

Nuvo Pharmaceuticals Inc. Second Quarter Report 2017



Dear Nuvo Shareholder -

Review of Q2 2017

Q2 2017 was a challenging quarter, yet brought about resolution and delivered outcomes that are significantly favourable to long-term value creation for Nuvo Pharmaceuticals Inc. (Nuvo Pharma) (TSX:NRI).

In Q2, we enhanced the long-term security of our main source of revenue. Currently, approximately 85% of Nuvo's product revenue is generated by the sale of our lead prescription topical non-steroidal anti-inflammatory drug (NSAID), Pennsaid[®] 2%, for treating the pain of osteoarthritis of the knee in the United States by our partner, Horizon Pharma plc (Horizon) (NASDAQ:HZNP). Nuvo earns its revenue by selling commercial bottles and physician samples of Pennsaid 2% to Horizon under an exclusive supply agreement that extends to 2029.

In May, the United States District Court for the District of New Jersey upheld the validity of one of the claims in Horizon's U.S. patents covering Pennsaid 2%, which a generic company, Actavis Laboratories UT (Actavis) had challenged. The court decision prevents Actavis from launching a generic version of Pennsaid 2% in the United States until 2027 when that patent expires. (There are other Horizon patents that cover Pennsaid 2% that expire as late as 2030 that were not the subject of this trial). Actavis was the first company to file an application for approval of a generic version of Pennsaid 2% with the U.S. Food and Drug Administration (FDA). This first filer status typically prevents other generic companies from entering the market until after the first filer has had the opportunity to sell its generic version for 180 days. Actavis has appealed the trial decision and another similar court challenge filed by another generic pharmaceutical company, Lupin is pending; however, it is our view that the most likely result is that Pennsaid 2% will enjoy at least 10 more years of U.S. commercial sales without generic competition. We believe that this expected long commercial life of Pennsaid 2% will encourage Horizon to continue to invest in building the Pennsaid 2% brand in the U.S. and bodes well for the continuity and security of Nuvo's revenue stream from the supply of Pennsaid 2% to Horizon.

Additionally, reinforcing the value of our Pennsaid 2% franchise are consistent prescription data in the U.S. According to IMS Health, U.S. prescriptions of Pennsaid 2% increased to 111,000 in the second quarter of 2017 from 105,000 in the first quarter of 2017. When Horizon released its Q1 results, it indicated that it had been experiencing some reimbursement and pricing pressures from insurance companies for its primary care products, including Pennsaid 2%, which had reduced the profitability of that portion of its business. Nuvo is insulated from these issues in the sense that we get paid a fixed amount per commercial bottle and product sample of Pennsaid 2% supplied to Horizon without regard to Horizon's net selling price. Horizon has indicated that due to the primary care group's decreased profitability, it is reallocating resources to better align its costs and profits. This reallocation of resources includes a reduction in its primary care sales force. To-date, this adjustment has not had an impact on prescriptions which have grown from Q1 to Q2. We expect Horizon's cost reallocation initiatives to result in a decrease in the number of product samples Horizon distributes to physicians. A reduction in sample orders from Horizon will have a negative impact on our future financial results. Notwithstanding these adjustments by Horizon, it has confirmed that its primary care products and Pennsaid 2%, in particular, continue to be important to it, as they are a core driver of Horizon's cash flow.

In our Q1 letter to shareholders, we advised that on November 27, 2017, Federal Drug Supply Chain Security Act (DSCSA) rules would come into force that require all manufacturers of drug products sold in the U.S. to "serialize" each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, also known as the Serialization Track and Trace Bill, we have purchased new packaging equipment and technology systems that will give us the ability to individually serialize all Pennsaid 2% packaging. In coordination with Horizon, we had planned to complete installation of this new equipment well before the November 27, 2017 implementation date of the DSCSA. Horizon had previously decided to draw down its existing Pennsaid 2% inventory of non-serialized product in advance of the November 27th implementation date. Horizon had therefore advised us that it planned to defer any further commercial bottle production until our serialization equipment was operational. We anticipated, and advised shareholders, that these production changes would have a negative impact on our Q2 and Q3 sales and earnings relative to normal prescription trends and purchases by Horizon; however, we expected that our sales to Horizon would pick up in the remainder of the year, when our serialization equipment came on stream and Horizon resumed its more typical ordering patterns, including rebuilding its inventory with serialized product to replace non-serialized inventory that had been drawn down.

The new packaging equipment arrived at our manufacturing plant in Varennes, Québec and we commenced the process of installing and qualifying it for commercial production. However, on June 30th, after we had stopped commercial production of non-serialized commercial bottles for Horizon, the FDA announced that it was extending the date for serialization compliance by one year to November 27, 2018. As a result of this change, Horizon requested that we deliver some non-serialized commercial bottles to them before we complete the qualification process. We still expect to complete qualification and be fully compliant with the DSCSA before the end of this year. As a result of these timing changes, we expect that some production and revenue may shift to earlier in the year than we had previously anticipated. As we often tell investors, the best indicator for Pennsaid 2% in the U.S. is the prescription data, which we update monthly in the investor presentation on our website. If prescriptions are healthy, Nuvo production of commercial bottles for Horizon will be healthy because Horizon buys all of its requirements from Nuvo. When we record those sales is difficult to predict, as our production and deliveries will continue to fluctuate and be influenced by Horizon ordering patterns, its inventory management strategies and other factors, like the change in effective date of the serialization legislation, that are beyond Nuvo's control.

As previously mentioned in our letter to shareholders last quarter and in our corporate disclosure, we expected a weaker Q2 due to a moratorium on production of non-serialized commercial bottle inventory for Horizon mentioned above. Revenue in Q2 was \$3.1 million including \$2.8 million of product sales. The gross margin on product sales was 48%. Adjusted EBITDA⁽¹⁾ was a loss of \$0.1 million and we incurred a net loss of \$0.2 million which translates to \$(0.02) per share. We closed the quarter with cash and short-term investments of \$20.0 million, an increase of \$1.4 million from our cash position at the end of Q1 2017 and no debt.

Our goal is to build off of the success of Pennsaid 2% in the U.S. and make Pennsaid 2% a global brand. We are in discussions with a number of potential international licensing partners. We expect to complete licensing transactions throughout 2017 and 2018, which means that revenue from these transactions should start to benefit our financial results in late 2018 and 2019, as our marketing partners obtain marketing approvals from their local regulatory authorities and then launch sales. Our ideal transaction structure includes upfront payments (expected to be modest), compensation for our technology by way of a licensing agreement that includes royalty payments and an exclusive manufacturing agreement. The manufacturing component is important given that we have unutilized capacity at our Varennes plant, which means that most of the margin from incremental product sales to licensing partners drops to our bottom line. This deal structure was the model that we used in our recently completed licensing transaction with Sayre Pharmaceuticals for India, Bangladesh, Nepal and Sri Lanka.

Currently, Pennsaid 2% has been approved for marketing only in the U.S. and Russia. Many jurisdictions will base their regulatory approval of Pennsaid 2% on its FDA approval and won't require additional clinical trials. It is important to note that a separate registration procedure must still be followed in these markets before our licensing partners can launch sales.

However, for Canada, the E.U. and Australia, we wanted to complete an additional successful Phase 3 trial in order to support our applications for regulatory approval of Pennsaid 2% for the treatment of acute pain. In May 2017, we announced the results of a placebo-controlled, multi-centre Phase 3 trial (2016 Pennsaid 2% Trial) in Germany to study Pennsaid 2% for the treatment of acute ankle sprains. Unfortunately, the 2016 Pennsaid 2% Trial failed to meet its primary endpoint. We are disappointed by the results of this trial. We have met with our scientific and regulatory advisors and are working on a strategy to move forward with regulatory approval in as many of these countries as possible using the significant body of existing Pennsaid 2% and Pennsaid data that we have generated over the years for the treatment of osteoarthritis. We do not plan to conduct another clinical study for the treatment of acute pain. As we develop our plans to move forward, we will be seeking advice on possible paths to approval from appropriate regulatory authorities and this will take time to coordinate. As we finalize our regulatory strategy, we will provide you with updates.

We have also ramped up our activity for product acquisitions that can add to our revenue and enhance our profitability. Our ideal product is one that has multi-territorial rights available that we can out-license and that can be manufactured at our Varennes manufacturing facility, which is currently underutilized. This focus means that priority product acquisition candidates will be gels, creams and liquids, and other similar product formats that are typically associated with pain, dermatology or women's health therapeutic areas. We have advanced ongoing discussions for specific transactions that we believe are a good fit with our ideal criteria; however, we are being careful. Completing a transaction is easy. Completing the right transaction at the right price is more challenging. We are focused on completing transactions that are appropriately priced and are confident that we will be able to complete value-creating transactions for Nuvo.

We continue to be proud of our partnership with Horizon that supports a robust base business and that again generated positive cash flow for Nuvo in the quarter. We are excited about the opportunity to build upon that base, by leveraging our motivated and experienced management team and utilizing our solid balance sheet that has \$20.0 million of cash and no debt to add value-creating partnerships and transactions. Great value has already been created at Nuvo and we are optimistic about its growth prospects and the shareholder value that will be created.

We would like to thank our employees for their continuing dedication, our board of directors for their support and advice and most of all you, our shareholders, for your patience and support. As always, if you have any questions or comments about the business, please don't hesitate to call or email us. We look forward to hearing from you.

Yours,



John London
Chief Executive Officer



Jesse Ledger
President

⁽¹⁾ Adjusted EBITDA is a non-IFRS financial measure defined by the Company as net income from continuing operations before net interest income, income tax expense and depreciation and stock-based compensation.

Management's Discussion and Analysis (MD&A)

August 9, 2017 / The following information should be read in conjunction with the Nuvo Pharmaceuticals™ Inc. (Nuvo or the Company) Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2017 which were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 – Interim Financial Reporting filed on SEDAR on August 9, 2017. 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, the Condensed Consolidated Interim Financial Statements and related Notes are expressed in Canadian dollars, unless otherwise noted.

Forward-looking Statements

This MD&A contains “forward-looking statements” within the meaning of applicable securities laws. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the Company's current beliefs, expectations and assumptions regarding the future of its business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. Nuvo's actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, readers should not rely on any of these forward-looking statements. Important factors that could cause Nuvo's actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the risk factors included in Nuvo's most recent Annual Information Form dated March 1, 2017 under the heading “Risks Factors”, and as described from time to time in the reports and disclosure documents filed by Nuvo with Canadian securities regulatory agencies and commissions. These and other factors should be considered carefully and readers should not place undue reliance on Nuvo'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 none of Nuvo or any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

Any forward-looking statement made by the Company in this MD&A is based only on information currently available to it and speaks only as of the date on which it is made. Except as required by applicable securities laws, Nuvo undertakes no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Overview

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).

The Company has a manufacturing facility in Varennes, Québec that produces Pennsaid 2%, Pennsaid 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) and is regularly inspected by Health Canada and the U.S. Food and Drug Administration (FDA). Nuvo's manufacturing facility specializes in the manufacture of semi-solids (creams,

gels, ointments, topical solutions) and non-sterile liquids. Nuvo can currently supply finished products in bottles, tubes and sachets.

As at June 30, 2017, the Company employed a total of 47 full-time employees at its manufacturing facility in Varennes, Québec and its head office in Mississauga, Ontario.

Growth Strategy

The Company's focus, in the short-term, is to continue to monetize Pennsaid 2% through out-licensing to commercial partners in international markets, while at the same time, identifying new opportunities to acquire additional, accretive, late-stage products or businesses to further diversify the Company's existing product portfolio and revenue streams, and to better utilize the Company's manufacturing facility in Varennes, Québec.

Commercial Products

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 | Nineteen 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 ⁽²⁾ | Russia; some Community of Independent States | One patent granted in Russia expiring in 2027. Pending patent application through 2033. |
| | | Sayre Therapeutics PVT Ltd. ⁽³⁾ | India, Sri Lanka, Bangladesh and Nepal | One patent granted in India expiring in 2027. Pending patent application through 2027. |

⁽¹⁾ Regulatory approval not yet received in territory.

⁽²⁾ In February 2017, the Company received notification from NovaMedica LLC that the marketing authorization for Pennsaid 2% had been granted by the Russian Ministry of Health. The marketing authorization is inclusive of the non-prescription, human use of Pennsaid 2% in treating back pain, joint pain, muscle pain and inflammation and swelling in soft tissue and joints associated with trauma and rheumatic conditions.

⁽³⁾ Partner is working to obtain regulatory approval in licensed territory.

Pennsaid 2% - United States

Pennsaid 2% was approved on January 16, 2014 in the U.S. for the treatment of the pain of osteoarthritis (OA) of the knee. 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., 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 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.

Nuvo records revenue when it ships Pennsaid 2% product samples and commercial bottles to Horizon for Horizon's sale into the U.S. market. The amount earned by Nuvo is based on a defined transfer price for each commercial bottle and product sample shipped to Horizon pursuant to its long-term, exclusive supply agreement with Horizon. Nuvo's transfer price for Pennsaid 2% commercial bottles and product samples is not affected by Horizon's net selling price for prescriptions filled in the U.S. The timing of Nuvo shipments to Horizon do not necessarily align with when U.S. patients fill prescriptions written by their physicians.

The Federal Drug Supply Chain Security Act (DSCSA) rules require all manufacturers of drug products sold in the U.S. to serialize each individual drug package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, the Company has purchased new packaging equipment and technology systems in coordination with Horizon. The Company commenced the process of installing and qualifying the new packaging equipment at its manufacturing plant in Varennes, Québec for commercial production; however, on June 30, 2017, after the Company had stopped commercial production of non-serialized commercial bottles for Horizon, the FDA announced that it was extending the date for serialization compliance by one year to November 27, 2018.

The Company announced in its Q1 2017 disclosures that Horizon had previously decided to draw down its existing Pennsaid 2% inventory and defer any commercial bottle production until after the Company's serialization equipment was operational. As a result of this change, Horizon has requested that the Company deliver some non-serialized commercial bottles before the qualification process is completed. The Company expects to complete qualification and be fully compliant with the DSCSA before the end of this year. As a result of these timing changes, the Company expects that some commercial production and revenue may shift to earlier in the year than was previously anticipated.

Pennsaid 2% - Russia

In February 2017, the Company received notification from NovaMedica LLC (NovaMedica) that the marketing authorization for Pennsaid 2% had been granted by the Russian Ministry of Health. Pennsaid 2% is approved for the non-prescription, human use in treating back pain, joint pain, muscle pain and inflammation and swelling in soft tissue and joints associated with trauma and rheumatic conditions. Since the approval of Pennsaid 2% in Russia, the Company has been in discussions with NovaMedica regarding its commercialization plans for Pennsaid 2% as an over-the-counter product and the continued devaluation of the Ruble.

Pennsaid 2% - India, Sri Lanka, Bangladesh and Nepal

In March 2017, the Company announced an exclusive license agreement with Sayre Therapeutics PVT Ltd. (Sayre Therapeutics) to distribute, market and sell Pennsaid 2% in India, Sri Lanka, Bangladesh and Nepal. Sayre Therapeutics is in the process of filing for regulatory approval in each of these jurisdictions. The Company anticipates commercial launches of Pennsaid 2% will commence in late 2018 or early 2019 subject to regulatory approval.

Pennsaid 2% - Unlicensed Territories

The following table summarizes intellectual property for unlicensed Pennsaid 2% territories:

| Product | Therapeutic Areas | Intellectual Property |
|-------------|----------------------------|--|
| Pennsaid 2% | Osteoarthritis of the knee | Patents granted in Australia, Canada, Switzerland, Germany, Denmark, France, Great Britain, Greece, India, Ireland, Israel, Italy, Netherlands, Hong Kong, Japan, Mexico, New Zealand, Russia Federation, South Africa, expiring in 2027. Applications pending in 5 countries. |
| | Acute strains and sprains | Patent applications pending in Australia, Brazil, Canada, Chile, China, Europe, Hong Kong, Israel, Japan, Mexico and Russia Federation through 2033. |

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. 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.

The Company believes that many jurisdictions will base their regulatory approval of Pennsaid 2% on its U.S. FDA approval and will not require additional clinical trials. A separate registration procedure will be required in these markets before a licensing partner can launch the sale and marketing of Pennsaid 2%.

2016 Pennsaid 2% Phase 3 Clinical Trial

In May 2017, the Company announced that its 2016 Pennsaid 2% Phase 3 Clinical Trial (2016 Pennsaid 2% Trial) did not meet its primary endpoint.

The 2016 Pennsaid 2% Trial was conducted in Germany and enrolled 134 patients (the full analysis set or FAS) of which 122 patients followed the protocol (the per protocol set or PP) who had suffered a grade I or grade II ankle sprain as assessed by the investigator within 12 hours of injury. Patients were randomly assigned on a double-blind basis to an active arm or a control arm and applied either Pennsaid 2% or a control consisting of a topical vehicle that included all the constituent ingredients of Pennsaid 2%, except its active ingredient diclofenac sodium (the Control) to their injured ankle twice a day for 8 days. The patients returned to the investigational site for in-depth evaluation on days 3, 5 and 8 of treatment. The primary endpoint for the 2016 Pennsaid 2% Trial was reduction in pain on movement (POM) at day 3. The 2016 Pennsaid 2% Trial also measured a number of secondary endpoints including ankle function, meaningful improvement in pain on movement, overall assessment of benefit and satisfaction, tenderness and ankle swelling. Patients filled out a daily diary that recorded their answers to a number of standardized questions related to the negative impact of the injury on sleep and daily activities. The 2016 Pennsaid 2% Trial commenced in November 2016 and was fully enrolled in March 2017. Results were tabulated for both the FAS and PP groups.

Primary Endpoint

The primary endpoint for the 2016 Pennsaid 2% Trial was reduction in pain on movement (POM) at day 3 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. Control was not statistically significant at the primary time point at day 3 ($p=0.5074$) or the secondary time point at day 5 ($p=0.1642$); however, was statistically significant at the secondary time point at day 8 ($p=0.0099$). In the PP group, the Pennsaid 2% group did not show a statistically significant improvement at day 3 ($p=0.6996$) or day 5 ($p=0.1865$), but did show a statistically significant improvement at day 8 ($p=0.0154$).

Secondary Endpoints

The 2016 Pennsaid 2% Trial also included the measure of a number of secondary endpoints.

| | |
|---|---|
| Ankle Function | Pennsaid 2% demonstrated a statistically significant increase in ankle function compared to Control in the FAS group at day 3, 5 and 8 with p-values of 0.0383, 0.0072 and 0.0055, respectively. |
| Tenderness | Pennsaid 2% did not demonstrate a statistically significant reduction in tenderness compared to Control in the FAS group at days 3, 5, and 8 with p-values of 0.1776, 0.4870 and 0.9013 respectively. |
| Ankle Swelling | Pennsaid 2% did not demonstrate a statistically significant decrease in ankle swelling compared to Control in the FAS group at days 3, 5 and 8 with p-values of 0.1150, 0.7980 and 0.1042, respectively. |
| Meaningful Improvement in POM | Pennsaid 2% demonstrated a statistically significant meaningful improvement in POM compared to Control in the FAS group at day 5 ($p = 0.0444$) but not at day 3 ($p=0.4127$) or day 8 (0.0961). |
| 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 the Control in the FAS group at day 8 with a p-value of 0.0164 for the treatment benefit and a p-value of 0.0499 for satisfaction; however, did not report a statistically higher level of satisfaction and benefit of their treatment compared to Control at days 3 ($p=0.2464$ and $p=0.1389$ for benefit and satisfaction, respectively) or at day 5 ($p=0.1974$ and $p=0.2548$ for benefit and satisfaction, respectively). |

After reviewing the 2016 Pennsaid 2% Trial results in detail, the Company met with its scientific advisors and regulatory consultants to determine what its next steps should be in relation to regulatory submissions of Pennsaid 2% in Canada, Australia and the E.U. At present, the Company has no plans to conduct another trial similar to the 2016 Pennsaid 2% Trial. The Company intends to pursue Pennsaid 2% registrations in select territories that will accept the existing clinical and technical data package.

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 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 the Company's 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 |
| | | Recordati S.p.A. | Italy |
| | | Movianto UK Limited | U.K. |

⁽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⁾ | Granted European patent expiring in 2019. |

⁽¹⁾ Partner is responsible for obtaining regulatory approval in licensed territory.

⁽²⁾ Synera and Rapydan are the brand names for the HLT Patch in their respective jurisdiction.

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.

Product Pipeline

Foam Technology

In March 2017, the Company acquired a U.S. patent no. 9,107,823 with an expiry date of November 22, 2031 and pending applications in Canada, Europe and the U.S. covering DMSO-based foamable formulations for nominal consideration. The purchase agreement also includes a commitment to remit a small portion of royalty payments, milestone payments or upfront payments received by the Company for out-licensing of products using the Foam Technology until the end of applicable patent term provided the out-licensed products continue to be covered by a valid claim.

The Company is in the process of meeting with its scientific advisors and regulatory consultants to determine opportunities to extend its commercial product pipeline using the Foam Technology.

Corporate Reorganization

On March 1, 2016, 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). 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 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 and Crescita. Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Prior to the Reorganization, Crescita was a drug development business.

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

Key Developments

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

Pennsaid 2%

- U.S. prescriptions of Pennsaid 2% increased to 111,000 in the second quarter of 2017 from 105,000 prescriptions in the first quarter of 2017 according to IMS Health.
- In May 2017, the Company announced the United States District Court for the District of New Jersey had upheld the validity of one of the claims in Horizon's U.S. patent covering Pennsaid 2%. The Defendant, Actavis Laboratories UT, Inc. (Actavis) had admitted that its proposed generic version of Pennsaid 2% would infringe the patent and was attempting to challenge the patent's validity. The Court's judgment prevents Actavis from launching a generic version of Pennsaid 2% in the United States until at least October 17, 2027 – the expiration date of the patent.
- In May 2017, the Company announced the results of a placebo-controlled, multi-centre Phase 3 trial (2016 Pennsaid 2% Trial) in Germany to study Pennsaid 2% for the treatment of acute ankle sprains. The 2016 Pennsaid 2% Trial was conducted to support regulatory applications for marketing approval of Pennsaid 2% in the E.U., Canada and Australia. The 2016 Pennsaid 2% Trial failed to meet its primary endpoint. The Company does not plan to conduct another clinical study of Pennsaid 2% for the treatment of acute ankle sprains. It is reviewing the possibility of using existing data that supported the FDA approval of Pennsaid and Pennsaid 2% for the treatment of OA to support applications for approval of Pennsaid or Pennsaid 2% for the treatment of OA in select E.U. territories, Canada and Australia.

Selected Financial Information

| | Three Months ended June 30 | | Six Months ended June 30 | |
|---|-------------------------------|--------------|-----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands, except per share data | \$ | \$ | \$ | \$ |
| Operations | | | | |
| Product sales | 2,786 | 7,317 | 9,439 | 14,642 |
| Royalties | 176 | 134 | 398 | 443 |
| Contract and other revenue | 138 | 655 | 245 | 863 |
| Total Revenue | 3,100 | 8,106 | 10,082 | 15,948 |
| Total operating expenses | 3,247 | 5,608 | 7,963 | 10,986 |
| Other loss | 56 | 7 | 126 | 543 |
| Net income (loss) from continuing operations | (203) | 2,491 | 1,993 | 4,419 |
| Net loss from discontinued operations | - | - | - | (3,180) |
| Net income (loss) | (203) | 2,491 | 1,993 | 1,239 |
| Other comprehensive income (loss) | (1) | 12 | (2) | 44 |
| Total comprehensive income (loss) | (204) | 2,503 | 1,991 | 1,283 |

Share Information

| | | | | |
|--|--------|--------|--------|--------|
| Net income (loss) per share from continuing operations | | | | |
| - basic | (0.02) | 0.22 | 0.17 | 0.39 |
| - diluted | (0.02) | 0.21 | 0.16 | 0.36 |
| Average number of common shares outstanding for the period | | | | |
| - basic | 11,551 | 11,487 | 11,549 | 11,391 |
| - diluted | 11,551 | 11,762 | 11,733 | 11,693 |

| | As at June 30, 2017 | As at December 31, 2016 |
|--|---------------------------|-------------------------------|
| Financial Position | | |
| Cash and cash equivalents | \$ 15,014 | \$ 9,589 |
| Short-term investments | 5,000 | 8,000 |
| Total assets | 27,155 | 26,516 |
| Other obligations, including current portion | 9 | 9 |
| Total liabilities | 1,981 | 3,655 |
| Total equity | 25,174 | 22,861 |

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 and net interest income. EBITDA refers to net income from continuing operations determined in accordance with IFRS, before depreciation and amortization, net 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 anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including: the level of product sales to the Company's customers, licensees and distributors, the timing and amount of royalties and other payments received pursuant to current and future licensing arrangements and fluctuations in foreign exchange rates.

During the quarter ended June 30, 2017, the Company earned 85% [June 30, 2016 - 95%] of its product revenue from a single customer, Horizon. The Company earns product revenue from the sale of Pennsaid 2% commercial bottles and Pennsaid 2% samples to Horizon pursuant to a long-term, exclusive supply agreement. It is possible that quarterly and annual results of operations will be impacted for the foreseeable future by Horizon's demand for Pennsaid 2% products due to Horizon's promotional strategies, demand for the product in the U.S. market and how Horizon chooses to manage its internal inventory (See "Risk Factors - Dependency on Horizon").

The Company's product revenue from Horizon is denominated in U.S. dollars. Fluctuations in the exchange rate of the Canadian dollar relative to U.S. dollar could result in the Company realizing a higher or lower profit margin on sales of its product to Horizon.

Prior to March 1, 2016, the Company's discontinued operations included allocations of certain transactions reported in the accounts of Nuvo. Management believes both the assumptions and allocations underlying the discontinued operations are reasonable. However, as a result of the combined carve-out methodology used to determine the results of Crescita, the discontinued operations may not necessarily be indicative of the operating results and financial position that would have resulted had Crescita historically operated as a stand-alone entity. As a result, it is possible that quarterly and annual results of the Company's continuing operations may fluctuate when compared to periods prior to March 1, 2016.

Due to these factors, the Company believes that the period-to-period comparisons of its operating results are not necessarily a good indicator of future performance.

Significant Transactions

2017

Pennsaid 2% Out-licensing

In March 2017, the Company entered into an exclusive license agreement with Sayre Therapeutics to distribute, market and sell Pennsaid 2% in India, Sri Lanka, Bangladesh and Nepal. Nuvo received an upfront payment and is eligible to receive milestone payments and a double-digit royalty on net sales. Nuvo will supply Pennsaid 2% to Sayre on an exclusive basis from its manufacturing facility in Varennes, Québec.

2016

Corporate Reorganization

On March 1, 2016, Nuvo completed a corporate reorganization that reorganized Nuvo 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 would have expired on December 31, 2022 and, unless terminated, would have automatically renewed 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 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

| | Three Months ended June 30 | | Six Months ended June 30 | |
|----------------------------|-------------------------------|--------------|-----------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Pennsaid 2% | 2,379 | 6,977 | 8,480 | 13,959 |
| Pennsaid | 407 | 155 | 861 | 318 |
| HLT bulk | - | 185 | 98 | 365 |
| Total product sales | 2,786 | 7,317 | 9,439 | 14,642 |

Product sales, which represent the Company's sales to customers, licensees and distributors, were \$2.8 million and \$9.4 million for the three and six months ended June 30, 2017 compared to \$7.3 million and \$14.6 million for the three and six months ended June 30, 2016.

Pennsaid 2%

Under the terms of the October 2014 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. The Company believes Horizon's orders are influenced by management strategies, Horizon's inventory levels and U.S. market demand for commercial product.

Pennsaid 2% product sales were \$2.4 million for the three months ended June 30, 2017 compared to \$7.0 million for the three months ended June 30, 2016 and represent the Company's sales of the Pennsaid 2% commercial format and the physician sample format to Horizon.

Product sales for the current quarter consisted of \$1.0 million of the commercial format compared to \$4.9 million in the comparative quarter. In the current quarter, the decrease in commercial format product revenues was primarily a result of Horizon's deferral of Pennsaid 2% commercial bottle purchases until the third quarter of 2017 to allow the Company to install equipment required to be compliant with the DSCSA. In the comparative quarter, the Company benefitted from an increase in bottles shipped to Horizon to meet their internal inventory targets. Product sales for the current quarter consisted of \$1.4 million of the physician sample format compared to \$2.1 million in the comparative quarter. The \$4.6 million decrease in Pennsaid 2% product sales in the current quarter included a \$0.3 million foreign exchange gain.

Pennsaid 2% product sales were \$8.5 million for the six months ended June 30, 2017 compared to \$14.0 million for the six months ended June 30, 2016. Product sales for the current six-month period consisted of \$4.4 million of the commercial format and \$4.1 million of the physician sample format. In the comparative six-month period, product sales consisted of \$9.5 million of the commercial format with the balance of the sales coming from the physician sample format. The decrease in commercial and physician sample formats was attributable to a decrease in commercial bottles and samples shipped to Horizon. The \$5.5 million decrease in Pennsaid 2% product sales in the current six-month period included a \$14,000 foreign exchange gain.

According to IMS Health, approximately 111,000 and 216,000 Pennsaid 2% prescriptions were dispensed in the three and six months ended June 30, 2017 compared to 126,000 and 235,000 prescriptions in the three and six months ended June 30, 2016.

Pennsaid

Product sales of Pennsaid were \$0.4 million and \$0.9 million for the three and six months ended June 30, 2017 compared to \$0.2 million and \$0.3 million for the three and six months ended June 30, 2016.

The increase in Pennsaid sales in the three months ended June 30, 2017 was related to higher shipments to the Company's partner in Greece, slightly offset by a decrease in shipments to the Company's partner in Italy. In the current six-month period, the \$0.5 million increase in Pennsaid product sales primarily related to a \$0.8 million increase in sales to the Company's partner in Greece, offset by a \$0.3 million decrease in sales to the Company's partner in Italy. Geographically for the three and six months ended June 30, 2017, all Pennsaid product sales were generated from the Company's partners in the E.U.

HLT Bulk

HLT bulk sales were \$nil and \$0.1 million for the three and six months ended June 30, 2017 compared to sales of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2016. HLT bulk sales related to Nuvo's sale of the bulk drug substance that is used in manufacturing 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.

Significant Customers

As the Company sells product in a limited number of markets through exclusive agreements, it receives most of its product sales from a limited number of customers. Product sales, derived from the Company's current four largest customers, are illustrated in the following table:

| | Three Months ended June 30 | | Six Months ended June 30 | |
|--|-------------------------------|---------|-----------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands, except percentages | | | | |
| Four largest customers | \$2,762 | \$7,205 | \$9,394 | \$14,454 |
| % of total product sales | 99% | 98% | 100% | 99% |
| Largest customer as % of total product sales | 85% | 95% | 90% | 95% |

Other Revenue

| | Three Months ended June 30 | | Six Months ended June 30 | |
|----------------------------|-------------------------------|------|-----------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Royalties | 176 | 134 | 398 | 443 |
| Contract and other revenue | 138 | 655 | 245 | 863 |
| | 314 | 789 | 643 | 1,306 |

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 Inc. (Mallinckrodt), its former U.S. licensee for Pennsaid 2% and Pennsaid, 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 increased slightly to \$0.2 million for the three months ended June 30, 2017 compared to \$0.1 million for the three months ended June 30, 2016. Royalty revenue was consistent at \$0.4 million for the six months ended June 30, 2017 and 2016.

Contract and Other Revenue

Contract and other revenue for the three and six months ended June 30, 2017 decreased to \$0.1 million and \$0.2 million compared to \$0.7 million and \$0.9 million for the three and six months ended June 30, 2016. Contract and other revenues were mainly derived from development services provided by the Company to its partners.

Operating Expenses

| | Three Months ended June 30 | | Six Months ended June 30 | |
|-------------------------------------|-------------------------------|--------------|-----------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Cost of goods sold | 1,451 | 3,159 | 4,223 | 6,294 |
| Research and development expenses | 186 | 211 | 497 | 419 |
| General and administrative expenses | 1,644 | 2,260 | 3,315 | 4,351 |
| Net interest income | (34) | (22) | (72) | (78) |
| Total operating expenses | 3,247 | 5,608 | 7,963 | 10,986 |

Total operating expenses for the three and six months ended June 30, 2017 were \$3.2 million and \$8.0 million, a decrease from \$5.6 million and \$11.0 million for the three and six months ended June 30, 2016.

Cost of Goods Sold

COGS for the three and six months ended June 30, 2017 was \$1.5 million and \$4.2 million compared to \$3.2 million and \$6.3 million for the three and six months ended June 30, 2016. COGS decreased in the three and six months ended June 30, 2017 due to decreased product sales. Gross margin on product sales was \$1.3 million or 48% and \$5.2 million or 55% for the three and six months ended June 30, 2017 compared to a gross margin of \$4.2 million or 57% and \$8.3 million or 57% for the three and six months ended June 30, 2016.

The Company's gross margin on product sales was impacted by the Canadian dollar versus the U.S. dollar, the currency in which it sources certain Pennsaid 2% and Pennsaid raw materials and sells Pennsaid 2%. In the three and six months ended June 30, 2017, a 10% appreciation in the Canadian dollar versus the U.S. dollar would have reduced gross margin by approximately \$0.1 million and \$0.5 million and a 10% depreciation in the Canadian dollar versus the U.S. dollar would have increased gross margin by approximately \$0.1 million and \$0.5 million.

Research and Development

R&D expenses were \$0.2 million and \$0.5 million for the three and six months ended June 30, 2017 compared to \$0.2 million and \$0.4 million for the three and six months ended June 30, 2016. The increase in spending in the current six-month period related to the 2016 Pennsaid 2% Trial for the treatment of acute ankle sprains. The 2016 Pennsaid 2% Trial did not meet its primary endpoint. See "Overview – Pennsaid 2%" for an overview of the 2016 Pennsaid 2% Trial. R&D expenses incurred in the comparative six-month period, primarily related to the completion of the 2015 Pennsaid 2% Trial to support regulatory applications for marketing approval of Pennsaid 2% for the treatment of acute pain in the E.U., Canada and Australia. The 2015 Pennsaid 2% Trial did not meet its primary endpoint.

General and Administrative

G&A expenses were \$1.6 million and \$3.3 million for the three and six months ended June 30, 2017 compared to \$2.3 million and \$4.4 million for the three and six months ended June 30, 2016. The decrease in the current quarter of \$0.7 million was primarily attributable to a decrease in SBC expenses. In the comparative three-month period, the Company recognized a \$0.7 million SBC expense primarily related to the adjustment to market value for the outstanding share appreciation rights (SARs).

The decrease in the current six-month period of \$1.1 million was primarily attributable to a \$1.6 million decrease in SBC, partially offset by an increase in professional fees. In the comparative six-month period, the Company recognized a \$1.7 million SBC expense primarily related to the adjustment to market value for the outstanding SARs and the adjustment to market value for the outstanding deferred share units (DSUs) prior to settling the DSU obligation on March 1, 2016.

Net Interest Income

Net interest income was \$34,000 and \$72,000 for the three and six months ended June 30, 2017 compared to \$22,000 and \$78,000 for the three and six months ended June 30, 2016. The increase in net interest income in the current quarter related to interest earned on the \$5.0 million of short-term investments. The decrease in net interest income in the current six-month period related to the significantly lower cash balances as compared to the comparative six-month period when \$35.0 million was transferred to Crescita on March 1, 2016 as part of the Reorganization.

Foreign Currency Loss

For the three months ended June 30, 2017, the Company experienced a net foreign currency loss of \$56,000 compared to a net foreign currency loss of \$32,000 in the comparative quarter. In the current quarter, the impact of a stronger Canadian dollar versus the U.S. dollar decreased the value of U.S. dollar denominated cash, receivables, payables and other obligations and the impact of a weaker Canadian dollar versus the euro increased the value of euro denominated cash, receivables, payables and other obligations. In the comparative quarter, the impact of a stronger Canadian dollar versus the U.S. dollar and euro decreased the value of U.S. dollar and euro denominated cash, receivables, payables and other obligations.

For the six months ended June 30, 2017, the Company experienced a net foreign currency loss of \$0.1 million compared to a net foreign currency loss of \$0.6 million in the comparative six-month period. In the current six-month period, the impact of a stronger Canadian dollar versus the U.S. dollar increased the value of U.S. dollar denominated cash, receivables, payables and other obligations and the impact of a weaker Canadian dollar versus the euro increased the value of euro denominated cash, receivables, payables and other obligations. In the comparative six-month period, the impact of a stronger Canadian dollar versus the U.S. dollar and euro decreased the value of U.S. dollar and euro denominated cash, receivables, payables and other obligations.

Net Income (Loss) and Total Comprehensive Income (Loss)

| | Three months ended | | Six months ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30 | | June 30 | |
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Net income (loss) before income taxes from continuing operations | (203) | 2,491 | 1,993 | 4,419 |
| Net income (loss) from continuing operations | (203) | 2,491 | 1,993 | 4,419 |
| Net loss from discontinued operations | - | - | - | (3,180) |
| Net income (loss) | (203) | 2,491 | 1,993 | 1,239 |
| Unrealized gains (losses) on translation of foreign operations | (1) | 12 | (2) | 44 |
| Total comprehensive income (loss) | (204) | 2,503 | 1,991 | 1,283 |

Net Income (Loss) from Continuing Operations

Net loss from continuing operations was \$0.2 million for the three months ended June 30, 2017 compared to net income from continuing operations of \$2.5 million for the three months ended June 30, 2016. The decrease in the current quarter was attributable to a \$2.8 million reduction in gross margin on product sales and a \$0.5 million decrease in contract and other revenue, partially offset by a decrease in G&A expenses.

Net income from continuing operations was \$2.0 million for the six months ended June 30, 2017 compared to \$4.4 million for the six months ended June 30, 2016. In the current six-month period, the decrease was attributable to a \$3.1 million decrease in gross margin on product sales and a \$0.6 million decrease in

contract and other revenue, partially offset by a \$1.0 million decrease in G&A expenses and a decrease in foreign exchange losses.

Net Loss from Discontinued Operations

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

| | Three Months ended June 30 | | Six Months ended June 30 | |
|--|-------------------------------|------|-----------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Discontinued Operations | | | | |
| Product sales | - | - | - | 45 |
| Royalties | - | - | - | 14 |
| Total Revenue | - | - | - | 59 |
| Total operating expenses | - | - | - | 3,247 |
| Foreign currency loss | - | - | - | (8) |
| Net loss from discontinued operations | - | - | - | (3,180) |

Net loss from discontinued operations was \$nil for the three and six months ended June 30, 2017 compared to \$nil and \$3.2 million for the three and six months ended June 30, 2016. The decrease was attributable to the timing of the Reorganization, which was effective March 1, 2016.

Net Income (Loss)

Net loss for the three months ended June 30, 2017 was \$0.2 million compared to net income of \$2.5 million for the three months ended June 30, 2016. The decrease in the current quarter was attributable to a \$2.8 million reduction in gross margin on product sales and a \$0.5 million decrease in contract and other revenue, partially offset by a decrease in G&A expenses.

Net income for the six months ended June 30, 2017 was \$2.0 million compared to \$1.2 million for the six months ended June 30, 2016. In the comparative six-month period, the Company's net income from continuing operations was offset by the two-month net loss from discontinued operations.

Total Comprehensive Income (Loss)

Total comprehensive loss was \$0.2 million for the three months ended June 30, 2017 compared to a total comprehensive income of \$2.5 million for the three months ended June 30, 2016. The current quarter included unrealized losses of \$1,000 on the translation of foreign operations compared to \$12,000 of unrealized gains in the comparative quarter.

Total comprehensive income was \$2.0 million for the six months ended June 30, 2017 compared to a total comprehensive income of \$1.3 million for the six months ended June 30, 2016. The current six-month period included unrealized losses of \$2,000 on the translation of foreign operations compared to \$44,000 of unrealized gains in the comparative six-month period.

Net Income (Loss) Per Common Share

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------|-----------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| share figures in thousands | \$ | \$ | \$ | \$ |
| Net income (loss) from continuing operations per common share | | | | |
| - basic | (0.02) | 0.22 | 0.17 | 0.39 |
| - diluted | (0.02) | 0.21 | 0.16 | 0.36 |
| Average number of common shares outstanding (in thousands) | | | | |
| - basic | 11,551 | 11,487 | 11,549 | 11,391 |
| - diluted | 11,551 | 11,762 | 11,733 | 11,693 |

Net loss from continuing operations per common share was \$0.02 and net earnings from continuing operations per common share was \$0.17 for the three and six months ended June 30, 2017 versus net earnings from continuing operations per common share of \$0.22 and \$0.39 for the three and six months ended June 30, 2016. On a diluted basis, net loss from continuing operations per common share was \$0.02 and net earnings from continuing operations per common share was \$0.16 for the three and six months ended June 30, 2017 versus net earnings from continuing operations per common share of \$0.21 and \$0.36 for the three and six months ended June 30, 2016.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.6 million and 11.6 million for the three months ended June 30, 2017 and 11.5 million and 11.8 million on a basic and diluted basis for the three months ended June 30, 2016.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.5 million and 11.7 million for the six months ended June 30, 2017 and 11.4 million and 11.7 million on a basic and diluted basis for the six months ended June 30, 2016. The increase in average basic number of shares outstanding was attributable to employee stock options exercised. For the six months ended June 30, 2017, the weighted average number of common shares on a diluted basis included a 151,000 share adjustment for the dilutive impact of stock options and a 33,000 share adjustment for the dilutive impact of SARs. For the six months ended June 30, 2016, the weighted average number of common shares on a diluted basis included a 263,000 share adjustment for the dilutive impact of stock options, a 1,000 share adjustment for the dilutive impact of warrants and a 38,000 share adjustment for the dilutive impact 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 for assessing its performance. With the completion of the Reorganization on March 1, 2016, operating results have been restated to reflect Crescita as discontinued operations. 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 June 30 | | Six Months Ended June 30 | |
|---------------|-------------------------------|-------|-----------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| United States | 2,572 | 7,688 | 8,983 | 15,111 |
| Europe | 437 | 242 | 892 | 524 |
| Canada | 91 | 176 | 194 | 313 |
| Other | - | - | 13 | - |
| | 3,100 | 8,106 | 10,082 | 15,948 |

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 income tax expense, 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 June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|-------|-----------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Net income (loss) from continuing operations | (203) | 2,491 | 1,993 | 4,419 |
| Add back: | | | | |
| Net interest income | (34) | (22) | (72) | (78) |
| Depreciation and amortization | 58 | 55 | 112 | 113 |
| EBITDA | (179) | 2,524 | 2,033 | 4,454 |
| Add back: | | | | |
| Stock-based compensation | 65 | 652 | 151 | 1,711 |
| Adjusted EBITDA | (114) | 3,176 | 2,184 | 6,165 |

Adjusted EBITDA decreased to \$(0.1) million and \$2.2 million for the three and six months ended June 30, 2017 compared to \$3.2 million and \$6.2 million for the three and six months ended June 30, 2016. The decrease in Adjusted EBITDA for both the three and six months ended June 30, 2017 was primarily related to a decrease in gross margin.

Liquidity and Capital Resources

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30 | | June 30 | |
| | 2017 | 2016 | 2017 | 2016 |
| in thousands | \$ | \$ | \$ | \$ |
| Net income (loss) from continuing operations | (203) | 2,491 | 1,993 | 4,419 |
| Net loss from discontinued operations | - | - | - | (3,180) |
| Net income (loss) | (203) | 2,491 | 1,993 | 1,239 |
| Items not involving current cash flows | 334 | 115 | 569 | 2,238 |
| Cash provided by operations | 131 | 2,606 | 2,562 | 3,477 |
| Net change in non-cash working capital | 2,177 | (520) | 917 | (958) |
| Cash provided by operating activities | 2,308 | 2,086 | 3,479 | 2,519 |
| Cash provided by (used in) investing activities | (812) | (164) | 2,085 | (3,239) |
| Cash provided by (used in) financing activities | - | - | 7 | (34,911) |
| Effect of exchange rates on cash | (99) | 14 | (146) | (96) |
| Net change in cash during the period | 1,397 | 1,936 | 5,425 | (35,727) |
| Cash beginning of the period | 13,617 | 11,017 | 9,589 | 48,680 |
| Cash end of the period | 15,014 | 12,953 | 15,014 | 12,953 |
| Short-term investments | 5,000 | 3,000 | 5,000 | 3,000 |
| Cash and short-term investments | 20,014 | 15,953 | 20,014 | 15,953 |

Cash and Short-term Investments

Cash and short-term investments were \$20.0 million as at June 30, 2017 compared to \$17.6 million as at December 31, 2016. The \$2.4 million increase in cash and short-term investments was primarily attributable to cash provided by operations.

Operating Activities

Cash provided by operations was \$0.1 million and \$2.6 million for the three and six months ended June 30, 2017 compared to cash provided by operations of \$2.6 million and \$3.5 million for the three and six months ended June 30, 2016. In the three and six months ended June 30, 2017, the decrease in cash provided by operations was primarily due to a decrease in net income.

Overall cash provided by operating activities increased to \$2.3 million for the three months ended June 30, 2017 compared to cash provided by operating activities of \$2.1 million for the three months ended June 30, 2016. In the current quarter, the decrease in cash provided by operations was offset by a \$2.7 million recovery in working capital. In the current quarter, the \$2.2 million recovery in non-cash working capital was primarily attributable to a \$1.9 million decrease in accounts receivable, a \$0.3 million decrease in inventories and a \$0.3 million decrease in other current assets, partially offset by a \$0.3 million decrease in accounts payable and accrued liabilities. In the comparative quarter, the \$0.5 million investment in working capital was primarily attributable to a \$0.5 million increase in inventory, a \$0.2 million increase in accounts receivable, a \$0.1 million increase in other current assets, partially offset by an increase in accounts payable and accrued liabilities of \$0.3 million.

Overall cash provided by operating activities increased to \$3.5 million for the six months ended June 30, 2017 compared to cash provided by operating activities of \$2.5 million for the six months ended June 30, 2016. In the current six-month period, the decrease in cash provided by operations was offset by a \$1.9 million recovery in working capital. In the current six-month period, the \$0.9 million recovery in non-cash working capital was primarily attributable to a \$1.2 million decrease in accounts receivable, a \$0.9 million decrease in inventories and a \$0.5 million decrease in other current assets, partially offset by a \$1.7 million decrease in accounts payable. In the comparative six-month period, the \$1.0 million investment in working capital was primarily attributable to a \$1.6 million decrease in accounts receivable, offset by a \$1.0 million increase in inventory and a \$1.6 million decrease in accounts payable and accrued liabilities.

Investing Activities

Net cash used in investing activities was \$0.8 million and net cash provided by investing activities was \$2.1 million for the three and six months ended June 30, 2017 compared to net cash used in investing activities of \$0.2 million and \$3.2 million for the three and six months ended June 30, 2016. In both the current and comparative three and six-month periods, 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. In the current six-month period, \$3.0 million of the Company's short-term investments matured. In the comparative six-month period, the Company purchased \$3.0 million of short-term investments.

Financing Activities

Net cash provided by financing activities was \$nil in both the current and comparative quarters. Net cash provided by financing activities was \$7,000 for the six months ended June 30, 2017 compared to net cash used in financing activities of \$34.9 million for the six months ended June 30, 2016. In the comparative six-month period, the Company transferred \$35.0 million to Crescita as part of the Reorganization of the Company.

Selected Quarterly Information

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

| | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|-------------------------------------|---------|---------|---------|---------|
| in thousands, except per share data | \$ | \$ | \$ | \$ |
| Product sales | 2,786 | 6,653 | 5,194 | 4,988 |
| Royalties | 176 | 222 | 257 | 323 |
| Contract and other revenue | 138 | 107 | 122 | 207 |
| Cost of goods sold | 1,451 | 2,772 | 2,528 | 2,535 |
| Research and development expenses | 186 | 311 | 604 | 394 |
| General and administrative expense | 1,644 | 1,671 | 864 | 1,462 |
| Net interest income | (34) | (38) | (37) | (29) |
| Other expenses (income) | 56 | 70 | (125) | (95) |
| Net income (loss) | (203) | 2,196 | 1,739 | 1,251 |
| Net income (loss) per common share | | | | |
| - basic | (0.02) | 0.19 | 0.15 | 0.11 |
| - diluted | (0.02) | 0.19 | 0.12 | 0.10 |

| | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 |
|------------------------------------|---------|---------|---------|---------|
| | \$ | \$ | \$ | \$ |
| Product sales | 7,317 | 7,325 | 7,077 | 5,047 |
| Royalties | 134 | 309 | 285 | 251 |
| Contract and other revenue | 655 | 208 | 332 | 211 |
| Cost of goods sold | 3,159 | 3,135 | 3,049 | 2,510 |
| Research and development expenses | 211 | 208 | 253 | 338 |
| General and administrative expense | 2,260 | 2,091 | 125 | 1,067 |
| Net interest income | (22) | (56) | (111) | (117) |
| Other expenses (income) | 7 | 536 | (323) | (398) |
| Net income | 2,491 | 1,928 | 4,701 | 2,109 |
| Net income per common share | | | | |
| - basic | 0.22 | 0.17 | 0.43 | 0.19 |
| - diluted | 0.21 | 0.15 | 0.42 | 0.19 |

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 and six months ended June 30, 2017.

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 2 assets include guaranteed investment certificates held by the Company that are valued at fair value and the fair value approximates the carrying value due to the short-term nature.

Level 2 liabilities include obligations of the Company for the SARs Plan. 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 \$0.1 million for SARs as at June 30, 2017 [December 31, 2016 - \$1.0 million].

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.

Financial Risk Management

The following is a discussion of liquidity risk, credit risk and market risk 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 \$15.0 million in cash and \$5.0 million in short-term investments as at June 30, 2017, it is dependent on a single customer for substantially all of its revenue. During the three months ended June 30, 2017, the Company earned 85% [June 30, 2016 - 95%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. 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 diversify 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 \$3.6 million that are due in less than a year and \$0.8 million of contractual obligations that are payable from 2019 to 2020.

Credit Risk

The Company's cash and short-term investments subject the Company to a concentration of credit risk. As at June 30, 2017, the Company had \$15.0 million invested with two financial institutions in various bank accounts. These financial institutions are major Canadian banks, which the Company believes lessens the

degree of credit risk. Additionally, the Company maintains \$5.0 million in short-term investments with a creditworthy Canadian insurance company.

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 June 30, 2017, the Company's largest customer represented 58% [December 31, 2016 - 73%] of accounts receivable.

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

| in thousands | June 30, 2017 \$ | December 31, 2016 \$ |
|-----------------------|---------------------|-------------------------|
| Current | 914 | 2,159 |
| 0 - 30 days past due | 260 | 11 |
| 31 - 60 days past due | - | 216 |
| | 1,174 | 2,386 |

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:

| in thousands | Euros | | U.S. Dollars | |
|--|-----------------------|---------------------------|------------------------|----------------------------|
| | June 30, 2017 € | December 31, 2016 € | June 30, 2017 \$ | December 31, 2016 \$ |
| Cash | 352 | 242 | 3,574 | 3,929 |
| Accounts receivable | - | - | 779 | 1,636 |
| Other current assets | - | - | 361 | - |
| Accounts payable and accrued liabilities | (16) | (305) | (300) | (289) |
| | 336 | (63) | 4,414 | 5,276 |

Based on the aforementioned net exposure as at June 30, 2017, 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 \$0.6 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$50,000 on total comprehensive income (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 2%, Pennsaid 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. expenditures 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 months ending June 30 as follows:

| | Total | 2018 | 2019 | 2020 and thereafter |
|--|--------------|--------------|------------|---------------------|
| in thousands | \$ | \$ | \$ | \$ |
| Finance lease obligations | 12 | 3 | 3 | 6 |
| Operating leases | 995 | 173 | 145 | 677 |
| Purchase obligations ⁽¹⁾⁽²⁾ | 1,451 | 1,451 | - | - |
| Other obligations ⁽³⁾ | 1,972 | 1,972 | - | - |
| | 4,430 | 3,599 | 148 | 683 |

⁽¹⁾ The Company has committed to \$1.4 million of capital investments for its manufacturing facility.

⁽²⁾ The Company has committed to \$0.1 million for the 2016 Pennsaid 2% Trial.

⁽³⁾ Other obligations include accounts payable and accrued liabilities.

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.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Crescita Therapeutics Inc.

Subsequent to the Reorganization, Nuvo and Crescita were 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 corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, research and development and legal support and facility and equipment rental.

As a result of the restructuring of key management personnel, Nuvo and Crescita are no longer related parties.

For the three and six months ended June 30, 2016, services provided to Crescita were \$0.1 million and \$0.2 million and services received from Crescita were \$0.1 million and \$0.1 million.

Outstanding Share Data

The number of common shares outstanding as at June 30, 2017 was 11.6 million unchanged from March 31, 2017.

As at June 30, 2017, there were 1,176,361 options outstanding of which 691,770 have vested.

Critical Accounting Policies and Estimates

The preparation of Consolidated 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, "Summary of Significant Accounting Policies" of the Company's Consolidated 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. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9), which will replace IAS 39 - *Financial Instruments* and all previous versions of IFRS 9. 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 annual 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 currently in the process of assessing its contracts, and based on progress to-date, the Company expects to complete this assessment by the third quarter of 2017.

IFRS 16 - Leases

In January 2016, the IASB 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 on or after January 1, 2019, with limited early application permitted. The Company is in the process of reviewing the standard to determine the impact on the annual Consolidated Financial Statements.

Amendments to IFRS 2 - Share-based Payments

In June 2016, the IASB issued amendments to IFRS 2 - *Share-based Payments* (IFRS 2), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements

on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently in the process of reviewing the standard to determine the impact on the annual 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 annual Consolidated Financial Statements.

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 material changes to the Company's ICFR that occurred during the quarter ended June 30, 2017.

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 March 1, 2017 for the year ended December 31, 2016 and the "Risk Factors" section of the Company's AIF filed March 1, 2017.

The additional risks that are discussed below reflect updates to material risks and uncertainties since the filing of the Company's AIF on March 1, 2017.

Dependency on Horizon

The Company currently derives substantially all of its revenue from Pennsaid 2% U.S. commercial bottle and sample product sales to Horizon pursuant to a long-term, exclusive supply agreement. It is possible that quarterly and annual results of operations will be impacted for the foreseeable future by Horizon's demand for Nuvo's Pennsaid 2% products which is a function of Horizon's promotional strategies, demand for the product in the U.S. market and how Horizon chooses to manage its internal inventory. If Horizon was unable to successfully sell or stops sampling or selling Pennsaid 2%, for any reason, it would have a material adverse effect on the Company's product sales and cash resources.

Horizon indicated in its Q1 2017 disclosures that it had been experiencing some reimbursement and pricing pressures from insurance companies for its primary care products, including Pennsaid 2%, which had reduced the profitability of that portion of its business. Due to its primary care group's decreased profitability, Horizon noted that it is reallocating resources to better align its costs and profits. This reallocation of resources included a reduction in its primary care sales force. The Company expects Horizon's cost reallocation initiatives to also result in a decrease in the number of product samples Horizon distributes to physicians. A reduction in sample product orders from Horizon will have a negative impact on the Company's future financial results.

The DSCSA rules require all manufacturers of drug products sold in the U.S. to serialize each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In February 2017, as a result of the DSCSA, Horizon advised the Company that it plans to draw down some of its existing inventory of commercial bottles of Pennsaid 2% and defer any further commercial bottle production until the Company's new packaging equipment and technology systems required to serialize each individual drug package are installed and operational. The Company expects to have its serialization equipment operational in the second half of Q3. In July 2017, the FDA published guidance extending the date for serialization compliance by one year to November 27, 2018. As a result of these timing changes, the Company expects that some commercial product revenue may shift to earlier in 2017 than the Company had previously anticipated. If product sales to Horizon do not increase once the Company's serialization equipment is operational, the Company's sales, earnings and cash flow will be negatively impacted.

Actavis Litigation

In the U.S., Pennsaid 2% is protected by multiple patents listed in the FDA Orange Book (Pennsaid 2% Orange Book Patents) and has received 3-year exclusivity under the Hatch-Waxman Act. All of the intellectual property for Pennsaid 2% for the U.S. is owned by Horizon and it is their responsibility to litigate any claims against these patents from generic companies. Patent litigation is currently pending in the United States District Court for the District of New Jersey against several companies intending to market a generic version of Pennsaid 2% prior to the expiration of certain Pennsaid 2% Orange Book Patents. These cases involve the following sets of defendants: (i) Actavis Laboratories UT, Inc., formerly known as Watson Laboratories, Inc., Actavis, Inc. and Actavis plc; and (ii) Lupin Limited and Lupin Pharmaceuticals, Inc.

In *Horizon Pharma Ireland Limited, et al v. Actavis Laboratories UT, Inc.*, C.A. No. 14-cv-7992-NLH-AMD, a bench trial was held in March 2017. In May 2017, the United States District Court for the District of New Jersey upheld the validity of one of the claims in one of Horizon's U.S. patent covering Pennsaid 2%. Actavis Laboratories UT, Inc. has appealed this decision.

No trial date has been set in any other pending Pennsaid 2% cases.

The approval or launch of generic versions of Pennsaid 2% in the U.S. market could have a material adverse effect on the Company's future revenue from product sales.

For further discussion regarding the risk associated with Generic Drug Manufacturers see the "Risk Factors" section of the Company's AIF filed March 1, 2017.

Additional Information

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

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

| <i>(Canadian dollars in thousands)</i> | <i>Notes</i> | As at June 30, 2017 | As at December 31, 2016 |
|---|--------------|------------------------|----------------------------|
| | | \$ | \$ |
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | 13 | 15,014 | 9,589 |
| Short-term investments | 13 | 5,000 | 8,000 |
| Accounts receivable | 13 | 1,174 | 2,386 |
| Inventories | 3 | 2,890 | 3,817 |
| Other current assets | 4 | 1,050 | 1,500 |
| TOTAL CURRENT ASSETS | | 25,128 | 25,292 |
| NON-CURRENT | | | |
| Property, plant and equipment | 5 | 2,027 | 1,224 |
| TOTAL ASSETS | | 27,155 | 26,516 |
| LIABILITIES AND EQUITY | | | |
| CURRENT | | | |
| Accounts payable and accrued liabilities | 7 | 1,972 | 3,646 |
| Current portion of other obligations | | 2 | 2 |
| TOTAL CURRENT LIABILITIES | | 1,974 | 3,648 |
| Other obligations | | 7 | 7 |
| TOTAL LIABILITIES | | 1,981 | 3,655 |
| EQUITY | | | |
| Common shares | 6 | 185,266 | 185,255 |
| Contributed surplus | 6, 7 | 14,373 | 14,062 |
| Accumulated other comprehensive income (AOCI) | | - | 2 |
| Deficit | 6 | (174,465) | (176,458) |
| TOTAL EQUITY | | 25,174 | 22,861 |
| TOTAL LIABILITIES AND EQUITY | | 27,155 | 26,516 |

Commitments (Note 12)
See accompanying Notes.

**NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)**

| | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|--------------|-------------------------------|--------|-----------------------------|---------|
| | | 2017 | 2016 | 2017 | 2016 |
| <i>(Canadian dollars in thousands, except per share and share figures)</i> | <i>Notes</i> | \$ | \$ | \$ | \$ |
| REVENUE | | | | | |
| Product sales | 14 | 2,786 | 7,317 | 9,439 | 14,642 |
| Royalties | 14 | 176 | 134 | 398 | 443 |
| Contract and other revenue | 14 | 138 | 655 | 245 | 863 |
| Total revenue | | 3,100 | 8,106 | 10,082 | 15,948 |
| OPERATING EXPENSES | | | | | |
| Cost of goods sold | 3, 7, 9 | 1,451 | 3,159 | 4,223 | 6,294 |
| Research and development expenses | 7, 9 | 186 | 211 | 497 | 419 |
| General and administrative expenses | 7, 9 | 1,644 | 2,260 | 3,315 | 4,351 |
| Net interest income | | (34) | (22) | (72) | (78) |
| Total operating expenses | | 3,247 | 5,608 | 7,963 | 10,986 |
| OTHER EXPENSES (INCOME) | | | | | |
| Foreign currency loss | | 56 | 32 | 126 | 568 |
| Gain on asset disposal | | - | (25) | - | (25) |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | | (203) | 2,491 | 1,993 | 4,419 |
| NET LOSS FROM DISCONTINUED OPERATIONS | 11 | - | - | - | (3,180) |
| NET INCOME (LOSS) | | (203) | 2,491 | 1,993 | 1,239 |
| Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods | | | | | |
| Unrealized gains (losses) on translation of foreign operations | | (1) | 12 | (2) | 44 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | (204) | 2,503 | 1,991 | 1,283 |
| Net earnings (loss) from continuing operations per common share | | | | | |
| - basic | 8 | (0.02) | 0.22 | 0.17 | 0.39 |
| - diluted | 8 | (0.02) | 0.21 | 0.16 | 0.36 |
| Net loss from discontinued operations per common share | | | | | |
| - basic and diluted | 8 | - | - | - | (0.28) |
| Net earnings (loss) per common share | | | | | |
| - basic | 8 | (0.02) | 0.22 | 0.17 | 0.11 |
| - diluted | 8 | (0.02) | 0.21 | 0.16 | 0.08 |
| Average number of common shares outstanding (in thousands) | | | | | |
| - basic | 8 | 11,551 | 11,487 | 11,549 | 11,391 |
| - diluted | 8 | 11,551 | 11,762 | 11,733 | 11,693 |

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

| <i>(Canadian dollars in thousands, except for number of shares)</i> | Common Shares | | Contributed Surplus | AOCI | Deficit | Total |
|---|---------------|----------------|---------------------|-------------|------------------|---------------|
| | (000s) | \$ | \$ | \$ | \$ | \$ |
| | <i>Notes</i> | <i>6, 7</i> | <i>6, 7</i> | <i>6, 7</i> | <i>6</i> | |
| 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 gain on translation of foreign operations | - | - | - | 32 | - | 32 |
| Common shares issued under Deferred Share Unit 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 |
| Stock option compensation expense | - | - | 21 | - | - | 21 |
| Unrealized gain on translation of foreign operations | - | - | - | 12 | - | 12 |
| Net income | - | - | - | - | 2,491 | 2,491 |
| Balance, June 30, 2016 | 11,487 | 184,926 | 14,096 | (4) | (179,448) | 19,570 |
| Stock option compensation expense | - | - | 72 | - | - | 72 |
| Unrealized gain on translation of foreign operations | - | - | - | 6 | - | 6 |
| Stock options exercised | 53 | 293 | (106) | - | - | 187 |
| Employee contributions to Share Purchase Plan | 3 | 18 | - | - | - | 18 |
| Employer's portion of Share Purchase Plan | 3 | 18 | - | - | - | 18 |
| Net income | - | - | - | - | 2,990 | 2,990 |
| Balance, December 31, 2016 | 11,546 | 185,255 | 14,062 | 2 | (176,458) | 22,861 |
| Stock option compensation expense | - | - | 127 | - | - | 127 |
| Unrealized loss on translation of foreign operations | - | - | - | (1) | - | (1) |
| Stock options exercised | 5 | 11 | (4) | - | - | 7 |
| Net income | - | - | - | - | 2,196 | 2,196 |
| Balance, March 31, 2017 | 11,551 | 185,266 | 14,185 | 1 | (174,262) | 25,190 |
| Stock option compensation expense | - | - | 188 | - | - | 188 |
| Unrealized loss on translation of foreign operations | - | - | - | (1) | - | (1) |
| Net loss | - | - | - | - | (203) | (203) |
| Balance, June 30, 2017 | 11,551 | 185,266 | 14,373 | - | (174,465) | 25,174 |

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

| | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|--------------|-------------------------------|-----------|-----------------------------|-----------|
| | | 2017 | 2016 | 2017 | 2016 |
| <i>(Canadian dollars in thousands)</i> | | | | | |
| | Notes | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | | |
| Net income (loss) from continuing operations | | (203) | 2,491 | 1,993 | 4,419 |
| Net loss from discontinued operations | 11 | - | - | - | (3,180) |
| Items not involving current cash flows: | | | | | |
| Depreciation and amortization | 5, 9 | 58 | 55 | 112 | 121 |
| Equity-settled stock-based compensation | 7 | 188 | 21 | 315 | 1,758 |
| Unrealized foreign exchange loss | | 88 | 39 | 142 | 349 |
| Interest and accretion of long-term other obligations | | - | - | - | 7 |
| Other | | - | - | - | 3 |
| | | 131 | 2,606 | 2,562 | 3,477 |
| Net change in non-cash working capital | 10 | 2,177 | (520) | 917 | (958) |
| CASH PROVIDED BY OPERATING ACTIVITIES | | 2,308 | 2,086 | 3,479 | 2,519 |
| INVESTING ACTIVITIES | | | | | |
| Disposal (acquisition) of short-term investments | | - | - | 3,000 | (3,000) |
| Acquisition of property, plant and equipment | 5 | (812) | (164) | (915) | (239) |
| CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | | (812) | (164) | 2,085 | (3,239) |
| FINANCING ACTIVITIES | | | | | |
| Cash transferred to Crescita | 1 | - | - | - | (35,016) |
| Exercise of warrants | 6 | - | - | - | 158 |
| Repayment of capital lease and other obligations | | - | - | - | (53) |
| Exercise of stock options | | - | - | 7 | - |
| CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | | - | - | 7 | (34,911) |
| Effect of exchange rate changes on cash | | (99) | 14 | (146) | (96) |
| Net change in cash during the period | | 1,397 | 1,936 | 5,425 | (35,727) |
| Cash, beginning of period | | 13,617 | 11,017 | 9,589 | 48,680 |
| CASH, END OF PERIOD | | 15,014 | 12,953 | 15,014 | 12,953 |

See accompanying Notes.

Supplemental Cash Flow Information:

| | | | | |
|---------------------------------------|----|----|----|----|
| <i>Interest received</i> ¹ | 10 | 17 | 57 | 47 |
|---------------------------------------|----|----|----|----|

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

Total Cash and Short-term Investments

| | June 30, 2017 | June 30, 2016 |
|----------------------------------|---------------|---------------|
| | \$ | \$ |
| <i>Cash and cash equivalents</i> | 15,014 | 12,953 |
| <i>Short-term investments</i> | 5,000 | 3,000 |
| | 20,014 | 15,953 |

NUVO PHARMACEUTICALS™ INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. NATURE OF BUSINESS

Nuvo Pharmaceuticals Inc. (Nuvo or the Company) is a commercial healthcare company 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). The Company's registered office and principal place of business is located at 7560 Airport Road, Unit 10, Mississauga, Ontario, L4T 4H4.

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% and Pennsaid 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

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.

Nuvo Reorganization

On March 1, 2016, Nuvo completed a transaction (the Reorganization) pursuant to which Nuvo was reorganized into two separate publicly traded companies, Nuvo and Crescita Therapeutics Inc. (Crescita). The Reorganization proceeded by way of arrangement under the *Canada Business Corporations Act* (the Arrangement). Per the terms of the Arrangement, Nuvo transferred \$35.0 million to Crescita and changed its name from "Nuvo Research Inc." 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, is 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 and Crescita. Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Prior to the Reorganization, Crescita was a drug development business. The operations related to Crescita are accounted for as a discontinued operation (See Note 11, *Discontinued Operations*).

2. BASIS OF PREPARATION

Statement of Compliance

The Company prepares its Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 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, 2016, 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, 2016.

These Condensed Consolidated Interim Financial Statements were issued and effective as at August 9, 2017, the date the Board of Directors approved these Condensed Consolidated Interim Financial Statements.

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 its subsidiary as follows:

| | % Ownership |
|---------------------|--------------------|
| Dimethaid (UK) Ltd. | 100% |

The Company controls its subsidiary with the power to govern its financial and operating policies. All significant intercompany 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 applicable as at August 9, 2017.

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. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9), which will replace IAS 39 - *Financial Instruments* and all previous versions of IFRS 9. 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 annual 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 currently in the process of assessing its contracts, and based on progress to-date, the Company expects to complete this assessment by the third quarter of 2017.

IFRS 16 - Leases

In January 2016, the IASB 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 on or after January 1, 2019, with limited early application permitted. The Company is in the process of reviewing the standard to determine the impact on the annual Consolidated Financial Statements.

Amendments to IFRS 2 - Share-based Payments

In June 2016, the IASB issued amendments to IFRS 2 - *Share-based Payments* (IFRS 2), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently in the process of reviewing the standard to determine the impact on the annual 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 annual Consolidated Financial Statements.

3. INVENTORIES

Inventories consist of the following as at:

| | June 30, 2017 | December 31, 2016 |
|-----------------|---------------|-------------------|
| | \$ | \$ |
| Raw materials | 2,479 | 3,026 |
| Work in process | 51 | 75 |
| Finished goods | 360 | 716 |
| | 2,890 | 3,817 |

During the three and six months ended June 30, 2017, inventories in the amount of \$1.1 million and \$3.4 million were recognized as cost of goods sold [\$2.9 million and \$5.8 million for the three and six months ended June 30, 2016]. During the three and six months ended June 30, 2017 and 2016, there were no inventory write-downs and no reversals of prior period write-downs.

4. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

| | June 30, 2017 | December 31, 2016 |
|-------------------------|---------------|-------------------|
| | \$ | \$ |
| Deposits ⁽ⁱ⁾ | 803 | 995 |
| Prepaid expenses | 181 | 276 |
| Other receivables | 66 | 229 |
| | 1,050 | 1,500 |

(i) As at June 30, 2017, deposits included \$722 [December 31, 2016 - \$932] for deposits on production equipment.

5. PROPERTY, PLANT AND EQUIPMENT

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

| | Land | Buildings | Furniture & Fixtures | Computer Equipment & Software | Production, Laboratory & Other Equipment ⁽ⁱ⁾ | Total |
|---|-----------|--------------|-------------------------|-------------------------------------|--|--------------|
| Cost | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2016 | 42 | 1,433 | 60 | 162 | 3,133 | 4,830 |
| Additions | - | 24 | - | 17 | 874 | 915 |
| Disposals | - | - | - | - | (25) | (25) |
| Balance, June 30, 2017 | 42 | 1,457 | 60 | 179 | 3,982 | 5,720 |
| Accumulated depreciation | | | | | | |
| Balance, December 31, 2016 | - | 852 | 59 | 160 | 2,535 | 3,606 |
| Depreciation expense | - | 32 | 1 | 1 | 78 | 112 |
| Disposals | - | - | - | - | (25) | (25) |
| Balance, June 30, 2017 | - | 884 | 60 | 161 | 2,588 | 3,693 |
| Net book value as at December 31, 2016 | 42 | 581 | 1 | 2 | 598 | 1,224 |
| Net book value as at June 30, 2017 | 42 | 573 | - | 18 | 1,394 | 2,027 |

(i) Production, laboratory and other equipment as at June 30, 2017 included a cost of \$10 [December 31, 2016 - \$35] and accumulated depreciation of \$4 [December 31, 2016 - \$27] for assets under finance leases.

6. 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 was 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, 2016 to March 11, 2016.

As a result of the Arrangement, on March 1, 2016, 11,487,184 Nuvo common shares, with a stated capital of \$236.5 million, were cancelled and 11,487,184 Nuvo common shares, with a stated capital of \$184.9 million, were issued. The amount of Nuvo's net investment in Crescita at the effective date of the Arrangement of \$19.4 million was deducted from Nuvo's deficit and the unrealized income on translation of foreign operations transferred to Crescita in the amount of \$1.1 million was deducted from Nuvo's accumulated other comprehensive income.

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. 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 Toronto Stock Exchange (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 and 49,044 Private Placement Warrants, inclusive of 2,100 Private Placement Warrants that were issued on exercise of the Broker Warrants, were exercised for proceeds of \$0.2 million and 12,252 Private Placement Warrants expired.

7. 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.

Share Incentive Plan

Under the Company's Share Incentive Plan, there are three sub plans: (i) the Share Option Plan, (ii) the Share Purchase Plan, and (iii) the Share Bonus Plan. On May 11, 2017, 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 TSX requires that the Company's Share Incentive Plan, along with any unallocated options, rights or other entitlements, receive shareholder approval at the Company's annual meeting every three years.

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 June 30, 2017, the number of common shares available for issuance under the Share Incentive Plan was 556,273.

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.

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, 2016 | 849 | 1.53 - 12.70 | 5.01 |
| Granted | 314 | 5.75 | 5.75 |
| Exercised | (5) | 1.53 | 1.53 |
| Balance, March 31, 2017 | 1,158 | 1.53 - 12.70 | 5.22 |
| Granted | 22 | 4.45 | 4.45 |
| Expired | (4) | 12.70 | 12.70 |
| Balance, June 30, 2017 | 1,176 | 1.53 - 11.18 | 5.18 |

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, 2016 - 7.0%], and the remaining model inputs for options granted during the six months ended June 30, 2017 were:

| Options (000s) | Grant Date | Share Price \$ | Exercise Price \$ | Risk-free Interest Rate % | Expected Life (years) | Volatility Factor % | Fair Values \$ |
|-------------------|---------------|----------------------|-------------------------|------------------------------------|-----------------------------|---------------------------|-------------------|
| 314 | March 7, 2017 | 5.75 | 5.75 | 1.02 - 1.42 | 5 - 7 | 67 - 71 | 3.28 - 3.66 |
| 22 | May 19, 2017 | 4.45 | 4.45 | 0.94 - 1.27 | 5 - 6 | 66 - 70 | 2.46 - 2.76 |

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at June 30, 2017:

| Exercise Price Range \$ | Outstanding | | | Exercisable | |
|-------------------------------|--------------------------------|--|---|-----------------------------|---|
| | Number of Options (000s) | Remaining Contractual Life (years) | Weighted Average Exercise Price \$ | Vested Options (000s) | Weighted Average Exercise Price \$ |
| 1.53 - 4.45 | 328 | 6.5 | 2.83 | 269 | 2.74 |
| 5.08 - 5.75 | 622 | 8.3 | 5.52 | 196 | 5.22 |
| 6.35 - 11.18 | 226 | 0.9 | 7.68 | 226 | 7.68 |
| | 1,176 | 6.4 | 5.18 | 691 | 5.02 |

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 shares on the 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 the 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.

The fair values of each tranche issued and outstanding in the period were measured as at June 30, 2017 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 \$ |
|----------------|-----------------|-------------------------|---------------------------------|--------------------------|---------------------------|-------------------|
| 67 | April 4, 2014 | 2.65 | 0.69 | 1 | 36 | 1.67 |
| 104 | January 7, 2015 | 5.63 | 0.69 | 1 – 2 | 36 – 41 | 0.10 – 0.46 |

The following table summarizes the outstanding SARs and related accrual as at June 30, 2017:

| | Number of SARs 000s | Fair Values \$ | Accrual \$ |
|--------------------------------|---------------------------|----------------------|---------------|
| Balance, December 31, 2016 | 417 | 0.02 – 4.21 | 1,031 |
| Vested | (246) | 0.02 – 4.21 | (738) |
| Adjustment to market value | - | - | (41) |
| Balance, March 31, 2017 | 171 | 0.63 – 2.91 | 252 |
| Adjustment to market value | - | - | (123) |
| Balance, June 30, 2017 | 171 | 0.10 – 1.67 | 129 |

Deferred Share Unit Plan

Under the DSU Plan, non-employee directors could allot and elect to receive a portion of their annual retainers and other Board-related compensation in the form of DSUs. One DSU had 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 was determined using the five-day VWAP of the Company's common shares immediately preceding the payment date.

Under the employee DSU Plan, employees could elect to have a portion of their quarterly earnings issued in units of the DSU Plan. Consistent with non-employee directors, one DSU had 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 was 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 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 was adjusted to the market value of the underlying shares and the adjustment was recorded as compensation expense.

Upon execution of the Reorganization on March 1, 2016, all outstanding DSUs for directors and employees were settled in shares of Nuvo net of the cash tax obligation that was paid by Nuvo. Nuvo settled the DSU Plan by issuing 288,226 common shares to settle 451,111 outstanding DSUs. The shares issued were restricted from trading for twelve months. The common shares were issued net of the cash tax obligation that was payable by the Company. The DSU Plan for employees was terminated March 1, 2016. There was no DSU accrual as at June 30, 2017 [June 30, 2016 - \$nil].

Summary of Stock-based Compensation

Stock-based compensation from continuing operations is as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|------------|-----------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Stock option compensation expense under the Share Option Plan | 188 | 21 | 315 | 130 |
| DSUs – issued for settlement of directors' fees | - | - | - | 120 |
| DSUs – adjustment to market value | - | - | - | 384 |
| SARs compensation expense | (123) | 631 | (164) | 1,077 |
| Stock-based compensation expense⁽ⁱ⁾ | 65 | 652 | 151 | 1,711 |

Recorded in the Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) as follows:

| | | | | |
|-------------------------------------|-----------|------------|------------|--------------|
| Cost of goods sold | 8 | 1 | 13 | 2 |
| Research and development expenses | - | - | - | 12 |
| General and administrative expenses | 57 | 651 | 138 | 1,697 |
| | 65 | 652 | 151 | 1,711 |

(i) During the three and six months ended June 30, 2017, the Company's discontinued operations included \$nil and \$nil of stock-based compensation [\$nil and \$288 for the three and six months ended June 30, 2016].

8. NET EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per share is computed as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|---------------|-----------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| <i>(Canadian dollars in thousands, except per share and share figures)</i> | | | | |
| Basic earnings (loss) per share: | | | | |
| Net income (loss) | (203) | 2,491 | 1,993 | 1,239 |
| Average number of shares outstanding during the period | 11,551 | 11,487 | 11,549 | 11,391 |
| Basic earnings (loss) per share | (0.02) | 0.22 | 0.17 | 0.11 |
| Basic earnings (loss) per share from continuing operations | (0.02) | 0.22 | 0.17 | 0.39 |
| Basic loss per share from discontinued operations | - | - | - | (0.28) |
| Net income (loss), assuming dilution | (203) | 2,491 | 1,911 | 991 |
| Net income (loss) from continuing operations, assuming dilution | (203) | 2,491 | 1,911 | 4,171 |
| Average number of shares outstanding during the period | 11,551 | 11,487 | 11,549 | 11,391 |
| Dilutive effect of: | | | | |
| Stock options | - | 275 | 151 | 263 |
| SARs | - | - | 33 | - |
| Warrants | - | - | - | 1 |
| DSUs | - | - | - | 38 |
| Weighted average common shares outstanding, assuming dilution | 11,551 | 11,762 | 11,733 | 11,693 |
| Diluted earnings (loss) per share | (0.02) | 0.21 | 0.16 | 0.08 |
| Diluted earnings per share from continuing operations | (0.02) | 0.21 | 0.16 | 0.36 |
| Diluted loss per share from discontinued operations | - | - | - | (0.28) |

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:

| | June 30, 2017 000s | June 30, 2016 000s |
|--------------------------------------|-----------------------|-----------------------|
| Common shares issued and outstanding | 11,551 | 11,487 |
| Stock options outstanding (Note 7) | 1,176 | 956 |
| SARs outstanding (Note 7) | 171 | 495 |
| | 12,898 | 12,938 |

9. EXPENSES BY NATURE

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

(a) Employee costs from continuing operations:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------------|-----------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Short-term employee wages, bonuses and benefits | 1,239 | 1,539 | 2,823 | 3,414 |
| Share-based payments | 32 | 649 | 88 | 1,334 |
| Total employee costs | 1,271 | 2,188 | 2,911 | 4,748 |
| Included in: | | | | |
| Cost of goods sold | 691 | 1,036 | 1,620 | 2,066 |
| Research and development expenses | - | - | - | 25 |
| General and administrative expenses | 580 | 1,152 | 1,291 | 2,657 |
| Total employee costs | 1,271 | 2,188 | 2,911 | 4,748 |

(b) Depreciation and amortization from continuing operations:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Cost of goods sold | 58 | 50 | 112 | 96 |
| Research and development expenses | - | 5 | - | 17 |
| Total depreciation and amortization⁽ⁱ⁾ | 58 | 55 | 112 | 113 |

⁽ⁱ⁾ During the three and six months ended June 30, 2017, the Company's discontinued operations included \$nil and \$nil of depreciation expense [\$nil and \$8 for the three and six months ended June 30, 2016].

10. NET CHANGE IN NON-CASH WORKING CAPITAL

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-------|-----------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Accounts receivable | 1,882 | (181) | 1,219 | 1,631 |
| Inventories | 349 | (509) | 927 | (991) |
| Other current assets | 266 | (146) | 450 | 44 |
| Accounts payable and accrued liabilities | (320) | 316 | (1,679) | (1,642) |
| Net change in non-cash working capital | 2,177 | (520) | 917 | (958) |

11. DISCONTINUED OPERATIONS

On March 1, 2016, the Company completed the Reorganization of Nuvo into two separate publicly traded companies, Nuvo and Crescita, each initially owned 100% by Nuvo's shareholders. 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 Note 14, *Segmented Information*.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|------|-----------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| <i>(In thousands, except per share figures)</i> | \$ | \$ | \$ | \$ |
| REVENUE | | | | |
| Product sales | - | - | - | 45 |
| Royalties | - | - | - | 14 |
| Total revenue | - | - | - | 59 |
| OPERATING EXPENSES | | | | |
| Cost of goods sold | - | - | - | 96 |
| Research and development expenses | - | - | - | 648 |
| General and administrative expenses | - | - | - | 2,498 |
| Interest expense | - | - | - | 5 |
| Total operating expenses | - | - | - | 3,247 |
| OTHER EXPENSE (INCOME) | | | | |
| Foreign currency loss (gain) | - | - | - | (8) |
| NET LOSS FROM DISCONTINUED OPERATIONS | - | - | - | (3,180) |
| Net loss from discontinued operations per common share | | | | |
| - basic and diluted | - | - | - | (0.28) |
| Average number of common shares outstanding | | | | |
| - basic and diluted | - | - | - | 11,391 |

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---------------------------------------|-------------------------------|------|-----------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Cash used in operating activities | - | - | - | (5,203) |
| Cash provided by investing activities | - | - | - | 4,801 |
| Cash provided by financing activities | - | - | - | 34,963 |
| Net cash inflow/outflow | - | - | - | 34,561 |

12. COMMITMENTS

The Company has commitments under research and other service contracts and minimum future rental payments under operating leases for the twelve months ending June 30 as follows:

| | Research & Other Service Contracts | Operating Leases | Purchase Commitments ⁽ⁱ⁾ | Total |
|---------------------|---------------------------------------|---------------------|--|--------------|
| | \$ | \$ | \$ | \$ |
| 2018 | 66 | 173 | 1,385 | 1,624 |
| 2019 | - | 145 | - | 145 |
| 2020 and thereafter | - | 677 | - | 677 |
| | 66 | 995 | 1,385 | 2,446 |

⁽ⁱ⁾ The Company has committed to \$1.4 million of capital investments for its manufacturing facility.

For the three and six months ended June 30, 2017, payments under operating leases totalled \$71 and \$71 [\$3 and \$35 for the three and six months ended June 30, 2016].

Under the terms of the Pennsaid 2% U.S. Asset Sale with Horizon, Nuvo is contractually obligated to manufacture Pennsaid 2% for the U.S. market to December 2029 and, unless terminated, the supply agreement will renew for successive two-year terms, thereafter. The agreement provides for tiered pricing based on volumes of product shipped. The Company is also required to maintain certain raw material inventory levels.

The Company has additional long-term supply contracts where the Company is contractually obligated to manufacture Pennsaid 2% and Pennsaid for its customers.

The Company has a long-term supply agreement with a third-party manufacturer for the supply of dimethyl sulfoxide, one of its key raw materials in Pennsaid 2% and Pennsaid, which expires in December 2022. The agreement automatically renews for successive three-year terms, unless terminated in writing by either party at least 12 months prior to the expiration of the current term. The agreement requires the Company to purchase 100% of its dimethyl sulfoxide requirements from the third party at specified pricing, but does not contain any minimum purchase commitments.

Under certain licensing agreements, the Company is required to make royalty payments to two companies for a combined 2.5% of annual net sales of the HLT Patch.

13. 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 and six months ended June 30, 2017.

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 2 assets include guaranteed investment certificates held by the Company that are valued at fair value and the fair value approximates the carrying value due to the short-term nature.

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 7, *Stock-based Compensation and Other Stock-based Payments*. 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 \$0.1 million for SARs as at June 30, 2017 [December 31, 2016 - \$1.0 million].

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 risk, credit risk and market risk 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 \$15.0 million in cash and \$5.0 million in short-term investments as at June 30, 2017, it is dependent on a single customer for substantially all of its revenue. During the three months ended June 30, 2017, the Company earned 85% [June 30, 2016 - 95%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. 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 diversify 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 \$3.6 million that are due in less than a year and \$0.8 million of contractual obligations that are payable from 2019 to 2020.

Credit Risk

The Company's cash and short-term investments subject the Company to a concentration of credit risk. As at June 30, 2017, the Company had \$15.0 million invested with two financial institutions in various bank accounts. These financial institutions are major Canadian banks, which the Company believes lessens the degree of credit risk. Additionally, the Company maintains \$5.0 million in short-term investments with a creditworthy Canadian insurance company.

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 June 30, 2017, the Company's largest customer represented 58% [December 31, 2016 - 73%] of accounts receivable.

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

| | June 30, 2017 | December 31, 2016 |
|-----------------------|---------------|-------------------|
| | \$ | \$ |
| Current | 914 | 2,159 |
| 0 - 30 days past due | 260 | 11 |
| 31 - 60 days past due | - | 216 |
| | 1,174 | 2,386 |

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 | |
|--|-----------------------|---------------------------|------------------------|----------------------------|
| | June 30, 2017 € | December 31, 2016 € | June 30, 2017 \$ | December 31, 2016 \$ |
| Cash | 352 | 242 | 3,574 | 3,929 |
| Accounts receivable | - | - | 779 | 1,636 |
| Other current assets | - | - | 361 | - |
| Accounts payable and accrued liabilities | (16) | (305) | (300) | (289) |
| | 336 | (63) | 4,414 | 5,276 |

Based on the aforementioned net exposure as at June 30, 2017, 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 \$0.6 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$50 on total comprehensive income (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 2%, Pennsaid 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. expenditures 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.

14. 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 Topical Products and Technology 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 pending 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 June 30 | | Six Months Ended June 30 | |
|---------------|-------------------------------|--------------|-----------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| United States | 2,572 | 7,688 | 8,983 | 15,111 |
| Europe | 437 | 242 | 892 | 524 |
| Canada | 91 | 176 | 194 | 313 |
| Other | - | - | 13 | - |
| | 3,100 | 8,106 | 10,082 | 15,948 |

As at June 30, 2017, all of the Company's PP&E was located in Canada.

Significant Customers

For the three months ended June 30, 2017, the Company's four largest customers generating product sales represented 99% [June 30, 2016 - 98%] of total product sales and the Company's largest customer represented 85% [June 30, 2016 - 95%] of total product sales.

15. RELATED PARTY TRANSACTIONS

Crescita Therapeutics Inc.

Subsequent to the Reorganization, Nuvo and Crescita were 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 provided Crescita corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provided Nuvo corporate-level employee services, research and development and legal support and facility and equipment rental.

As a result of the restructuring of key management personnel, Nuvo and Crescita are no longer related parties.

For the three and six months ended June 30, 2016, services provided to Crescita were \$0.1 million and \$0.2 million and services received from Crescita were \$0.1 million and \$0.1 million.