Nuvo Pharmaceuticals Inc. First Quarter Report 2016

May 12, 2016

Dear Nuvo Shareholder -

This letter is to provide you with an update on the progress at Nuvo Pharmaceuticals Inc. (Nuvo Pharma) (TSX:NRI), including our most recent financial results that we released May 11, 2016 after the markets closed.

This has been a very exciting quarter for Nuvo Pharma. In September of last year, we announced a proposed transaction to separate then Nuvo Research Inc. (Nuvo Research) into two publicly traded companies: Nuvo Pharma and Crescita Therapeutics Inc. (Crescita) (TSX:CTX). Nuvo Pharma is a publicly traded, profitable healthcare company with a portfolio of commercial products, partners and pharmaceutical manufacturing capabilities. Crescita is a drug development company with significant cash and a portfolio of development stage drug candidates. The separation transaction for the two companies was approved by both its shareholders and the courts in February and the reorganization was completed on March 1, 2016. This is the first time that we have reported financial results for Nuvo Pharma as a stand-alone company and are pleased that our first quarter has been a very positive one.

Importantly, the intended outcome of the reorganization into two companies has been well received by the investment community. When we announced our plans to split Nuvo Research into two companies in September 2015, the share price of Nuvo Research was $5.30. Yesterday, the combined share price of Nuvo Pharma and Crescita was $8.09 - an increase of over 50%.

The key driver to Nuvo Pharma's business in the short to medium-term is the continued sale of our lead prescription topical pain product for osteoarthritis of the knee, Pennsaid 2%, in the United States by our partner, Horizon Pharma plc (Horizon) (NASDAQ:HZNP). Horizon has done a terrific job since they took over the marketing of Pennsaid 2% on January 1, 2015. In that short period, Horizon has grown prescriptions from an average of about 2,000 per week in Q1 2015 to the point where prescriptions in the U.S. are approaching 10,000 per week. In April 2016, weekly prescriptions averaged approximately 9,700; an increase of approximately 17% over the 8,300 weekly prescriptions averaged in Q1 2016. A few weeks ago, Horizon indicated publicly that Pennsaid 2% is now its lead specialty pharma product and that it is allocating additional resources to its promotion. This new focus seems to be benefitting both Horizon and Nuvo Pharma. Nuvo Pharma earns its revenue by selling commercial bottles and physician samples of Pennsaid 2% manufactured at our Varennes, Québec facility, to Horizon under an exclusive supply agreement that extends to 2029. Pennsaid 2% is protected by our long-life intellectual property that includes 13 patents issued in the U.S. and multiple patents that are issued or pending in major territories around the world. Our product sales to Horizon continue to increase. We recognize that there are timing differences between prescriptions filled by U.S. pharmacies and product shipped to Horizon from our plant. As a result, there isn't an exact correlation in any particular quarter between reported prescriptions filled and bottles sold by Nuvo Pharma to Horizon. However, these numbers are ultimately both moving in the same, upward direction, so we are very pleased.

Nuvo Pharma had an excellent first quarter with increasing revenue, strong margins on product sales and a growing cash position which is $14.0 million including short-term investments. Nuvo Pharma continues to be debt free. Total revenue, which is comprised of product sales, royalties and research and other contract revenue, increased to $7.8 million in the quarter from $7.7 million in Q4 2015 and $4.3 million in Q1 of last year. The most significant component of our revenue in the quarter was product sales from our manufacturing plant which increased to $7.3 million from $7.1 million in Q4 2015 and $3.7 million in the first quarter of 2015.

The gross margin on product sales in the quarter increased to $4.2 million or 57% compared to $4.0 million or 57% in Q4 2015 and $1.3 million or 35% in the first quarter of 2015. The continuing improvement in gross margin is related to our ability to be more efficient in our manufacturing facilities as volumes grow.

Our long-term supply agreement with Horizon and Horizon's marketing efforts have already proven fruitful to Nuvo Pharma's shareholders; however, we think there continues to be upside in the U.S. market and also a significant opportunity to augment our revenue streams by out-licensing Pennsaid 2% rights to commercial partners throughout the world. With this task in mind, at the beginning of April of this year, Jesse Ledger was appointed to the newly created position of Vice President, Business Development. Jesse will be responsible for all business development activities with an initial focus on maximizing the value of our Pennsaid 2% franchise through global out-licensing.

Our goal and Jesse's priority is to make Pennsaid 2% a global brand. We have 8 out of the top 10 pharmaceutical markets available for partnering and have ongoing discussions with several potential international licensing partners. We hope to complete some out-licensing transactions in 2016. The rights to Pennsaid 2% have already been partnered in the U.S., Canada, Russia and Greece. We should caution that there can be no assurance that any transactions will occur or on the timeline described.

Currently Pennsaid 2% has been approved for marketing only in the U.S. Many jurisdictions will base their regulatory approval of Pennsaid 2% on its U.S. Food and Drug Administration (FDA) approval and won't require additional clinical trials. However, for Canada, the E.U. and Australia, we need an additional successful Phase 3 trial to support our applications for regulatory approval. Last year, we conducted our first Phase 3 ankle sprain trial in Germany. Despite not meeting the primary endpoint, most secondary endpoints were met and we are quite encouraged by the overall study outcomes. Based on our learnings from this first study, and in support of our out-licensing efforts, we have made the decision to repeat the ankle sprain study with minor revisions to the protocol and endpoints. We anticipate that results will be available next year. We will communicate more details of the new study, including more specific timelines and costing, as we advance in our process. We believe that the modest cost of the study is likely to generate multifold returns to Nuvo Pharma shareholders through partnering, market approvals and commercial sales.

Once we get our Pennsaid 2% out-licensing initiative fully underway, we plan to ramp up our M&A strategy by looking at potential product and business acquisition opportunities that can add to our revenue and profitability – on an accretive basis. We don't plan to acquire assets or businesses that require significant research and development expenditures. Our strategy is to keep Nuvo Pharma a pure-play healthcare revenue business with growing revenues and profits.

In order to help maximize value, we have also been keeping a strict control on our expenses. Nuvo Pharma has a small team of employees at our corporate office in Mississauga, Ontario. The remainder of our employees are directly involved in the manufacturing operations in Varennes, Québec, which is a net profitable, FDA approved GMP manufacturing plant. Our sole focus is on maximizing revenue and profit.

In closing, I would like to thank our employees for their dedication, our board of directors for their sage advice and most of all you, our shareholders, for your patience and support. Together, we own an exciting company with tremendous prospects. As always, if you have any questions or comments about the business, please don't hesitate to call or email us. We will look forward to hearing from you. Until next time.

John London
President and CEO

Management's Discussion and Analysis (MD&A)

May 11, 2016 / The following information should be read in conjunction with the Nuvo Pharmaceuticals™ Inc. (Nuvo or the Company) Consolidated Financial Statements for the year ended December 31, 2015 which were prepared in accordance with International Financial Reporting Standards (IFRS) and filed on SEDAR on February 17, 2016 and the Management Information Circular of Nuvo Research Inc. dated December 31, 2015 (Nuvo Reorganization Circular). Additional information relating to the Company, including its Annual Information Form (AIF), can be found on SEDAR at www.sedar.com.

All amounts in the MD&A, Consolidated Financial Statements and related Notes are expressed in Canadian dollars, unless otherwise noted.

As part of the Corporate Reorganization (described below), Nuvo Research Inc. changed its name to "Nuvo Pharmaceuticals Inc.".

Forward-looking Statements

Certain statements in this MD&A constitute forward-looking information and/or forward-looking statements (collectively, "forward-looking statements") within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements concerning the Company's future objectives, strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include general business and economic uncertainties and adverse market conditions as well as other risk factors included in this MD&A under the heading "Risks Factors", the Company's AIF and as described from time to time in the reports and disclosure documents filed by the Company with Canadian securities regulatory agencies and commissions. Additional factors that could affect the operation of the Company as a result of the completion of the Reorganization (as defined below) are described in the Reorganization Circular under the heading "Risk Factors". This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. All forward-looking statements in this MD&A are qualified by these cautionary statements. The forward-looking statements contained herein are made as of the date of this MD&A and except as required by applicable law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Corporate Reorganization

On March 1, 2016, Nuvo Research Inc. (Nuvo) completed a transaction (the Reorganization) pursuant to which Nuvo was reorganized into two separate publicly-traded companies, the Company and Crescita Therapeutics Inc. (Crescita). Detailed information regarding the Reorganization and its effects, including a description of certain risks and uncertainties in respect of the Reorganization and the operation of the Company and Crescita as separate publicly-traded companies, are included in the Reorganization Circular that is available under the Company's profile at www.sedar.com.

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo Pharmaceuticals and Crescita.

Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Crescita is a drug development business that operates two sub-groups: the Topical Products and Technology (TPT) Group and the Immunology Group. The TPT Group has one commercial product, a pipeline of topical and transdermal products focusing on pain and dermatology and multiple drug delivery platforms that support the development of patented formulations that can deliver actives into or through the skin. The Immunology Group has two commercial products.

The information presented herein reflects the completion of the Reorganization, with Crescita presented as a discontinued operation. Accordingly, the operating results have been restated to reflect Crescita as a discontinued operation.

Key Developments

During the quarter and prior to the release of the first quarter results:

- U.S. prescriptions of Pennsaid 2% decreased slightly to 109,000 in the first quarter of 2016 compared to 116,000 prescriptions in the fourth quarter of 2015 according to IMS Health. In April, prescriptions increased to an average of approximately 9,700 per week compared to approximately 8,300 per week in Q1 2016;

- In March, the Company appointed Jesse Ledger to the newly created position of Vice President, Business Development. Mr. Ledger will be responsible for all business development activities with an initial focus on maximizing the value of the Company's Pennsaid 2% franchise through global out-licensing;

- In March, the Company announced topline results from its Pennsaid 2% trial for the treatment of ankle sprains. The trial enrolled 126 patients (the full analysis set or FAS) of which 116 patients followed the protocol (the per protocol set or PP). The trial did not meet its primary endpoint which was pain on movement (POM) at day 5 in the FAS patient group, but did meet a number of secondary endpoints including POM at day 5 in the PP patient group and POM at day 3 in both the FAS and PP patient groups. The Company has decided to repeat the trial with minor revisions to the protocol and endpoints and will release more information on timing and costing as it becomes available; and

- In February 2016, the Company amended its exclusive manufacturing agreement with Horizon Pharma plc (NASDAQ:HZNP) for the production of Pennsaid 2% to extend the term to December 31, 2029 from the initial term which ended on December 31, 2022. Under the terms of the agreement, the Company earns revenue from U.S. product sales of Pennsaid 2% to Horizon.

Overview

Background
Nuvo is a publicly traded, Canadian commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Nuvo has three commercial products that are available in a number of countries: Pennsaid 2%, Pennsaid and the heated lidocaine/tetracaine patch (HLT Patch).

As of March 31, 2016, the Company employed a total of 41 full-time employees at its manufacturing facility in Varennes, Québec and its head office in Mississauga, Ontario.

Pennsaid 2%
Pennsaid 2% is a follow-on product to original Pennsaid. Pennsaid 2% is a non-steroidal anti-inflammatory drug (NSAID) containing 2% diclofenac sodium compared to 1.5% for original Pennsaid. It is more viscous than original Pennsaid, is supplied in a metered dose pump bottle and has been approved in the U.S. for twice daily dosing compared to four times a day for Pennsaid. This provides Pennsaid 2% with advantages over Pennsaid and other competitor products and with patent protection.

The following table summarizes where the Company's partners have commercialized Pennsaid 2% or are working to obtain regulatory approval:

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Pennsaid 2%	Osteoarthritis of the knee	Horizon Pharma plc	United States	Thirteen granted U.S. patents listed in the FDA's Orange Book with latest expiry in 2030.
		Paladin Labs Inc.[1]	Canada	One patent granted in Canada expiring in 2027. Pending patent application through 2033.
		NovaMedica LLC[1]	Russia; some Community of Independent States	One patent granted in Russia expiring in 2027. Pending patent application through 2033.

(1) Partner is working to obtain regulatory approval in licensed territory.

The following table summarizes additional development the Company is undertaking to expand the therapeutic area of Pennsaid 2%:

Product	Therapeutic Area	Stage of Development	Intellectual Property [1]
Pennsaid 2%	Acute strains and sprains	Phase 3 clinical trials	Patents granted in AU, CA, CH, DE, DK, FR, GB, GR, IE, IL, IT, NL, HK, JP, MX, NZ, RU, ZA, expiring in 2027. Applications pending in 5 countries. Patent applications pending in AU, BR, CA, CL, CN, EP, HK, IL, JP, MX and RU through 2033.

(1) Region and country abbreviations defined as follows: Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Denmark (DK), Europe (EP), France (FR), Germany (DE), Great Britain (GB), Greece (GR), Ireland (IE), Israel (IL), Italy (IT), Netherlands (NL), Hong Kong (HK), Japan (JP), Mexico (MX), New Zealand (NZ), Russian Federation (RU), South Africa (ZA), Switzerland (CH).

Pennsaid 2% was approved on January 16, 2014 in the U.S. for the treatment of the pain of osteoarthritis (OA) of the knee and is not currently approved for sale or marketing in any other jurisdiction. OA is the most common joint disease affecting middle-age and older people. It is characterized by progressive damage to the joint cartilage and causes changes in the structures around the joint. These changes can include fluid accumulation, bony overgrowth and loosening and weakness of muscles and tendons, all of which may limit movement and cause pain and swelling. In the U.S. market, the rights to Pennsaid 2% were sold to Horizon Pharma plc (Horizon) for US$45.0 million in October 2014. The Company earns revenue from product sales of Pennsaid 2% to Horizon under an exclusive manufacturing agreement that ends in 2029. In January 2015, Horizon launched its commercial sale and marketing of Pennsaid 2% in the U.S.

Paladin Labs Inc. (Paladin) has the exclusive rights to market and sell Pennsaid 2% in Canada.

Pennsaid 2% Phase 3 Clinical Trial Results

In July 2015, the Company commenced a Phase 3 clinical trial using Pennsaid 2% for the treatment of acute pain (Pennsaid 2% Trial) to support regulatory approval applications for Pennsaid 2% in certain international jurisdictions. The Pennsaid 2% Trial enrolled 126 patients of which 116 patients followed the protocol. The patients enrolled in the Pennsaid 2% Trial applied either Pennsaid 2% or a placebo consisting of a topical vehicle that included all of the constituent ingredients of Pennsaid 2%, except its active ingredient diclofenac sodium, to their injured ankle twice a day for 8 days. Randomly assigned double-blind treatment was started after baseline evaluation within 12 hours after injury (Day 1); the patients returned to the investigational site for in-depth evaluation on days 3, 5 and 8 of treatment. Results were tabulated for both the FAS and PP groups.

Primary Endpoint

The primary endpoint for the Pennsaid 2% Trial was reduction in POM at day 5 in the FAS group. On average, patients treated with Pennsaid 2% had a larger reduction in POM scores over the course of the

study. For the FAS group, the difference vs. placebo was statistically significant on the secondary time point on day 3 (p=0.0119), but not at the primary time point on day 5 (p=0.2430) or the secondary time point on day 8 (p=0.2603). In the PP group, which excluded those patients with a lower usage of medication than as set out in the Pennsaid 2% Trial protocol (9 patients excluded out of 126 for this reason), the Pennsaid 2% group showed a statistically significant improvement at both the primary time point (day 5 p=0.0416), as well as the secondary time points (day 3 p=0.0018 and day 8 p=0.0490).

Secondary Endpoints
The Pennsaid 2% Trial also included the measure of a number of secondary endpoints. These data are supportive of Pennsaid 2% being effective to treat ankle sprain injuries and specifically showed the following outcomes:

Tenderness - Pennsaid 2% demonstrated a statistically significant reduction in tenderness compared to placebo in the FAS group at days 3, 5 and 8 with p-values of 0.0055, 0.0150 and 0.0104, respectively.

Ankle Function - Pennsaid 2% demonstrated a statistically significant increase in ankle function compared to placebo in the FAS group at days 3 and 8 with p-values of 0.0115 and 0.0232, respectively, but not at day 5 with a p-value of 0.1549.

Ankle Swelling - Pennsaid 2% demonstrated a statistically significant decrease in ankle swelling compared to placebo in the FAS group at days 3, 5 and 8 with p-values of 0.0020, 0.0018 and 0.0142, respectively.

Overall Assessment of Benefit and Satisfaction - Patients treated with Pennsaid 2% reported a statistically significantly higher level of satisfaction with and benefit of their treatment compared to placebo in the FAS group with a p-value of 0.0001 for the treatment benefit and a p-value of <0.0001 for satisfaction.

The Company has reviewed the Pennsaid 2% Trial results in more detail and met with its consultants to determine what steps should be taken to obtain regulatory approval of Pennsaid 2% in Canada, Australia and the E.U. The Company has determined that it will conduct another study similar to the Pennsaid 2% Trial, but with certain changes to the protocol and endpoints.

Additional clinical and non-clinical trials may be required to support applications for the regulatory approval of Pennsaid 2% in other countries in which the Company, or other licensees and distributors, could potentially market the product. The Company was advised by regulatory authorities in Canada and the United Kingdom that the data from the Phase 2 trial conducted by its former U.S. licensee was insufficient to support approval of Pennsaid 2% in their respective countries and that additional clinical trials would be required. In addition, NovaMedica LLC (NovaMedica) advised the Company that their Pennsaid 2% clinical trial was successful and that they had submitted their application to obtain regulatory approval in Russia. There can be no assurance that the current trials will be sufficient for regulatory authorities in any jurisdiction or that all trials will yield successful results or that the required regulatory approvals will be obtained.

Pennsaid
Pennsaid, the Company's first commercial topical pain product, is used to treat the signs and symptoms of OA of the knee. Pennsaid combines the transdermal carrier (containing dimethyl sulfoxide, popularly known as DMSO), with diclofenac sodium, a leading NSAID and delivers the active drug through the skin at the site of pain. Pennsaid no longer has patent protection in the territories where it is currently marketed by our partners. In Canada, Pennsaid is available by prescription only and multiple generic versions of Pennsaid have launched that have negatively impacted sales. In the other regions where Pennsaid is available, a prescription is not required (except the U.K.).

Pennsaid Commercial Partners:
The following table summarizes where the Company's partners have commercialized Pennsaid or are working to obtain regulatory approval:

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories[(1)]
Pennsaid	Osteoarthritis of the knee	Paladin Labs Inc.	Canada
		Vianex S.A.	Greece
		Italchimici S.p.A.	Italy
		Movianto UK Limited	U.K.
		NovaMedica LLC	Russia; some Community of Independent States

[(1)] The Company's patents associated with Pennsaid have expired.

Heated Lidocaine/Tetracaine Patch
The HLT Patch is a topical patch that combines lidocaine, tetracaine and heat, using proprietary Controlled Heat-Assisted Drug Delivery (CHADD™) technology. The CHADD unit generates gentle heating of the skin and in a well-controlled clinical trial demonstrated that it contributes to the efficacy of the HLT Patch by improving the flux rate of lidocaine and tetracaine through the skin. The HLT Patch resembles a small adhesive bandage in appearance and is applied to the skin 20 to 30 minutes prior to painful medical procedures, such as venous access, blood draws, needle injections and minor dermatologic surgical procedures.

HLT Patch Commercial Partners:
The following table summarizes where the Company's partners have commercialized the HLT Patch or are working to obtain regulatory approval:

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Synera[2]	Local Dermal Analgesia (Patch)	Galen US Incorporated	United States	One granted U.S. patent listed in the FDA's Orange Book expiring in 2020. Method of manufacturing patent that expires 2019 (U.S.).
Rapydan[(2)]		Eurocept B.V.	Europe, Russia[(1)], Turkey[(1)], Israel[(1)] and People's Republic of China[1]	Two granted European patents validated in 10 countries with latest expiry in 2019. Patents granted worldwide[(3)] with latest expiry in 2019.
Heated Lidocaine/ Tetracaine Patch		Paladin Labs Inc.	Canada[1]	Method of manufacturing patents that expire 2020 (Europe).

[(1)] Partner is responsible for obtaining regulatory approval in licensed territory.
[(2)] Rapydan and Synera are the brand names for the HLT Patch in their respective jurisdiction.
[(3)] Worldwide refers to one or more countries other than Europe and the U.S.

The Company holds the sales and marketing rights for the HLT Patch in Mexico, South America, Australia, Africa and most regions in Asia, although it is not approved in any of these territories.

The Company pays royalties to two companies for 1% and 1.5% of net sales of the HLT Patch.

Manufacturing
The Company has a manufacturing facility in Varennes, Québec that produces Pennsaid, Pennsaid 2% and the bulk drug product for the HLT Patch. The Company manufactures these products for all of its global partners for all markets where the products are sold. The facility is in compliance with current Good Manufacturing Practices (GMP).

Litigation

From time-to-time, during the ordinary course of business, the Company may be threatened with, or may be named as, a defendant in various legal proceedings including lawsuits based upon product liability, personal injury, breach of contract and lost profits or other consequential damage claims.

Selected Financial Information

in thousands (except per share)

	Three Months ended March 31, 2016	Three Months ended March 31, 2015
	$	$
Operations		
Product sales	**7,325**	3,715
Royalties	**309**	493
Research and other contract revenue	**208**	125
Total Revenue	**7,842**	4,333
Total operating expenses	**5,378**	2,599
Other income (loss)	**(536)**	298
Income before income taxes	**1,928**	2,032
Income tax expense	**-**	7
Net income from continuing operations	**1,928**	2,025
Net loss from discontinued operations	**(3,180)**	(2,295)
Net loss	**(1,252)**	(270)
Other comprehensive income	**32**	(86)
Total comprehensive loss	**(1,220)**	(356)
Share Information		
Net income per share from continuing operations		
Basic	**$0.17**	$0.19
Diluted	**$0.15**	$0.18
Average number of common shares outstanding for the period		
Basic	**11,294**	10,839
Diluted	**11,496**	11,163

Financial Position	**As at March 31, 2016**	As at December 31, 2015
Cash	**$ 11,017**	$ 48,680
Short-term investments	**3,000**	-
Total assets	**21,944**	59,132
Other obligations, including current portion	**10**	235
Total liabilities	**4,898**	9,413
Total equity	**17,046**	49,719

Non-IFRS Financial Measures

The Company discloses non-IFRS measures that do not have standardized meanings prescribed by IFRS, but are considered useful by management, investors and other financial stakeholders to assess the Company's performance and management from a financial and operational standpoint. Total operating expenses is defined as the sum of: cost of goods sold (COGS), research and development (R&D) expenses, general and administrative (G&A) expenses, interest expense and interest income. EBITDA refers to net income from continuing operations determined in accordance with IFRS, before depreciation

and amortization, interest income and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Adjusted EBITDA refers to EBITDA plus stock based compensation (SBC) expenses. Management believes Adjusted EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes.

Fluctuations in Operating Results

The Company's results of operations have fluctuated significantly from period-to-period in the past and are likely to do so in the future. The Company anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including: the level of Pennsaid and Pennsaid 2% product sales to the Company's licensees and distributors, the timing and amount of royalties and other payments received pursuant to current and future collaborations and licensing arrangements and the progress and timing of expenditures related to R&D efforts for Pennsaid 2%. Due to these fluctuations, the Company believes that the period-to-period comparisons of its operating results are not necessarily a good indicator of future performance.

Significant Transactions

2016

Corporate Reorganization

On March 1st 2016, Nuvo Research Inc. completed a corporate reorganization that separated Nuvo Research Inc. into two separate publicly traded companies, Nuvo and Crescita. See Corporate Reorganization and the Nuvo Reorganization Circular filed on SEDAR for information on this transaction.

Pennsaid 2% U.S. Supply Agreement

In connection with the October 2014 Pennsaid 2% U.S. sale agreement, the Company also entered into a long-term supply agreement with Horizon. Pursuant to the supply agreement, the Company agreed to supply Pennsaid 2% to Horizon from its Varennes, Québec manufacturing facility for commercialization in the U.S. The initial term of the supply agreement expires December 31, 2022 and, unless terminated, will automatically renew for successive two-year terms, thereafter. In February 2016, the supply agreement was amended (Amended Supply Agreement) to extend the term of the agreement to December 31, 2029 and to introduce volume tiered pricing. The transfer price is subject to semi-annual adjustments based on Nuvo's raw material costs and annual adjustments based upon changes in a national manufacturing cost index for pharmaceutical products. The supply agreement may be terminated earlier by either party for any uncured material breach or other customary conditions. Under the Amended Supply Agreement, Nuvo is obligated to supply Pennsaid 2% to Horizon and Horizon is obligated to obtain 90% of its requirements for Pennsaid 2% from Nuvo. The supply agreement also provides for the selection and qualification of alternate suppliers of Pennsaid 2% and its active pharmaceutical ingredient (API). Following the approval by the U.S. Food and Drug Administration (FDA) of a selected alternate supplier, and subject to certain limitations, the Company is required to enter into a supply agreement with the alternate supplier with respect to Pennsaid 2% or its API. To the extent that maintaining regulatory approvals for an alternative supplier requires the Company to purchase minimum quantities of drug product or API from the alternate supplier, the Company is obligated to purchase such minimum quantities, subject to Horizon's obligation to reimburse the Company for any excess cost compared to the cost to otherwise obtain such drug product or API.

Results of Operations

Product Sales
in thousands

	Three Months ended March 31, 2016	Three Months ended March 31, 2015
	$	$
Pennsaid 2%	**6,982**	2,220
Pennsaid	**163**	1,454
HLT bulk	**180**	41
Total product sales	**7,325**	3,715

Product sales which represent the Company's sales to our licensees and distributors were $7.3 million for the three months ended March 31, 2016 compared to $3.7 million for the three months ended March 31, 2015.

Pennsaid 2%
Product sales of Pennsaid 2% were $7.0 million for the three months ended March 31, 2016 compared to $2.2 million for the three months ended March 31, 2015 and represent the Company's sales of the Pennsaid 2% commercial format and its physician sample format to its licensee in the U.S. market. The significant increase in the quarter ended March 31, 2016 related to growth in prescriptions from Horizon's efforts to sell Pennsaid 2% in the U.S. market. Product sales for the current quarter consisted of $4.6 million of the commercial format and $2.4 million of the physician sample format. In the comparative quarter, product sales consisted of $1.2 million of the commercial format with the balance of the sales coming from the sample format. Under the terms of Pennsaid 2% U.S. Sale Agreement, the Company earns revenue from product sales of Pennsaid 2% to Horizon. All Pennsaid 2% product sales relate to the U.S. market as the product has not received regulatory approval in any other territory.

During the current quarter, the Company benefitted from a weaker Canadian dollar versus the US dollar, the currency in which it sells Pennsaid 2%. The $4.8 million increase in Pennsaid 2% sales in the current quarter included a $0.7 million foreign exchange gain.

According to IMS Health, approximately 109,000 Pennsaid 2% prescriptions were dispensed in the three months ended March 31, 2016 compared to 31,000 prescriptions in the three months ended March 31, 2015.

Pennsaid
Product sales of Pennsaid were $0.2 million for the three months ended March 31, 2016 compared to $1.5 million for the three months ended March 31, 2015. The decrease is related to lower product sales to the Company's partners in Europe and Canada. The Canadian market was negatively impacted by sales of generic versions of Pennsaid.

Geographic Pennsaid Product Sales
in thousands

	Three months ended March 31, 2016	Three months ended March 31, 2015
	$	$
Europe	**163**	1,006
Canada	**-**	448
Total Pennsaid product sales	**163**	1,454

Geographically for the three months ended March 31, 2016, sales in the E.U. were 100% of Pennsaid product sales [March 31, 2015 - 69%] and sales in Canada were nil% of Pennsaid product sales [March 31, 2015 - 31%].

HLT Bulk
HLT Bulk sales were $0.2 million for the three months ended March 31, 2016 compared to sales of $41,000 for the three months ended March 31, 2015. Sales related to the bulk drug substance that is used in the manufacturing of the HLT Patch for both the U.S. and E.U. markets. The bulk drug substance is shipped to a contract manufacturing organization in the U.S. that manufactures the HLT Patch.

Other Revenue
in thousands

	Three Months ended March 31, 2016	Three Months ended March 31, 2015
	$	$
Royalties	**309**	493
Research and other contract revenue	**208**	125
	517	618

Royalties
The Company receives royalty revenue from: Paladin, its Canadian licensee for Pennsaid and the authorized generic of Pennsaid, Eurocept B.V. (Eurocept), its European licensee for Rapydan and Galen US Incorporated (Galen), its U.S. licensee for Synera. In addition, under the terms of a settlement agreement related to a patent infringement complaint filed by the Company and Mallinckrodt, its former U.S. licensee for Pennsaid and Pennsaid 2%, the Company earned royalties from a generic company calculated at 10% of gross profits from their sales of a generic version of Pennsaid in the U.S. Following the first quarter of 2015, the Company was advised that the generic company had stopped production due to a manufacturing issue and has yet to restart production. Royalties from each licensee are determined using agreed upon formulas based on either a definition of the licensee's net sales or gross profits as defined in each agreement. The Company recognizes royalty revenue based on either the net sales or gross profits of each licensee.

Royalty revenue decreased to $0.3 million for the three months ended March 31, 2016 compared to $0.5 million for the three months ended March 31, 2015. The decrease is attributed to lower royalties from Pennsaid of $0.3 million. In the U.S. market, the Company earned royalties in the comparative period from a generic version of Pennsaid. There were no royalties received in the current quarter from sales of this generic as it is currently not available in the U.S. due to a manufacturing issue. Partially offsetting the decrease in Pennsaid royalties was an increase in royalties from the HLT Patch. Royalties related to the global net sales of the HLT Patch were $0.2 million for the three months ended March 31, 2016 compared to $48,000 for the three months ended March 31, 2015. The Company's U.S. and European Partners recognized an increase in net sales.

Research and Other Contract Revenue
Research and other contract revenue for three months ended March 31, 2016 was $0.2 million compared to $0.1 million for the three months ended March 31, 2015. These revenues were mainly derived from development services provided by the Company to its partners. The current quarter also included $62,000 of transitional services provided to Crescita as part of the Reorganization of the Company (See Corporate Reorganization).

Significant Customers
As the Company sells product and receives royalties in a limited number of markets through exclusive agreements, it receives most of its revenue from a limited number of customers. Revenue, derived from the Company's current four largest customers, is illustrated in the following table:

in thousands, except percentages	**Three Months ended March 31, 2016**	Three Months ended March 31, 2015
Four largest customers	**$7,368**	$3,842
% of total revenue	**94%**	89%
Largest customer as % of total revenue	**89%**	51%

Operating Expenses
in thousands

	Three Months ended March 31, 2016	Three Months ended March 31, 2015
	$	$
Cost of goods sold	**3,135**	2,427
Research and development expenses	**208**	369
General and administrative expenses (recoveries)	**2,091**	(48)
Interest income	**(56)**	(149)
Total operating expenses	**5,378**	2,599

Total operating expenses for the three months ended March 31, 2016 were $5.4 million, an increase from $2.6 million for the three months ended March 31, 2015. The increase for the current quarter was primarily due to the revaluation of cash-settled SBC costs which are primarily included in G&A costs for both quarters and an increase in COGS due to increased product sales.

Cost of Goods Sold
COGS for the three months ended March 31, 2016 was $3.1 million compared to $2.4 million for the three months ended March 31, 2015. The increase in COGS in the current quarter was associated with increased Pennsaid 2% product sales. The increase in product sales improved the gross margin on product sales to $4.2 million or 57% for the three months ended March 31, 2016 compared to a gross margin of $1.3 million or 35% for the three months ended March 31, 2015. During the current quarter, the Company benefitted from a weaker Canadian dollar versus the U.S. dollar, the currency in which it sources certain Pennsaid and Pennsaid 2% raw materials and sells Pennsaid 2%. In the current quarter, a 10% appreciation in the Canadian dollar versus the U.S. dollar would have reduced gross margin by approximately $0.2 million and a 10% depreciation in the Canadian dollar versus the U.S. dollar would have increased gross margin by approximately $0.2 million.

Research and Development
R&D expenses were $0.2 million for the three months ended March 31, 2016 compared to $0.4 million for the three months ended March 31, 2015 and related entirely to the Pennsaid franchise. The decrease in spending in the current quarter related to costs associated with the Pennsaid 2% Trial for the treatment of acute pain to support regulatory approval applications for Pennsaid 2% in international jurisdictions. This Pennsaid 2% Trial did not meet its primary endpoint. The Company will run another Phase 3 trial for Pennsaid 2% to support regulatory approval in various markets. See Overview – Pennsaid 2% for detailed results of the study.

General and Administrative
G&A expenses were $2.1 million for the three months ended March 31, 2016 compared to a $48,000 recovery of G&A for the three months ended March 31, 2015. The increase in the current quarter primarily related to a $1.7 million increase in SBC. In the current quarter, the Company recognized a $0.3 million expense for the adjustment of SARs to market value at March 31, 2016 compared to a recovery of $0.1 million in the comparative quarter. The fair values of each tranche of SARs outstanding are revalued at each reporting period using the Black-Scholes option pricing model. In addition, the Company recognized a $0.4 million expense for the adjustment of DSUs outstanding to market value at March 1, 2016 compared to a recovery of $0.9 million in the comparative quarter. The Company settled the DSU obligation on March 1, 2016. Also impacting the increase in G&A expenses in the current quarter is an increase in compensation expense due to the achievement of employee bonus targets.

Interest Income
Interest income decreased to $56,000 for the three months ended March 31, 2016 compared to $149,000 for the three months ended March 31, 2015. The decrease in interest income related to the significantly lower cash balances related to the $35.0 million transfer of funds to Crescita as part of the Reorganization.

Foreign Currency Gain (Loss)
The Company experienced a net foreign currency loss of $0.5 million for the three months ended March 31, 2016 compared to a $0.3 million gain for the three months ended March 31, 2015. In the current quarter, the impact of a stronger Canadian dollar versus the U.S. dollar and euro decreased the value of U.S. and euro denominated cash and receivables.

Net Loss and Total Comprehensive Loss
in thousands

	Three months ended March 31, 2016	Three months ended March 31, 2015
	$	$
Net income before income taxes from continuing operations	**1,928**	2,032
Income tax expense	**-**	7
Net income from continuing operations	**1,928**	2,025
Net loss from discontinued operations	**(3,180)**	(2,295)
Net loss	**(1,252)**	(270)
Unrealized gains (losses) on translation of foreign operations	**32**	(86)
Total comprehensive loss	**(1,220)**	(356)

Net Income from Continuing Operations
Net income from continuing operations was $1.9 million for the three months ended March 31, 2016 compared to $2.0 million for the three months ended March 31, 2015. In the current quarter, the increase in gross margin and decrease in R&D expenses was offset by an increase in SBC expense due to the revaluation of SARs and DSUs to market value and a foreign exchange loss recognized during the quarter.

Net Loss from Discontinued Operations
Net loss from discontinued operations was $3.2 million for the three months ended March 31, 2016 compared to $2.3 million for the three months ended March 31, 2015. The increase in net loss from discontinued operations was primarily attributable to an increase in professional fees related to the Reorganization.

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo Pharmaceuticals and Crescita. Crescita was a drug development business and has been presented as discontinued operation. The operating results of the discontinued operation are presented below.

in thousands	**Three Months ended March 31, 2016**	Three Months ended March 31, 2015
	$	$
Discontinued Operations		
Product sales	**45**	188
Royalties	**14**	26
Total Revenue	**59**	214
Total operating expenses	**3,247**	2,485
Foreign currency (gain) loss	**(8)**	24
Loss before income taxes	**(3,180)**	(2,295)
Income tax expense	**-**	-
Net loss from discontinued operations	**(3,180)**	(2,295)

Net Loss
Net loss was $1.3 million for the three months ended March 31, 2016 compared to a net loss of $0.4 million for the three months ended March 31, 2015. In the current and comparative quarter, net income from continuing operations was more than offset by the net loss from discontinued operations.

Total Comprehensive Loss
Total comprehensive loss was $1.2 million for the three months ended March 31, 2016 compared to a loss of $0.4 million for the three months ended March 31, 2015. The current quarter included an unrealized gain of $32,000 on the translation of foreign operations compared to a $86,000 loss in the comparative quarter.

Net Income (Loss) Per Common Share
Net income from continuing operations per common share was $0.17 for the three months ended March 31, 2016 versus $0.19 for the three months ended March 31, 2015. On a diluted basis, net income from continuing operations per common share was $0.15 for the three months ended March 31, 2016 versus net income per common share of $0.18 for the three months ended March 31, 2015.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.3 million and 11.5 million for the three months ended March 31, 2016 compared to 10.8 million and 11.2 million for the three months ended March 31, 2015 on a basic and diluted basis. The increase in the current quarter is attributable to common shares issued from the exercise of warrants and common shares issued on the settlement of DSUs.

Segments
IFRS 8 - *Operating Segments*, requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. Prior to the fourth quarter of 2015, the Company reported two operating segments: the TPT Group and the Immunology Group. In the fourth quarter of 2015, the Company changed its operating segments and reported Nuvo Pharmaceuticals and Crescita as its two operating segments in light of the then proposed Reorganization. With the completion of the Reorganization on March 1, 2016, operating results have been restated to reflect Crescita as a discontinued operation. Accordingly, the Company now operates in one segment.

Geographic Information
The Company's revenue from continuing operations is derived from sales to and licensing revenue derived from external customers located in the following geographic areas:

In thousands	**Three Months Ended March 31, 2016** **$**	Three Months Ended March 31, 2015 $
United States	**7,423**	2,659
Europe	**282**	1,183
Canada	**137**	491
	7,842	4,333

Adjusted EBITDA
EBITDA is a non-IFRS financial measure. The term EBITDA does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. The Company defines Adjusted EBITDA as net income from continuing operations before net interest income, plus taxes, depreciation, amortization and SBC. Management believes Adjusted EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes.

The following is a summary of how EBITDA and Adjusted EBITDA are calculated.

	Three Months ended March 31, 2016	Three Months ended March 31, 2015
in thousands	**$**	$
Net income from continuing operations	**1,928**	2,025
Add back:		
Interest income	**(56)**	(149)
Income tax expense	**-**	7
Depreciation and amortization	**58**	81
EBITDA	**1,930**	1,964
Add back:		
SBC	**913**	(850)
Adjusted EBITDA	**2,843**	1,114

Adjusted EBITDA increased to $2.8 million for the three months ended March 31, 2016 compared to $1.1 million for the three months ended March 31, 2015. The increase in Adjusted EBITDA is primarily related to an increase in gross margin slightly offset by a foreign currency loss recognized in the current period compared to a foreign currency gain in the comparative period.

Liquidity and Capital Resources

in thousands

	Three months ended March 31, 2016	Three months ended March 31, 2015
	$	$
Net income from continuing operations	**1,928**	2,025
Net loss from discontinued operations	**(3,180)**	(2,295)
Net loss	**(1,252)**	(270)
Items not involving current cash flows	**2,123**	38
Cash provided by (used in) operations	**871**	(232)
Net change in non-cash working capital	**(438)**	(1,445)
Cash provided by (used in) operating activities	**433**	(1,677)
Cash used in investing activities	**(3,075)**	(10)
Cash provided by (used in) financing activities	**(34,911)**	179
	(37,553)	(1,508)
Effect of exchange rates on cash	**(110)**	12
Net change in cash during the period	**(37,663)**	(1,496)
Cash beginning of the period	**48,680**	48,275
Cash end of the period	**11,017**	46,779

Cash

Cash was $11.0 million as at March 31, 2016, a decrease of $37.7 million compared to $48.7 million at December 31, 2015. The decrease in cash is related to the $35.0 million that was transferred to Crescita as part of the Reorganization of the Company (See Corporate Reorganization) and the acquisition of a $3.0 million short-term investment.

Operating Activities

Cash provided by operations was $0.9 million for the three months ended March 31, 2016 compared to cash used in operations of $0.2 million for the three months ended March 31, 2015. An increase in net loss for the three months ended March 31, 2016 was offset by a significant increase in non-cash items.

Overall cash provided by operating activities was $0.4 million for the three months ended March 31, 2016 compared to cash used in operating activities of $1.7 million for the three months ended March 31, 2015. The increase in cash provided by operating activities related to an increase in cash provided by operations and a smaller investment in non-cash working capital. In the current quarter, the $0.4 million investment in non-cash working capital was primarily attributable to an increase in inventory and a $2.0 million decrease in accounts payable and accrued liabilities due to the settlement of the DSU obligation as part of the Reorganization and the payment of a tranche of SARs during the quarter that was only partially offset by the $1.8 million decrease in accounts receivable. In the comparative period, the $1.4 million investment in working capital was primarily attributable to a decrease in accounts payable and accrued liabilities related to the payment of a tranche of SARs and the revaluation of SARs and DSUs to market value as at March 31, 2015 partially offset by a decrease in accounts receivable and inventory.

Investing Activities

Net cash used in investing activities was $3.1 million for the three months ended March 31, 2016 compared to net cash used in investing activities of $10,000 for the three months ended March 31, 2015. In the current quarter, the Company purchased a $3.0 million short-term investment. In both the current and comparative quarters, cash used in investing activities included the acquisition of property, plant and equipment for production and laboratory equipment acquired by the Company's manufacturing facility in Varennes, Québec.

Financing Activities

Net cash used in financing activities was $34.9 million for the three months ended March 31, 2016 compared to net cash provided by financing activities of $0.2 million for the three months ended March 31, 2015. In the current quarter, the Company transferred $35.0 million to Crescita as part of the Reorganization of the Company (See Corporate Reorganization). In the current quarter and comparative quarter, the Company received cash from the exercise of warrants that was partially offset by payments towards the five-year consulting agreement related to the acquisition of the non-controlling interest in Nuvo Research AG in 2011. This consulting agreement was transferred to Crescita.

Selected Quarterly Information

The following is selected quarterly financial information for the Company's continuing operations over the last eight quarterly reporting periods.

in thousands, except per share data

	June 30, 2015	September 30, 2015	December 31, 2015	**March 31, 2016**
	$	$	$	**$**
Revenue	2,959	5,509	7,694	**7,842**
Net income (loss)	(507)	2,109	4,701	**1,928**
Net income (loss) per common share				
Basic	$(0.05)	$0.19	$0.43	**$0.17**
Diluted	$(0.05)	$0.19	$0.42	**$0.15**

	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015
	$	$	$	$
Revenue	3,713	2,797	3,128 [(1)]	4,333
Net income (loss)	605	53,120 [(2)]	(474) [(1)]	2,025
Net income (loss) per common share				
Basic	$0.06	$5.16	$(0.05)	$0.19
Diluted	$0.06	$5.02	$(0.05)	$0.18

(1) *The quarter ended December 31, 2014 included a $0.5 million impairment charge on intangible assets related to the HLT Patch.*

(2) *The quarter ended September 30, 2014 included a net gain of $52.3 million related to the litigation settlement with Mallinckrodt*

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk Factors

The following is a discussion of liquidity, credit and market risks and related mitigation strategies that have been identified. This is not an exhaustive list of all risks nor will the mitigation strategies eliminate all risks listed.

Liquidity Risk

While the Company had $11.0 million in cash and $3.0 million in short-term investments as at March 31, 2016, it is dependent on a single customer for a substantial amount of its revenue. In the U.S., the Company receives product revenues from Horizon pursuant to a long-term exclusive supply agreement. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to expand its customer base in order to help mitigate this concentration risk.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $6.6 million that are due in less than a year and $9,000 of contractual obligations that are payable from 2018 to 2020.

Credit Risk

The Company's cash and short-term investments subject the Company to a significant concentration of credit risk. As at March 31, 2016, the Company had $11.0 million invested with one financial institution in various bank accounts as per its practice of protecting its capital rather than maximizing investment yield through additional risk. This financial institution is a major Canadian bank which the Company believes lessens the degree of credit risk. Additionally, the Company maintains $3.0 million in short-term investments with a creditworthy Canadian cooperative financial group.

The Company, in the normal course of business, is exposed to credit risk from its global customers most of whom are in the pharmaceutical industry. The accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement. As at March 31, 2016, the Company's four largest customers located in North America and the E.U. represented 84% [December 31, 2015 - 89%] of accounts receivable and accounts receivable from customers located outside of North America and the E.U. (these are entirely related to Crescita) represented nil% [December 31, 2015 - 2%] of total accounts receivable.

Pursuant to their collective terms, accounts receivable were aged as follows:

	March 31, 2016	December 31, 2015
in thousands	**$**	$
Current	**3,280**	5,497
0-30 days past due	**-**	36
	3,280	5,533

Interest Rate Risk

All finance lease obligations are at fixed interest rates.

Currency Risk

The Company operates globally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies. The Company currently does not use financial instruments to hedge these risks. The significant balances in foreign currencies were as follows:

	Euros		U.S. Dollars	
in thousands	**March 31, 2016 €**	December 31, 2015 €	**March 31, 2016 $**	December 31, 2015 $
Cash	**437**	885	**1,115**	4,783
Accounts receivable	**91**	782	**2,245**	3,010
Other current assets	**-**	2	**-**	-
Accounts payable and accrued liabilities	**-**	(959)	**(43)**	(520)
Finance lease and other long-term obligations	**-**	-	**-**	(162)
	528	710	**3,317**	7,111

Based on the aforementioned net exposure as at March 31, 2016, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $431 on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $78 on total comprehensive loss.

In terms of the euro, the Company has two significant exposures: its euro denominated cash held in its Canadian operations and sales of Pennsaid by the Canadian operations to European distributors. In terms of the U.S. dollar, the Company has three significant exposures: its U.S. dollar denominated cash held in its Canadian operations, the cost of purchasing raw materials either priced in U.S. dollars or sourced from U.S. suppliers that are needed to produce Pennsaid, Pennsaid 2% or other products at the Canadian manufacturing facility and revenue generated in U.S. dollars from agreements with Horizon, Galen and Eurocept.

As a result of the Reorganization, the Company no longer has an investment in active foreign operations.

The Company does not currently hedge its euro cash flows. Sales to European distributors for Pennsaid are primarily contracted in euros. The Company receives payments from the distributors in its euro bank accounts and uses these funds to pay euro denominated expenditures. Periodically, the Company reviews the amount of euros held, and if they are excessive compared to the Company's projected future euro cash flows, they may be converted into U.S. or Canadian dollars. If the amount of euros held is insufficient, the Company may convert a portion of other currencies into euros.

The Company does not currently hedge its U.S. dollar cash flows. The Company's U.S. operations have net cash outflows and currently these are funded using the Company's U.S. dollar denominated cash and payments received under the terms of the agreements with Horizon, Galen and Eurocept. Periodically, the Company reviews its projected future U.S. dollar cash flows and if the U.S. dollars held are insufficient, the Company may convert a portion of its other currencies into U.S. dollars. If the amount of U.S. dollars held is excessive, they may be converted into Canadian dollars or other currencies, as needed for the Company's other operations.

Contractual Obligations

The following table lists the Company's contractual obligations for the twelve-month periods ending March 31 as follows:

in thousands	Total	2017	2018	2019 and thereafter
	$	$	$	$
Finance lease obligations	12	3	3	6
Operating leases	12	12	-	-
Purchase obligations[1]	1,677	1,677	-	-
Other obligations[2]	4,888	4,888	-	-
	6,589	6,580	3	6

[1] *The Company has committed to $1.6 million of capital investments for its manufacturing facility.*
[2] *Other obligations include accounts payable and accrued liabilities.*

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Related Party Transactions

Subsequent to the Reorganization, Nuvo and Crescita are related parties due to shared key management personnel.

Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, (a) Nuvo provides Crescita with CFO and other corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, regulatory affairs, research and development and legal support, and facility and equipment rental.

The following is a summary of the transaction between Nuvo and Crescita for the period from March 1, 2016 to March 31, 2016:

	Three Months Ended March 31, 2016
	$
Transactions under the transitional services agreement:	
Services provided to Crescita	**62**
Services received from Crescita	**53**

As at March 31, the following balances are outstanding:

	$
Due from Crescita	**211**
Due to Crescita	**713**

After March 1, 2016, both Nuvo and Crescita paid for certain costs on behalf of the other company, as necessary, to facilitate the separation of the Nuvo and Crescita accounting functions. As at March 31, 2016, Nuvo recognized a $0.7 million payable due to Crescita and a $0.2 million receivable from Crescita as a result of certain costs paid on the other company's behalf during the transition.

Outstanding Share Data

The number of common shares outstanding as at March 31, 2016 was 11.5 million compared to 11.1 million as at December 31, 2015. The increase was due to the issuance of approximately 0.3 million shares for the settlement of DSUs which was completed as part of the Reorganization and from the exercise of warrants.

As at March 31, 2016, there were 958,013 options outstanding of which 651,694 have vested.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of Condensed Consolidated Interim Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Management has identified the following accounting estimates that it believes are most critical to understanding the Condensed Consolidated Interim Financial Statements and those that require the application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's actual results could differ from these estimates and such differences could be material. All significant accounting policies are disclosed in Note 2, "Basis of Presentation" of the Company's Condensed Consolidated Interim Financial Statements.

Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) that are mandatory for fiscal periods beginning on January 1, 2015 or later. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 – Financial Instruments

In October 2010, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9) which replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual Consolidated Financial Statements commencing January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is in the process of reviewing the standard to determine the impact on the Consolidated Financial Statements.

IFRS 16 – Leases

In January 2016, the IASB has issued IFRS 16 - *Leases* (IFRS 16), its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company is in the process of reviewing the standard to determine the impact on the Consolidated Financial Statements.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's financial statements.

The Company assesses the impact of adoption of future standards on its Consolidated Financial Statements, but does not anticipate significant changes in 2016.

Management's Responsibility for Financial Reporting

Disclosure controls and procedures (DCP) are designed to provide reasonable assurance that information required to be disclosed by the Company in its filings under Canadian securities legislation is recorded, processed, summarized and reported in a timely manner. The system of DCP includes, among other things, the Company's Corporate Disclosure and Code of Conduct and Business Ethics policies, the review and approval procedures of the Corporate Disclosure Committee and continuous review and monitoring procedures by senior management.

Management is also responsible for the design of internal controls over financial reporting (ICFR) within the Company, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Due to its inherent limitations, DCP and ICFR may not prevent or detect all misstatements, errors and fraud. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective DCP and ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial and other reporting.

There were no changes to ICFR that occurred during the quarter ended March 31, 2016 that has materially affected the Company's ICFR.

Risk Factors

Prospects for companies in the biotechnology and pharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology and pharmaceutical companies should be regarded as speculative. R&D involves a high and significant degree of risk. An investor should carefully consider the risks and uncertainties discussed in detail in the MD&A filed on SEDAR on February 17, 2016 for the year ended December 31, 2015 and the "Risk Factors" section of the Company's AIF filed February 17, 2016, as well as the Nuvo Reorganization Circular filed on SEDAR January 22, 2016, before making an investment decision.

Additional Information

Additional information relating to the Company, including the Company's most recently filed AIF and Reorganization Circular, can be found on SEDAR at www.sedar.com.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	Notes	**As at March 31, 2016**	As at December 31, 2015
(Canadian dollars in thousands)		**$**	$
ASSETS			
CURRENT			
Cash	*15*	**11,017**	48,680
Short-term investments	*15*	**3,000**	-
Accounts receivable	*15, 17*	**3,280**	5,533
Inventories	*5*	**2,452**	2,402
Other current assets	*6*	**1,097**	1,337
TOTAL CURRENT ASSETS		**20,846**	57,952
NON-CURRENT			
Property, plant and equipment	*7*	**1,098**	1,180
TOTAL ASSETS		**21,944**	59,132
LIABILITIES AND EQUITY			
CURRENT			
Accounts payable and accrued liabilities	*10, 17*	**4,888**	9,178
Current portion of other obligations	*8*	**2**	192
TOTAL CURRENT LIABILITIES		**4,890**	9,370
Other obligations	*8*	**8**	43
TOTAL LIABILITIES		**4,898**	9,413
EQUITY			
Common shares	*9*	**184,926**	234,763
Contributed surplus	*9, 10*	**14,075**	13,956
Accumulated other comprehensive income (loss)(AOCI)		**(16)**	1,059
Deficit	*9*	**(181,939)**	(200,059)
TOTAL EQUITY		**17,046**	49,719
TOTAL LIABILITIES AND EQUITY		**21,944**	59,132

Commitments (Note 14)
See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Canadian dollars in thousands, except per share and share figures)	***Notes***	**Three Months Ended March 31, 2016** **$**	Three Months Ended March 31, 2015 $
REVENUE			
Product sales		**7,325**	3,715
Royalties		**309**	493
Research and other contract revenue	*17*	**208**	125
Total revenue		**7,842**	4,333
OPERATING EXPENSES			
Cost of goods sold	*5, 10, 12*	**3,135**	2,427
Research and development expenses	*10, 12*	**208**	369
General and administrative expenses (recoveries)	*10, 12*	**2,091**	(48)
Interest income		**(56)**	(149)
Total operating expenses		**5,378**	2,599
OTHER EXPENSES (INCOME)			
Foreign currency loss (gain)		**536**	(298)
Net income before income taxes from continuing operations		**1,928**	2,032
Income tax expense		**-**	7
NET INCOME FROM CONTINUING OPERATIONS		**1,928**	2,025
NET LOSS FROM DISCONTINUED OPERATIONS	*4*	**(3,180)**	(2,295)
NET LOSS		**(1,252)**	(270)
Other comprehensive income (loss) be reclassified to net income in subsequent periods			
Unrealized gains (losses) on translation of foreign operations		**32**	(86)
TOTAL COMPREHENSIVE LOSS		**(1,220)**	(356)
Net income from continuing operations per common share			
- basic	*11*	**$0.17**	$0.19
- diluted	*11*	**$0.15**	$0.18
Net loss from discontinued operations per common share			
- basic and diluted	*11*	**$(0.28)**	$(0.21)
Net loss per common share –			
- basic and diluted	*11*	**$(0.11)**	$(0.02)
Average number of common shares outstanding (in thousands)			
- basic		**11,294**	10,839
- diluted		**11,496**	11,163

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars in thousands, except for number of shares)	Common Shares (000s)	Common Shares $	Contributed Surplus $	AOCI $	Deficit $	Total $
Notes	*9, 10*	*9, 10*	*9, 10*			
Balance, December 31, 2014	10,775	233,568	13,910	1,124	(192,939)	55,663
Warrants exercised	74	222	(13)	-	-	209
Unrealized losses on translation of foreign operations	-	-	-	(86)	-	(86)
Stock option compensation expense	-	-	69	-	-	69
Stock options exercised	6	16	(3)	-	-	13
Net loss	-	-	-	-	(270)	(270)
Balance, March 31, 2015	10,855	233,806	13,963	1,038	(193,209)	55,598
Warrants exercised	258	813	(103)	-	-	710
Unrealized gains on translation of foreign operations	-	-	-	21	-	21
Stock option compensation expense	-	-	108	-	-	108
Stock options exercised	18	46	(12)	-	-	34
Employee contributions to Share Purchase Plan	7	49	-	-	-	49
Employer's portion of Share Purchase Plan	7	49	-	-	-	49
Net loss	-	-	-	-	(6,850)	(6,850)
Balance, December 31, 2015	11,145	234,763	13,956	1,059	(200,059)	49,719
Warrants exercised	54	177	(19)	-	-	158
Stock option compensation expense	-	-	138	-	-	138
Unrealized gains on translation of foreign operations	-	-	-	32	-	32
Common shares issued under DSU Plan	288	1,599	-	-	-	1,599
Common shares cancelled on execution of the Arrangement	(11,487)	(236,539)	-	-	-	(236,539)
New common shares issued on execution of the Arrangement	11,487	184,926	-	-	-	184,926
Unrealized income on translation of foreign operations transferred to Crescita Therapeutics Inc. (Crescita)	-	-	-	(1,107)	-	(1,107)
Distribution of Crescita	-	-	-	-	19,372	19,372
Net loss	-	-	-	-	(1,252)	(1,252)
Balance, March 31, 2016	**11,487**	**184,926**	**14,075**	**(16)**	**(181,939)**	**17,046**

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Canadian dollars in thousands)	***Notes***	**Three Months Ended March 31, 2016** **$**	Three Months Ended March 31, 2015 $
OPERATING ACTIVITIES			
Net income from continuing operations		**1,928**	2,025
Net loss from discontinued operations		**(3,180)**	(2,295)
Items not involving current cash flows:			
Depreciation and amortization	*7, 12*	**66**	91
Equity-settled stock-based compensation	*10*	**1,737**	69
Unrealized foreign exchange loss (gain)		**310**	(184)
Inventory write-down	*5*	**-**	55
Interest and accretion of long-term other obligations	*8*	**7**	12
Other		**3**	(5)
		871	(232)
Net change in non-cash working capital	*13*	**(438)**	(1,445)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**433**	(1,677)
Acquisition of short-term investment	*15*	**(3,000)**	-
Acquisition of property, plant and equipment	*7*	**(75)**	(10)
CASH USED IN INVESTING ACTIVITIES		**(3,075)**	(10)
FINANCING ACTIVITIES			
Cash transferred to Crescita	*4*	**(35,016)**	-
Exercise of warrants	*9*	**158**	209
Repayment of capital lease and other obligations	*8*	**(53)**	(43)
Exercise of stock options	*10*	**-**	13
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**(34,911)**	179
Effect of exchange rate changes on cash		**(110)**	12
Net change in cash during the period		**(37,663)**	(1,496)
Cash, beginning of period		**48,680**	48,275
CASH, END OF PERIOD		**11,017**	46,779

See accompanying Notes.

Supplemental Cash Flow Information:

	$	$
Interest received[1]	**30**	126
Income taxes paid[1]	**-**	1

1. Amounts paid and received for interest and paid for income taxes were reflected as operating cash flows in the Consolidated Interim Statements of Cash Flows.

	March 31, 2016 **$**	March 31, 2015 $
Cash	**11,017**	46,779
Short-term investments	**3,000**	10,000
	14,017	56,779

NUVO PHARMACEUTICALS™ INC.
NOTES TO THE (UNAUDITED) CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Unless noted otherwise, all amounts shown are in thousands of Canadian dollars

1. NATURE OF BUSINESS

On March 1, 2016, Nuvo Research Inc. (Nuvo or the Company) completed a transaction (the Reorganization) pursuant to which Nuvo was reorganized into two separate publicly-traded companies, the Company and Crescita Therapeutics Inc. (Crescita). The Reorganization proceeded by way of arrangement under the Canada Business Corporations Act (the Arrangement). As part of the Reorganization, Nuvo Research Inc. changed its name to "Nuvo Pharmaceuticals Inc.". Detailed information regarding the Reorganization and its effects, including a description of certain risks and uncertainties in respect of the Reorganization and the operations of the Company and Crescita as separate publicly-traded companies, are included in the Management Information Circular dated December 31, 2015 (Nuvo Reorganization Circular) that is available under the Company's profile at www.sedar.com.

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo Pharmaceuticals and Crescita. Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Crescita is a drug development business that operates two sub-groups: the Topical Products and Technology (TPT) Group and the Immunology Group. The TPT Group has one commercial product, a pipeline of topical and transdermal products focusing on pain and dermatology and multiple drug delivery platforms that support the development of patented formulations that can deliver actives into or through the skin. The Immunology Group has two commercial products.

The Company's registered office and principal place of business is located at 7560 Airport Road, Unit 10, Mississauga, Ontario, L4T 4H4.

Nuvo Pharmaceuticals Inc.
Nuvo is a commercial healthcare business with a portfolio of products and pharmaceutical manufacturing capabilities. Nuvo has three commercial products that are available in a number of countries: Pennsaid® 2%, Pennsaid and the heated lidocaine/tetracaine patch (HLT Patch).

Pennsaid 2%
Pennsaid 2% is the follow-on product to original Pennsaid (described below). Pennsaid 2% is a topical non-steroidal anti-inflammatory drug (NSAID) containing 2% diclofenac sodium compared to 1.5% for original Pennsaid. Pennsaid 2% is more viscous than original Pennsaid, is supplied in a metered dose pump bottle and has been approved in the U.S. for twice-daily dosing compared to four times a day for Pennsaid. On January 16, 2014, Pennsaid 2% was approved in the U.S. for the treatment of the pain of osteoarthritis (OA) of the knee. The sales and marketing rights in the U.S. were originally licensed to Mallinckrodt Inc. (Mallinckrodt). In September 2014, the Company reached a settlement related to its litigation with Mallinckrodt. Under the terms of the settlement agreement, Mallinckrodt paid US$10.0 million to settle the claims and returned the sales and marketing rights for Pennsaid 2% to Nuvo. In October 2014, the Company sold the U.S. rights to Pennsaid 2% to Horizon Pharma plc (Horizon) for US$45.0 million. In January 2015, Horizon launched its commercial sale and marketing of Pennsaid 2% in the U.S. Pennsaid 2% is currently manufactured by the Company for sale to Horizon. Pennsaid 2% is not approved in any country outside of the U.S.

Pennsaid
Pennsaid is a topical NSAID containing 1.5% diclofenac sodium and is used to treat the signs and symptoms of OA of the knee. It is approved for sale and marketing in several countries including Canada, where it is licensed to Paladin Labs Inc. As a result of the litigation settlement with Mallinckrodt, the U.S. sales and marketing rights to Pennsaid were returned to the Company. Under the terms of the agreement with Horizon for the sale of the Pennsaid 2% rights, the Company agreed to discontinue the manufacture, sale and marketing of Pennsaid in the U.S.

HLT Patch
The HLT Patch is a topical patch that combines lidocaine, tetracaine and heat, using Nuvo's proprietary Controlled Heat-Assisted Drug Delivery (CHADD™) technology. The HLT Patch is approved in the U.S. to provide local dermal analgesia for superficial venous access and superficial dermatological procedures and is marketed by Galen US

Incorporated (Galen) under the brand name Synera. In Europe, the HLT Patch is approved for surface anaesthesia of normal intact skin and is marketed by the Company's European-based licensee, Eurocept International B.V. (Eurocept), under the brand name Rapydan.

Crescita
Crescita is a drug development business that operates two sub-groups: the TPT Group and the Immunology Group. The operations related to Crescita are accounted for as a discontinued operation (See Note 4, *Discontinued Operations*).

2. BASIS OF PREPARATION

Statement of Compliance
The Company prepares its Condensed Consolidated Interim Financial Statements in accordance with IAS 34 - *Interim Financial Reporting* (IAS 34). Accordingly, these Condensed Consolidated Interim Financial Statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual Consolidated Financial Statements of the Company for the year ended December 31, 2015 which are available on SEDAR at www.sedar.com.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements were the same as those that applied to the Company's annual Consolidated Financial Statements as at and for the year ended December 31, 2015.

Basis of Measurement
These Condensed Consolidated Interim Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. Items included in the financial statements of each consolidated entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These Condensed Consolidated Interim Financial Statements are presented in Canadian dollars which is the Company's functional currency.

Basis of Consolidation
These Condensed Consolidated Interim Financial Statements include the accounts of the Company and Dimethaid (UK) Ltd., its wholly owned subsidiary. The accounts of the following entities were also included in these Condensed Consolidated Interim Financial Statements prior to their distribution to Nuvo's shareholders on March 1, 2016 as part of the Reorganization:

	% Ownership
Nuvo Research America, Inc. and its subsidiaries:	
Nuvo Research US, Inc., ZARS Pharma, Inc., and ZARS (UK) Limited	**100%**
Dimethaid Immunology Inc.	**100%**
Nuvo Research AG and its subsidiaries:	
Nuvo Manufacturing GmbH and Nuvo Research GmbH	**100%**

The Company controls its subsidiaries with the power to govern their financial and operating policies. All significant inter-company balances and transactions have been eliminated upon consolidation.

Significant Accounting Policies
All significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements. The policies applied in these Condensed Consolidated Interim Financial Statements are based on International Financial Reporting Standards (IFRS) issued and outstanding as at May 11, 2016, the date the Board of Directors approved these Condensed Consolidated Interim Financial Statements.

Accounting Standards Issued But Not Yet Applied
Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) that are mandatory for fiscal periods beginning on January 1, 2015 or later. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 – Financial Instruments
In October 2010, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9) which replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual Consolidated Financial Statements commencing January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is in the process of reviewing the standard to determine the impact on the Consolidated Financial Statements.

IFRS 16 – Leases
In January 2016, the IASB has issued IFRS 16 – *Leases* (IFRS 16), its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company is in the process of reviewing the standard to determine the impact on the Consolidated Financial Statements.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's Consolidated Financial Statements.

The Company assesses the impact of adoption of future standards on its Consolidated Financial Statements, but does not anticipate significant changes in 2016.

3. CRITICAL ACCOUNTING POLICIES ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from estimates and such differences could be material. The significant estimates and judgments made by management are discussed in the Nuvo annual Consolidated Financial Statements for the year ended December 31, 2015 filed on SEDAR at www.sedar.com.

4. DISCONTINUED OPERATIONS

On March 1, 2016, the Company completed the Reorganization of Nuvo into two separate publicly traded companies, Nuvo and Crescita, each initially 100% owned by Nuvo's shareholders. Prior to the fourth quarter of 2015, the business of Crescita represented the Company's TPT and Immunology operating segments. In the fourth quarter of 2015, the Company changed its operating segments and reported Crescita as a separate operating segment in light of the then proposed Reorganization. With the completion of the Reorganization on March 1, 2016, operating results have been restated to reflect Crescita as a discontinued operation. Accordingly, Crescita is no longer presented in the segment note.

The following table presents the effect of the discontinued operations in the Consolidated Interim Statements of Loss and Comprehensive Loss:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
(In thousands, except per share figures)	**$**	$
REVENUE		
Product sales	**45**	188
Royalties	**14**	26
Total revenue	**59**	214
OPERATING EXPENSES		
Cost of goods sold	**96**	133
Research and development expenses	**648**	1,629
General and administrative expenses	**2,498**	711
Interest expense	**5**	12
Total operating expenses	**3,247**	2,485
OTHER EXPENSE (INCOME)		
Foreign currency loss (gain)	**(8)**	24
NET LOSS FROM DISCONTINUED OPERATIONS	**(3,180)**	(2,295)
Net loss from discontinued operations per common share		
- basic and diluted	**$(0.28)**	$(0.21)
Average number of common shares outstanding		
- basic and diluted	**11,294**	10,839

The following table presents the effect of the discontinued operations in the Consolidated Interim Statements of Cash Flows:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	$	$
Cash used in operating activities	**(5,203)**	(3,418)
Cash provided by (used in) investing activities	**4,801**	(3)
Cash provided by financing activities	**34,963**	4,078
Net cash inflow/outflow	**34,561**	657

5. INVENTORIES

Inventories consist of the following as at:

	March 31, 2016	December 31, 2015
	$	$
Raw materials	**1,530**	1,205
Work in process	**117**	349
Finished goods	**805**	848
	2,452	2,402

During the three months ended March 31, 2016, inventories in the amount of $2.9 million [$2.2 million for the three months ended March 31, 2015] were recognized as cost of goods sold. During the three months ended March 31, 2016 and 2015, there were no inventory write-downs and no reversals of prior period write-downs. During the three months ended March 31, 2015, the Company's discontinued operations included inventory write-downs of $55

(€40). There were no reversals of prior period write-downs included in the Company's discontinued operations during the three months ended March 31, 2016 or 2015.

6. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	March 31, 2016	December 31, 2015
	$	$
Deposits[(i), (ii)]	**767**	728
Other receivables	**264**	468
Prepaid expenses	**66**	141
	1,097	1,337

(i) As at March 31, 2016, deposits include a $718 deposit on production equipment.
(ii) As at December 31, 2015, deposits include $588 related to taxes owed to the Canada Revenue Agency (CRA) for fiscal 2014. As part of the Company's tax filings for the 2014 fiscal year, the Company amended its tax filings from fiscal 2009 to 2013 that resulted in additional non-capital losses. The Company received a full refund of this deposit from the CRA during January 2016.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) consists of:

	Land	**Buildings**	**Leasehold Improvements**	**Furniture & Fixtures**	**Computer Equipment**	**Production Laboratory & Other Equipment[(i)]**	**Total**
Cost	$	$	$	$	$	$	$
Balance, December 31, 2015	42	2,334	114	274	1,065	3,772	7,601
Additions	-	-	-	-	-	75	75
Transferred to Crescita	-	(901)	(114)	(214)	(903)	(928)	(3,060)
Balance, March 31, 2016	42	1,433	-	60	162	2,919	4,616
Accumulated depreciation							
Balance, December 31, 2015	-	1,685	114	272	1,015	3,335	6,421
Depreciation expense	-	17	-	-	5	44	66
Transferred to Crescita	-	(901)	(114)	(213)	(861)	(880)	(2,969)
Balance, March 31, 2016	-	801	-	59	159	2,499	3,518
NBV as at December 31, 2015	42	649	-	2	50	437	1,180
NBV as at March 31, 2016	**42**	**632**	**-**	**1**	**3**	**420**	**1,098**

(i) Production, laboratory and other equipment as at March 31, 2016 included a cost of $35 [December 31, 2015 - $35] and accumulated depreciation of $26 [December 31, 2014 - $25] for assets under finance leases. Depreciation of PP&E was $1 for the three months ended March 31, 2016 [December 31, 2015 - $1] related to assets under finance leases.

8. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	March 31, 2016	December 31, 2015
	$	$
Finance lease obligations	**10**	10
Long-term consulting agreement from acquisition of non-controlling interest	**-**	225
	10	235
Less: amounts due within one year	**2**	192
Long-term balance	**8**	43

Finance lease obligations

The Company leases office equipment under a finance lease expiring in 2020. The minimum future lease payments are as follows for the twelve months ending March 31:

	$
2017	3
2018	3
2019 and thereafter	6
Total minimum lease payments	12
Less: amount representing interest (approximately 15%)	2
Present value of minimum lease payments	10
Less: current portion	2
Long-term balance	**8**

For the three months ended March 31, 2016, interest paid on finance lease obligations was under $1 [2015 - under $1].

Long-term consulting agreement from acquisition of non-controlling interest

In December 2011, the Company increased its ownership in Nuvo AG to 100% by acquiring the 40% interest held by the minority owner. The consideration transferred to the non-controlling interest included a 5-year, US$150 per annum consulting agreement with the former minority shareholder, discounted at 15.5% and fair valued at US$519 ($528). On March 1, 2016, Nuvo Research AG and the related consulting agreement was transferred to Crescita as part of the Reorganization.

9. CAPITAL STOCK

Authorized

- Unlimited first and second preferred shares, non-voting, non-participating, issuable in series, number, designation, rights, privileges, restrictions and conditions are determinable by the Company's Board of Directors.

- Unlimited common shares, voting, without par value.

Reorganization

In connection with the Reorganization of Nuvo into two separate publicly traded companies and under the terms of the Arrangement (See Note 1, *Nature of Business*), each Nuvo share certificate existing on March 1, 2016 became a common share of Nuvo and the right to receive a Crescita common share.

To determine Nuvo's share capital amount after the Arrangement, Nuvo's stated capital immediately prior to the Arrangement was split based on the butterfly proportion, as defined in the Nuvo Reorganization Circular, of the

Nuvo and Crescita common shares at the effective date of the Arrangement. The butterfly proportion was determined to be 78.18% for Nuvo and 21.82% for Crescita (Butterfly Allocation). The butterfly proportion is based on the volume weighted average prices (VWAP) of the Crescita common shares and the Post-Arrangement Nuvo common shares during the five trading days during the period from March 7 to March 11.

As a result of the Arrangement, on March 1, 2016 11,487,184 Nuvo common shares with a stated capital of $236,539 were cancelled and 11,487,184 Nuvo common shares with a stated capital of $184,926 were issued. The amount of Nuvo's net investment in Crescita at the effective date of the Arrangement, $19,372, was deducted from Nuvo's deficit and the unrealized income on translation of foreign operations transferred to Crescita, $1,107 was deducted from Nuvo's AOCI account.

Private Placement

On March 31, 2014, the Company completed a non-brokered private placement (Private Placement), pursuant to which an aggregate of 1,390,000 units of the Company were issued at a price of $2.25 per unit for gross proceeds of $3.1 million ($2.9 million net of issuance costs). Each unit consisted of one common share of the Company and one-half of one common share purchase warrant of the Company (Unit). The Company issued 695,000 common share purchase warrants (Private Placement Warrants).

A Private Placement Warrant entitled the holder to purchase one common share of Nuvo at a price of $3.00 for a 24-month period.

In connection with the Private Placement, the Company issued 78,233 broker warrants at a price of $2.54 per Unit (Broker Warrants). Each Broker Warrant unit entitled the holder to purchase one common share of the Company at a price of $2.54 and included one half of one Private Placement Warrant.

The Private Placement Warrants were subject to an acceleration feature where the Company, at its option, could force the exercise of the Private Placement Warrants if the ten-day volume weighted share price for the Company's common shares was equal to or exceeded $3.50 on the TSX at any time during the warrant term. If the acceleration feature was used, any Private Placement Warrants that were not exercised during this period expired. The Company exercised its acceleration feature on November 30, 2015 and accelerated the expiry date of the outstanding warrants to January 15, 2016. During the three months ended March 31, 2016, 4,200 Broker Warrants [March 31, 2015 – 28,333] and 49,044 Private Placement Warrants [March 31, 2015 – 33,000] (inclusive of 2,100 Private Placement Warrants that were issued on exercise of the Broker Warrants [March 31, 2015 – 14,167] were exercised for proceeds of $0.2 million and 12,252 Private Placement Warrants expired.

All warrants were exercisable on issuance. Changes in the number of warrants outstanding were as follows:

	Number of Warrants	Weighted Average Exercise Price
	$	$
Balance, December 31, 2015	63,396	2.97
Issued	2,100	3.00
Exercised	(53,244)	2.96
Expired	(12,252)	3.00
Balance, March 31, 2016	**-**	**-**

10. STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company has four stock-based compensation plans: the Share Option Plan, the Share Purchase Plan and the Share Bonus Plan, each a component of the Company's Share Incentive Plan and the Share Appreciation Rights (SARs) Plan. As part of the Arrangement, the Deferred Share Unit (DSU) Plan for non-employee directors and the DSU Plan for employees were terminated and settled in shares on March 1, 2016. Full descriptions of the four stock-based compensation plans and the two DSU Plans are included in Note 10 "Stock-Based Compensation and Other Stock-Based Payments" to the Company's annual Consolidated Financial Statements for the year ended December 31, 2015.

On February 18, 2016, shareholders of Nuvo approved a resolution affirming, ratifying and approving the Share Incentive Plan and approving all of the unallocated common shares issuable pursuant to the Share Incentive Plan. The Share Incentive Plan came into effect on March 1, 2016.

The maximum number of common shares that will be reserved for issuance under the Share Incentive Plan shall be 15% of the total number of common shares outstanding from time-to-time, and the allocation of such maximum percentage among the three sub-plans comprising the Share Incentive Plan shall be determined by the Board of Directors (or a committee thereof) from time-to-time (provided that the maximum number of common shares that may be issued under the Share Bonus Plan shall not exceed a fixed number of common shares equal to 3% of the number of common shares outstanding immediately following the Arrangement which was 344,615).

As at March 31, 2016, the number of common shares available for issuance under the Share Incentive Plan was 765,064.

Share Option Plan

Under the Share Option Plan, the Company may grant options to purchase common shares to officers, directors, employees or consultants of the Company or its affiliates. Options issued under the Share Option Plan are granted for a term not exceeding ten years from the date of grant. All options issued to-date have a life of ten years. In general, options have vested either immediately upon grant or over a period of one to four years or upon the achievement of certain performance related measures or milestones. Under the provisions of the Share Option Plan, the exercise price of all stock options shall not be less than the closing price of the common shares on the last trading date immediately preceding the grant date of the option.

Pursuant to the Arrangement, each Nuvo stock option issued and outstanding at the effective date of the Arrangement was exchanged for one Post-Arrangement stock option issued by Nuvo and one Post-Arrangement stock option issued by Crescita. The exchange of these options is accounted for as an acceleration of vesting. Accordingly, the $67 unrecognized compensation relating to the original Nuvo stock options existing at the time of the exchange is immediately expensed as a charge to income. There is no incremental fair value associated with the Post-Arrangement stock options issued by Nuvo.

The exercise price of each Post-Arrangement stock option issued by Nuvo was determined by allocating the exercise price of the original Nuvo stock option between the Post-Arrangement stock option issued by Nuvo and the Post-Arrangement stock option issued by Crescita based on the relative fair market values of the Nuvo and Crescita common shares at the effective date of the Arrangement. The relative fair market values were determined using the Butterfly Allocation (See Note 9, *Capital Stock*).

The vesting schedule and the term during which each Post-Arrangement stock option issued by Nuvo may be exercised remain the same as the original Nuvo stock option it was exchanged for.

The following is a schedule of the options outstanding as at:

	Number of Options 000s	Range of Exercise Price $	Weighted Average Exercise Price $
Balance, December 31, 2015	751	1.96 - 24.05	6.18
Cancellation on Reorganization	(751)	1.96 - 24.05	6.18
Issued on Reorganization	751	1.53 - 18.80	4.83
Granted	207	5.42	5.42
Balance, March 31, 2016	**958**	**1.53 - 18.80**	**5.17**

The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Options are valued with a calculated forfeiture rate of 7.0% [December 31, 2015 - 7.0%], and the remaining model inputs for options granted during the period ended March 31, 2016 were:

Options	Grant Date	Share Price	Exercise Price	Risk-free Interest Rate	Expected Life	Volatility Factor	Fair Values
(000s)		$	$	%	(years)	%	$
207	March 23, 2016	5.42	5.42	0.49 – 0.53	2 - 5	71 - 75	2.11 - 3.27

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at March 31, 2016:

	Outstanding			Exercisable	
Exercise Price Range	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested Options	Weighted Average Exercise Price
$	(000s)	(years)	$	(000s)	$
1.53 - 4.32	359	7.6	2.66	258	2.64
5.08 - 5.42	355	8.2	5.28	150	5.09
6.35 - 6.86	187	1.7	6.79	187	6.79
11.18 - 18.80	57	3.8	11.52	57	11.52
	958	**6.4**	**4.96**	**652**	**5.17**

Deferred Share Unit Plan

Directors

Under the DSU Plan, non-employee directors can be allotted and can elect to receive a portion of their annual retainers and other Board-related compensation in the form of DSUs. One DSU has a cash value equal to the market price of one of the Company's common shares and the number of DSUs issued to a director's DSU account for any payment is determined using the five-day volume VWAP of the Company's common shares immediately preceding the payment date.

Upon execution of the Reorganization on March 1, 2016, all outstanding DSUs for directors were settled in shares of Nuvo net of the cash tax obligation that is payable by Nuvo. The DSU Plan for directors was terminated on March 1, 2016.

Employees

Under the employee DSU Plan, employees can elect to have a portion of their quarterly earnings issued in units of the DSU Plan. Consistent with non-employee directors, one DSU has a cash value equal to the market price of one of the Company's common shares. The number of units to be credited to an employee will be calculated by dividing the elected portion of the compensation payable to the employee by the five-day VWAP of the Company's common shares immediately preceding the close of each quarter.

Upon execution of the Reorganization on March 1, 2016, all outstanding DSUs for employees were settled in shares of Nuvo net of the cash tax obligation that was paid by Nuvo. The DSU Plan for employees was terminated March 1, 2016.

Upon issuance, the fair value of the DSUs was recorded as compensation expense and the DSU accrual was established. At all subsequent reporting dates, the DSU accrual is adjusted to the market value of the underlying shares and the adjustment is recorded as compensation cost.

On March 1, 2016, Nuvo settled the DSU plan by issuing 288,226 common shares to settle 451,111 outstanding DSUs. The shares issued are restricted from trading for twelve months. The common shares were issued net of the cash tax obligation that is payable by the Company.

There was no DSU accrual as at March 31, 2016.

Share Appreciation Rights Plan

On October 30, 2013, the Company established the SARs Plan for directors, officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. Under the SARs Plan, participants receive, upon vesting, a cash amount equal to the difference between the SARs fair market value and the grant price value, also known as the intrinsic value. Fair market value is determined by the closing price of the Company's common share on the Toronto Stock Exchange (TSX) on the day preceding the exercise date. SARs vest in tranches prescribed at the grant date and each tranche is considered a separate award with its own vesting period and grant date fair value. Until SARs vest, compensation expense is measured based on the fair value of the SARs at the end of each reporting period, using a Black-Scholes option pricing model. The fair value of the liability is remeasured at the end of each reporting date and adjusted at the settlement date, when the intrinsic value is realized. The SARs accrual is included in accounts payable and accrued liabilities.

Pursuant to the Arrangement, each Nuvo SAR issued and outstanding at the effective date of the Arrangement was exchanged for one Post-Arrangement SAR issued by Nuvo and one Post-Arrangement SAR issued by Crescita. The exchange of these SARs is accounted for as a modification. There is no incremental fair value associated with the Post-Arrangement stock options issued by Nuvo. The liability existing at the effective date of the Arrangement was allocated between Nuvo and Crescita based on the relative fair market values of the Nuvo and Crescita common shares at the effective date of the Arrangement. In addition, to the extent the holder of a replacement Nuvo SAR does not have a post-Arrangement service requirement to Nuvo, the portion of the compensation relating to the award that is unamortized at the effective date of the Arrangement was immediately recognized resulting in a $260 charge to income.

The exercise price of each Post-Arrangement SAR issued by Nuvo was determined by allocating the exercise price of the original Nuvo SAR between the Post-Arrangement SAR issued by Nuvo and the Post-Arrangement SAR issued by Crescita based on the Butterfly Allocation. The vesting schedule and the term during which each Post-Arrangement SAR issued by Nuvo may be exercised remains the same as the original Nuvo SAR it was exchanged for. The shareholder's of Nuvo approved a resolution on February 18, 2016 to allow SARs to be equity settled.

Fair values of each tranche issued and outstanding in the period was measured as at March 31, 2016 using the Black-Scholes option pricing model with the following inputs:

SARs (000s)	Grant Date	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor %	Fair Values $
151	October 30, 2013	1.44	0.49	1	48	3.87
159	April 4, 2014	2.65	0.49	1 - 2	48 - 73	2.69 - 3.13
185	January 7, 2015	5.62	0.49	1 - 3	48 - 73	0.76 - 2.28

The following table summarizes the outstanding SARs and related accrual as at March 31, 2016:

	Number of SARs 000s	Fair Values $	Accrual $
Balance, December 31, 2015	788	0.00 - 3.45	1,328
Vested	(293)	0.00 - 3.36	(654)
Adjustment to market value at Reorganization	-	-	255
Cancellation on Reorganization	(495)	0.72 – 4.48	(929)
Issuance on Reorganization	495	0.56 - 3.50	726
Adjustment to market value as at March 31, 2016	-	-	340
Balance, March 31, 2016	**495**	**0.76 - 3.87**	**1,066**

Summary of Stock-Based Compensation

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	$	$
Stock option compensation expense under the Share Option Plan	**109**	28
DSUs – issued for settlement of directors' fees	**120**	131
DSUs – adjustment to market value	**384**	(863)
SARs compensation expense	**300**	(146)
Stock-based compensation expense[(i)]	**913**	(850)
Recorded in the Consolidated Interim Statements of Loss and Comprehensive Loss as follows:		
Cost of goods sold	**1**	1
Research and development expenses	**30**	(1)
General and administrative expenses	**882**	(850)
	913	(850)

(i) During the three months ended March 31, 2016. the Company's discontinued operations includes $288 of stock-based compensation [2015 - $(484)].

11. NET INCOME (LOSS) PER COMMON SHARE

Earnings (loss) per share is computed as follows:

(in thousands, except per share and share figures)	Three Months Ended March 31, 2016 **$**	Three Months Ended March 31, 2015 $
Basic earnings (loss) per share:		
Net loss	**(1,252)**	(270)
Average number of shares outstanding during the period	**11,294**	10,839
Basic earnings (loss) per share	**$(0.11)**	$(0.02)
Basic earnings per share from continuing operations	$0.17	$0.19
Basic loss per share from discontinued operations	$(0.28)	$(0.21)
Net loss, assuming dilution	**(1,252)**	(270)
Net income from continuing operations, assuming dilution	**1,680**	2,025
Average number of shares outstanding during the period	**11,294**	10,839
Dilutive effect of:		
Stock options	**161**	151
Warrants	**3**	173
DSUs	**38**	-
Weighted average common shares outstanding, assuming dilution	**11,496**	11,163
Diluted loss per share	**$(0.11)**	$(0.02)
Diluted earnings per share from continuing operations	$0.15	$0.18
Diluted loss per share from discontinued operations	$(0.28)	$(0.21)

The following table presents the maximum number of shares that would be outstanding if all dilutive and potentially dilutive instruments were exercised or converted as at:

	March 31, 2016	March 31, 2015
	000s	000s
Common shares issued and outstanding	**11,487**	10,855
Stock options outstanding (Note 10)	**958**	881
Warrants (Note 9)[(i)]	**-**	324
SARs outstanding (Note 10)	**495**	-
	12,940	12,060

[(i)] Balance as at March 31, 2015 includes 9,300 Private Placement Warrants that will be issued on the exercise of Broker Warrants.

12. EXPENSES BY NATURE

The Consolidated Interim Statements of Loss and Comprehensive Loss include the following expenses by nature:

(a) Employee costs:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	$	$
Short-term employee wages, bonuses and benefits	**1,875**	1,242
Share-based payments	**685**	(400)
Total employee costs	**2,560**	842
Included in:		
Cost of goods sold	**1,030**	840
Research and development expenses	**25**	45
General and administrative expenses	**1,505**	(43)
Total employee costs	**2,560**	842

(b) Depreciation and amortization:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	$	$
Cost of goods sold	**46**	63
Research and development expenses	**12**	18
Total depreciation and amortization [(i)]	**58**	81

[(i)] During the three months ended March 31, 2016, the Company's discontinued operations include $8 of depreciation expense [2015 - $10].

13. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital consists of:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	$	$
Accounts receivable	**1,812**	1,341
Inventories	**(482)**	503
Other current assets	**190**	63
Accounts payable and accrued liabilities	**(1,958)**	(3,352)
Net change in non-cash working capital	**(438)**	(1,445)

14. COMMITMENTS

The Company has commitments under research and other service contracts and minimum future rental payments under operating leases for the twelve months ending March 31 as follows:

	Research and Other Service Contracts	Operating Leases	Purchase Commitments[(i)]	Total
	$	$	$	$
2017	68	12	1,609	1,689
	68	12	1,609	1,689

(i) The Company has committed to $1.6 million of capital investments for its manufacturing facility.

For the three months ended March 31, 2016, payments under operating leases totaled $32 [$63 for the three months ended March 31, 2015].

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

IFRS 7 - *Financial Instruments: Disclosures* requires disclosure of a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include those where valuations are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended March 31, 2016.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

Level 1 assets include guaranteed investment certificates or other securities held by the Company that are valued at quoted market prices. The Company accounted for its investment at fair value on a recurring basis as at March 31, 2016. The Company did not hold Level 1 guaranteed investment certificates as at December 31, 2015.

Level 1 liabilities include obligations of the Company for the DSUs described in Note 10. One DSU has a cash value equal to the market price of one of the Company's common shares. The Company revalues the DSU liability each reporting period using the market value of the underlying shares. There was no DSU accrual as at March 31, 2016 [December 31, 2015 - $2,231], since the DSU plans were terminated on March 1, 2016.

Level 2 liabilities include obligations of the Company for the SARS Plan described in Note 10. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued $1,066 for SARs as at March 31, 2016 [December 31, 2015 - $1,328].

The fair values of all other short-term financial assets and liabilities, presented in the Consolidated Interim Statements of Financial Position approximate their carrying amounts due to the short period to maturity of these financial instruments.

Rates currently available to the Company for long-term obligations, with similar terms and remaining maturities, have been used to estimate the fair value of the finance lease and other obligations. These fair values approximate the carrying values for all instruments.

Risk Factors
The following is a discussion of liquidity, credit and market risks and related mitigation strategies that have been identified. This is not an exhaustive list of all risks nor will the mitigation strategies eliminate all risks listed.

Liquidity Risk
While the Company had $11.0 million in cash and $3.0 million in short-term investments as at March 31, 2016, it is dependent on a single customer for a substantial amount of its revenue. In the U.S., the Company receives product revenue from Horizon pursuant to a long-term exclusive supply agreement. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to expand its customer base in order to help mitigate this concentration risk.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $6.6 million that are due in less than a year and $9 of contractual obligations that are payable from 2018 to 2020.

Credit Risk
The Company's cash and short-term investments subject the Company to a significant concentration of credit risk. As at March 31, 2016, the Company had $11.0 million invested with one financial institution in various bank accounts as per its practice of protecting its capital rather than maximizing investment yield through additional risk. This financial institution is a major Canadian bank which the Company believes lessens the degree of credit risk. Additionally, the Company maintains $3.0 million in short-term investments with a creditworthy Canadian cooperative financial group.

The Company, in the normal course of business, is exposed to credit risk from its global customers most of whom are in the pharmaceutical industry. The accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement. As at March 31, 2016, the Company's four largest customers located in North America and the E.U. represented 84% [December 31, 2015 - 89%] of accounts receivable and accounts receivable from customers located outside of North America and the E.U. (these are entirely related to Crescita) represented nil% [December 31, 2015 - 2%] of total accounts receivable.

Pursuant to their collective terms, accounts receivable were aged as follows:

	March 31, 2016	December 31, 2015
	$	$
Current	**3,280**	5,497
0-30 days past due	**-**	36
	3,280	5,533

Interest Rate Risk
All finance lease obligations are at fixed interest rates.

Currency Risk
The Company operates globally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies. The Company currently does not use financial instruments to hedge these risks. The significant balances in foreign currencies were as follows:

	Euros		U.S. Dollars	
	March 31, 2016 €	December 31, 2015 €	**March 31, 2016 $**	December 31, 2015 $
Cash	**437**	885	**1,115**	4,783
Accounts receivable	**91**	782	**2,245**	3,010
Other current assets	**-**	2	**-**	-
Accounts payable and accrued liabilities	**-**	(959)	**(43)**	(520)
Finance lease and other long-term obligations	**-**	-	**-**	(162)
	528	710	**3,317**	7,111

Based on the aforementioned net exposure as at March 31, 2016, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $431 on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $78 on total comprehensive loss.

In terms of the euro, the Company has two significant exposures: its euro denominated cash held in its Canadian operations and sales of Pennsaid by the Canadian operations to European distributors. In terms of the U.S. dollar, the Company has three significant exposures: its U.S. dollar denominated cash held in its Canadian operations, the cost of purchasing raw materials either priced in U.S. dollars or sourced from U.S. suppliers that are needed to produce Pennsaid, Pennsaid 2% or other products at the Canadian manufacturing facility and revenue generated in U.S. dollars from agreements with Horizon, Galen and Eurocept.

As a result of the Reorganization, the Company no longer has an investment in active foreign operations.

The Company does not currently hedge its euro cash flows. Sales to European distributors for Pennsaid are primarily contracted in euros. The Company receives payments from the distributors in its euro bank accounts and uses these funds to pay euro denominated expenditures. Periodically, the Company reviews the amount of euros held, and if they are excessive compared to the Company's projected future euro cash flows, they may be converted into U.S. or Canadian dollars. If the amount of euros held is insufficient, the Company may convert a portion of other currencies into euros.

The Company does not currently hedge its U.S. dollar cash flows. The Company's U.S. operations have net cash outflows and currently these are funded using the Company's U.S. dollar denominated cash and payments received under the terms of the agreements with Horizon, Galen and Eurocept. Periodically, the Company reviews its projected future U.S. dollar cash flows and if the U.S. dollars held are insufficient, the Company may convert a portion of its other currencies into U.S. dollars. If the amount of U.S. dollars held is excessive, they may be converted into Canadian dollars or other currencies, as needed for the Company's other operations.

16. SEGMENTED INFORMATION

Segments
IFRS 8 - *Operating Segments*, requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. Prior to the fourth quarter of 2015, the Company reported two operating segments: the TPT Group and the Immunology Group. In the fourth quarter of 2015, the Company changed its operating segments and reported Nuvo and Crescita as its two operating segments in light of the then proposed Reorganization. With the completion of the Reorganization on March 1, 2016, operating results have been restated to reflect Crescita as a discontinued operation. Accordingly, the Company now operates in one segment.

Geographic Information
The Company's revenue from continuing operations is derived from sales to and licensing revenue derived from external customers located in the following geographic areas:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	$	$
United States	**7,423**	2,659
Europe	**282**	1,183
Canada	**137**	491
	7,842	4,333

At March 31, 2016, all of the Company's PP&E was located in Canada.

Significant Customers
For the three months ended March 31, 2016, the Company's four largest customers (excluding upfront payments and milestones from licensing arrangements) represented 94% [March 31, 2015 - 89%] of total revenue from continuing operations and the Company's largest customer represented 89% [March 31, 2015 - 51%] of total revenue from continuing operations.

17. RELATED PARTY TRANSACTIONS

Subsequent to the Reorganization, Nuvo and Crescita are related parties due to shared key management personnel.

Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, (a) Nuvo provides Crescita CFO and other corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, regulatory affairs, research and development and legal support, and facility and equipment rental.

The following is a summary of the transactions between Nuvo and Crescita for the period from March 1, 2016 to March 31, 2016:

	Three Months Ended March 31, 2016
	$
Transactions under the transitional services agreement:	
Services provided to Crescita	**62**
Services received from Crescita	**53**

As at March 31, 2016 the following balances were outstanding:

	$
Due from Crescita	**211**
Due to Crescita	**713**

After March 1, 2016, both Nuvo and Crescita paid for certain costs on behalf of the other company, as necessary, to facilitate the separation of the Nuvo and Crescita accounting functions. As at March 31, 2016, Nuvo recognized a $0.7 million payable due to Crescita and a $0.2 million receivable from Crescita as a result of certain costs paid on the other company's behalf during the transition.