President and Chief Executive Officer in relation to other senior company executives and proposed pay actions for all key employees of the Company. The range allows the Committee to exercise its discretion based on the President and Chief Executive Officer's individual performance and other factors. The results of this analysis are shared with the Committee, during which time the Company's performance, and the performance of the President and Chief Executive Officer are evaluated, and compensation decisions determined. The President and Chief Executive Officer has no prior knowledge of the recommendations, and only participates in the process during the stage when he reviews his evaluation of Company performance and his personal performance with the Committee. The President and Chief Executive Officer takes no part in the recommendations, Committee discussions, or decisions, other than what is described above. The Board's assessment of Mr. Holveck's performance is based on the development and execution of a long-term vision and strategy for the Company, and the evaluation of Company operating and financial performance as summarized in the "Performance-Based Annual Cash Incentive Compensation (IC)" section.

Based on the Company's performance in 2012, and Mr. Holveck's retirement from the Company, Mr. Holveck did not receive a base salary compensation increase or annual equity award. Based upon the overall results of the business in 2012, the Compensation Committee and the Board of Directors determined that Mr. Holveck and the other NEOs would receive no annual cash incentive compensation payments related to 2012. Further, the Compensation Committee determined not to increase base salaries for the other NEOs for 2013. Regarding LTI awards for the NEOs, the Compensation Committee elected to reduce the annual equity compensation pool to 75% of target award levels. The actual LTI awards as percent of target ranged from 68.1% to 87.5%, respectively.

Alan G. Levin
Executive Vice President & Chief Financial Officer

Mr. Levin serves as Chief Financial Officer, and is also responsible for investor relations and business development. Under Mr. Levin's financial leadership in 2012, revenue increased 11% compared to 2011 and 2.0% on a pro-forma basis, giving effect to the AMS acquisition as if it had occurred on January 1, 2011. Despite not meeting business plan revenue objectives in part due to pharmaceutical supply disruptions and softness of the AMS business due to a decline of mesh-related procedures, the Company achieved adjusted diluted EPS of

\$5.02, representing a 7% increase compared to 2011. The adjusted diluted EPS was achieved in large part based upon Mr. Levin's leadership over the Company's cost efficiency initiatives. Based on Mr. Levin's contributions to the Company in 2012, the Board approved an equity award equal to 68.1% of his target, but like all other NEOs, no annual cash incentive payment related to 2012 and no merit increase to base salary for 2013.

Julie H. McHugh
Chief Operating Officer

Ms. McHugh is responsible for developing and executing the Company's operational and strategic commercial objectives, and is accountable for leading enterprise-wide information technology solutions. In support of Endo's total healthcare solutions strategy, Ms. McHugh has continued to implement the Company's strategy to improve patient care through the pain, urology, oncology and endocrinology care pathways. In 2012, Ms. McHugh contributed to the Company's results by managing through the supply disruptions related to the December 2011 closure of the Novartis Lincoln, Nebraska plant. She led the Company's commercial efforts to mitigate the revenue shortfall risk by launching the new formulation of OPANA® ER designed to be crush-resistant. Further, Ms. McHugh led the generics business to a revenue increase of 11.7%. In recognition of Ms. McHugh's leadership and contributions in 2012, the Board approved an equity award equal to 68.1% of her target, but like all other NEOs, no annual cash incentive payment related to 2012 and no merit increase to base salary for 2013.

Ivan P. Gergel, M.D.
Executive Vice President, Research & Development & Chief Scientific Officer

Dr. Gergel leads the Company's research and development function, involving the continued advancement of the Company's portfolio through targeted selection of key investment opportunities while accelerating the development of strategic assets. Dr. Gergel has led the expansion of the Company's research & development pipeline, continuing the advancement of discovery programs in oncology, urology and pain, while developing and progressing a significant number of urology medical device programs. Under Dr. Gergel's leadership, the Company significantly enhanced its pharmaceutical pipeline, progressing key development assets including BEMA® Buprenorphine indicated for the for the novel buccal delivery of the schedule III opiate buprenorphine and ODM-201 for the treatment of castrate resistant prostate cancer. Further, the Company now has 10 pharmaceutical drug discovery programs, as well as three additional programs in partnership with Orion Corporation. As a result of Dr. Gergel's leadership and contributions in 2012, the Board approved an equity award equal to 75.6% of his target, but like all other NEOs, no annual cash incentive payment related to 2012 and no merit increase to base salary for 2013.

Caroline B. Manogue
Executive Vice President, Chief Legal Officer & Secretary

Ms. Manogue serves as the Company's Chief Legal Officer and has responsibility for the offices of the corporate secretary and government affairs. Ms. Manogue has broad-based technical and business acumen, providing advice on significant legal and business matters to the Board, President and Chief Executive Officer and other key Company executives. Ms. Manogue demonstrated continued exceptional leadership related to a broad range of important business-related matters, including the Company's settlement of the patent infringement litigation over Watson's Paragraph IV notification related to LIDODERM®, agreement to settle the Department of Justice and Office of Inspector General's investigation into the Company's promotion of LIDODERM® on terms reasonable to the Company, the resolution of the Company's dispute with Novartis stemming from Novartis's failure to supply product in early 2012, and obtaining additional meaningful patent protection on OPANA® ER. In recognition of her leadership and contributions in 2012, the Board approved an equity award equal to 87.5% of her target, but like all other NEOs, no annual cash incentive payment related to 2012 and no merit increase to base salary for 2013.

Additional Compensation Components

The Company's current practice is to limit use of perquisites. In 2012, other than as described below, the only perquisites provided to the NEOs were financial planning services, use of a Company car or car services and term

life insurance. In connection with Mr. Levin's joining the Company as our Executive Vice President, Chief Financial Officer in June 2009, the Company agreed to provide him with an automobile or, in lieu of receiving use of an automobile, the Company agreed to reimburse Mr. Levin for reasonable costs for car services up to \$22,000 per calendar year.

Retirement and Post-Termination Benefits

Retirement Benefits: The Company currently offers two executive retirement programs: the 401(k) Restoration Plan and the Executive Deferred Compensation Plan, each of which is described below. Both plans were effective January 1, 2008, and were amended and restated in 2012.

401(k) Restoration Plan: The purpose of the 401(k) Restoration Plan (Parity Plan) is to provide eligible employees with the opportunity to defer a portion of their compensation on a tax-favored basis in parity with the tax benefit provided under the qualified 401(k) plan. The 401(k) Parity Plan allows eligible employees whose compensation exceeds the Internal Revenue Code Section 401(a)(17) amount (or other criteria set by the Compensation Committee), including NEOs, to defer eligible pay and receive Company matching contributions after such individual's compensation has exceeded the earnings maximum in the Company's existing qualified 401(k) plan. The amount in any individual's 401(k) Parity Plan account will be paid to such individual at termination of employment. Actual 401(k) Parity Plan participation will begin when an executive's total cash compensation exceeds the Internal Revenue Code earnings limit for the qualified 401(k) (\$255,000 for 2013). Individuals who elect to defer their eligible pay under the 401(k) Parity Plan will defer federal and state (to the extent allowed by state law) taxes until the account is paid to the individual.

Executive Deferred Compensation Plan: The Executive Deferred Compensation Plan permits executives to elect to defer up to 100% of the portion of the following year's LTI compensation that is in the form of RSUs. The RSUs will vest while deferred. The 2013 grant of RSUs to executives will vest ratably over four years.

Deferral of the RSUs defers federal and state (as allowed under state laws) taxes on the compensation when the RSUs vest. The compensation is deferred until the deferred RSUs are settled in stock. The RSUs may be deferred to a specified payment date on which the elected disbursement(s) under the participant's account will commence. The value of the compensation an executive receives upon the stock delivery is based on the value of the Company's common stock on the date the deferral is delivered to the executive, and the executive will be responsible for the federal and state taxes at that time.

The Executive Deferred Compensation Plan also allows an executive to defer up to 50% of his or her annual cash IC award. When an executive makes his or her irrevocable election to defer cash IC, he or she also elects a specific payment date in which the elected disbursement(s) under the participant's account will commence.

Employment and Change in Control Agreements; Severance Agreements: The Company generally enters into a written employment agreement with each of its NEOs. The purpose of these agreements is to aid recruitment and retention and to reinforce an ongoing commitment to stockholder value creation.

On February 25, 2013, the Company announced that Rajiv De Silva had been named the Company's President and Chief Executive Officer, effective March 18, 2013, on which date David P. Holveck retired. On March 12, 2008, the Company announced that David P. Holveck was President and Chief Executive Officer, effective April 1, 2008. The Company entered into an employment agreement with Mr. Holveck as of April 1, 2008, which was amended and restated on October 27, 2011. On April 11, 2008, the Company announced that Ivan P. Gergel, M.D. was named the Company's Executive Vice President, Research and Development & Chief Scientific Officer, effective April 29, 2008. The Company entered into an employment agreement with Dr. Gergel as of April 11, 2008, which was amended and restated on October 27, 2011. On May 7, 2009, the Company announced that Alan G. Levin was named the Company's Executive Vice President, Chief Financial Officer, effective June 1, 2009. The Company entered into an employment agreement with Mr. Levin as of May 7, 2009, which

was amended and restated on March 8, 2013. On March 12, 2010, the Company announced that Julie H. McHugh was named the Company's Chief Operating Officer effective March 12, 2010. The Company entered into an employment agreement with Ms. McHugh as of March 12, 2010. The Company has affirmatively determined not to enter into any future employment agreements that include excise tax gross-ups with respect to payments contingent upon a change in control. Ms. Manogue's employment agreement has a rolling twenty-four month employment period commencing each day after January 1, 2008 and ending on the twenty-four month anniversary of such day (the Employment Period), unless either the Company or Ms. Manogue elects to terminate her employment agreement. Mr. Holveck's, Dr. Gergel's and Mr. Levin's employment agreements each has an initial term of three years. Mr. Holveck and Dr. Gergel's employment agreements were amended further to exclude automatic renewal provisions. Mr. Levin's initial employment agreement renewed automatically for a successive one-year period unless 120 days' notice of non-renewal is given by either party or unless either the Company or Mr. Levin elects to terminate his employment agreement. Mr. Levin's amended and restated employment agreement, which becomes effective on June 1, 2013, does not include the automatic renewal or notice provisions that were included in his initial employment agreement. Ms. McHugh's employment agreement has an initial term of three years and renews automatically for two additional one-year periods unless 120 days' notice of non-renewal is given by either party. We refer to the employment period for each named executive officer as the Employment Period. Each Employment Agreement sets forth the annual salary of the respective named executive officer, which is, in each case, subject to annual reviews, at the discretion of the Compensation Committee.

Each named executive officer will be paid cash IC in an amount equal to a set percentage of his or her annual salary for each year (or such lesser or greater amount (not to exceed two hundred twenty-five percent of the target bonus amount) for such year) amount as is recommended and approved by the Compensation Committee) if the Company achieves certain performance targets set by the Compensation Committee for such year. Each named executive officer is eligible to earn as additional compensation for the services to be rendered pursuant to his or her employment agreement, if applicable, equity-based LTI in an amount approved by the Compensation Committee.

If any of the named executive officers terminates his or her current employment agreement for Good Reason or if the Company terminates him or her Without Cause, the Company will (i) pay a lump sum equal to two times his or her then current salary and target IC for the year in which the termination is effective and (ii) continue to provide such named executive officer with medical and life insurance benefits for twenty-four (24) months. If Mr. Levin is terminated other than for Cause or voluntarily terminates his employment with the Company for Good Reason, beginning on June 1, 2013, the Company will (i) pay a lump sum equal to 1.5 times his then current salary and target IC for the year in which the termination is effective, (ii) continue to provide such named executive officer with medical and life insurance benefits for twenty-four (24) months, and (iii) provide for accelerated pro-rata vesting of the portion of the outstanding equity awards scheduled to vest on the next vesting date during the term of the agreement which ends on March 31, 2014. If Ms. Manogue is terminated other than for Cause or quits for Good Reason within twenty-four (24) months of a Change In Control, then she will be entitled to receive (x) a lump sum payment equal to two times the sum of (1) her then current salary plus (2) the higher of (a) her target IC for the year during which the termination is effective or (b) her IC for the year immediately preceding the year in which the termination is effective, plus (y) medical and life insurance benefits for a period equal to twenty-four (24) months after the date on which the termination is effective. If Mr. Levin or Ms. McHugh is terminated other than for Cause or quits for Good Reason within twenty-four (24) months of a Change In Control, then such named executive officer will be entitled to receive (x) a lump sum payment equal to two times the sum of (1) such named executive officer's then current salary plus (2) such named executive officer's target bonus, plus (y) medical and life insurance benefits for a period equal to twenty-four (24) months after the date on which the termination is effective. Each named executive officer's employment agreement contains a non-compete provision.

Tax Deductibility of Compensation

Section 162(m) of the Internal Revenue Code precludes a public corporation from taking a tax deduction for certain compensation in excess of \$1 million in any one year paid to its Chief Executive Officer or any of its three other highest-paid executive officers (not including the Company's Chief Financial Officer), unless certain specific and detailed criteria are satisfied. However, certain qualifying "performance-based" compensation (i.e., compensation paid under a plan administered by a committee of outside directors, based on achieving objective performance goals, the material terms of which were approved by stockholders, such as our 2010 Stock Incentive Plan) is not subject to the \$1 million deduction limit. A portion of the compensation established by the Compensation Committee for 2012 for the President and Chief Executive Officer exceeded the \$1 million deduction limit established in Section 162(m) of the Internal Revenue Code and is therefore not deductible. Compensation established by the Compensation Committee for 2012 for the three other highest-paid executive officers (not including the Company's Executive Vice President & Chief Financial Officer) was also designed to comply with the requirements of Section 162(m). While the Compensation Committee considers the applicable rules regarding deductibility when making awards, it reserves the right to make nondeductible payments when it deems appropriate.

Company Policy on Parachute Payments

On May 5, 2009, the Company's Board of Directors adopted a policy that provides that the Company will not enter into any future employment agreements that include excise tax gross-ups with respect to payments contingent upon a change in control. Accordingly, the employment agreement of each of Mr. De Silva, Mr. Holveck, Mr. Levin, Ms. McHugh and Dr. Gergel does not include excise tax gross-ups with respect to payments contingent upon a change in control. Ms. Manogue's employment agreement, which has been in effect since December 2007, provides that, if any of the payments or benefits received or to be received by the executive (including any payment or benefits received in connection with a change of control or the executive's termination of employment) will be subject to the excise tax under Section 4999 of the Internal Revenue Code for excess parachute payments, then the Company will pay to the executive an additional amount (an excise tax gross-up) such that the net amount retained by the executive, after deduction of any excise tax on and any federal, state and local income and employment taxes and after taking into account the phase out of itemized deductions and personal exemptions attributable to this payment, shall be equal to the total payments the executive would have otherwise received. An excess parachute payment is generally a change in control payment in excess of one times the average of the officer's taxable W-2 income for the five years prior to the change in control (base amount), and generally only results if the change in control payment exceeds 2.99 times the base amount. Excess parachute payments, including any excise tax gross-up payments, are non-deductible to the Company under Section 280G of the Internal Revenue Code.

Recovery of Compensation

In 2009, the Compensation Committee adopted a compensation recovery policy relating to repayment of cash incentive awards by an executive in the event of a restatement of the Company's financial results.

Specifically, if the Company issues a restatement of its reported financial results, or if it is determined that there was executive misconduct in a prior period that impacted the financial results for that period, the Compensation Committee will determine whether the restatement was material, and if so, to what extent "covered payments" should be returned to the Company to the extent that such payments were overstated as a result of the change in financial condition. Restatements of financial results that are the direct result of changes in accounting standards will not result in recovery of covered payments.

"Covered payments" are those payments that are eligible to be recovered by the Company and include cash incentives paid to the NEOs for performance during the restated fiscal year(s). In addition, the Compensation Committee reserves the discretion to recover covered payments from other Company senior management employees, including all vice presidents and above, if the Compensation Committee deems it appropriate.

Compensation of Executive Officers and Directors

Summary Compensation Table

The following table sets forth the cash and non-cash compensation paid to or earned by our President and Chief Executive Officer, Executive Vice President & Chief Financial Officer and the other three most highly compensated executive officers of the Company (collectively, the NEOs) for the years ending December 31, 2012, 2011 and 2010. For a complete understanding of the table, please read the footnotes and narrative disclosures that follow the table.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation \$(2)	All Other Compensation \$(3)	Total (\$)
David P. Holveck	2012	\$1,145,833	\$—	\$3,693,889	\$1,833,397	\$—	\$169,673	\$6,842,792
<i>President and Chief Executive Officer</i>	2011	\$1,063,667	\$—	\$3,528,008	\$1,760,933	\$1,869,120	\$155,433	\$8,377,161
	2010	\$ 875,000	\$—	\$2,374,507	\$1,222,133	\$1,984,500	\$146,318	\$6,602,458
Alan G. Levin	2012	\$ 665,500	\$—	\$1,165,973	\$ 578,721	\$—	\$ 79,303	\$2,489,497
<i>Executive Vice President & Chief Financial Officer</i>	2011	\$ 638,833	\$—	\$1,112,370	\$ 555,231	\$ 563,364	\$ 21,103	\$2,890,901
	2010	\$ 615,000	\$—	\$ 852,891	\$ 438,969	\$ 556,756	\$ 23,837	\$2,487,453
Julie H. McHugh(4)	2012	\$ 585,000	\$—	\$1,128,289	\$ 560,022	\$—	\$ 94,821	\$2,368,132
<i>Chief Operating Officer</i>	2011	\$ 555,833	\$—	\$1,070,030	\$ 534,075	\$ 475,776	\$ 92,438	\$2,728,152
	2010	\$ 425,599	\$—	\$ 334,364	\$1,000,084	\$ 465,129	\$ 50,984	\$2,276,160
Ivan P. Gergel, M.D.	2012	\$ 651,917	\$—	\$ 939,728	\$ 466,412	\$—	\$ 94,897	\$2,152,954
<i>Executive Vice President, Research & Development & Chief Scientific Officer</i>	2011	\$ 632,833	\$—	\$ 904,956	\$ 451,683	\$ 412,764	\$113,314	\$2,515,550
	2010	\$ 613,546	\$—	\$ 886,129	\$ 456,077	\$ 763,538	\$136,923	\$2,856,213
Caroline B. Manogue	2012	\$ 558,333	\$—	\$ 906,658	\$ 450,012	\$—	\$ 93,629	\$2,008,632
<i>Executive Vice President, Chief Legal Officer & Secretary</i>	2011	\$ 526,667	\$—	\$ 797,306	\$ 397,980	\$ 438,075	\$ 87,315	\$2,247,343
	2010	\$ 454,833	\$—	\$ 519,708	\$ 267,498	\$ 414,414	\$ 78,857	\$1,735,310

- The amounts shown in this column represent the grant date fair value for each executive's awards under ASC 718. The grant date fair value of the portion of PSUs which are earned based on the Company's net sales performance was determined using the closing price of the Company's stock on the grant date. The grant date fair value of the portion of our PSUs which are earned based on the Company's TSR performance was determined using a Monte-Carlo variant valuation model, which considers a variety of potential future stock prices for Endo as well as our peer companies in a selected market index. See further discussion of the provisions of our PSUs above in the "Performance Shares Units" section above. See notes 14, 13 and 13 to our audited financial statements included in our 2012, 2011 and 2010 Annual Reports on Form 10-K, respectively, for the assumptions we used in valuing and expensing these awards in accordance with ASC 718.
- The amounts shown in this column represent cash amounts earned pursuant to the Company's IC program with respect to 2012, 2011 and 2010 performance, respectively. These amounts were awarded by the Committee on February 22, 2012 and February 23, 2011, respectively.
- The amounts shown in this column for 2012 include the items summarized in the table below:

Name and Principal Position	Perquisites & Other Personal Benefits (a)	Registrant Contributions to Defined Contribution Plans (b)	Life Insurance Premiums (c)	Tax Reimbursements (d)	Total
David P. Holveck	\$29,441	\$124,824	\$15,408	\$—	\$169,673
Alan G. Levin	\$23,046	\$ 54,325	\$ 1,932	\$—	\$ 79,303
Julie H. McHugh	\$29,862	\$ 63,647	\$ 1,312	\$—	\$ 94,821
Ivan P. Gergel, M.D.	\$27,813	\$ 63,881	\$ 3,203	\$—	\$ 94,897
Caroline B. Manogue	\$33,004	\$ 59,785	\$ 840	\$—	\$ 93,629

- Mr. Holveck received \$19,554 for car allowance and related costs and \$9,887 for financial planning services. Mr. Levin received \$12,075 for car allowance and related costs and \$10,971 for financial planning services.

Ms. McHugh received \$21,600 for car allowance and related costs and \$8,262 for financial planning services. Dr. Gergel received \$19,813 for car allowance and related costs and \$8,000 for financial planning services. Ms. Manogue received \$14,355 for car allowance and related costs and \$18,649 for financial planning services.

- b Represents the employers' matching contribution to the Company's Savings and Investment (401(k)) Plan and the Parity Plan.
 - c Represents annual premiums paid by the Company for executive term life insurance policies.
 - d The amounts shown in this column, if any, represent the reimbursement of taxes associated with perquisites and other benefits.
- 4 Ms. McHugh joined the Company as its Chief Operating Officer on March 15, 2010. Accordingly, her annualized 2010 base salary of \$535,000 was pro-rated. Her 2010 IC and LTI compensation were not pro-rated. As described in more detail in her employment agreement under the section titled "Initial Equity Grants", in connection with her commencement of employment with the Company on March 15, 2010, Ms. McHugh was granted on such date (a) restricted stock units equal in value to \$334,364 and (b) stock options equal in value to \$1,000,084.

The employment agreements, short-term and long-term incentive compensation program and awards, explanation of amount of salary and bonus in proportion to total compensation, and other elements of the Summary Compensation Table are discussed at length in the "COMPENSATION DISCUSSION AND ANALYSIS" above.

2012 Grants of Plan-Based Awards

The following table summarizes grants of plan-based awards made to the NEOs during the year ended December 31, 2012.

Current NEOs	Grant Date(1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)			All Other Stock Awards (number of shares of stocks or units) (#)(4)	All Other Option Awards (number of securities underlying options) (#)(4)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock & Option Awards(5)
		Threshold (\$)	Target (\$)	Maximum \$(6)	Threshold (#)	Target (#)	Maximum \$(7)				
David P. Holveck	22 Feb 12	\$—	\$1,386,000	\$3,000,000	—	—	—	—	173,940	\$34.70	\$1,833,397
	22 Feb 12	\$—	\$ —	\$ —	—	—	—	52,834	—	\$ —	\$1,833,340
	22 Feb 12	\$—	\$ —	\$ —	—	52,834	105,668	—	—	\$ —	\$1,860,549
Alan G. Levin	22 Feb 12	\$—	\$ 368,500	\$ 829,125	—	—	—	—	54,905	\$34.70	\$ 578,721
	22 Feb 12	\$—	\$ —	\$ —	—	—	—	16,677	—	\$ —	\$ 578,692
	22 Feb 12	\$—	\$ —	\$ —	—	16,677	33,354	—	—	\$ —	\$ 587,281
Julie H. McHugh	22 Feb 12	\$—	\$ 354,000	\$ 796,500	—	—	—	—	53,131	\$34.70	\$ 560,022
	22 Feb 12	\$—	\$ —	\$ —	—	—	—	16,138	—	\$ —	\$ 559,989
	22 Feb 12	\$—	\$ —	\$ —	—	16,138	32,276	—	—	\$ —	\$ 568,300
Ivan P. Gergel, M.D.	22 Feb 12	\$—	\$ 360,305	\$ 810,686	—	—	—	—	44,250	\$34.70	\$ 466,412
	22 Feb 12	\$—	\$ —	\$ —	—	—	—	13,441	—	\$ —	\$ 466,403
	22 Feb 12	\$—	\$ —	\$ —	—	13,441	26,882	—	—	\$ —	\$ 473,325
Caroline B. Manogue	22 Feb 12	\$—	\$ 309,100	\$ 695,475	—	—	—	—	42,694	\$34.70	\$ 450,012
	22 Feb 12	\$—	\$ —	\$ —	—	—	—	12,968	—	\$ —	\$ 449,990
	22 Feb 12	\$—	\$ —	\$ —	—	12,968	25,936	—	—	\$ —	\$ 456,668

- 1 The grant date of all awards is the date of the Board of Directors' action in which such award is approved.
- 2 The amounts shown in these columns represent the range of IC program payouts targeted for 2012 performance as described in the section titled "Performance-Based Annual Cash Incentive Compensation (IC)" in the "COMPENSATION DISCUSSION AND ANALYSIS" above. There is no threshold for this award. The bonus payment for 2012 performance has been made according to the metrics described and is shown in the Summary Compensation Table in the column titled "Non-Equity Incentive Plan Compensation."
- 3 The amounts shown in these columns represent the range of shares that may be released at the end of the three-year performance period applicable to our PSUs assuming achievement of the relevant performance objectives, as described in the section titled "Equity-Based Long-term Incentive Compensation" in the "COMPENSATION DISCUSSION AND ANALYSIS" above. There is no threshold for this award. The PSU awards granted in 2012 were made according to the metrics described and are included in the Summary Compensation Table in the column titled "Stock Awards."

- 4 These options and RSUs were granted in 2012 based on the Company's 2011 LTI compensation payout. The 2012 equity incentive payout was made in February 2013 and is shown in more detail below:

Name	2012 Long-Term Equity Incentive Compensation: Number of Securities Underlying Stock Options (#)	Exercise or Base Price of Option Awards (\$/Sh)(a)	2012 Long-Term Equity Incentive Compensation: Restricted Stock Units (RSU) and Performance Share Units (PSU) (#)(b)	Grant Date Fair Value of RSU, PSU & Option Awards (c)
David P. Holveck	—	\$30.80	—	\$ —
Alan G. Levin	24,325	\$30.80	22,025	\$ 911,934
Julie H. McHugh	26,776	\$30.80	24,244	\$1,003,814
Ivan P. Gergel, M.D.	26,427	\$30.80	23,928	\$ 990,730
Caroline B. Manogue	26,221	\$30.80	23,742	\$ 983,022

- a The exercise price is equal to the closing price on the date of grant, which was February 27, 2013.
- b The amounts shown in this column represent approximately 67% PSUs and 33% RSUs on the date of grant.
- c The amounts shown in this column include the fair value under ASC 718 of the 2012 option awards on the date of grant determined using the Black-Scholes or Monte-Carlo variant valuation model, as appropriate. Additionally, amounts reflect the grant-date fair value of the PSUs which include both a performance and market-based variable as defined within ASC 718. Although the fair value of executive award grants listed above has been determined in accordance with the applicable accounting standards, values may not be indicative of the fair value observed in a willing buyer / willing seller market transaction.
- 5 The amounts shown in this column represent the fair value under ASC 718 of awards granted in 2012 valued on the date of grant (even if not yet vested) determined using the Black-Scholes or Monte-Carlo variant valuation model, as appropriate.
- 6 For the current NEOs, the amounts shown in this column represent the maximum IC payout as approved by the Board.
- 7 For the current NEOs, the amounts shown in this column represent the maximum number of shares related to our PSUs that could ultimately be released at the end of the three-year performance period.

See "COMPENSATION DISCUSSION AND ANALYSIS" above regarding the material terms, determining amounts payable, vesting schedule and other material conditions of these grants.

Outstanding Equity Awards at December 31, 2012

The following table summarizes the number of securities underlying outstanding plan awards for the NEOs at December 31, 2012:

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(7)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(8)
David P. Holveck	—	173,940	—	\$34.70	22-Feb-2022	—	\$ —	—	\$ —
	40,496	121,487	—	\$33.98	23-Feb-2021	—	\$ —	—	\$ —
	84,367	84,366	—	\$20.61	19-Feb-2020	—	\$ —	—	\$ —
	287,110	95,703	—	\$19.93	26-Feb-2019	—	\$ —	—	\$ —
	188,632	—	—	\$24.41	01-Apr-2018	—	\$ —	—	\$ —
	—	—	—	\$ —	—	200,377(2)	\$5,255,889	—	\$ —
	—	—	—	\$ —	—	—	\$ —	104,747(2)	\$2,747,514
Alan G. Levin	—	54,905	—	\$34.70	22-Feb-2022	—	\$ —	—	\$ —
	12,769	38,305	—	\$33.98	23-Feb-2021	—	\$ —	—	\$ —
	30,304	30,302	—	\$20.61	19-Feb-2020	—	\$ —	—	\$ —
	1	4,977	—	\$20.09	28-Jul-2019	—	\$ —	—	\$ —
	33,252	16,625	—	\$16.51	01-Jun-2019	—	\$ —	—	\$ —
	—	—	—	\$ —	—	61,177(3)	\$1,604,673	—	\$ —
	—	—	—	\$ —	—	—	\$ —	33,045(3)	\$ 866,770
Julie H. McHugh	—	53,131	—	\$34.70	22-Feb-2022	—	\$ —	—	\$ —
	12,282	36,846	—	\$33.98	23-Feb-2021	—	\$ —	—	\$ —
	60,140	60,139	—	\$23.81	15-Mar-2020	—	\$ —	—	\$ —
	—	—	—	\$ —	—	34,967(4)	\$ 917,184	—	\$ —
	—	—	—	\$ —	—	—	\$ —	31,883(4)	\$ 836,291
Ivan P. Gergel, M.D.	—	44,250	—	\$34.70	22-Feb-2022	—	\$ —	—	\$ —
	10,388	31,161	—	\$33.98	23-Feb-2021	—	\$ —	—	\$ —
	15,742	31,484	—	\$20.61	19-Feb-2020	—	\$ —	—	\$ —
	30,603	30,603	—	\$19.93	26-Feb-2019	—	\$ —	—	\$ —
	12,500	—	—	\$25.02	29-Apr-2018	—	\$ —	—	\$ —
	—	—	—	\$ —	—	61,333(5)	\$1,608,765	—	\$ —
	—	—	—	\$ —	—	—	\$ —	26,757(5)	\$ 701,836
Caroline B. Manogue	—	42,694	—	\$34.70	22-Feb-2022	—	\$ —	—	\$ —
	9,153	27,456	—	\$33.98	23-Feb-2021	—	\$ —	—	\$ —
	18,466	18,466	—	\$20.61	19-Feb-2020	—	\$ —	—	\$ —
	63,049	21,016	—	\$19.93	26-Feb-2019	—	\$ —	—	\$ —
	40,722	—	—	\$25.19	21-Feb-2018	—	\$ —	—	\$ —
	50,000	—	—	\$24.87	25-Jan-2018	—	\$ —	—	\$ —
	42,279	—	—	\$30.55	21-Feb-2017	—	\$ —	—	\$ —
	130,000	—	—	\$28.61	14-Feb-2016	—	\$ —	—	\$ —
	35,000	—	—	\$15.24	05-Aug-2013	—	\$ —	—	\$ —
	—	—	—	\$ —	—	45,574(6)	\$1,195,406	—	\$ —
	—	—	—	\$ —	—	—	\$ —	24,700(6)	\$ 647,881

- 1 The vesting dates of each option grant are listed in the table below by expiration date:

Expiration Date	Vesting Date	Expiration Date	Vesting Date
22-Feb-2022	25% on February 22, 2013 25% on February 22, 2014 25% on February 22, 2015 25% on February 22, 2016	29-Apr-2018	25% on April 29, 2009 25% on April 29, 2010 25% on April 29, 2011 25% on April 29, 2012
23-Feb-2021	25% on February 23, 2012 25% on February 23, 2013 25% on February 23, 2014 25% on February 23, 2015	1-Apr-2018	25% on April 1, 2009 25% on April 1, 2010 25% on April 1, 2011 25% on April 1, 2012
15-Mar-2020	25% on March 15, 2011 25% on March 15, 2012 25% on March 15, 2013 25% on March 15, 2014	21-Feb-2018	25% on February 21, 2009 25% on February 21, 2010 25% on February 21, 2011 25% on February 21, 2012
19-Feb-2020	25% on February 19, 2011 25% on February 19, 2012 25% on February 19, 2013 25% on February 19, 2014	25-Jan-2018	50% on January 25, 2009 50% on January 25, 2010
28-Jul-2019	25% on July 28, 2010 25% on July 28, 2011 25% on July 28, 2012 25% on July 28, 2013	21-Feb-2017	25% on February 21, 2008 25% on February 21, 2009 25% on February 21, 2010 25% on February 21, 2011
1-Jun-2019	25% on June 1, 2010 25% on June 1, 2011 25% on June 1, 2012 25% on June 1, 2013	14-Feb-2016	25% on February 14, 2007 25% on February 14, 2008 25% on February 14, 2009 25% on February 14, 2010
26-Feb-2019	25% on February 26, 2010 25% on February 26, 2011 25% on February 26, 2012 25% on February 26, 2013	5-Aug-2013	25% on August 5, 2004 25% on August 5, 2005 25% on August 5, 2006 25% on August 5, 2007

- 2 These amounts are comprised of 49,172 RSUs granted on February 26, 2009 (which vest on the fourth anniversary of the date of grant), 59,437 RSUs granted on February 19, 2010 (which vest on the fourth anniversary of the date of grant), 38,934 RSUs granted on February 23, 2011 (which will vest ratably over their remaining term in equal increments on each of the second, third and fourth anniversaries of the date of grant), 51,913 PSUs granted on February 23, 2011 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2013, the first business day following the end of their performance period), 52,834 RSUs granted on February 22, 2012 (which vest ratably over a four-year period in 25% increments on each of the first, second, third, and fourth anniversaries of the date of grant) and 52,834 PSUs granted on February 22, 2012 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2014, the first business day following the end of their performance period),
- 3 These amounts are comprised of 10,875 RSUs granted on June 1, 2009 (which vest on the fourth anniversary of the date of grant), 21,349 RSUs granted on February 19, 2010 (which vest on the fourth anniversary of the date of grant), 12,276 RSUs granted on February 23, 2011 (which will vest ratably over their remaining term in equal increments on each of the second, third and fourth anniversaries of the date of grant), 16,368 PSUs granted on February 23, 2011 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2013, the first business day following the end of their performance period), 16,677 RSUs granted on February 22, 2012 (which vest ratably over a four-year period in 25% increments on each of the first, second, third, and fourth anniversaries of the date of grant) and 16,677 PSUs granted on February 22, 2012 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2014, the first business day following the end of their performance period),
- 4 This amount is comprised of 7,021 RSUs granted on March 15, 2010 (which will vest ratably over their remaining term on each of the third and fourth anniversaries of the date of grant), 11,808 RSUs granted on February 23, 2011 (which will vest ratably over their remaining term in equal increments on each of the second, third and fourth anniversaries of the date of grant), 15,745 PSUs granted on February 23, 2011 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2013, the first business day following the end of their performance period), 16,138 RSUs granted on February 22, 2012 (which vest ratably over a four-year period in 25% increments on each of the first, second, third, and fourth anniversaries of the date of grant) and 16,138 PSUs granted on February 22, 2012 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2014, the first business day following the end of their performance period),

- 5 These amounts are comprised of 15,724 RSUs granted on February 26, 2009 (which vest on the fourth anniversary of the date of grant), 22,181 RSUs granted on February 19, 2010 (which vest on the fourth anniversary of the date of grant), 9,987 RSUs granted on February 23, 2011 (which will vest ratably over their remaining term in equal increments on each of the second, third and fourth anniversaries of the date of grant), 13,316 PSUs granted on February 23, 2011 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2013, the first business day following the end of their performance period), 13,441 RSUs granted on February 22, 2012 (which vest ratably over a four-year period in 25% increments on each of the first, second, third, and fourth anniversaries of the date of grant) and 13,441 PSUs granted on February 22, 2012 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2014, the first business day following the end of their performance period),
- 6 These amounts are comprised of 10,798 RSUs granted on February 26, 2009 (which vest on the fourth anniversary of the date of grant), 13,009 RSUs granted on February 19, 2010 (which vest on the fourth anniversary of the date of grant), 8,799 RSUs granted on February 23, 2011 (which will vest ratably over their remaining term in equal increments on each of the second, third and fourth anniversaries of the date of grant), 11,732 PSUs granted on February 23, 2011 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2013, the first business day following the end of their performance period), 12,968 RSUs granted on February 22, 2012 (which vest ratably over a four-year period in 25% increments on each of the first, second, third, and fourth anniversaries of the date of grant) and 12,968 PSUs granted on February 22, 2012 (which, upon the achievement of certain financial metrics discussed above, become exercisable on December 31, 2014, the first business day following the end of their performance period),
- 7 Value calculated by multiplying the number of unvested units by the closing price of \$26.23 per share on December 31, 2012.
- 8 Value calculated by multiplying the number of unvested units by the closing price of \$26.23 per share on December 31, 2012. The values shown in this column are based on the number of units that would be earned at target performance. These amounts could range from zero to two times the amounts listed in this column depending on performance in relation to the terms of the PSUs, which are discussed in detail above the section titled "Equity-Based Long-term Incentive Compensation" in the "COMPENSATION DISCUSSION AND ANALYSIS."

Option Exercises and Stock Vested in 2012

The following table summarizes the stock option exercises by the NEOs and share vestings during the year ended December 31, 2012.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting \$(2)
David P. Holveck	—	\$ —	78,818	\$2,261,507
Alan G. Levin	9,954	\$70,350	36,316	\$1,043,891
Julie H. McHugh	—	\$ —	7,448	\$ 264,305
Ivan P. Gergel, M.D.	—	\$ —	25,510	\$ 698,389
Caroline B. Manogue	—	\$ —	18,734	\$ 541,688

- 1 Amounts in this column were calculated by determining the difference between the market price of the underlying securities at exercise and the exercise price of the options and then multiplying this amount by the number of options exercised.
- 2 Amounts in this column were calculated by determining the market price of the underlying securities on the vesting date and multiplying this amount by the number of awards vested.

2012 Non-Qualified Deferred Compensation Table

The following table summarizes deferral activity during 2012 and account balances in our non-qualified savings and deferral plans for our NEOs. These plans include the Parity Plan and Executive Deferred Compensation Plan, and are available to employees who satisfy certain eligibility requirements, including the NEOs. The Parity and Executive Deferred Compensation Plans are non-qualified under the Internal Revenue Code and do not provide for guaranteed returns of Plan contributions. See “COMPENSATION DISCUSSION AND ANALYSIS” above regarding the material terms of the Parity and Executive Deferred Compensation Plans.

Name	Executive Contributions in 2012 \$(1)	Registrant Contributions in 2012 \$(2)	Aggregate Earnings in 2012 \$(3)	Aggregate Withdrawals / Distributions (\$)	Aggregate Balance at December 31, 2012 \$(4)
David P. Holveck	\$1,825,694	\$106,936	\$480,215	\$—	\$5,095,881
Alan G. Levin	\$ 75,375	\$ 30,150	\$ 6,146	\$—	\$ 111,671
Julie H. McHugh	\$ 47,172	\$ 47,172	\$ 17,725	\$—	\$ 217,492
Ivan P. Gergel, M.D.	\$ 47,243	\$ 47,243	\$ 76,218	\$—	\$ 555,970
Caroline B. Manogue	\$ 43,380	\$ 43,380	\$ 48,872	\$—	\$ 355,220

- 1 Represents amounts contributed by the NEOs under the non-qualified Parity and Executive Deferred Compensation Plans. These amounts are included in the 2012 Summary Compensation Table in the “Salary”, “Stock Awards” and “Non-Equity Incentive Plan Compensation” columns.
- 2 Includes amounts that were contributed by the registrant under the non-qualified Parity Plan and reported as compensation in the 2012 Summary Compensation Table in the “All Other Compensation” column.
- 3 Represents earnings on the Company’s Parity and Executive Deferred Compensation Plans. These amounts are not reported as compensation in the Summary Compensation Table.
- 4 Includes amounts that were reported as compensation in the Summary Compensation Table in 2012 and prior years to the extent that such amounts were contributed by the executive and registrant, but not to the extent that such amounts represent earnings.

Potential Payments Upon Termination or Change in Control

The following tables show the potential payments upon termination or change of control to the NEOs, as if such event(s) took place on December 31, 2012. The amounts reflected in this table were determined in accordance with each NEO's then existing employment agreement, individual award agreements and the respective Endo Health Solutions Inc. Stock Incentive Plan to which each award relates. The equity award acceleration amounts below were calculated using the closing stock price of our stock on December 31, 2012 of \$26.23. As stated above, Mr. Holveck retired from the Company effective March 18, 2013.

Name	Cash Separation Payment(1)	Health and Welfare and Life Insurance Benefits(2)	Disability Insurance Benefits(3)	Acceleration of Equity Awards (in the money value at December 31, 2012)(4)	Value of Term Life Insurance(5)	Excise Tax Gross-up(6)
<i>Termination for Cause, Resignation or Retirement</i>						
Mr. Holveck	\$ —	\$ —	\$ —	\$ —	\$ —	\$—
Mr. Levin	\$ —	\$ —	\$ —	\$ —	\$ —	\$—
Ms. McHugh	\$ —	\$ —	\$ —	\$ —	\$ —	\$—
Dr. Gergel	\$ —	\$ —	\$ —	\$ —	\$ —	\$—
Ms. Manogue	\$ —	\$ —	\$ —	\$ —	\$ —	\$—
<i>Death</i>						
Mr. Holveck	\$ —	\$ —	\$ —	\$9,080,468	\$1,000,000	\$—
Mr. Levin	\$ —	\$ —	\$ —	\$2,833,894	\$1,000,000	\$—
Ms. McHugh	\$ —	\$20,926	\$ —	\$1,899,012	\$ —	\$—
Dr. Gergel	\$ —	\$20,926	\$ —	\$2,680,340	\$1,000,000	\$—
Ms. Manogue	\$ —	\$ —	\$ —	\$2,079,467	\$1,000,000	\$—
<i>Disability</i>						
Mr. Holveck	\$ —	\$35,260	\$1,950,000	\$ —	\$ —	\$—
Mr. Levin	\$ —	\$ —	\$ 980,000	\$ —	\$ —	\$—
Ms. McHugh	\$ —	\$35,722	\$ 820,000	\$ —	\$ —	\$—
Dr. Gergel	\$ —	\$38,102	\$ 950,200	\$ —	\$ —	\$—
Ms. Manogue	\$ —	\$ —	\$ 764,000	\$ —	\$ —	\$—
<i>Change of Control (COC)</i>						
Mr. Holveck	\$ —	\$ —	\$ —	\$9,080,468	\$ —	\$—
Mr. Levin	\$ —	\$ —	\$ —	\$2,833,894	\$ —	\$—
Ms. McHugh	\$ —	\$ —	\$ —	\$1,899,012	\$ —	\$—
Dr. Gergel	\$ —	\$ —	\$ —	\$2,680,340	\$ —	\$—
Ms. Manogue	\$ —	\$ —	\$ —	\$2,079,467	\$ —	\$—
<i>Termination Without Cause (TWOC) or Quit for Good Reason (QFGR)</i>						
Mr. Holveck	\$5,082,000	\$35,260	\$ —	\$6,332,955	\$ —	\$—
Mr. Levin	\$2,077,000	\$25,780	\$ —	\$ 477,405	\$ —	\$—
Ms. McHugh	\$1,888,000	\$35,722	\$ —	\$ 329,697	\$ —	\$—
Dr. Gergel	\$2,030,810	\$38,102	\$ —	\$ —	\$ —	\$—
Ms. Manogue	\$1,742,200	\$35,666	\$ —	\$ —	\$ —	\$—
<i>TWOC or QFGR Within 24 Months After COC</i>						
Mr. Holveck	\$5,082,000	\$35,260	\$ —	\$ —	\$ —	\$—
Mr. Levin	\$2,077,000	\$25,780	\$ —	\$ —	\$ —	\$—
Ms. McHugh	\$1,888,000	\$35,722	\$ —	\$ —	\$ —	\$—
Dr. Gergel	\$2,030,810	\$38,102	\$ —	\$ —	\$ —	\$—
Ms. Manogue	\$2,000,150	\$35,666	\$ —	\$ —	\$ —	\$—

- 1 In the event of a TWOC by the Company or a QFGR by any of the NEOs, the Cash Separation Payment is equal to two times the sum of the NEO's current base salary plus target annual IC, payable in a lump-sum. In the event of TWOC by the Company or a QFGR by any of the NEOs within 24 months after a Change of Control, all NEOs, other than Ms. Manogue, will receive a Cash Separation Payment equal to two times the sum of their current base salary plus target annual IC, payable in a lump-sum. Ms. Manogue, will receive a lump-sum payment equal to two times the sum of her current base salary plus the greater of her (a) current annual IC target or (b) the actual annual IC paid for the preceding year.
- 2 Upon a TWOC by the Company or a QFGR by any of the NEOs (or upon disability for Mr. Holveck, Ms. McHugh and Dr. Gergel only), health and welfare benefits including medical, dental, and vision as well as life insurance benefits will continue to be provided, on a monthly basis, to each NEO for a period of 24 months subsequent to termination. Additionally, in the event of death of Mr. Holveck, Ms. McHugh and Dr. Gergel only, health and welfare benefits including medical, dental, and vision insurance benefits will continue to be provided to their dependents, if any, on a monthly basis, for a period of 24 months.
- 3 Upon disability of any of the NEOs, disability insurance benefits will be paid to the NEO equal to the excess of 24 months' base salary over the their respective disability benefits. As of December 31, 2012, the disability insurance benefit for each NEO totaled \$15,000 per month.
- 4 The provisions governing acceleration of equity awards are discussed separately for each scenario below, as follows:
 - a Upon Death—Each of the NEO's unvested stock options and RSUs will accelerate and become immediately vested. PSUs will be deemed to be earned at target levels for each of the NEOs.
 - b Upon a Change of Control—Each of the NEO's unvested stock options and RSUs will accelerate and become immediately vested. If an actual change of control occurred, any performance goals imposed on all outstanding PSUs shall be deemed to be fully achieved at target levels.
 - c Upon a TWOC by the Company or a QFGR by any of the NEOs—All of Mr. Holveck's unvested stock options and RSUs will accelerate and become immediately vested. Additionally, Mr. Levin's and Ms. McHugh's initial RSUs and stock options will vest.
- 5 Each of our NEOs, except Ms. McHugh, is covered by term life insurance policies, the premiums for which are reimbursed by the Company. The premiums for these term life insurance policies are listed above in the "All Other Compensation" table. The amounts included above represent the death benefits that would be received from the insurance provider under these life insurance policies.
- 6 On May 5, 2009, the Company's Board of Directors adopted a policy that provides that the Company does not intend to enter into any future employment agreements that include excise tax gross-ups with respect to payments contingent upon a change in control. Under the terms of Ms. Manogue's current employment agreement, should Ms. Manogue become entitled to the Change of Control payments detailed above, the Company will pay to Ms. Manogue an additional lump-sum amount (the Gross-Up Payment) such that the net amount retained by Ms. Manogue, after deduction of any excise tax on excess parachute payments under section 4999 of the Internal Revenue Code (Excise Tax) on the total payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, and after taking into account the phase out of itemized deductions and personal exemptions attributable to the Gross-Up Payment, shall be equal to the total payments Ms. Manogue would have otherwise received.

2012 Compensation of Non-Employee Directors

The following table provides information concerning the compensation of the Company's non-employee directors for 2012. Directors who are employees of the Company receive no additional compensation for their services as directors or as members of Board committees. For a complete understanding of the table, please read the footnotes and the narrative disclosures that follow the table.

<u>Name</u>	<u>Length of Service</u>	<u>Fees Earned or Paid in Cash \$(1)</u>	<u>Stock Awards \$(2)(3)</u>	<u>Total</u>
Roger H. Kimmel	12 Years	\$297,750	\$200,002	\$497,752
John J. Delucca	7 Years	\$167,250	\$200,002	\$367,252
Nancy J. Hutson, Ph.D.	4 Years	\$114,000	\$200,002	\$314,002
Michael Hyatt	12 Years	\$120,750	\$200,002	\$320,752
William P. Montague	4 Years	\$145,500	\$200,002	\$345,502
David B. Nash, M.D., M.B.A.	2 Years	\$108,000	\$200,002	\$308,002
Joseph C. Scodari	5 Years	\$126,750	\$200,002	\$326,752
Jill D. Smith	1 Year	\$ 32,250	\$100,014	\$132,264
William F. Spengler	5 Years	\$150,250	\$200,002	\$350,252

- 1 The amounts in this column include all fees earned by each director. Directors may elect, pursuant to the Endo Health Solutions Inc Directors Stock Election Plan, to receive all or a portion of their retainer and/or meeting fees in shares of Endo common stock. The following table summarizes, for each of the non-employee directors who elected to receive all or a portion of such fees in Endo stock, the amounts of such non-cash compensation included in the table above. The dollar amounts represent the number of shares granted multiplied by the trading price of Endo's stock at the time of payment:

<u>Name</u>	<u>Fees Paid in Shares of Endo Common Stock (\$)</u>
Roger H. Kimmel	\$210,000
Joseph C. Scodari	\$126,750
William F. Spengler	\$150,250

- 2 The amounts shown in these columns represent the grant date fair value for each director's stock-based awards under ASC 718. See notes 14, 13 and 13 to our audited financial statements included in our 2012, 2011 and 2010 Annual Reports on Form 10-K, respectively, for the assumptions we used in valuing and expensing these awards in accordance with ASC 718. The grant date fair value of each option and stock award granted in 2012, computed in accordance with ASC 718, is as follows:

<u>Name</u>	<u>Grant Date</u>	<u>Fair Value on Grant Date of Restricted Stock</u>
Roger H. Kimmel	March 12, 2012	\$200,002
John J. Delucca	March 12, 2012	\$200,002
Nancy J. Hutson, Ph.D.	March 12, 2012	\$200,002
Michael Hyatt	March 12, 2012	\$200,002
William P. Montague	March 12, 2012	\$200,002
David B. Nash, M.D., M.B.A.	March 12, 2012	\$200,002
Joseph C. Scodari	March 12, 2012	\$200,002
Jill D. Smith	October 3, 2012	\$100,014
William F. Spengler	March 12, 2012	\$200,002

- 3 The following table summarizes the number of stock options and restricted stock units outstanding and exercisable at December 31, 2012, for each Director in 2012:

<u>Name</u>	<u>Options Outstanding at Fiscal Year End</u>	<u>Options Exercisable at Fiscal Year End</u>	<u>Shares Outstanding at Fiscal Year End</u>	<u>Shares Vested at Fiscal Year End</u>	<u>Value at Fiscal Year End(a)</u>
Roger H. Kimmel	49,809	43,167	15,074	16,115	\$648,294
John J. Delucca	39,809	33,167	5,481	16,115	\$272,017
Nancy J. Hutson, Ph.D.	18,185	11,617	5,481	11,002	\$253,689
Michael Hyatt	64,809	58,167	5,481	16,115	\$447,717
William P. Montague	18,478	11,836	16,593	11,112	\$552,662
David B. Nash, M.D., M.B.A.	—	—	9,741	4,260	\$255,506
Joseph C. Scodari	23,649	17,007	5,481	13,230	\$273,243
Jill D. Smith	—	—	3,084	—	\$ 80,893
William F. Spengler	23,649	17,007	16,593	13,230	\$564,710

- a Based upon the closing price on December 31, 2012 of \$26.23. Includes all outstanding options as of December 31, 2012, for which the exercise price is equal to or less than \$26.23 per share.

Annual Cash Retainer Fees: For 2012, each non-employee director who was not affiliated with the Company (a Non-Affiliated Director) received \$15,000 cash in the first, second, third and fourth quarter of service. In addition, any Non-Affiliated Director who served as the Chair of the Audit Committee, the Compensation Committee, or the Transactions Committee received an additional fee of \$15,000 cash per year, and any Non-Affiliated Director who served as the Chair of the Nominating & Governance Committee received an additional fee of \$5,000 cash per year. However, Mr. Kimmel elected to waive the cash retainer fee associated with his chairing the Nominating & Governance Committee. Also, any Non-Affiliated Director who served as the Chair of the Board of Directors received an additional fee of \$150,000 cash per year.

Meeting Fees: For 2012, Non-Affiliated Directors also received a fee of \$2,250 cash for attending each Board meeting and \$1,500 cash (\$2,000 cash in the case of the Audit Committee) for attending each committee meeting on which such individual serves.

Stock-based Awards: Effective July 1, 2011, as amended February 27, 2013, the Non-Affiliated Directors receive the stock compensation described below:

- Each Non-Affiliated Director receives an annual stock award equal in value to \$200,000, 100% of which is restricted stock units. The number of restricted stock units actually awarded to each director is calculated using the closing price as of the date of the grant.
- The Compensation Committee annually reviews current market data and, if appropriate, recommends to the Board of Directors any necessary adjustment to the expected value of the annual stock award to directors.
- All restricted stock units vest over one year (100% on the first anniversary of the grant date).
- The annual stock award grant date is in early March of each year and the exercise price of the securities granted, if applicable, is the closing price on the date of grant.

On March 12, 2013, Non-Affiliated Directors each received:

- 6,515 shares of restricted stock valued at \$30.70 per share (the closing price on the day of grant), which vest over one year (100% on March 12, 2014).

Directors Stock Election Plan: Under the Directors Stock Election Plan, non-employee Directors may elect to have some, or all of their quarterly retainer and/or meeting fees delivered in the form of Endo Common Stock. The amount of stock will be determined by dividing the portion of cash fees elected to be received as stock by the closing price of the stock on the last day trading of the calendar quarter, which is the day the payment would have otherwise been paid in cash.

Directors Deferred Compensation Plan: The Endo Directors Deferred Compensation Plan provides an opportunity for non-employee Directors to defer receipt of the annual retainer and/or meeting fees (cash or as elected in the form of Endo stock) and RSUs. At the point of distribution, participants will receive the accumulated compensation in a lump sum payment or annual installment payments. Under the Endo Directors Deferred Compensation Plan, Dr. Nash elected to defer receipt of the annual board retainer fee of \$60,000.

Additional Arrangements: The Company pays for or provides (or reimburses directors for out-of-pocket costs incurred for) transportation, hotel, food and other incidental expenses related to attending Board and committee meetings or participating in director education programs and other director orientation or educational meetings.

Insurance and Indemnification: The Company has retained directors and officers indemnification insurance coverage. This insurance covers directors and officers individually where exposures exist, other than those for which the Company is able to provide indemnification.

Endo's Outstanding Stock Options

Each option to purchase Endo Shares under the Endo equity incentive plans, whether vested or unvested, that is outstanding immediately prior to the Merger Effective Time will be converted, on substantially the same terms and conditions as were applicable under such option before the Merger Effective Time, into an option to acquire New Endo Shares equal to the number of shares subject to the Endo option immediately prior to the Merger Effective Time multiplied by the Equity Exchange Ratio (as defined in the Arrangement Agreement), at an exercise price per share equal to the exercise price per share applicable to such option immediately prior to the Merger Effective Time divided by the Equity Exchange Ratio.

The following table sets out the aggregate number of options to purchase Endo Shares outstanding as at January 17, 2014:

<u>Category</u>	<u>Number of Options</u>	<u>Exercise Price (1)</u>	<u>Expiration Date</u>	<u>Market value of the securities under option as of 1/17/14</u>
All executive officers and past executive officers of Endo as a group (11 in total)	1,378,117	\$28.85	From 2/21/17 to 3/18/23	\$ 56,745,457
All directors and past directors of Endo as a group (excluding directors who are also executive officers) (7 in total)	233,388	\$22.77	From 3/12/14 to 3/12/20	\$ 11,029,486
All other employees and past employees of Endo as a group (437 in total)	2,520,232	\$30.23	From 8/11/14 to 12/10/22	\$100,307,746

(1) Weighted average

APPENDIX “M”
NEW ENDO FINANCIAL STATEMENT

ENDO INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013 AND FOR THE PERIOD FROM OCTOBER 31, 2013
(DATE OF INCORPORATION) THROUGH DECEMBER 31, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Endo International Limited
Dublin, Ireland

We have audited the accompanying consolidated balance sheet of Endo International Limited and subsidiaries (the “Company”) as of December 31, 2013, and the related consolidated statement of operations and comprehensive loss, shareholders’ deficit, and cash flows for the period from October 31, 2013 (date of incorporation) through December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements presents fairly, in all material respects, the financial position of Endo International Limited and subsidiaries as of December 31, 2013 and the results of their operations and their cash flows for the period from October 31, 2013 (date of incorporation) through December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/S/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
January 21, 2014

ENDO INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2013
(all amounts are in U.S. dollars)

	<u>December 31, 2013</u>
ASSETS	
Cash and cash equivalents	\$ 50,946
Total current assets	<u>\$ 50,946</u>
TOTAL ASSETS	<u><u>\$ 50,946</u></u>
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Due to Shareholder	\$ 51,000
Accrued expenses	<u>200</u>
Total current liabilities	<u>\$ 51,200</u>
TOTAL LIABILITIES	<u>\$ 51,200</u>
COMMITMENTS AND CONTINGENCIES (NOTE 2)	
Shareholders' deficit:	
Capital stock (NOTE 3)	3
Accumulated deficit	<u>(257)</u>
Total shareholders' deficit	<u>\$ (254)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	<u><u>\$ 50,946</u></u>

See Notes to Consolidated Financial Statements

ENDO INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
PERIOD FROM OCTOBER 31, 2013 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2013
(all amounts are in U.S. dollars)

	October 31, 2013 through December 31, 2013
NET REVENUE	\$ —
COSTS AND EXPENSES:	
Bank fees	\$ 257
LOSS BEFORE INCOME TAX	257
INCOME TAX	—
NET LOSS	\$ 257
OTHER COMPREHENSIVE INCOME	\$ —
NET COMPREHENSIVE LOSS	257

See Notes to Consolidated Financial Statements

ENDO INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT
PERIOD FROM OCTOBER 31, 2013 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2013
(all amounts are in U.S. dollars)

	<u>Share Capital</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
	<u>Number of Shares</u>	<u>Amount</u>			
BALANCE, OCTOBER 31, 2013	—	\$ —	\$ —	\$ —	\$ —
Net loss	—	—	—	(257)	(257)
Issued share capital	2	3	—	—	3
BALANCE, DECEMBER 31, 2013	<u>2</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ (257)</u>	<u>\$ (254)</u>

See Notes to Consolidated Financial Statements

ENDO INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
PERIOD FROM OCTOBER 31, 2013 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2013
(all amounts are in U.S. dollars)

	October 31, 2013 through December 31, 2013
OPERATING ACTIVITIES:	
Net loss	\$ (257)
Changes in assets and liabilities which provided cash:	
Accrued expenses	200
Net cash used in operating activities.....	\$ (57)
FINANCING ACTIVITIES:	
Proceeds from issuance of ordinary shares	3
Advance from Shareholder.....	51,000
Net cash provided by financing activities	\$ 51,003
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 50,946
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 50,946

See Notes to Consolidated Financial Statements

ENDO INTERNATIONAL LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM OCTOBER 31, 2013 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2013

1. INCORPORATION

Endo International Limited (the “Company”) is a private limited company incorporated in Ireland (registered number 534814) on October 31, 2013 for the purpose of holding Endo Health Solutions Inc. (“Endo”) and Paladin Labs Inc., (“Paladin”), following the completion of the acquisition of Paladin by Endo whereby both Endo and Paladin will become indirect wholly owned subsidiaries of the Company (the “transactions”). The transactions will be effected pursuant to an arrangement agreement entered into on November 5, 2013 among Endo, Paladin, the Company and certain subsidiaries of the Company (the “arrangement agreement”). To date, the Company has not conducted any activities other than those that are incident to its formation, the execution of the arrangement agreement and the taking of certain steps in connection thereto. Endo and Paladin currently each own one ordinary share of Euro denominated share capital at par value equal to €1, equivalent to approximately \$1.38 per share. In connection with the incorporation of the Company and its subsidiaries, Endo advanced \$51,000 to the Company. This cash advance is non-interest bearing and is due upon demand at the discretion of Endo. Accordingly, the outstanding amount has been classified in current liabilities as Due to Shareholder in the accompanying consolidated balance sheet as of December 31, 2013.

On or prior to the completion of the transactions, the Company will be re-registered as a public limited Company and renamed Endo International plc. It is a condition to the completion of the transactions that the ordinary shares of the Company will be approved for listing on NASDAQ Global Select Market (“NASDAQ”) and conditionally approved for listing on Toronto Stock Exchange (“TSX”) subject to the Company fulfilling all the listing requirements of NASDAQ and TSX. Upon consummation of the transactions pursuant to the arrangement agreement, the former shareholders of Endo are expected to own approximately 77.4% of the outstanding ordinary shares of the Company on a fully-diluted basis, and the former shareholders of Paladin and holders of Paladin options are expected to own approximately 22.6% of the outstanding ordinary shares of the Company on a fully-diluted basis.

In December 2013, Endo Finance Co. (the “Issuer”), a Delaware corporation and a direct wholly-owned subsidiary of Endo, issued \$700 million in aggregate principal amount of 5.75% Notes due 2022 (the “2022 Notes”). If the transactions are consummated, (i) the Issuer will merge with and into a to-be-formed indirect wholly-owned subsidiary of the Company (referred to herein as “New Endo Finance”), with New Endo Finance continuing as the surviving entity and assuming all of the Issuer’s obligations under the 2022 notes and (ii) a to-be-formed indirect wholly-owned subsidiary of the Company, will become a co-obligor of the 2022 Notes. If the transactions are not consummated, the Issuer will merge with and into Endo, with Endo continuing as the surviving entity and assuming all of the Issuer’s obligations under the 2022 Notes.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation—The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of the Company wholly owned subsidiaries, after elimination of intercompany accounts and transactions. The functional and reporting currency of the Company is the U.S. dollar.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Cash and Cash Equivalents—The Company considers all highly liquid money market instruments with an original maturity of three months or less when purchased to be cash equivalents. At December 31, 2013, there were no cash equivalents. The Company maintains its cash deposits with well-known and stable financial institutions.

Income Taxes—Provisions for income taxes are calculated on reported pre-tax income based on current tax laws and statutory tax rates, currently 12.5% as of December 31, 2013. Such provisions may differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Significant judgment is required in determining income tax provisions and evaluating tax positions. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will

not be realized. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings. Given the Company's lack of earnings history, a full valuation allowance was recognized to reduce to zero the calculated income tax benefit of \$32 during the period from October 31, 2013 (date of incorporation) through December 31, 2013.

Commitments and Contingencies—Contingent liabilities are recorded when the Company determines that a loss is both probable and reasonably estimable. Contingencies are inherently unpredictable and therefore, our assessments involve significant judgment regarding future events. As of December 31, 2013 the Company had no outstanding commitments or loss contingencies determined to be probable and reasonably estimable.

Net Comprehensive Income (Loss)—The components of net comprehensive income (loss) include the Company's net loss from operations during the period and other changes in shareholders' deficit during the period determined to be other comprehensive income (loss), such as foreign currency translation adjustments. During the period from October 31, 2013 (date on incorporation) through December 31, 2013 the effect of foreign currency adjustments was not material to the Company's financial position, results of operations, comprehensive income (loss), other comprehensive income (loss) or cash flows.

Fair value of financial instruments—Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accrued expenses and amounts due to shareholder approximate their fair values as of December 31, 2013.

3. ISSUED CAPITAL

Authorized Share Capital

The current authorized share capital of the Company is €100,000 consisting of 100,000 ordinary shares of €1 each and \$100,000 consisting of 1 billion ordinary shares of \$0.0001 each.

The Company may issue shares subject to the maximum authorized share capital contained in its memorandum and articles of association. The authorized share capital may be increased or reduced by a resolution approved by a simple majority of the votes cast at a general meeting of the Company's shareholders. The articles of association of the Company authorizes the board of directors of the Company to issue ordinary new shares without shareholder approval for a period of five years from the date of adoption of such articles of association.

The rights and restrictions to which the ordinary shares of the Company are subject are prescribed in the Company's articles of association.

Irish law does not recognize fractional shares held of record. Accordingly, the Company's articles of association do not provide for the issuance of fractional shares, and the official Irish register of the Company will not reflect any fractional shares.

At December 31, 2013, two Euro denominated ordinary shares of the Company were issued and outstanding, one each to Endo and Paladin. These shares were paid-in-full as of December 31, 2013.

4. SUBSEQUENT EVENTS

Subsequent to December 31, 2013 and through January 21, 2014, the date through which management evaluated subsequent events and on which the Company's consolidated financial statements were available for issuance, no subsequent events were identified for disclosure.

APPENDIX “N”

NOTICE OF PRESENTATION (FINAL ORDER)

CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

SUPERIOR COURT
(Commercial Division)

No.: 500-11-045944-143

**IN THE MATTER OF A PROPOSED
ARRANGEMENT CONCERNING PALADIN
LABS INC. PURSUANT TO SECTION 192 OF
THE CANADA BUSINESS CORPORATION
ACT (the "CBCA"):**

PALADIN LABS INC.

Petitioner

-and-

ENDO HEALTH SOLUTIONS INC.

ENDO INTERNATIONAL LIMITED

ENDO LIMITED

8312214 CANADA INC.

8312222 CANADA INC.

KNIGHT THERAPEUTICS INC.

**THE DIRECTOR APPOINTED PURSUANT TO
THE CBCA**

Impleaded Parties

**NOTICE OF PRESENTATION
(FINAL ORDER HEARING)**

All capitalized terms used but not otherwise defined herein shall have the same meaning as set out in the Motion (as defined below).

On January 17, 2014, Paladin Labs Inc. ("**Paladin**") filed with the Superior Court of Québec a *Motion for Interim and Final Orders in Connection with a Proposed Arrangement* (Section 192 of the Canada Business Corporations Act, R.S.C. 1985 c. C.-44 (as amended)) (the "**Motion**"). A copy of the Motion is posted on Paladin's website (www.paladin-labs.com).

On January 17, 2014, the Honourable Danièle Mayrand J.S.C. granted the Interim Order sought in the Motion. A copy of the Interim Order can be found as Appendix "D" of this *Notice of Special Meeting of Shareholders and Management Information Circular and Proxy Statement*.

TAKE NOTICE that the section of the Motion seeking a Final Order (the "**Motion for a Final Order**") will be presented on February 27, 2014 before the Superior Court of Québec, sitting in the Commercial Division in and for the district of Montréal at the Montréal Courthouse, located at 1 Notre-Dame Street East in Montréal, Québec, Room 16.12 at 9:15 A.M. or so soon as counsel may be heard;

AND TAKE FURTHER NOTICE that pursuant to the Interim Order, the only Persons entitled to appear and be heard at the hearing of the *Motion for a Final Order* shall be Paladin, the Impleaded Parties, and any person that:

- (a) files an appearance with this Court's registry and serve same on Paladin's counsel, (c/o: Mtre Louis-Martin O'Neill, 1501 McGill College, 26th Floor, Montréal, Québec, H3A 3N9, facsimile number (514) 841-6499), no later than 4:30 p.m. on February 19, 2014 with a copy to counsel to Endo Health Solutions Inc. (c/o Andrew Gray, Torys LLP, Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2 facsimile number (416) 865-7380); and
- (b) if such appearance is with a view to contesting the *Motion for a Final Order*, serves on Paladin's counsel (at the above address and facsimile number), no later than 4:30 p.m. on February 21, 2014, a written contestation supported as to the facts alleged by affidavit(s), and exhibit(s), if any;

DO GOVERN YOURSELVES ACCORDINGLY.

Montréal, January 21, 2014

(S) Davies Ward Phillips & Vineberg LLP
DAVIES WARD PHILLIPS & VINEBERG LLP
Attorneys for Petitioner Paladin Labs Inc.

HOW TO CAST YOUR VOTE

PROXY FORMS MUST BE RECEIVED NO LATER THAN 5 P.M., 2014 ON FEBRUARY 20, 2014 (MONTREAL TIME). PLEASE ENSURE THAT YOU SIGN AND DATE YOUR PROXY FORM.

1. REGISTERED SHAREHOLDERS

If you are a registered Shareholder (your share certificate is registered in your name):

- **MAIL:** complete, date, sign and return your proxy form in the enclosed return envelope; or
- **INTERNET:** visit www.investorvote.com and enter your 15 digit control number located on the enclosed proxy form.

2. NON-REGISTERED SHAREHOLDERS

If you are a non-registered Shareholder (your shares are held by a bank, broker or other intermediary), vote by following the instructions below and located on the voting instruction form provided by your bank or broker.

Canadian Beneficial Holders:

- **INTERNET:** visit www.proxyvote.com and enter your 12 digit control number located on the enclosed voting instruction form; or
- **TELEPHONE:** call 1-800-474-7493 and provide your 12 digit control number located on the enclosed voting instruction form; or
- **FAX:** fax your voting instruction form to 905-507-7793 or toll free to 1-866-623-5305 in order to ensure that your vote is received before the deadline.

U.S. Beneficial Holders:

- **INTERNET:** visit www.proxyvote.com and enter your 12 digit control number located on the enclosed voting instruction form; or
- **TELEPHONE:** call 1-800-454-8683 and provide your 12 digit control number located on the enclosed voting instruction form.

International Beneficial Holders:

- Follow the instructions on your voting instruction form.



**If you have additional questions about the information contained in this Circular,
or require assistance voting your proxy, please contact our information and proxy solicitation agent
CST Phoenix Advisors:**



North American Toll Free Phone:

1-800-239-6813

Banks, Brokers and collect calls: 201-806-2222

Toll Free Facsimile: 1-888-509-5907

Email: inquiries@phoenixadvisorscst.com
