

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

JOYCE KOWALYSHYN

Plaintiff

- and -

**VALEANT PHARMACEUTICALS INTERNATIONAL, INC.,
J. MICHAEL PEARSON, ROBERT L. ROSIELLO, HOWARD B. SCHILLER,
LAIZER D. KORNWASSER, KATE STEVENSON, NORMA PROVENCIO,
THEO MELAS-KYRIAZI and PRICEWATERHOUSECOOPERS LLP**

Defendants

Proceeding under the *Class Proceedings Act, 1992*

**STATEMENT OF CLAIM
(Notice of Action dated November 23, 2015)**

I. DEFINED TERMS

1. In this Statement of Claim the capitalized terms have the following meanings:
 - (a) "**CJA**" means the *Courts of Justice Act*, R.S.O 1990, c. C.43, as amended;
 - (b) "**Class**" and "**Class Members**" means all persons, except for **Excluded Persons**, who purchased or otherwise acquired **Securities** of **Valeant** on the **TSX** or other secondary market in Canada during the **Class Period**, and all persons who acquired **Valeant's Securities** during the **Class Period** who are resident of Canada or were resident of Canada at the time of acquisition and acquired **Valeant Securities** outside of Canada;
 - (c) "**Class Period**" means the period from February 28, 2013 to November 16, 2015;
 - (d) "**CPA**" means the *Class Proceedings Act, 1992*, S.O. 1992, c. 6;

- (e) "**December 2013 Offering Memorandum**" means Valeant's Offering Memorandum relating to the distribution of USD\$900.0 million aggregate principal amount of the 5.625% senior notes due 2021;
- (f) "**Excluded Persons**" means Valeant or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the **Individual Defendants** and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest;
- (g) "**GAAP**" means United States Generally Accepted Accounting Principles;
- (h) "**GAAP Misrepresentation**" means the failure to disclose Valeant's relationship with **Philidor** and the information particularized below at paragraph 70;
- (i) "**GAAS**" means generally accepted auditing standards;
- (j) "**GAAS Misrepresentation**" means the representation that **PwC** prepared its audit reports of Valeant in accordance with **GAAS**;
- (k) "**IFS**" means Interim Financial Statements;
- (l) "**Impugned Documents**" means Valeant's 2012 Annual Report; 2012 Annual **MD&A**; 2012 Audited Annual Financial Statements; Q1 2013 **MD&A**; Q1 2013 **IFS**; Q2 2013 **MD&A**; Q2 2013 **IFS**; Q3 2013 **MD&A**; Q3 2013 **IFS**; 2013 Annual Report; 2013 Annual **MD&A**; 2013 Annual Financial Statements; Q1 2014 **MD&A**; Q1 2014 **IFS**; Q2 2014 **MD&A**; Q2 2014 **IFS**; Q3 2014 **MD&A**; Q3 2014 **IFS**; 2014 Annual Report; 2014 Annual Financial Statements; 2014 Annual **MD&A**; Q1 2015 **MD&A**; Q1 2015 **IFS**; Q2 2015 **MD&A**; Q2 2015 **IFS**; Q3 2015 **MD&A**; Q3 2015 **IFS**; the **December 2013 Offering Memorandum**; the **January 2015 Offering Memorandum**; the **July 2013 Offering Memorandum**; the **June 2013 Prospectus**; the **March 2013 Offering Memorandum**; and the **March 2015 Offering Memorandum**;
- (m) "**Individual Defendants**" means **Kornwasser, Melas-Kyriazi, Pearson, Provencio, Rosiello, Schiller and Stevenson**;
- (n) "**Internal Controls Misrepresentation**" means the representation that Valeant's system of disclosure control and procedures and internal controls over financial reporting were effective;

- (o) "**January 2015 Offering Memorandum**" means Valeant's Offering Memorandum relating to the distribution of USD\$1.0 billion aggregate principal amount of 5.50% senior unsecured notes due 2023;
- (p) "**July 2013 Offering Memorandum**" means Valeant's wholly-owned subsidiary VPII Escrow Issuer's Offering Memorandum relating to the distribution of USD\$1.6 billion aggregate principal amount of the 6.75% senior notes due 2018 and USD\$1.625 billion aggregate principal amount of the 7.50% senior notes due 2021;
- (q) "**June 2013 Prospectus**" means Valeant's Prospectus relating to the distribution of 27,058,824 Valeant shares for aggregate proceeds of approximately USD\$2.3 billion;
- (r) "**Kornwasser**" means Laizer Kornwasser;
- (s) "**March 2013 Offering Memorandum**" means Valeant's wholly-owned subsidiary Valeant Pharmaceuticals International's Offering Memorandum relating to the offer to exchange USD\$500 million aggregate principal amount of 6.375% senior notes due 2020 for USD\$500 million aggregate principal amount of its 6.375% Senior Notes due 2020;
- (t) "**March 2015 Offering Memorandum**" means Valeant's wholly owned subsidiary VRX Escrow Corp.'s Offering Memorandum relating to the distribution of USD\$2.0 billion aggregate principal amount of 5.375% senior unsecured notes due 2020, USD\$3.25 billion aggregate principal amount of 5.875% senior unsecured notes due 2023, €1.5 billion aggregate principal amount of 4.50% senior unsecured notes due 2023, and USD\$3.25 billion aggregate principal amount of 6.125% senior unsecured notes due 2025;
- (u) "**MD&A**" means Management's Discussion and Analysis;
- (v) "**Melas-Kyriazi**" means Theo Melas-Kyriazi;
- (w) "**Misrepresentations**" means the GAAS Misrepresentation, the GAAP Misrepresentation and the Internal Controls Misrepresentation.
- (x) "**NPI**" means the National Provider Identification Number a unique identifier issued by the government;
- (y) "**NYSE**" means the New York Stock Exchange;

- (z) "**Offerings**" means the primary distributions of **Valeant's** Securities that occurred during the **Class Period** including the offerings of **Valeant's** shares pursuant to the **June 2013 Prospectus** and the offerings of **Valeant's** notes pursuant to the **December 2013 Offering Memorandum**, the **July 2013 Offering Memorandum**, the **March 2013 Offering Memorandum**, the **January 2015 Offering Memorandum**, and the **March 2015 Offering Memorandum**;
- (aa) "**OSA**" means the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended;
- (bb) "**Pearson**" means J. Michael Pearson;
- (cc) "**Philidor**" means Philidor Rx Services LLC;
- (dd) "**Provencio**" means Norma Provencio;
- (ee) "**PwC**" means PriceWaterhouseCoopers LLP;
- (ff) "**Rosiello**" means Robert Rosiello;
- (gg) "**Schiller**" means Howard B. Schiller;
- (hh) "**Securities**" means **Valeant's** shares, 5.50% senior unsecured notes due March 2023, Valeant's 6.875% senior notes due December 2018; VRX Escrow Corp.'s 5.375% senior unsecured notes due March 2020, 5.875% senior unsecured notes due May 2020, 6.125% senior unsecured notes due April 2025, 7.25% senior notes due July 2022; 7.00% senior notes due October 2020; 6.75% senior notes due August 2021; VPI Escrow Corp.'s 6.375% senior notes due October 2020; VPII Escrow Corp.'s 6.75% senior notes due August 2018 and 7.50% senior notes due July 2021; 5.625% senior notes due December 2021; 4.50% senior notes due May 2023; and any other **Valeant** securities within the meaning of the **OSA** and the **Securities Legislation**;
- (ii) "**Securities Legislation**" means, collectively, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, 1988, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

- (jj) "SEDAR" means the System for Electronic Document Analysis and Retrieval which is a filing system developed for the Canadian Securities Administration;
- (kk) "Stevenson" means Kate Stevenson;
- (ll) "TSX" means the Toronto Stock Exchange;
- (mm) "Valeant" means Valeant Pharmaceuticals International, Inc.; and
- (nn) "VIE" means an accounting term used in GAAP to refer to an entity in which the investor holds a controlling interest that is not based on the majority of voting rights.

II. CLAIM

2. The plaintiff claims:

- (a) an order pursuant to the *CPA* certifying this action as a class proceeding and appointing the plaintiff as the representative plaintiff of the Class;
- (b) an order granting leave to proceed with the statutory claim for misrepresentation under Part XXIII.1 of the *OSA* or, if necessary, the corresponding provisions of the Securities Legislation;
- (c) a declaration that Valeant and the Individual Defendants are liable in damages to the Class Members:
 - (i) for the Internal Controls Misrepresentation and the GAAP Misrepresentation;
 - (ii) who purchased Valeant Securities in the primary market pursuant to sections 130 and 130.1 of the *OSA* or, if necessary, the corresponding provisions of the Securities Legislation; and
 - (iii) who purchased Valeant Securities in the secondary market, if leave is granted, pursuant to section 138.3 of the *OSA* or, if necessary, the corresponding provisions of the Securities Legislation;
- (d) a declaration that PwC is liable in damages:

- (i) to the Class for the GAAP Misrepresentation and the GAAS Misrepresentation;
- (ii) to Class Members who purchased Valeant Securities in the secondary market, if leave is granted, as an expert pursuant to s. 138.3(1)(e) of the *OSA*, or, if necessary, the corresponding provisions of the Securities Legislation;
- (e) a declaration that Valeant is vicariously liable for the acts and omissions of its officers, directors and employees and for the acts and omissions of Philidor and its officers, directors and employees;
- (f) punitive damages against Valeant and the Individual Defendants in an amount that this court finds appropriate;
- (g) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues;
- (h) prejudgment interest and postjudgment interest, pursuant to sections 128 and 129 of the *CJA*;
- (i) costs of this action, plus pursuant to s. 26(9) of the *CPA*, the costs of notices and of administering the plan of distribution of the recovery in this action; and
- (j) such further and other relief as to this Honourable Court seems just.

III. OVERVIEW

3. Valeant is a specialty pharmaceutical and medical device company which manufactures and markets pharmaceuticals, over-the-counter products, and medical devices. Valeant is a reporting issuer in Ontario and its shares predominantly trade on the TSX and the NYSE.

4. During the Class Period, Valeant engaged in an aggressive growth strategy through acquisitions of pharmaceutical companies followed by the slashing of research

and development budgets and steep increases in the prices of the brand name drugs it acquired. Valeant also touted its growing organic revenue generated through increased sales of existing pharmaceuticals, which was of paramount concern to investors. A large percentage of that organic growth was driven by sales through Philidor, a mail order pharmacy which was effectively owned and controlled by Valeant, which relationship was not disclosed to the public.

5. During the Class Period, the market responded favourably to Valeant's growth and the price of Valeant's Securities soared:

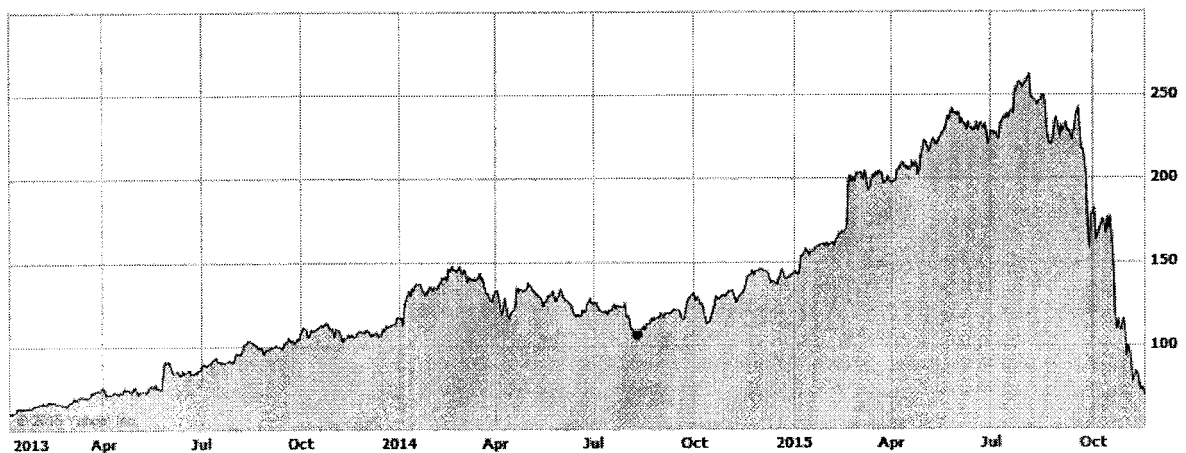


Chart of the price of Valeant's shares from January 2013 to November 2015

6. Capitalizing on the growth in the price of Valeant's Securities, during the Class Period Valeant raised in excess of \$14 billion in the capital markets.

7. On October 19, 2015, Valeant revealed for the first time that it owned an option to purchase Philidor, which Valeant used to market and sell Valeant's expensive brand name drugs. Valeant confirmed shortly thereafter that Valeant consolidated Philidor's financials and revenue into Valeant's financial statements.

8. Over the next several weeks, it was revealed for the first time that during the Class Period, current and former Valeant employees had a close and direct role in the growth, management, oversight, control, and day-to-day affairs of Philidor.

9. It was further revealed that during the Class Period, Philidor was engaging in risky, unorthodox, and illegal business practices with the goal of generating additional revenue for Valeant by increasing the sales of Valeant's expensive brand name pharmaceuticals. Valeant knew or ought to have known of such practices, and its internal controls failed to prevent such practices from occurring.

10. Finally, it was revealed that during the Class Period, Valeant had established a vast web of mail order pharmacies created for the purpose of causing insurance companies to pay for prescriptions for expensive Valeant drugs instead of generic substitutes.

11. Throughout this time, Valeant did not disclose and also took great pains to disguise its involvement in these practices and the associated risks to Valeant's business and operations.

12. These revelations had a catastrophic effect on Valeant's share price. On October 19, 2015, Valeant's common shares opened at \$220.00. After its relationship with Philidor became public and the market learned of Philidor's risky, unorthodox, and illegal business practices, Valeant shares fell to \$97.79 at the close of trading on November 16, 2015, representing a loss of more than \$40 billion in shareholder value. These damages were caused by the Misrepresentations.

13. As a reporting issuer in Ontario and elsewhere, Valeant was required at all material times to comply with GAAP. Indeed, Valeant and PwC, Valeant's auditor during the Class Period, repeatedly represented that Valeant's financial statements were prepared in compliance with GAAP. This was false.

14. In addition, during the Class Period Valeant represented that its disclosure and internal controls and procedures were effective. This too was false.

15. Valeant failed to meet the standards required of a public company in Canada. The plaintiff claims for herself and the other Class Members damages that were incurred as a result of the material misrepresentations and the Defendants' failure to disclose material information. Accordingly, this action is brought to recover the Class Members' losses from the Defendants.

IV. PARTIES

A. *The Plaintiff*

16. The plaintiff resides in Vancouver, British Columbia. She purchased Valeant shares on the TSX during the Class Period. As of the opening of trading on October 19, 2015, she owned 1,500 Valeant shares.

B. *The Defendants*

17. Valeant is a pharmaceutical and medical device company, incorporated in the Province of British Columbia and headquartered in Laval, Québec. It operates manufacturing facilities, sales offices and conducts extensive business in Ontario.

18. At all material times, Valeant's shares traded predominantly on the TSX and the NYSE under the ticker symbol "VRX". Valeant has various debt instruments, derivatives and other Securities that are traded in Canada and elsewhere.

19. As a reporting issuer in Ontario, Valeant was required throughout the Class Period to issue and file with SEDAR:

- (a) within 45 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP;
- (b) within 90 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP; and
- (c) contemporaneously with each of the above, a MD&A of each of the above financial statements. MD&As are a narrative explanation of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in future.

20. Valeant controlled the contents of its MD&As, financial statements, and the other documents particularized herein and the misrepresentations made therein were made by Valeant.

21. Pearson has been Valeant's Chief Executive Officer since September 2010. In March 2011, Pearson was appointed Chairman of Valeant's Board of Directors. As Valeant's CEO, Pearson signed and certified the company's disclosure documents during the Class Period. Pearson signed and certified each of the 2012 – 2014 Audited Annual Financial Statements and Annual MD&A and all of Valeant's quarterly reports (including MD&A and IFS) during the Class Period. In so doing, he adopted as his own the false statements such documents contained, as particularized below. As a director and officer, he caused Valeant to make the Misrepresentations.

22. Rosiello has been Valeant's Chief Financial Officer since July 1, 2015. In his position as CFO, Rosiello certified Valeant's Q2 and Q3 2015 quarterly reports (including IFS and MD&A). In so doing, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused Valeant to make the Misrepresentations.

23. Schiller was Valeant's Chief Financial Officer between December 2011 and July 1, 2015. Schiller was a member of Valeant's Board of Directors since September 2012. In his position as CFO, Rosiello signed and certified each of the 2012 – 2014 Audited Annual Financial Statements and Annual MD&A and Valeant's 2013 and 2014 Q1, Q2, and Q3 and 2015 Q1 quarterly reports (including IFS and MD&A). As an officer, he caused Valeant to make the Misrepresentations.

24. Kornwasser was Valeant's Executive Vice President and Company Group Chairman from February 1, 2013 to July 2015. Kornwasser was responsible for Valeant's operations in Canada, U.S. neurology and other U.S. functions including managed care and distribution. In this position, he reported directly to Pearson. Kornwasser also supervised employees at Philidor and had direct involvement in the management and control of Philidor.

25. Provencio has served on Valeant's Board of Directors since September 2010. At all material times, Provencio was the chairman of Valeant's Audit and Risk Committee that was responsible for overseeing the integrity of Valeant's financial statements, including disclosure controls and internal controls over financial reporting, the performance of Valeant's internal audit function and regulatory requirements, and the

processes in place to identify, assess, monitor and control critical risks facing Valeant and its subsidiaries, including regulatory risk. As a board member, she adopted as her own the false statements made in each of Valeant's annual financial statements, particularized below, when such statements were signed on her behalf. As a board member, she caused Valeant to make the Misrepresentations.

26. Stevenson has served on Valeant's Board of Directors since September 2010 and at all material times was a member of Valeant's Audit and Risk Committee. As a board member, she adopted as her own the false statements made in each of Valeant's annual financial statements, particularized below, when such statements were signed on her behalf. As a board member, she caused Valeant to make the Misrepresentations.

27. Melas-Kyriazi has served on Valeant's Board of Directors since September 2010 and at all material times was a member of Valeant's Audit and Risk Committee. As a board member, he adopted as his own the false statements made in each of Valeant's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Valeant to make the Misrepresentations.

28. During the Class Period, Valeant's Audit and Risk Committee was responsible for overseeing, monitoring and reviewing: (a) the integrity of Valeant's financial statements, including disclosure controls and internal controls over financial reporting; (b) the performance of Valeant's internal audit function; (c) Valeant's compliance with legal and regulatory requirements; and (d) the processes in place to identify, assess, monitor, and control critical risks facing Valeant and its subsidiaries, including

regulatory risk. Each of the members of Valeant's Audit and Risk Committee assumed these responsibilities.

29. During the Class Period, Valeant's Board of Directors toured Philidor's operations.

30. The members of Valeant's Board of Directors and Valeant's officers were authorized representatives and agents of Valeant and their acts are those of Valeant. Alternatively, Valeant is vicariously liable for the acts of its officers and directors. As officers and/or directors of Valeant, the Individual Defendants made the Misrepresentations, adopted such Misrepresentations, and/or caused Valeant to make such Misrepresentations while they were acting in their capacity as employees of Valeant.

31. PwC was Valeant's auditor during the Class Period. PwC is an expert within the meaning of the *OSA* and the Securities Legislation. PwC, in providing what it purported to be "audit" services to Valeant, made statements that it knowingly intended to be, and which were, disseminated to Valeant's current and prospective security holders. At all material times, PwC was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on PwC's statements relating to Valeant, which they did to their detriment.

32. During the Class Period, PwC misrepresented that Valeant's financial statements conformed with GAAP, that Valeant maintained effective internal control over financial reporting, and that it performed its audit in accordance with GAAS.

33. PwC's annual auditor's reports were made available to the shareholders of Valeant, which included the Class Members. Indeed, s. 1000.11 of the Handbook of the Canadian Institute of Chartered Accountants states that "the objective of financial statements for profit-oriented enterprises focuses primarily on the information needs of *investors and creditors*" [emphasis added].

34. During the Class Period, with the knowledge and consent of PwC, Valeant's audited annual financial statements for the years ended 2012, 2013 and 2014, together with the reports of PwC thereon, were presented to the shareholders of Valeant (including numerous Class Members) at annual meetings of such shareholders. All such financial statements were Impugned Documents.

V. THE OFFERINGS

35. Through the Offerings, Valeant raised in aggregate in excess of \$14 billion from investors during the Class Period. In particular:

- (a) On June 14, 2013, Valeant issued and filed with SEDAR the June 2013 Prospectus pursuant to which Valeant distributed to the public 27,058,824 common shares at a price of \$85.00 per share for gross proceeds of \$2.3 billion. The June 2013 Prospectus incorporated by reference Valeant's: (1) 2012 Annual Report; (2) 2012 Audited Annual Financial Statements; (3) 2012 Annual MD&A; and (4) Q1 2013 IFS; (5) Q1 2013 MD&A.
- (b) In March 2013, Valeant's wholly-owned subsidiary Valeant Pharmaceuticals International issued the March 2013 Offering Memorandum pursuant to which Valeant offered to exchange USD\$500 million in aggregate principal amount of 6.375% senior notes due 2020 for \$500 million in aggregate principal amount of its 6.375% senior notes due 2020. The March 2013 Offering Memorandum incorporated by reference Valeant's 2012 Annual Report.

- (c) In July 2013, Valeant's wholly-owned subsidiary VPPI Escrow Issuer issued the July 2013 Offering Memorandum pursuant to which Valeant sold \$1.6 billion in aggregate principal amount of the 6.75% senior notes due 2018 and \$1.625 billion in aggregate principal amount of the 7.50% senior notes due 2021. The July 2013 Offering Memorandum incorporated by reference Valeant's: (1) 2012 Annual Report; and (2) Q1 2013 IFS; and (3) Q1 2013 MD&A.
- (d) In December 2013, Valeant issued the December 2013 Offering Memorandum pursuant to which Valeant sold \$900.0 million in aggregate principal amount of the 5.625% senior notes due 2021. The December 2013 Offering Memorandum incorporated by reference Valeant's: (1) 2012 Annual Report; (2) Q1 2013 MD&A; (3) Q1 2013 IFS; (4) Q2 2013 MD&A; (5) Q2 2013 IFS; (6) Q3 2013 MD&A; and (7) Q3 2013 IFS.
- (e) In January 2015, Valeant issued the January 2015 Offering Memorandum pursuant to which Valeant sold \$1.0 billion in aggregate principal amount of 5.50% senior unsecured notes due 2023. The January 2015 Offering Memorandum incorporated by reference Valeant's: (1) 2013 Annual Report; (2) Q1 2013 IFS; (3) Q1 2013 MD&A; (4) Q2 2013 IFS; (5) Q2 2013 MD&A; (6) Q3 2013 IFS; and (7) Q3 2013 MD&A.
- (f) In March 2015, Valeant's wholly owned subsidiary VRX Escrow Corp. issued the March 2015 Offering Memorandum pursuant to which Valeant sold \$2.0 billion aggregate principal amount of 5.375% senior unsecured notes due 2020, \$3.25 billion aggregate principal amount of 5.875% senior unsecured notes due 2023, €1.5 billion aggregate principal amount of 4.50% senior unsecured notes due 2023, and \$3.25 billion aggregate principal amount of 6.125% senior unsecured notes due 2025. The March 2015 Offering Memorandum incorporated by reference Valeant's 2014 Annual Report.

36. The offering documents referenced in the preceding paragraph included or incorporated other documents by reference that included the Misrepresentations. Had the truth in regard to Valeant's management, business and affairs been timely disclosed, securities regulators likely would not have receipted the Prospectuses, nor would any of the Offerings have occurred.

37. In the alternative, had the truth in regard to Valeant's management, business and affairs been timely disclosed, the prices paid for Valeant's securities in the Offerings would have been significantly reduced to reflect the true value of the securities.

38. Each of Pearson and Schiller signed the June 2013 Prospectus and therein falsely certified that that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

VI. VALEANT'S GROWTH THROUGH ALTERNATIVE FULFILMENT

39. Since the beginning of the Class Period, Valeant has grown at a tremendous pace. This growth has been fueled by serial acquisitions of pharmaceutical companies and through organic growth (growth through internally generated profitable revenue expansion as opposed to growth through acquisition).

40. Investors were attracted to Valeant's Securities as a result of its purported organic growth since valid organic growth (and not growth through acquisition) is a fundamental indicator of a healthy core business.

41. At all material times, investors were concerned about whether Valeant could increase its revenue by selling more of the pharmaceuticals that it manufactured and marketed. The value of Valeant's Securities therefore depended on Valeant's organic revenue growth and the risks thereto.

42. Throughout the Class Period, Valeant's organic growth grew at a significant rate and Valeant repeatedly touted its organic growth to investors in order to promote its Offerings and the purchasing and holding of Valeant Securities.

43. Alternate Fulfillment was a process whereby Valeant attempted to maximize the sale of Valeant's brand name drugs and Valeant's profits by circumventing the incentive system of the payer insurers. Alternate Fulfillment improved profitability by channeling prescriptions that could be substituted for cheaper non-Valeant alternatives or generics if the underlying prescriptions were filled through normal fulfillment channels.

44. While Valeant's Alternate Fulfillment program was an extremely important component of its business strategy for increasing organic growth, the nature and extent of this program and the companies and business procedures used were not fully disclosed by Valeant.

45. Valeant's Alternate Fulfillment model used specialty pharmacies to provide prescription services to patients in the United States. Patients would send prescriptions to a specialty pharmacy that would immediately send the pharmaceutical to the patient and then seek reimbursement from the insurer. The names of Valeant's specialty pharmacies, the involvement, ownership interests and control of such pharmacies by Valeant and the nature of their business practices were not but ought to have been disclosed during the Class Period.

46. Alternate Fulfillment was particularly important to certain segments of Valeant's pharmaceutical business. In particular, the Alternate Fulfillment channel sold more than 50% of certain dermatological pharmaceuticals and more than 40% of all Valeant's

dermatology products. This was not but ought to have been disclosed during the Class Period.

47. During the Class Period, Valeant's organic revenue grew as a result of its increased use of the Alternate Fulfillment channel. However, during the Class Period Valeant failed to disclose material information and misrepresented material facts to purchasers of Valeant's Securities concerning the practices utilized by Valeant to increase its organic growth.

VII. THE TRUTH IS REVEALED

48. Between October 19, 2015 and the end of the Class Period, material information was disclosed for the first time by Valeant and various news reporting agencies, financial analysts and investigators concerning: (a) the financial interest and close and direct ties and management and control by Valeant of Philidor and the risky, unorthodox and illegal business practices of Philidor; (b) the establishment by Valeant and Philidor of a vast web of mail order pharmacies created with the intent of causing insurance companies to pay for prescriptions for expensive Valeant drugs instead of generic substitutes. The release of this material information caused the price of Valeant's Securities to drop precipitously.

49. Philidor was a mail order pharmacy that provided prescription services to patients across the country and was a dispensary that filled prescriptions. Philidor was a licensed pharmacy in the Commonwealth of Pennsylvania and was licensed as a non-resident pharmacy in 45 other states and the District of Columbia. Philidor's California license application was denied in May 2014 after the California Board of Pharmacy

found that Philidor's application contained false statements concerning its officers, authorized signatories and ownership structure.

50. On Valeant's Q3 2015 earnings call on October 19, 2015, Valeant disclosed for the first time that during the Class Period:

- (a) Valeant had a contractual relationship with Philidor;
- (b) in late 2014, Valeant purchased an option to acquire Philidor;
- (c) Valeant consolidated Philidor's financials and included Philidor's revenue in its financial statements; and
- (d) Valeant assumed Philidor's risk of non-reimbursement.

51. On a special conference call with investors to address questions about Valeant's relationship with Philidor on October 26, 2015, Valeant disclosed for this first time that:

- (a) Valeant's relationship with Philidor began in January 2013;
- (b) Valeant employees maintained regular communication with Philidor employees during the Class Period;
- (c) Valeant and Philidor had a joint steering committee for the purposes of exchanging, assessing and discussing matters relating to compliance by Philidor with applicable laws, contractual obligations and Philidor's internal policies and processes;
- (d) Valeant had extensive management and control rights and has utilized these rights to approve key positions at Philidor, including its in-house lawyer, chief compliance officer, an advisor to Philidor's chief operating officer, head IT officer, and other employees as requested;
- (e) Valeant included Philidor in its Internal Control Testing and Internal Audit program in 2015;
- (f) Valeant had substantial rights to Philidor information, including access to Philidor's books, records and facilities;
- (g) Valeant negotiated and purchased an option to purchase Philidor for \$0 for up to ten years in exchange for payment of \$100 million upfront in December 2014 and additional milestones payments of up to \$133 million;

- (h) Valeant treated Philidor as a VIE within the meaning of GAAP prior and subsequent to entering into an agreement to purchase Philidor;
- (i) after the purchase option agreement was executed, Valeant determined that it was Philidor's primary beneficiary and consolidated its financials with Philidor;
- (j) in Q3 2015, Philidor represented 6.8% of total Valeant revenue and 5.9% of Valeant's net revenue year to date;
- (k) speciality pharmacies accounted for 7.2% of Valeant net revenue year to date; and
- (l) 44% of Jublia, a Valeant dermatology pharmaceutical, flowed through Philidor in Q3 2015.

52. Between October 19 and November 16, 2015, various news outlets, investigators and financial analysts reported for the first time that current and former Valeant employees had previously undisclosed close and direct roles in the growth, management, oversight, control, and day-to-day affairs of Philidor. In particular, Valeant employees collaborated with the founder of Philidor to establish Philidor, had authority over Philidor employees, worked to expand Philidor's operations, and directed the operations of running Philidor. It was disclosed for the first time that:

- (a) Philidor was established with Valeant employees at Philidor when it was in its infancy.
- (b) Valeant drug representatives helped launch Philidor in states across the United States and expand its operations.
- (c) Valeant remained closely involved in the running of Philidor.
- (d) Valeant employees secretly worked directly at Philidor offices in order to conceal the ties between Valeant and Philidor so it did not appear that Valeant was using Philidor to steer patients or insurers to Valeant's products.
- (e) Valeant employees' roles at Philidor included, but were not limited to, interviewing job applicants and involvement in billing.

- (f) Valeant employees used fake names and Philidor email addresses to communicate with Philidor employees, in order to disguise their identity and Valeant's involvement. For example, Bijaj Patel, manager of access solutions at Valeant, communicated with employees of Philidor under the alias of Peter Parker, the alter ego of Spider-Man, using a Philidor email address and in respect of Philidor operations. Other Valeant employees used other fake names such as Jack Reacher (the protagonist of a series of thriller novels and a Tom Cruise movie) and Brian Wilson (the name of a member of the Beach Boys) using Philidor email addresses and in respect of Philidor operations. For example, Mr. Patel sent regular emails to Philidor employees (using his Philidor email address and false name Peter Parker) detailing how many prescriptions Philidor was filling, which drugs were most popular and what doctors were the biggest prescribers.
- (g) Senior Philidor employees were simultaneously senior Valeant employees.
- (h) Valeant's relationship with Philidor and its operations were overseen by Kornwasser. Kornwasser was hired less than 24 hours after the incorporation of Philidor in 2013. Kornwasser reported directly to Pearson.
- (i) After five years of employment at Valeant and Philidor's client liaison since January 2013, Gary Tanner joined Philidor as an executive Vice President and member of the management team. Tanner was a key subordinate of Kornwasser and Tanner reported directly to and was supervised by Kornwasser throughout his employment at Valeant and Philidor. Tanner interacted on a day-to-day basis with the Valeant dermatological team while employed at Philidor.

53. In addition, Philidor took extreme steps to deliberately hide its ownership and connection to Valeant.

54. Prior and subsequent to Valeant's disclosures, various news outlets, financial analysts and investigators reported for the first time that Philidor was engaging in risky, unorthodox, and illegal business practices with the goal of generating additional revenue for Valeant by ensuring that patients were prescribed expensive Valeant pharmaceuticals instead of cheaper generic alternatives, thereby increasing Valeant's organic growth. Philidor's risky and illegal business practices included:

- (a) Philidor was created by Valeant to generate increased sales of Valeant's products. Instead of relying on the drug industry's traditional but costly investment in research and development to fuel organic growth, Philidor steered patients to Valeant's existing drugs rather than less-expensive alternatives.
- (b) In August 2013, Philidor applied for a permit to operate in California. California's Board of Pharmacy denied the application in May 2014, saying Philidor and the chief executive named in the document, Matthew S. Davenport, had made "false statements," including some that concealed Philidor's true owners and beneficiaries.
- (c) Philidor established a vast network of pharmacies in California and across the United States, including but not limited to West Wilshire Pharmacy, R&O Pharmacies, Safe Rx, and Orbit Pharmacy Inc.
- (d) Following the rejection of claims by Philidor for reimbursement from insurers, Philidor systematically resubmitted claims to insurers using billing identification numbers from affiliated network pharmacies controlled by Philidor without disclosure that it was Philidor seeking reimbursement. A pharmacy's identification number is always supposed to be connected to the actual provider putting in the claim.
- (e) Philidor improperly filled prescriptions and shipped and delivered pharmaceuticals to California where it was denied a non-resident pharmacy license to operate and may not legally dispense pharmaceuticals.
- (f) Philidor altered prescriptions from doctors to require pharmacies to dispense Valeant drugs instead of cheaper, generic versions. Philidor instructed its employees to falsify "dispense as written" and changed codes and other doctor instructions on prescriptions to ensure that Valeant drugs and not cheaper generic alternatives were dispensed.
- (g) If an insurer asked a doctor to explain why a patient needed a costlier Valeant drug rather than a less-expensive alternative, Philidor employees would fill out the paperwork for the doctor.
- (h) Philidor advised employees how to bill the highest amounts that insurance companies were willing to pay for prescriptions by resubmitting claims at different price points.

55. During the Class Period Philidor's procedure manual instructed Philidor's employees to engage in risky, unorthodox, and illegal business practices:

Cambria Central Fill

Throughout the course of adjudication, you will run across several insurances that we are not contracted with. If we are not contracted with them, it means that they will not pay us for any medication. **We have a couple of different “back door” approaches to receive payment from the insurance company.** When you create a new insurance in the pt's [patient] profile, you will notice each insurance has a PA (Pennsylvania) and CA (California) insurance. Always try to run the PA version first. This will submit our NPI [ID #] for Philidor Rx Services. If you receive an error that indicates we are not contracted, try running the CA version, which will then submit the NPI for our partner in California, West Wilshire Pharmacy. There is a good chance they are contracted. If neither version of the insurance is contracted, we must then add the Cambria Central Fill insurance and run that as the primary. Once this is done, and you have completed all your checks, set the status to Central Fill Required. The Central Fill team will then run the pt's [patient] information through Cambria's system, which submits Cambria's NPI. They should then get a paid claim and then Cambria, another one of our partners will reimburse us. [emphasis added]

56. Throughout the Class Period, Valeant employees, including its senior officers, were aware of, condoned, encouraged, directed, and rewarded these practices. Valeant employees were regularly copied on emails describing and instructing Philidor employees in these practices.

57. On November 4, 2014, it was reported that in the fall of 2014, OptumRx, a leading U.S. pharmacy benefits manager, began to stop payments to Philidor. As a result, Philidor employees were instructed to bill the benefits manager using the NPI of West Wilshire Pharmacy of Los Angeles, instead of Philidor's NPI. By early 2015, Philidor was also using the NPIs of R&O Pharmacy LLC in Camarillo, California, Orbit Pharmacy of Houston, and SafeRx in South Plainfield, New Jersey, to bill OptumRx. Philidor asked its employees not to discuss its dealings with OptumRx in emails, and

devoted special training sessions on how to successfully bill OptumRx after it began rejecting Philidor claims. These practices were risky, unorthodox and illegal.

58. By October 29, 2013, the three largest pharmacy-benefit managers in the United States announced that they were ceasing dealings with Philidor. CVS Health Corp. announced that it was terminating its relationship with Philidor after audits found that Philidor was not complying with terms of its agreement. CVS said its move came after several weeks of monitoring and reviewing the results of recent audits of Philidor's practices. Express Scripts Holding Co. released a similar statement, saying it was cutting off Philidor and also evaluating four additional pharmacies with which Valeant has a similar relationship. OptimumRx also said it was dropping Philidor from its networks, beginning the process after an audit late last year. Express Scripts, CVS, and OptumRx together handle approximately three-quarters of United States prescriptions.

59. On October 30, 2015, Valeant announced it was cutting ties with Philidor and closing down its operations.

60. Between October 19, 2015 and the end of the Class Period, the price of Valeant's shares dropped precipitously from \$220.00 at the opening of trading on October 19, 2015 to \$97.79 at the close of trading on November 16, 2015, the last day of the Class Period.

VIII. THE MISREPRESENTATIONS

61. During the Class Period, Valeant made representations that:
- (a) each financial statement was prepared in accordance with GAAP;
 - (b) Valeant's internal controls over financial reporting and its disclosure controls and procedures were effective; and
 - (c) PwC, in its audit, complied with GAAS;

62. These misrepresentations were untrue and misleading.

A. Valeant Did Not Comply with GAAP During the Class Period

63. In each of Valeant's Class Period financial statements, Valeant represented that its financial statements were prepared in accordance with GAAP. This was untrue and misleading.

64. In each of Valeant's Class Period annual financial statements, PwC represented that Valeant's financial reporting was GAAP-compliant. This was untrue and misleading.

65. In addition, in each such annual financial statement, PwC represented that they had conducted their audit in accordance with the Public Company Accounting Oversight Board (United States) standards. This was untrue and misleading.

66. In December 2014, Valeant executed a purchase option agreement to acquire an option to purchase Philidor. Philidor was considered a VIE by Valeant prior to the purchase option agreement, yet it did not disclose this to the public. Following the execution of the purchase option agreement, Valeant continued to treat Philidor as a VIE

and determined that it was Philidor's primary beneficiary and did not disclose this to the public.

67. GAAP requires an enterprise to disclose that: (a) it holds an interest in a VIE but is not the primary beneficiary; and (b) is the primary beneficiary of a VIE. None of these disclosures were made by Valeant during the Class Period.

68. In particular, a reporting entity that holds interests in a VIE but is not the primary beneficiary is required to disclose the following in its financial statements:

- (a) the methodology for determining the primary beneficiary including significant judgments and assumptions;
- (b) if consolidation of a VIE has changed in a period, the primary factors that caused the change and effect on the financial statements;
- (c) whether the entity has provided financial or other support (explicitly or implicitly) to the VIE that it was not previously contractually obligated to provide or whether the reporting entity intends to provide support, including the type and amount of support, qualitative and quantitative information about the involvement with the VIE (considering explicit and implicit variable interest);
- (d) qualitative and quantitative information about the reporting entity's involvement (giving consideration to both explicit arrangements and implicit variable interests) with the VIE, including, but not limited to, the nature, purpose, size, and activities of the VIE, including how the VIE is financed;
- (e) carrying amount and classification of the assets and liabilities in the entity's balance sheet that relate to the entity's variable interest in the VIE;
- (f) the reporting entity's maximum exposure to loss as a result of its involvement with the entity, including how the maximum exposure is determined and the significant sources of the reporting entity's exposure to the VIE. If the maximum exposure to loss cannot be quantified, that fact must be disclosed;

- (g) a tabular comparison of the carrying amounts of the assets and liabilities with the maximum exposure to loss and qualitative and quantitative information on the reasons for the differences (considering explicit and implicit variable interest);
- (h) information about liquidity arrangements, guarantees or other third party commitments that may affect the fair value or risk of the reporting entity's variable interest in the VIE; and
- (i) if power is determined to be shared, the significant factors considered and judgments made.

69. Pursuant to GAAP, a reporting issuer which is the primary beneficiary of a VIE is required to disclose the following in its financial statements:

- (a) the methodology for determining the primary beneficiary including significant judgments and assumptions;
- (b) if consolidation of a VIE has changed in a period, the primary factors that caused the change and effect on the financial statements;
- (c) whether the entity has provided financial or other support (explicitly or implicitly) to the VIE that it was not previously contractually obligated to provide or whether the reporting entity intends to provide support, including the type and amount of support and the primary reasons for providing support;
- (d) qualitative and quantitative information about the reporting entity's involvement with the VIE (considering explicit and implicit variable interests);
- (e) carrying amount and classification of the consolidated VIE's assets and liabilities, including qualitative information about the relationship between those assets and associated liabilities;
- (f) lack of recourse if creditors or beneficial interest holders of a consolidated VIE have no recourse to general credit of the primary beneficiary;
- (g) terms of arrangements that could require the primary beneficiary to provide financial support to the VIE; and
- (h) amount of gain or loss on initial consolidation of the VIE if the primary beneficiary of the VIE is not a business. The primary beneficiary of a VIE that is a business should provide the disclosures required by ASC 80, *Business Combinations*.

70. Throughout the Class Period, Valeant made the GAAP Misrepresentation by failing to publicly disclose, among other things:

- (a) the methodology used to determine whether Valeant was Philidor's primary beneficiary;
- (b) the factors that caused Valeant to consolidate Philidor in December 2014 and the effect on the financial statements, including but not limited to the option purchase agreement;
- (c) whether Valeant provided Philidor with financial or other support, including the type and amount of support;
- (d) qualitative or quantitative information about Valeant's involvement in Philidor, including but not limited to the nature, purpose, size and activities of Philidor, including how Philidor was financed, rendering it impossible for users of Valeant's financial statements to quantify the standalone results or qualitatively assess Philidor's operations;
- (e) that Philidor was a distribution/payor reimbursement channel and that Valeant could appoint persons to important positions at Philidor without owning a majority stake;
- (f) the carrying amount and classification of Valeant's assets and liabilities that related to its interest in Philidor;
- (g) Valeant's maximum exposure to loss as a result of its involvement with Philidor, including the percentage of same store sales growth and growth in dermatology accounted for by sales through Philidor;
- (h) information about Valeant's liquidity arrangements, guarantees or other commitments that may have affected the fair value or risk of Valeant's variable interest in Philidor;
- (i) terms of the arrangement that could require Valeant to provide financial support to Philidor;
- (j) its relationship with Philidor and other mail order pharmacies;
- (k) that Philidor was a VIE;
- (l) Valeant's consolidation of Philidor's financials with its own;
- (m) the existence of the \$100 million upfront payment to acquire an option to buy Philidor and the \$33 million paid in respect of milestones of up to \$133 million;

- (n) the existence of the steering committee, its ability to appoint an advisor to Philidor's CEO, the Head Compliance Officer, an In-House lawyer, the Head IT officer and any other employees at Philidor;
- (o) the importance of revenue generated by Philidor to Valeant's organic growth;
- (p) Philidor's risky, unorthodox, and illegal business practices; and
- (q) the consequent risks assumed by Valeant.

71. The GAAP Misrepresentation was a material misrepresentation at common law and within the meaning of the *OSA* and the Securities Legislation.

B. *Valeant's Internal Controls Were Deficient*

72. In each MD&A during the Class Period, Valeant represented that its disclosure controls and procedures were effective which was untrue and misleading.

73. In its 2012, 2013, and 2014 annual MD&A, Valeant represented that its internal control over financial reporting was effective which was untrue and misleading.

74. In each Valeant annual financial statement during the class period, PwC represented that Valeant maintained effective internal controls over financial reporting which was untrue and misleading.

75. During the Class Period, Valeant and PwC represented that Valeant's system of disclosure controls and procedures and internal controls over financial reporting effective, when in fact they were deficient and suffered from material weaknesses.

76. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

77. The information gathering and dissemination system employed by Valeant did not constitute an effective system of disclosure controls and procedures and internal controls over financial reporting because they did not provide reasonable assurance: (i) regarding the reliability of financial reporting and the preparation of financial statements; (ii) that transactions with Philidor were recorded as necessary to permit preparation of financial statements in accordance with GAAP; and (iii) regarding prevention or timely detection of the unauthorized acquisition and use of Philidor.

78. Valeant and the Individual Defendants failed to take any or adequate steps to implement disclosure controls and procedures and internal controls over financial reporting to ensure that adequate and accurate information was communicated to Class Members.

79. Valeant's disclosure controls and procedures and internal controls over financial reporting ought to have but failed to detect and remedy the risky, unorthodox and illegal conduct and transactions at Philidor.

C. PwC Did Not Comply With Generally Accepted Auditing Standards

80. In each of Valeant's Class Period annual financial statements, PwC represented that: (a) Valeant's financial reporting was GAAP compliant; and (b) it had conducted its audits of Valeant in compliance with the standards of the Public Company Accounting Oversight Board (United States) Standards. These representations were untrue and misleading.

81. In particular, PwC failed to exercise the requisite care, skill and diligence of a reasonable competent auditor carrying out its audit of Valeant's financial statements and failed to prepare its audit report in accordance with GAAS.

IX. RIGHTS OF ACTION

A. *Negligent Misrepresentation*

82. As against all Defendants and on behalf of all Class Members who acquired Valeant's Securities in the secondary market, the Plaintiff pleads negligent misrepresentation for all of the Impugned Documents.

83. As against all Defendants (except PwC) and on behalf of all Class Members who acquired Valeant's securities in one of the distributions to which a Prospectus related, the Plaintiff pleads negligent misrepresentation for the Prospectuses.

84. As against all Defendants and on behalf of all Class Members who acquired Valeant's securities in one of the distributions to which an Offering Memorandum related, the Plaintiff pleads negligent misrepresentation for the Offering Memoranda.

85. The plaintiff pleads that the Misrepresentations were contained in or were incorporated by reference into the Impugned Documents.

86. The Impugned Documents were prepared, in part, for the purpose of attracting investment and inducing members of the investing public to purchase Valeant Securities. The Defendants knew and intended at all material times that the Class Members would

reasonably rely to their detriment upon such documents in making the decision to purchase Valeant Securities.

87. Valeant and the Individual Defendants were in a relationship of proximity with the Class Members and it was reasonably foreseeable that any act or omission on their part could cause damage to the Class Members.

88. Valeant owed a duty to Class Members to ensure the accuracy of its public statements. Therefore, it had an obligation to make full, true and accurate disclosure of material facts and changes with respect to its business and affairs.

89. The Individual Defendants, by virtue of their positions as officers and directors of Valeant, also owed a duty to Class Members to ensure that public statements on behalf of Valeant were true, accurate and not misleading. They owed a duty to ensure that material information was publicly disclosed to Class Members in a timely manner and that there were no material omissions in quarterly and annual reports. The continuous disclosure requirements in Canadian securities law mandated Valeant to provide quarterly and annual reports. These reports were meant to be read by investors in the secondary market and to be relied upon in making investment decisions. These reports and other public disclosure were prepared to attract investment in Valeant and the Defendants intended that Class Members would rely upon public disclosure for that purpose.

90. Further, the Individual Defendants had similar statutory obligations under Canadian securities law to ensure the accuracy of these disclosure documents. During the Class Period, the Individual Defendants signed annual reports and certified that the

quarterly reports and annual reports did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made not misleading. They also certified that the financial statements and other financial information fairly presented Valeant's financial condition, results of operations and cash flows.

91. PwC was in a relationship of proximity with the Class Members and it was reasonably foreseeable that any act or omission on its part could cause damage to the Class Members.

92. PwC knew and intended that Class Members would rely on the audit reports and assurances about the material accuracy of the financial statements. PwC had a duty to maintain or ensure that Valeant maintained appropriate internal controls to ensure that Valeant's disclosure documents adequately and fairly presented the business and affairs of Valeant on a timely basis.

93. The Defendants breached the standard of conduct required in the circumstances by making the Misrepresentations.

94. The Individual Defendants made the Misrepresentations by signing, authorizing, permitting and/or acquiescing to the release of the Impugned Documents.

95. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated into the price of Valeant's publicly traded Securities such that the trading price of those Securities would at all times reflect the information contained in the Impugned Documents.

96. The plaintiff and the other Class Members directly or indirectly relied upon the Misrepresentations in making the decision to purchase and/or hold Securities of Valeant, and suffered damages when the truth was revealed.

97. The plaintiff and other Class Members relied on the Defendants' obligation to make timely disclosure of all material facts, to comply with securities law and to prepare quarterly and annual reports in accordance with GAAP and GAAS. The Defendants violated these obligations.

98. The plaintiff invested in and continued to hold Valeant shares relying on the Misrepresentations in the Impugned Documents. She reviewed Valeant's public disclosure and relied on information contained therein.

99. Alternatively, the plaintiff and the other Class Members relied upon the Misrepresentations by the act of acquiring Securities of Valeant in an efficient market. As a result, the repeated publication of the Misrepresentations in these Impugned Documents caused the price of Valeant's Securities to trade at inflated prices during the Class Period, thus directly resulting in damage to the plaintiff and the other Class Members.

100. As against Valeant and PwC and on behalf of all Class Members who acquired Valeant's Notes in one of the offerings to which the January 2013, March 2013, December 2013, January 2015 and March 2015 Offering Memoranda related, the plaintiff asserts a claim for negligent misrepresentation under the common law of the State of New York.

101. To state a claim for negligent misrepresentation under the common law of the State of New York, a plaintiff must allege (1) a special relationship (which exists as to defendants who possess unique or specialized expertise, or who are in a special position of confidence and trust with the injured party) that creates a duty to exercise reasonable care toward the plaintiff (2) the transmittal of false information; and (3) justifiable, detrimental reliance on the false information.

102. The Offering Memoranda contained the Misrepresentations. Valeant and PwC were in a special relationship with the Class Members who purchased Valeant notes in the primary market. The Class Members who purchased Valeant's notes in one of the distributions to which the Offering Memoranda related justifiably relied on the Misrepresentations and suffered losses and are entitled to damages in accordance with the common law of the State of New York.

103. In the further alternative, as against Valeant and PwC and on behalf of all Class Members who acquired Valeant's Notes in one of the offerings to which the January 2013, March 2013, December 2013, January 2015 and March 2015 Offering Memoranda related, the Plaintiff asserts a claim for securities misrepresentation under Rule 10b-5 of the United States Securities Exchange Act of 1934.

B. *Part XXIII.1 of the OSA*

104. The plaintiff asserts the claims in Part XXIII.1 of the *OSA*, and, if required, the equivalent sections of the Securities Legislation, against all Defendants in respect of all of Valeant's shares and notes that traded in the secondary market during the Class Period.

105. Each of the Impugned Documents except for the Offering Memoranda is a “Core Document” within the meaning of the *OSA* and the Securities Legislation.

106. Each of these Impugned Documents contained one or more of the Misrepresentations.

107. Each of the Individual Defendants was an officer and/or director of Valeant at material times. Each of the Individual Defendants authorized, permitted or acquiesced in the release of some or all of these Impugned Documents.

108. Valeant is a reporting issuer within the meaning of the *OSA* and the Securities Legislation.

109. PwC is an expert within the meaning of the *OSA* and the Securities Legislation. PwC consented to the use of its statements particularized above in the Impugned Documents.

110. At all material times, each of the Defendants knew or, in the alternative, ought to have known, that the Impugned Documents contained the Misrepresentations.

C. *Part XXIII of the OSA*

(i) *Valeant's Shares*

111. As against all Defendants (except PwC), and on behalf of those Class Members who purchased Valeant shares in one of the distributions to which the June 2013 Prospectus related, the plaintiff asserts the right of action set forth in s. 130 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation.

112. Valeant issued the June 2013 Prospectus, which contained the Misrepresentations or they were contained in the disclosure documents incorporated by reference therein.

(ii) Valeant's Notes

113. As against Valeant and on behalf of those Class Members who purchased or otherwise acquired Valeant's notes in one of the offerings to which the January 2013, March 2013, December 2013, January 2015 and March 2015 Offering Memoranda related, the plaintiff asserts the right of action set forth in s. 130.1 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation.

114. Valeant issued the January 2013, March 2013, December 2013, January 2015 and March 2015 Offering Memoranda, which contained the Misrepresentations or they were contained in the disclosure documents incorporated by reference therein.

X. PUNITIVE DAMAGES

115. The plaintiff claims punitive damages as a result of the conduct of Valeant and the Individual Defendants particularized herein and, in particular, their callous disregard for their obligations to make full, plain, and true disclosure. In particular, Valeant and the Individual Defendants' conduct in continuing to hide the truth concerning Valeant's relationship with Philidor and Philidor's risky, unorthodox and illegal business practices, warrants an award of punitive damages.

**XI. THE RELATIONSHIP BETWEEN THE MISREPRESENTATIONS
AND THE PRICE OF VALEANT'S SECURITIES**

116. The price of Valeant's Securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Valeant's disclosure documents upon the price of Valeant's Securities.

117. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

118. Valeant routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Valeant Securities. Valeant either provided copies of the above referenced documents or links thereto on its website.

119. Valeant regularly communicated with public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time Valeant communicated new material information about Valeant's financial results to the public, the price of Valeant's Securities was directly affected.

120. Valeant was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any

recommendations to purchase Valeant Securities in such reports during the Class Period were based, in whole or in part, upon that information.

121. At all material times during the Class Period, Valeant's Securities were traded, among other places, on the TSX, which is an efficient and automated market. The price at which Valeant's Securities traded promptly incorporated material information from Valeant's disclosure documents about Valeant's business and affairs, including the Misrepresentations, which were disseminated to the public through the documents referred to above and distributed by Valeant, as well as by other means.

XII. VICARIOUS LIABILITY OF VALEANT

122. Valeant is vicariously liable for the acts and omissions of the Individual Defendants and its other officers, directors, and employees because their acts and omissions with respect to the Misrepresentations were carried out while they were engaged in the management, direction and control of the business affairs of Valeant.

123. Philidor is vicariously liable for the acts and omissions of its officers, directors and employees.

124. Valeant is vicariously liable for the acts and omissions of Philidor because Valeant established, staffed, oversaw and controlled Philidor and some of its employees worked at Philidor.

XIII. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

125. This action has a real and substantial connection with Ontario because, among other things:

- (a) Valeant is a reporting issuer in Ontario;
- (b) Class Members resident in Ontario acquired Valeant Securities and suffered damage and loss;
- (c) the shares of Valeant trade on the TSX, which is located in Ontario; and
- (d) Valeant conducts extensive business in Ontario including, but not limited to, operating a manufacturing facility and marketing, selling and distributing its products.

XIV. RELEVANT LEGISLATION

126. The plaintiff pleads and relies on the *CJA*, the *CPA*, the *OSA* and the Securities Legislation.

XV. SERVICE OUTSIDE ONTARIO WITHOUT LEAVE

127. The plaintiff pleads and relies on Rule 17.02(g), (n), and (p) to serve this claim and the notice of action outside of Ontario without leave.

December 17, 2015

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**VALEANT PHARMACEUTICALS
INTERNATIONAL, INC. et al.**
Defendants

Court File No.: CV-15-541082-00CP

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

(Notice of Action dated November 23, 2015)

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