Nuvo Pharmaceuticals Inc. First Quarter Report 2018

Dear Nuvo Shareholders,

During the first quarter of 2018, we made significant progress in executing on the growth strategy we have been highlighting over the past few quarters. Notably, we completed a global product acquisition and established definitive next steps towards a European submission for Pennsaid® 2%. It is also important to note that as of January 1, 2018, Nuvo adopted the new IFRS 15 - Revenue Recognition and IFRS 9 - Financial Instruments accounting standards, resulting in changes to the timing of our revenue recognition and expanded disclosures in our financial statements.

Nuvo is focused on targeting two main areas for growth. First is the growth of our revenue streams by expanding the geographies where existing Nuvo products are commercialized around the world. The second is the growth of our product portfolio through disciplined product in-licensing and acquisition transactions. During the first quarter, the Nuvo team made significant advances in both areas.

In our 2017 Annual Report, we noted that Nuvo management would be holding scientific advice meetings with select European Union (E.U.) regulatory agencies to discuss a potential pathway toward Pennsaid 2% regulatory submissions in select E.U. countries. We recently presented a meta-analysis of the existing clinical data supporting Pennsaid and Pennsaid 2% in safely treating osteoarthritis to these E.U.-based regulatory agencies. There was a favourable response from the regulators and appears to be an opportunity for Nuvo to submit a revised registration dossier containing our existing clinical data to select E.U. member states, without an additional costly and lengthy Phase 3 Clinical Trial. This is clearly a step in the right direction toward potential Pennsaid 2% registration in Europe. With this positive feedback, we are preparing to file our new, revised registration dossier to these E.U. regulators within the next twelve months. Through the course of developing Pennsaid and Pennsaid 2%, Nuvo, or our partners, have completed more than 20 clinical trials and 10 non-clinical studies for Pennsaid and Pennsaid 2% and their key ingredients. A significant portion of this clinical and non-clinical evidence was generated after our original E.U. Pennsaid approval in 2000. This newer clinical and non-clinical data was primarily generated to support our Pennsaid and Pennsaid 2% U.S. approvals obtained in 2009 and 2014 respectively. Assembling and consolidating this new information and the significant post-market safety data that has been generated since the original 2000 U.K approval of Pennsaid into a reviewable regulatory dossier is a tremendous undertaking. Fortunately, we have an experienced and expert team of internal employees and external advisors who are currently working diligently on this important project.

While there is no guarantee that an approval will be granted, we are encouraged by the discussions we have had with the regulators to-date and feel this is an important step in the right direction toward expanding the global footprint for Pennsaid 2%. Furthermore, we believe having a clear path to a regulatory submission in Europe will benefit our partnering discussions with both E.U. and ex-E. U. based pharmaceutical companies. As the year progresses, we will provide updates on our anticipated timelines and partnering transactions.

In January, we announced the acquisition of the global rights to Resultz®, a best-in-class, pesticide free head lice treatment, including related intellectual property and established royalty streams. This transaction was in line with our strategy to diversify our product portfolio and revenue streams. We believe a considerable opportunity exists to partner Resultz in the U.S., Germany and Italy - three markets where we have current regulatory agency approvals and are actively seeking commercial partners. The retail value of the head lice market in these three countries alone is greater than US$300 million annually. Our main focus in 2018 is to engage a commercial partner (or partners) for these territories and execute

licensing transactions. Our expectation is to receive upfront and milestone payments, royalties on net sales and to realize gross margin on finished product supply. We are in active discussions with a variety of consumer healthcare and pharmaceutical companies that are interested in Resultz for various territories globally including the U.S., Germany and Italy. Identifying the right partner, allowing them to complete an appropriate market assessment and diligence review, negotiating financial terms of a transaction and ultimately finalizing a definitive license agreement takes a substantial amount of time and human capital. More importantly, we need to ensure that we identify the right partner that will put the resources and support behind Resultz to ensure a successful commercial launch in the U.S. and other key unpartnered territories. Nuvo's partnering history has shown the impact that a strong (or weak) partner can have on the commercial success of a product. While we are actively engaged in discussions with potential partners, we are taking a disciplined approach to ensure we execute the best deal, with the right partner for Resultz.

Our business development team continues to seek product acquisition and licensing opportunities, as well as more transformative transactions. We are balancing acquisition activities with our Resultz and Pennsaid 2% out-licensing initiatives and filing our E.U. regulatory submission for Pennsaid 2%. Business development is a constantly evolving process and we currently have a variety of opportunities under evaluation. We are constantly reviewing all our projects and opportunities to ensure we are prioritizing those that have the greatest potential to enhance shareholder value.

We put a Normal Course Issuer Bid (NCIB) program in place in Q4 2017 that allows Nuvo to buy back its common shares in the open market. Nuvo is an 'insider" for the purposes of trading in Nuvo stock. Due to internal insider trading blackouts in effect because of the Resultz transactions and routine quarter-end insider trading restrictions, we were not in a position through Q1 to make any share purchases. After the end of Q1, when our trading restrictions were lifted, we had a small window in April to make share purchases. During that period, we repurchased 164,049 common shares with available cash on hand for a total cost of $547,930 or $3.34 per share. The common shares acquired by Nuvo were cancelled upon purchase. We will continue to evaluate opportunities to utilize the NCIB program moving forward. Additional details on our share repurchases are available on the SEDI database.

We anticipate 2018 will be a turning point in our business. In 2017, Horizon Pharma (Horizon), our U.S. distribution partner for Pennsaid 2% ordered significantly less Pennsaid 2% from us than they did in 2016. This was due to a number of factors including Horizon inventory reductions and our plant shutdown in Q2 and Q3 2017 to install U.S. Food and Drug Administration (FDA) mandated serialization equipment. In 2017, Horizon faced increased managed care challenges, which lead to portfolio-wide changes in their inventory management, a reduction in the number of sales representatives and an approximately 50% decrease in their physician sample purchases.

We anticipate that the 2018 Pennsaid 2% business should remain relatively steady and accordingly, we expect that our commercial bottle production for Horizon will stabilize through the year. Horizon's decision to reduce distribution of physician samples resulted in a buildup of its sample inventory that we believe has largely been worked through. We therefore anticipate that our production of product samples will return in the second half of the year. Furthermore, the addition of our newly acquired Resultz royalty stream, which contributed approximately $0.6 million to our revenue for Q1, should also show more robust numbers later in the year as we get closer to the traditional late summer/early fall lice season.

As communicated in my last shareholder letter, we anticipated a number of one-time Resultz transaction-related expenses throughout the year and we recognized some of these expenses in Q1. In addition, amortization of the Resultz patents has resulted in significantly higher non-cash depreciation expenses in the first quarter that will continue over the remaining life of the underlying patents. Even considering these items, our Q1 results demonstrate that Nuvo continues to be a cash-flow generating company with positive adjusted EBITDA.

I will close this letter by extending a sincere thank you to our shareholders for your continued support and patience. At the end of the day, the Nuvo business continues to be supported by clinically proven, patent-protected products, strong commercial partners, experienced management, an FDA approved manufacturing facility with spare capacity and an excellent compliance record, as well as a clean balance sheet with no debt and cash – all the hallmarks of a well-positioned commercial healthcare company ready to move into the next phase of its growth plans.

Sincerely,

Jesse Ledger
President & CEO

Management's Discussion and Analysis (MD&A)

May 9, 2018 / 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 months ended March 31, 2018 which were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 – Interim Financial Reporting. Additional information about the Company, including the Consolidated Financial Statements and 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 22, 2018 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, global, commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Nuvo has four commercial products that are available in a number of countries: Pennsaid® 2%, Pennsaid, Resultz® and the heated lidocaine/tetracaine patch (HLT Patch). Nuvo manufactures Pennsaid 2% for the U.S. market, Pennsaid for the global market and the bulk drug product for the HLT Patch at its U.S. Food and Drug Administration (FDA), Health Canada and E.U. approved manufacturing facility in Varennes, Québec.

As at March 31, 2018, the Company employed a total of 50 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 maximize the value of Pennsaid 2% and Resultz through out-licensing to commercial partners in international markets, identifying new opportunities to acquire additional, revenue generating or 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.

Significant Transactions

2018

Acquisition of U.S. Rights to Resultz

In January 2018, the Company's wholly owned subsidiary, Nuvo Pharmaceuticals (Ireland) Limited (Nuvo Ireland) acquired the U.S. product and intellectual property (IP) rights to Resultz (50% isopropyl myristate, 50% cyclomethicone D5 topical solution lice and egg removal kit) from Piedmont Pharmaceuticals LLC (Piedmont). Resultz was cleared as a Class 1 medical device by the FDA in May 2017 and has not yet been commercially launched in the U.S. Nuvo anticipates commercializing Resultz in the U.S. through a licensing partner and is in active discussions with potential licensees. Under the terms of the agreement, US$1.5 million ($1.9 million) was paid to Piedmont. The transaction included a single-digit royalty payable to Piedmont on net sales through 2034. Nuvo, through its Nuvo Ireland subsidiary, has also obtained a right of first refusal to license or acquire certain related assets from Piedmont targeting other human indications.

2017

Acquisition of Global, ex-U.S. Rights to Resultz

In December 2017, the Company acquired the global, ex-U.S. product and IP rights to Resultz from Piedmont. The transaction included existing royalty streams in France, Spain, Portugal, Belgium, Ireland and the United Kingdom, Canada, Russia, Australia and Israel (collectively the Royalty Markets), generated from a network of existing global licensees and license agreements that were assumed by Nuvo. Current global licensees include Reckitt Benckiser (Brands) Limited (Reckitt Benckiser), Aralez Pharmaceuticals Inc. (Aralez), Lapidot Pharmaceuticals Ltd. (Lapidot) and Takeda Belgium SCA/CVA (Takeda). Resultz is also pending registration in Japan, where the local license is held by Sato Pharmaceutical Co. Ltd. Resultz is protected by a portfolio of 40 issued patents globally. Resultz is currently approved for sale under its European Conformity (CE) mark as a class 1 medical device, but not yet partnered or generating revenue in all remaining E.U. territories. Under the terms of the agreement, Nuvo paid US$7.0 million ($8.8 million) on close to Piedmont. The transaction also included a single-digit royalty payable to Piedmont on net sales generated from non-Royalty Markets through 2023 and potential future consideration in the form of payments for achieving certain aggregate annual net sales-based milestones.

Pennsaid 2% Out-licensing

In December 2017, the Company entered into a license and distribution agreement with Gebro Pharma AG (Gebro Pharma) for the exclusive right to register, distribute, market and sell Pennsaid 2% in Switzerland and Liechtenstein. The Company is eligible to receive milestone payments and royalties on net sales of Pennsaid 2% in Switzerland and Liechtenstein and will earn product revenue from Gebro Pharma pursuant to an exclusive supply agreement from its manufacturing facility in Varennes, Québec.

In March 2017, the Company entered into 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. 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 Therapeutics on an exclusive basis from its manufacturing facility.

Key Developments

Key developments for the Company during the three months ended March 31, 2018, and up to the date of this MD&A, include the following:

- In January 2018, the Company's wholly owned subsidiary, Nuvo Pharmaceuticals (Ireland) Limited (Nuvo Ireland) acquired the U.S. product and intellectual property rights to Resultz from Piedmont Pharmaceuticals LLC (Piedmont). Resultz was cleared as a Class 1 medical device by the U.S. Food and

Drug Administration (FDA) in May 2017 and has not yet been commercially launched in the U.S. Nuvo anticipates commercializing Resultz in the U.S. through a licensing partner and is in active discussions with potential licensees.

- In March 2018, the Company held scientific advice meetings with select European Union (E.U.) regulatory agencies regarding a potential Pennsaid 2% regulatory submission for osteoarthritis and is planning on submitting its Pennsaid 2% regulatory dossier in select E.U. member countries within the next twelve months.

- In April 2018, pursuant to the Company's notice of intention to make a normal course issuer bid for a portion of its outstanding common shares, the Company purchased 164,049 common shares with available cash on hand for a total cost of $547,930 or $3.34 per share. The common shares acquired by Nuvo were cancelled upon purchase.

Commercial Products

Resultz

Resultz is a commercial-stage, over-the-counter (OTC) product intended to kill head lice and remove eggs from hair with as little as a 5-minute treatment. It is a pesticide-free, topical solution that contains two common cosmetic ingredients - 50% isopropyl myristate and 50% cyclomethicone D5. It is clinically proven to achieve 100% effectiveness when used as directed.

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

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Resultz	Treatment of Head Lice	Aralez Pharmaceuticals Inc.	Canada	Two patents granted in Canada expiring in 2023.
		Takeda Belgium SCA/CVA	Belgium	Two patents granted in Belgium expiring in 2023.
		Reckitt Benckiser (Brands) Limited	United Kingdom, Ireland, France, Spain, Russia, Belarus, Portugal, Australia	Two patents granted in each of the United Kingdom, Ireland, France, Spain, Portugal, and Australia expiring in 2023.
		Lapidot Pharmaceuticals Ltd.	Palestine, Israel	
		Sato Pharmaceutical Co., Ltd.[(1)]	Japan	

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

Pennsaid 2%

Pennsaid 2% is a follow-on product to original Pennsaid. Pennsaid 2% is a topical pain product that combines a dimethyl sulfoxide (DMSO) based transdermal carrier with 2% diclofenac sodium, a leading nonsteroidal anti-inflammatory drug (NSAID), compared to 1.5% for original Pennsaid (described below). 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 potential 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	Two patents granted in Russia with latest expiring in 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.
		Gebro Pharma AG[3]	Switzerland and Liechtenstein	One patent granted in Switzerland expiring in 2027. Pending patent applications in Europe through 2033.

(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 (See "Pennsaid 2% - Russia").
(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 (October 2014 Pennsaid 2% U.S. Sale Agreement). 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% physician 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 physician sample shipped to Horizon pursuant to its long-term, exclusive supply agreement with Horizon. Nuvo's transfer price for Pennsaid 2% commercial bottles and physician 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.

For several weeks during 2017, Nuvo's manufacturing facility in Varennes, Québec did not produce any commercial bottles of Pennsaid 2% for Horizon. This was part of a plan developed with Horizon to install new Pennsaid 2% packaging equipment and software systems. The new equipment was required to put Nuvo and Horizon in compliance with new Federal Drug Supply Chain Security Act (DSCSA) rules that mandate 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. The Company completed its qualification and was fully compliant with the DSCSA rules during the fourth quarter of 2017.

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 ongoing discussions with NovaMedica regarding its commercialization plans for Pennsaid 2%. The approval of Pennsaid 2% in Russia as a non-prescription product, combined with the continued devaluation of the Ruble and the changing economic and competitive environment in Russia have made conditions for a successful commercial launch of Pennsaid 2% by NovaMedica difficult. NovaMedica has advised the

Company that it may not be in a position to commercially launch Pennsaid 2% in Russia as a result of these challenging market conditions without the participation of a commercial partner. The Company and NovaMedica are in discussions regarding potential pathways forward which may include, but are not limited to, partnering Pennsaid 2% with NovaMedica and another third-party in Russia and/or termination of the existing license agreement between the Company and NovaMedica and a return of marketing authorization rights to the Company.

Pennsaid 2% - Unlicensed Territories

The following table summarizes IP for unlicensed Pennsaid 2% territories:

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

Nuvo management recently held scientific advice meetings with select European Union (E.U.) regulatory agencies to discuss a potential pathway toward Pennsaid 2% regulatory submissions in select E.U. countries. There was a favourable response from the regulators and appears to be an opportunity for Nuvo to submit a revised registration dossier containing existing clinical data to select E.U. member states, without an additional costly and lengthy Phase 3 Clinical Trial. With this positive feedback, the Company is preparing to file a new, revised registration dossier to support an application for marketing approval in these E.U. regulators within twelve months. While there is no guarantee that an approval will be granted, the Company is encouraged by the discussions with the regulators to-date and feels this is an important step in the right direction toward expanding the global footprint for Pennsaid 2%. Furthermore, the Company believes having a clear path to a regulatory submission in Europe will benefit our partnering discussions with both E.U. and ex-E. U. based pharmaceutical companies.

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 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 ($p=0.0154$).

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.

Pennsaid

Pennsaid, the Company's first commercial topical pain product, is used to treat the signs and symptoms of OA of the knee. Pennsaid is a combination of a DMSO-based transdermal carrier and 1.5% diclofenac sodium 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[(1)]	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[(1)]		Eurocept B.V.	Europe, Russia[(2)], Turkey[(2)], Israel[(2)] and People's Republic of China[(2)]	Granted European patent expiring in 2019.

(1) Synera and Rapydan are the brand names for the HLT Patch in their respective jurisdiction.
(2) Partner is responsible for obtaining regulatory approval in licensed territory.

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.

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.

Product Pipeline

Foam Technology
The Company owns two U.S. patents with the latest patent expiring November 22, 2031 and pending applications in Canada (allowed), Europe and the U.S. covering DMSO-based foamable formulations. The purchase agreement relating to the Foam Technology also included 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 the applicable patent term provided the out-licensed products continue to be covered by a valid claim.

The Company is evaluating opportunities to extend its commercial product pipeline using the Foam Technology.

Selected Financial Information

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands, except per share data	**$**	$
Operations		
Product sales	**3,755**	6,653
License revenue	**640**	222
Contract revenue	**36**	107
Total revenue	**4,431**	6,982
Total operating expenses	**4,849**	4,716
Other expenses	**(75)**	70
Income (loss) before income taxes	**(343)**	2,196
Income tax recovery	**(174)**	-
Net income (loss)	**(169)**	2,196
Other comprehensive income (loss)	**585**	(1)
Total comprehensive income	**416**	2,195
Share Information		
Net income (loss) per common share		
- basic	**(0.01)**	0.19
- diluted	**(0.01)**	0.19
Average number of common shares outstanding		
- basic	**11,575**	11,547
- diluted	**11,575**	11,760

Financial Position	**As at March 31, 2018**	As at December 31, 2017
Cash and cash equivalents	**$ 4,502**	$ 8,398
Short-term investments	**2,000**	2,000
Total assets	**31,475**	29,918
Other obligations, including current portion	**1,764**	1,633
Total liabilities	**4,345**	4,767
Total equity	**27,130**	25,151

Adoption of IFRS 15, Revenue from Contracts with Customers
The Company has adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) with a date of initial application of January 1, 2018. The Company applied IFRS 15 using the modified retrospective approach, which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the

opening balance of equity as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 - *Revenue*. The details of the significant changes and quantitative impact of the changes are outlined in Note 3, *"Changes in Accounting Policies"*, in the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018.

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 (loss) determined in accordance with IFRS, before depreciation and amortization, net interest income and income tax expense (recovery). 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, milestones and other payments made or received pursuant to current and future licensing arrangements and fluctuations in foreign exchange rates.

During the quarter ended March 31, 2018, the Company earned 78% [March 31, 2017 - 92%] of its product revenue from a single customer, Horizon. The Company earns product revenue from the sale of Pennsaid 2% commercial bottles and physician samples to Horizon pursuant to a long-term, exclusive supply agreement. 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.

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

Results of Operations

Product Sales

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands		$
Pennsaid 2%	**2,927**	6,101
Pennsaid	**783**	454
HLT bulk	**45**	98
Total product sales	**3,755**	6,653

Product sales, which represent the Company's sales to our licensees and distributors, were $3.8 million for the three months ended March 31, 2018 compared to $6.7 million for the three months ended March 31, 2017.

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 Horizon's management strategies and inventory levels, as well as U.S. market demand for commercial product.

Pennsaid 2% product sales were $2.9 million for the three months ended March 31, 2018 compared to $6.1 million for the three months ended March 31, 2017. In the current quarter, product sales included $2.9 million of the commercial format. In the comparative quarter, product sales included $3.4 million of the commercial format and $2.7 million of the physician sample format. During the current quarter, there were no sales of the physician sample format to Horizon, as the Company was in the final stages of testing its new physician sample production equipment. The new physician sample production equipment is now fully operational and the Company expects to recognize revenue from the physician sample format in the second half of 2018.

Pennsaid
Product sales of Pennsaid were $0.8 million for the three months ended March 31, 2018 compared to $0.5 million for the three months ended March 31, 2017. Geographically for the three months ended March 31, 2018 and 2017, 100% of the sales in the E.U. were Pennsaid product sales.

HLT Bulk
HLT Bulk sales were $45,000 for the three months ended March 31, 2018 compared to sales of $0.1 million for the three months ended March 31, 2017. Sales related to the bulk drug product that is used in manufacturing the HLT Patch for both the U.S. and E.U. markets. The bulk drug product 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 March 31, 2018	Three Months ended March 31, 2017
in thousands, except percentages	**$**	$
Four largest customers	**3,690**	6,631
% of total product sales	**98%**	100%
Largest customer as % of total product sales	**78%**	92%

Other Revenue

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands	**$**	$
License revenue	**640**	222
Contract revenue	**36**	107
Total other revenue	**676**	329

License and contract revenue totalled $0.7 million for the three months ended March 31, 2018 compared to $0.3 million for the three months ended March 31, 2017. The Company receives license revenue from Resultz, Pennsaid and the HLT Patch. Contract revenue is mainly derived from development services provided by the Company to its partners.

License revenue has been impacted by the adoption of IFRS 15. See Note 3, *Changes in Accounting Policies,* in the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018, for details of the significant changes and quantitative impact of the changes.

Operating Expenses

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands	**$**	$
Cost of goods sold	**1,922**	2,772
Research and development expenses	**1**	311
General and administrative expenses	**2,418**	1,671
Depreciation and amortization	**529**	-
Net interest income	**(21)**	(38)
Total operating expenses	**4,849**	4,716

Total operating expenses for the three months ended March 31, 2018 were $4.8 million compared to $4.7 million for the three months ended March 31, 2017.

Cost of Goods Sold
COGS for the three months ended March 31, 2018 was $1.9 million compared to $2.8 million for the three months ended March 31, 2017. COGS decreased in the three months ended March 31, 2018 due to decreased product sales. Gross margin on product sales was $1.8 million or 49% for the three months ended March 31, 2018 compared to a gross margin of $3.9 million or 58% for the three months ended March 31, 2017.

The Company's gross margin on product sales was impacted by the volume and mix of products sold during the current and comparative quarter. The Company's gross margin was also impacted by the Canadian dollar versus the U.S. dollar, the currency in which it earns certain product revenues and sources select Pennsaid 2% and Pennsaid raw materials.

General and Administrative
G&A expenses were $2.4 million for the three months ended March 31, 2018 compared to $1.7 million for the three months ended March 31, 2017. The increase in the current quarter was primarily related to $0.3 million in one-time costs associated with the transition and establishment of the Resultz business. Furthermore, the Company recognized $0.1 million in scientific affairs and regulatory costs primarily attributable to the advancement of the Company's Pennsaid 2% European regulatory strategy.

Depreciation and Amortization
For the three months ended March 31, 2018, the Company recognized non-cash costs of $0.5 million in amortization for the Resultz patents.

Other Expenses
For the three months ended March 31, 2018, the Company recognized $0.1 million for the fair value remeasurement of the Company's contingent and variable consideration for the passage of time and the impact of changes in foreign exchange. The ex-U.S. Resultz acquisition included contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in the non-partnered markets.

Foreign Currency Gain (Loss)
For the three months ended March 31, 2018, the Company experienced a net foreign currency gain of $0.2 million compared to a net foreign currency loss of $0.1 million in the comparative quarter. Foreign currency gains or losses are recognized based on movements in the Canadian dollar against U.S. dollar and euro denominated cash, receivables, payables and other obligations.

Income Tax Recovery
For the three months ended March 31, 2018, the Company recognized a $0.2 million income tax recovery. Due to the adoption of IFRS 15, the Company recognized a deferred tax asset for its investment tax credits as it is now probable that future taxable income will be available against which it can be utilized.

Net Income (Loss) and Total Comprehensive Income

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands	**$**	$
Net income (loss) before income taxes	**(343)**	2,196
Income tax recovery	**(174)**	-
Net income (loss)	**(169**)	2,196
Unrealized gain (loss) on translation of foreign operations	**585**	(1)
TOTAL COMPREHENSIVE INCOME	**416**	2,195

Net Income (Loss)

Net loss for the three months ended March 31, 2018 was $0.2 million compared to net income of $2.2 million for the three months ended March 31, 2017. In the current quarter, the decrease was primarily attributable to a $2.0 million decrease in gross margin, a $0.5 million increase in amortization and a $0.7 million increase in G&A expenses, offset by a $0.4 million increase in license revenue, a $0.3 million decrease in R&D expenses and a $0.2 million income tax recovery.

Total Comprehensive Income

Total comprehensive income was $0.4 million for the three months ended March 31, 2018, compared to $2.2 million for the three months ended March 31, 2017. The current quarter included an unrealized gain of $0.6 million on the translation of foreign operations compared to an unrealized loss of $1,000 in the comparative year. In January 2018, the Company transferred the Resultz ex-U.S. IP rights (excluding the Canadian IP rights to Nuvo Ireland). Nuvo Ireland now maintains the worldwide IP rights to Resultz, excluding the Canadian segment.

Net Income (Loss) Per Common Share

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
share figures in thousands	**$**	$
Net income (loss) per common share		
- basic	**(0.01)**	0.19
- diluted	**(0.01)**	0.19
Average number of common shares outstanding (in thousands)		
- basic	**11,575**	11,547
- diluted	**11,575**	11,760

Net loss per common share was $0.01 for the three months ended March 31, 2018 compared to net income per common share of $0.19 for the three months ended March 31, 2017. On a diluted basis, net loss per common share was $0.01 for the three months ended March 31, 2018 compared to net income per common share of $0.19 for the three months ended March 31, 2017.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.6 million and 11.6 million, respectively, for the three months ended March 31, 2018 and 11.5 million and 11.8 million on a basic and diluted basis, respectively, for the three months ended March 31, 2017. The increase in average basic number of shares outstanding was attributable to the common shares issued under the Company's Share Purchase Plan. For the three months ended March 31, 2018, there were no dilutive share adjustments as the Company was in a net loss position. For the three months ended March 31, 2017, the weighted average number of common shares on a diluted basis included a 0.2 million share adjustment for the dilutive impact of stock options and a 33,000 share adjustment for the dilutive impact of Share Appreciation Rights (SARs).

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 assessing its performance. For the three months ended March 31, 2018, the Company continued to operate as one industry segment: pharmaceutical and healthcare products.

Geographic Information

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

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands	**$**	$
United States	**3,059**	6,411
International	**1,329**	468
Canada	**43**	103
Total revenue	**4,431**	6,982

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

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands	**$**	$
Net income (loss)	**(169)**	2,196
Add back:		
Income tax recovery	**(174)**	-
Net interest income	**(21)**	(38)
Depreciation and amortization	**614**	54
EBITDA	**250**	2,212
Add back:		
Stock-based compensation	**308**	86
Adjusted EBITDA	**558**	2,298

Adjusted EBITDA decreased to $0.6 million for the three months ended March 31, 2018 compared to $2.3 million for the three months ended March 31, 2017. The decrease in Adjusted EBITDA for the current quarter was primarily related to a decrease in gross margin and an increase in G&A expenses which was largely a factor of one-time costs associated with the Company's acquisition and transition of the Resultz business, as well as increased costs incurred for the advancement of the Company's Pennsaid 2% European regulatory strategy.

Without the adoption of IFRS 15, the Company would have recognized an increase of $0.1 million in sales-based royalties for the three months ended March 31, 2018 and Adjusted EBITDA would have totaled $0.7 million. With the adoption of IFRS 15, the Company recognized this income as an adjustment to the opening balance of equity as at January 1, 2018.

Liquidity and Capital Resources

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
in thousands	**$**	$
Net income (loss)	**(169)**	2,196
Items not involving current cash flows	**640**	235
Cash provided by operations	**471**	2,431
Net change in non-cash working capital	**(2,638)**	(1,260)
Cash (used in) provided by operating activities	**(2,167)**	1,171
Cash (used in) provided by investing activities	**(1,927)**	2,897
Cash provided by financing activities	**87**	7
	(4,007)	4,075
Effect of exchange rates on cash	**111**	(47)
Net change in cash during the period	**(3,896)**	4,028
Cash, beginning of the period	**8,398**	9,589
Cash, end of the period	**4,502**	13,617
Short-term investments	**2,000**	5,000
Cash and short-term investments	**6,502**	18,617

Cash and Short-term Investments
Cash and short-term investments were $6.5 million as at March 31, 2018 compared to $10.4 million as at December 31, 2017. The decrease included the US$1.5 million ($1.9 million) that was paid to Piedmont to acquire the U.S. product and IP rights to Resultz and an increase of $2.6 million in working capital.

Operating Activities
Cash provided by operations was $0.5 million for the three months ended March 31, 2018 compared to $2.4 million for the three months ended March 31, 2017. In the current quarter, the decrease in cash provided by operations was primarily due to a decrease in revenue and an increase in one-time costs associated with the Company's advancement of both the Resultz business and its Pennsaid 2% European regulatory strategy.

Overall cash used in operating activities increased to $2.2 million for the three months ended March 31, 2018 compared to cash provided by operating activities of $1.2 million for the three months ended March 31, 2017. In the current quarter, the $2.6 million investment in non-cash working capital was primarily attributable to a $1.8 million increase in accounts receivable, a $0.7 million decrease in accounts payable and accrued liabilities which related to payment of the Company's new commercial and sample production equipment and a $0.2 million increase in inventories. In the comparative quarter, the $1.3 million investment in non-cash working capital was primarily attributable to a $1.4 million decrease in accounts payable and accrued liabilities, which included a $0.7 million payment for SARs that vested January 1, 2017 and a $0.7 million increase in accounts receivable, partially offset by a $0.6 million decrease in inventories and a $0.2 million decrease in other current assets.

Investing Activities
Net cash used in investing activities was $1.9 million for the three months ended March 31, 2018 compared to net cash provided by investing activities of $2.9 million for the three months ended March 31, 2017. In the current quarter, cash used in investing activities included the acquisition of the U.S. product and IP rights to Resultz from Piedmont. Under the terms of the agreement, Nuvo paid US$1.5 million ($1.9 million) on close to Piedmont from cash on hand. In the comparative quarter, $3.0 million of the Company's short-term investments matured.

Financing Activities
Net cash provided by financing activities was $87,000 for the three months ended March 31, 2018 compared to net cash provided by financing activities of $7,000 for the three months ended March 31, 2017.

Selected Quarterly Information

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

in thousands, except per share data	**Q1 2018** **$**	Q4 2017 $	Q3 2017 $	Q2 2017 $
Product sales	**3,755**	4,199	2,700	2,786
License revenue	**640**	219	199	176
Contract revenue	**36**	67	57	138
Cost of goods sold	**1,922**	2,277	1,615	1,451
Research and development expenses	**1**	36	38	186
General and administrative expense	**2,418**	2,360	1,445	1,644
Depreciation and amortization	**529**	-	-	-
Net interest income	**(21)**	(39)	(46)	(34)
Other expenses (income)	**(75)**	37	129	56
Net income (loss)	**(169)**	(186)	(226)	(203)
Net income (loss) per common share				
- basic	**(0.01)**	(0.02)	(0.02)	(0.02)
- diluted	**(0.01)**	(0.02)	(0.02)	(0.02)

	Q1 2017 $	Q4 2016 $	Q3 2016 $	Q2 2016 $
Product sales	6,653	5,194	4,988	7,317
License revenue	222	257	323	134
Contract revenue	107	122	207	655
Cost of goods sold	2,772	2,528	2,535	3,159
Research and development expenses	311	604	394	211
General and administrative expense	1,671	864	1,462	2,260
Net interest income	(38)	(37)	(29)	(22)
Other expenses (income)	70	(125)	(95)	7
Net income	2,196	1,739	1,251	2,491
Net income per common share				
- basic	0.19	0.15	0.11	0.22
- diluted	0.19	0.12	0.10	0.21

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments at Amortized Cost

The amortized cost carrying amounts of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

For the three months ended March 31, 2018, the Company recognized $22,000 in interest from financial assets held at amortized cost.

Credit Risk

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 and contract assets are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement.

As at March 31, 2018, the Company's largest customer represented 55% [December 31, 2017 - 76%] of accounts receivable. Pursuant to their collective terms, accounts receivable were aged as follows:

in thousands	**March 31, 2018** **$**	December 31, 2017 $
Current	**3,750**	1,731
0 - 30 days past due	**-**	128
31 - 60 days past due	**-**	7
Over 60 days past due	**-**	9
	3,750	1,875

The loss allowance provision as at March 31, 2018 is determined as follows and incorporates forward-looking information.

in thousands, except percentages	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Total**
Expected loss rate	0%	0%	0%	5%	5%
Gross carrying amount	3,750	-	-	-	-
Loss allowance provision	-	-	-	-	-

The revised impairment methodology under IFRS 9 did not generate a loss allowance provision for accounts receivable as at March 31, 2018 [December 31, 2017 - $nil]. During the three months ended March 31, 2018, the Company has not recognized any bad debts in total comprehensive income [March 31, 2017 - $nil]. For the three months ended March 31, 2017, the impairment of accounts receivable was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly.

For contract assets within the scope of IFRS 15, the Company recognizes an asset to the extent contractual minimums established in certain customer licensing agreements are deemed fixed consideration. After analysis of historical default rates and forward-looking estimates, the Company's contract assets are considered to have low credit risk and as a result, the Company has not recognized a loss allowance as at March 31, 2018 [December 31, 2017 - $nil].

The Company's cash, cash equivalents and short-term investments subject the Company to a concentration of credit risk. As at March 31, 2018, the Company had $6.5 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 $2.0 million in short-term investments with a creditworthy Canadian insurance company. All of these financial assets are considered to have low credit risk, and therefore, the provision recognized during the period was limited to 12 months of expected losses. The Company has not recognized a loss allowance as at March 31, 2018 [December 31, 2017 - $nil].

Financial Instruments at Fair Value Through Profit (Loss)

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended March 31, 2018.

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 liabilities include obligations of the Company for the SARs Plan described in Note 11, *Stock-based Compensation and Other Stock-based Payments,* of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018. 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 $4,000 for SARs as at March 31, 2018 [December 31, 2017 - $0.1 million].

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. The Company recognized $1.8 million in contingent and variable consideration as at March 31, 2018 [December 31, 2017 - $1.6 million] which represents the present value of the Company's probability-weighted estimate of the cash outflow. The fair value of the contingent and variable consideration is revalued at each reporting period based on management's best estimate that certain milestone targets will be achieved in partnered markets and based on management's best estimate of projected royalty income in non-partnered markets, using an appropriate discount rate. A significant increase (decrease) in the probability of achieving a milestone or projected royalty income would result in higher (lower) fair value of the contingent and variable consideration liability, while a significant increase (decrease) in the discount rate would result in lower (higher) fair value of the liability.

Risk Factors

The following is a discussion of liquidity risk and market risk and related mitigation strategies that have been identified. Credit risk has been discussed above in the Company's assessment of impairment under IFRS 9. This is not an exhaustive list of all risks nor will the mitigation strategies eliminate all risks listed.

Liquidity Risk

While the Company had $4.5 million in cash and cash equivalents and $2.0 million in short-term investments as at March 31, 2018, it was dependent on a single customer for substantially all of its revenue. During the three months ended March 31, 2018, the Company earned 78% [March 31, 2017 - 92%] 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. On January 12, 2018, the Company acquired the U.S. product and IP rights to Resultz from Piedmont. Nuvo now owns all Resultz product and IP rights throughout the world. The benefits of the Resultz acquisition include expanding the Company's portfolio of commercial products and Resultz can be produced at Nuvo's Varennes, Québec manufacturing facility.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $3.0 million that are due in less than one year and $2.5 million of contractual obligations that are payable from 2019 to 2023.

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

	Euros		U.S. Dollars	
in thousands	**March 31, 2018 €**	December 31, 2017 €	**March 31, 2018 $**	December 31, 2017 $
Cash	**443**	621	**1,974**	1,290
Accounts receivable	**491**	-	**1,748**	1,378
Contract assets	**-**	-	**543**	-
Accounts payable and accrued liabilities	**(30)**	(32)	**(407)**	(751)
Other obligations	**(155)**	-	**(1,172)**	-
	749	589	**2,686**	1,917

Based on the aforementioned net exposure as at March 31, 2018, 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 $0.3 million on total comprehensive income and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $0.1 million on total comprehensive income.

In terms of the euro, the Company has three significant exposures: its net investment and net cash flows in its European operations, 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.

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 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 its various U.S. denominated supply agreements. 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 March 31 as follows:

	2019	2020	2021 and thereafter	**Total**
in thousands	$	$	$	$
Finance lease obligations	3	3	3	**9**
Operating leases	149	193	777	**1,119**
Other obligations[(1)]	2,802	704	699	**4,205**
	2,954	**900**	**1,479**	**5,333**

(1) Other obligations include accounts payable and accrued liabilities and contingent and variable consideration.

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

For the three months ended March 31, 2018, there were no related party transactions.

Outstanding Share Data

The number of common shares outstanding as at March 31, 2018 was 11.6 million, an increase of 46,952 from December 31, 2017 due to common shares issued under the Company's Share Purchase Plan.

As at March 31, 2018, there were 1,216,780 options outstanding of which 693,386 have vested.

In April 2018, pursuant to the Company's notice of intention to make a normal course issuer bid for a portion of its outstanding common shares, the Company purchased 164,049 common shares with available cash on hand for a total cost of $547,930 or $3.34 per share. The common shares acquired by Nuvo were cancelled upon purchase.

Critical Accounting Policies and Estimates

The preparation of Condensed Consolidated Interim Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Management has identified accounting estimates that it believes are most critical to understanding the Condensed Consolidated Interim Financial Statements and those that require the application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's actual results could differ from these estimates and such differences could be material. All significant accounting policies are disclosed in Note 2, *Basis of Presentation* of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018.

Recent Accounting Pronouncements

Except for the changes identified in Note 2, *Accounting Standards Adopted*, of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018, all significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements.

Accounting Standards Issued But Not Yet Applied
Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning on or after January 1, 2019. The standards impacted that may be applicable to the Company are as follows:

IFRS 16 - *Leases*
In January 2016, the IASB issued IFRS 16 - *Leases* (IFRS 16), the new lease 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.

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 March 31, 2018.

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 23, 2018 for the year ended December 31, 2017 and the "Risk Factors" section of the Company's AIF filed on March 23, 2018.

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

(Canadian dollars in thousands)	***Notes***	**As at March 31, 2018** **$**	As at December 31, 2017 $
ASSETS			
CURRENT			
Cash and cash equivalents	*16*	**4,502**	8,398
Short-term investments	*16*	**2,000**	2,000
Accounts receivable	*16, 17*	**3,750**	1,875
Inventories	*5*	**2,670**	2,502
Contract assets	*16, 17*	**519**	-
Other current assets	*6*	**483**	437
TOTAL CURRENT ASSETS		**13,924**	15,212
NON-CURRENT			
Contract assets	*16, 17*	**923**	-
Property, plant and equipment	*7*	**4,234**	4,283
Intangible assets	*4, 8*	**11,158**	9,236
Goodwill		**1,236**	1,187
TOTAL ASSETS		**31,475**	29,918
LIABILITIES AND EQUITY			
CURRENT			
Accounts payable and accrued liabilities	*11, 16*	**2,448**	3,134
Current portion of other obligations	*9, 16*	**356**	332
Current income tax liabilities	*3*	**61**	-
TOTAL CURRENT LIABILITIES		**2,865**	3,466
Other obligations	*9, 16*	**1,408**	1,301
Deferred income tax liabilities	*3*	**72**	-
TOTAL LIABILITIES		**4,345**	4,767
EQUITY			
Common shares	*10*	**185,440**	185,266
Contributed surplus	*10, 11*	**14,984**	14,763
Accumulated other comprehensive income (loss) (AOCI)		**584**	(1)
Deficit		**(173,878)**	(174,877)
TOTAL EQUITY		**27,130**	25,151
TOTAL LIABILITIES AND EQUITY		**31,475**	29,918

Commitments (Note 15)
See accompanying Notes.

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

(Canadian dollars in thousands, except per share and share figures)	***Notes***	**Three months ended March 31, 2018** **$**	Three months ended March 31, 2017 $
REVENUE			
Product sales	*17, 18*	**3,755**	6,653
License revenue	*17, 18*	**640**	222
Contract revenue	*17, 18*	**36**	107
Total revenue		**4,431**	6,982
OPERATING EXPENSES			
Cost of goods sold	*5, 11, 13*	**1,922**	2,772
Research and development expenses		**1**	311
General and administrative expenses	*11, 13*	**2,418**	1,671
Depreciation and amortization	*13*	**529**	-
Net interest income		**(21)**	(38)
Total operating expenses		**4,849**	4,716
OTHER EXPENSES (INCOME)			
Change in fair value of contingent and variable consideration	*9*	**83**	-
Foreign currency (gain) loss		**(158)**	70
Net income (loss) before income taxes		**(343)**	2,196
Income tax recovery	*3*	**(174)**	-
NET INCOME (LOSS)		**(169)**	2,196
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods			
Unrealized gain (loss) on translation of foreign operations		**585**	(1)
TOTAL COMPREHENSIVE INCOME		**416**	2,195
Net income (loss) per common share			
- basic	*12*	**(0.01)**	0.19
- diluted	*12*	**(0.01)**	0.19
Average number of common shares outstanding (in thousands)			
- basic	12	**11,575**	11,547
- diluted	12	**11,575**	11,760

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars in thousands, except for number of shares)		Common Shares		Contributed Surplus	AOCI	Deficit	Total
		(000s)	$	$	$	$	$
	Notes	*10,11*	*10,11*	*10,11*			
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		-	-	578	-	-	578
Unrealized loss on translation of foreign operations		-	-	-	(2)	-	(2)
Net loss		-	-	-	-	(615)	(615)
Balance, December 31, 2017		11,551	185,266	14,763	(1)	(174,877)	25,151
Balance, January 1, 2018, as previously reported		11,551	185,266	14,763	(1)	(174,877)	25,151
Impact of change in accounting policy	*3*	-	-	-	-	1,168	1,168
Adjusted balance, January 1, 2018		**11,551**	**185,266**	**14,763**	**(1)**	**(173,709)**	**26,319**
Stock option compensation expense		-	-	221	-	-	221
Unrealized gain on translation of foreign operations		-	-	-	585	-	585
Employee contribution to Share Purchase Plan		23	87	-	-	-	87
Employer's portion of Share Purchase Plan		23	87	-	-	-	87
Net loss		-	-	-	-	(169)	(169)
Balance, March 31, 2018		**11,597**	**185,440**	**14,984**	**584**	**(173,878)**	**27,130**

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Canadian dollars in thousands)	***Notes***	**Three Months ended March 31, 2018** **$**	Three Months ended March 31, 2017 $
OPERATING ACTIVITIES			
Net income (loss)		**(169)**	2,196
Items not involving current cash flows:			
Depreciation and amortization	*13*	**614**	54
Equity-settled stock-based compensation	*11*	**308**	127
Unrealized foreign exchange (gain) loss		**(191)**	54
Provision (benefit) for deferred income taxes	*3*	**(174)**	
Change in fair value of contingent and variable consideration	*9*	**83**	-
		471	2,431
Net change in non-cash working capital	*14*	**(2,638)**	(1,260)
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		**(2,167)**	1,171
INVESTING ACTIVITIES			
Disposal of short-term investments		**-**	3,000
Acquisition of property, plant and equipment	*7*	**(51)**	(103)
Resultz U.S. asset purchase	*4*	**(1,876)**	-
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		**(1,927)**	2,897
FINANCING ACTIVITIES			
Issuance of common shares	*11*	**87**	-
Exercise of stock options	*11*	**-**	7
CASH PROVIDED BY FINANCING ACTIVITIES		**87**	7
Effect of exchange rate changes on cash		**111**	(47)
Net change in cash during the period		**(3,896)**	4,028
Cash and cash equivalents, beginning of period		**8,398**	9,589
CASH AND CASH EQUIVALENTS, END OF PERIOD		**4,502**	13,617

See accompanying Notes.

Supplemental Cash Flow Information:

Interest received[1]	**9**	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

	March 31, 2018 **$**	March 31, 2017 $
Cash and cash equivalents	**4,502**	13,617
Short-term investments	**2,000**	5,000
	6,502	18,617

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 global commercial healthcare company with a portfolio of products and pharmaceutical manufacturing capabilities. Nuvo has four commercial products that are available in a number of countries: Pennsaid® 2%, Pennsaid, Resultz® and the heated lidocaine/tetracaine patch (HLT Patch). The Company's registered office and principal place of business is located at 6733 Mississauga Road, Suite 610, Mississauga, Ontario, L5N 6J5.

Pennsaid 2%
Pennsaid 2% is the follow-on product to original Pennsaid (described below). Pennsaid 2% is a topical pain product that combines a dimethyl sulfoxide (DMSO) based transdermal carrier with 2% diclofenac sodium, a leading nonsteroidal anti-inflammatory drug (NSAID), 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 United States 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. In the U.S., the rights to Pennsaid 2% were sold to Horizon Pharma plc (Horizon). 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.

Pennsaid
Pennsaid is a combination of a DMSO-based transdermal carrier and 1.5% diclofenac sodium and delivers the active drug through the skin at the site of pain. It 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. 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.

Resultz
Resultz is a commercial-stage, over-the-counter (OTC) product intended to kill head lice and remove eggs from hair with as little as a 5-minute treatment. It is a pesticide-free, topical solution that contains two common cosmetic ingredients - 50% isopropyl myristate and 50% cyclomethicone D5.

In December 2017, the Company acquired the global, ex-U.S. product and intellectual property (IP) rights to Resultz from Piedmont Pharmaceuticals LLC (Piedmont). The transaction included existing royalty streams in France, Spain, Portugal, Belgium, Ireland and the United Kingdom, Canada, Russia, Australia and Israel (collectively the Royalty Markets), generated from a network of existing global licensees and license agreements that were assumed by Nuvo. Under the terms of the agreement, Nuvo paid US$7.0 million ($8.8 million) on close to Piedmont. The transaction also included a single-digit royalty payable to Piedmont on net sales generated from non-Royalty Markets through 2023 and potential future consideration in the form of payments for achieving certain aggregate annual net sales-based milestones.

In January 2018, the Company's wholly owned subsidiary, Nuvo Pharmaceuticals (Ireland) Limited (Nuvo Ireland) acquired the U.S. rights to Resultz from Piedmont. Under the terms of the agreement, Nuvo paid US$1.5 million ($1.9 million) on close to Piedmont. Resultz was cleared as a Class 1 medical device by the U.S. Food and Drug

Administration (FDA) in May 2017 and has not yet been commercially launched in the U.S. (See Note 4, *Resultz U.S. Asset Purchase*).

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, 2017, 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. Except for the changes identified in Note 2, *Accounting Standards Adopted*, the areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the Condensed Consolidated Interim 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, 2017.

These Condensed Consolidated Interim Financial Statements were issued and effective as at May 9, 2018, 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 subsidiaries as follows:

	% Ownership
Dimethaid (UK) Ltd.	**100%**
Nuvo Pharmaceuticals (Ireland) Limited	**100%**

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

Significant Accounting Policies

Except for the changes identified in Note 2, *Accounting Standards Adopted*, all significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements. The policies applied in these Condensed Consolidated Interim Financial Statements are based on International Financial Reporting Standards (IFRS) issued and outstanding as at May 9, 2018.

Accounting Standards Issued But Not Yet Applied

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning on or after January 1, 2019. The standards impacted that may be applicable to the Company are as follows:

IFRS 16 - *Leases*

In January 2016, the IASB issued IFRS 16 - *Leases* (IFRS 16), the new lease 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.

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.

Accounting Standards Adopted

IFRS 15 - *Revenue from Contracts with Customers*

The Company has adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company applied IFRS 15 using the modified retrospective approach which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 - *Revenue*. See Note 3, *Changes in Accounting Policies*, for details of the significant changes and quantitative impact of the changes.

The Company applied IFRS 15 using the practical expedient under which the Company elected to apply IFRS 15 retrospectively only to contracts that were not completed at the date of initial application.

For all contracts that were modified before the beginning of the earliest period presented, the Company applied IFRS 15 using the practical expedient, whereby the Company reflects the aggregate effect of all of the modifications that occurred as at January 1, 2018 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the remaining performance obligations.

Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

The following is a description of principal activities where the Company generates revenue. The Company has disclosed the nature, timing of satisfaction of performance obligations and significant payment terms.

Product Sales

Revenue from product sales is recognized when the Company transfers control of the product. Control of the product transfers upon shipment of the product to the customer or when the product is made available to the customer, provided transfer of title to the customer occurs and the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped.

The transaction price is documented on the sales invoice and agreed to by the customer. Payment is generally due at the time of delivery, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due.

License Revenue

The Company enters into licensing agreements for IP rights to the Company's commercial products. Consideration tied to the licensing arrangement may include non-refundable upfront fees, milestone payments and sales-based royalties.

Under the terms of the licensing arrangements, the Company provides the customer with a right to use the Company's IP as it exists at the point in time the license is granted. Revenue arising from the license of IP rights is recognized when the Company transfers control of the IP. This usually occurs when the customer signs the agreement or shortly thereafter.

The Company has applied the royalty exception for both sales-based royalties and milestone payments contingent on sales-based thresholds. Royalties are typically calculated as a percentage of net sales realized by the

Company's licensees of its products (including their sublicensees), as specifically defined in each agreement. The licensees' sales generally consist of revenue from product sales of the Company's pharmaceutical products, and net sales are generally determined by deducting the following: estimates for chargebacks, rebates, sales incentives and allowances, returns and losses and other customary deductions in each region where the Company has licensees. The Company recognizes the sales-based royalties and milestone payments contingent on sales-based thresholds monthly as the subsequent sales occur.

For milestone payments that are not contingent on sales-based thresholds, the Company applies a most-likely amount approach on a contract-by-contract basis. Management makes an assessment of the amount of revenue expected to be received based on the probability of the milestone outcome. Variable consideration is included in revenue only to the extent that it is highly probable that the amount will not be subject to a significant reversal when the uncertainty is resolved (generally when the milestone outcome is satisfied).

When licensing agreements include minimum guaranteed sales-based royalties, the Company assesses whether the contractual minimums are subject to any uncertainty. If the contractual minimums are considered fixed consideration (where a significant reversal is remote), the Company recognizes all of the contractual minimums when control of the IP rights is transferred. Any sales-based royalties earned in excess of the contractual minimums would be recognized in accordance with the royalty exception (when the subsequent sales occur). Revenues earned from minimum guaranteed sales-based royalties are billed as the customer generates net sales; generally, on a quarterly basis in accordance with the agreed-upon contractual terms. The Company's customer contracts can range from 1 to 10 years; therefore, there can be a significant time differential between revenue recognition and the corresponding receipt of cash flows. As a result, the Company has adjusted the fixed consideration for the effects of the time value of money applying a discount rate of 25%.

Revenues earned from the license of IP rights are billed after control has transferred. Timing of recognition will depend on the nature of the event and the terms of the arrangement, including sales-based royalties, milestone payments or upfront fees. Customers are usually required to make payment within thirty days of billing.

Contract Revenue

Revenues from contracted services are generally recognized at the point in time the contracted services are performed. Contract services are mainly derived from development services provided by the Company to its partners.

Revenues earned from contract services are billed when the related services are complete. Customers are usually required to make payment within thirty days of billing.

Contract Costs

The Company recognizes and amortizes the incremental costs of obtaining a contract when incurred consistent with the transfer to the customer of the related license or sale of IP rights.

IFRS 9 - *Financial Instruments*

The Company has adopted IFRS 9, *Financial Instruments* (IFRS 9) with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for financial instruments as detailed below.

The Company has elected to not restate comparative periods in the year of initial application of IFRS 9 relating to the transition for classification, measurement and impairment, and accordingly, has not restated comparative periods in the year of initial application. As a result, the comparative information provided continues to be accounted for on a basis consistent with those followed in the most recent annual Consolidated Financial Statements. See Note 3, *Changes in Accounting Policies,* for details of the significant changes and quantitative impact of the changes.

Financial Instruments

Classification
As at January 1, 2018, the Company classifies its financial instruments in the following measurement categories:

- Those to be measured subsequently at fair value either through other comprehensive income (OCI) (loss), or through profit (loss).
- Those to be measured at amortized cost.

Specifically, for debt financial assets, the classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

Measurement
At initial recognition, the Company measures a financial instrument at its fair value plus, in the case of a financial instrument not at fair value through profit (loss), transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at fair value through profit (loss) are expensed in profit (loss).

Subsequent measurement of financial instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories in which the Company classifies its financial instruments:

- *Amortized cost:* Financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income (expense) from these financial instruments is recorded in net income (loss) using the effective interest rate method.
- *Fair value through other comprehensive income (FVOCI):* Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in net income (loss). When the financial instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income (loss) and recognized in other gains (losses). Interest income (expense) from these financial instruments are included in interest using the effective interest rate method. Foreign exchange gains (losses) is presented in other gains (losses) and impairment expenses in other expenses.
- *Fair value through profit (loss) (FVTPL):* Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit (loss). A gain or loss on a financial instrument that is subsequently measured at fair value through profit (loss) and is not part of a hedging relationship is recognized in net income (loss) and presented net in comprehensive income (loss) within other gains (losses) in the period in which it arises.

On the date of initial application, January 1, 2018, the financial instruments of the Company were as follows:

	Measurement Category	
	Original (IAS 39)	**New (IFRS 9)**
Financial Assets		
Cash and cash equivalents	Amortized cost	Amortized cost
Short-term investments	FVTPL	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Other obligations - contingent and variable consideration	FVTPL	FVTPL

Impairment of Financial Assets
The Company assesses on a forward-looking basis the expected credit losses (ECLs) associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether the asset originated from a contract that is in the scope of IFRS 15 or if there has been a significant increase in credit

risk. The Company was required to revise its impairment methodology under IFRS 9 for each of the following classes of assets:

- *Accounts receivable and contract assets:* For accounts receivable and contract assets, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable and contract assets within the scope of IFRS 15. The Company has established a provision based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.
- *Cash equivalents and short-term investments:* For cash equivalents and short-term investments at amortized cost, the Company applies the general approach to providing for expected credit losses. These instruments are considered to be low credit risk, and therefore, the impairment provision is determined using a 12-month expected credit loss basis.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 15 - *Revenue from Contracts with Customers*

The Company has adopted IFRS 15 with a date of initial application of January 1, 2018. The details of the significant changes and quantitative impact of the changes are set out below.

Product Sales

There are no significant changes to the Company's revenue recognition policy attributable to product sales. The Company is now required to disclose the revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date; specifically as it relates to minimum purchase obligations.

License Revenue

The Company previously categorized sales-based royalties as a separate revenue stream. Under IFRS 15, the Company has tied the sales-based royalties to the distinct performance obligation to which it relates: the license of IP rights to the Company's commercial products. With the application of the sales-based royalties exception, sales-based royalties and milestone payments contingent on sales-based thresholds continue to be recognized when the subsequent sales occur.

Under IFRS 15, when the license of IP rights includes minimum guaranteed sales-based royalties and the Company assesses the contractual minimums as fixed consideration (where a significant reversal is remote), the Company recognizes all of the contractual minimums when control of the IP rights is transferred and a contract asset is recognized. Any sales-based royalties earned, in excess of the contractual minimums, would be recognized in accordance with the royalty exception (when the subsequent sales occur). This can result in significant differences in the timing of revenue recognition and the corresponding receipt of cash flows.

As at January 1, 2018, the Company recognized $1.5 million before incomes taxes as an adjustment to the opening balance of equity for the impact of IFRS 15. The $1.5 million adjustment was primarily attributable to the Resultz ex-U.S. license agreements (See Note 1, *Nature of Business – Resultz*) that include minimum guaranteed sales-based royalties. Any sales-based royalties earned in excess of the contractual minimums would be recognized in accordance with the royalty exception. Under IAS 18, the contractual minimums would be recognized when the subsequent sales occur which has created timing differences in the Company's historical revenue recognition practices.

Current and Deferred Income Taxes

The Company recognized $0.3 million in current and deferred income taxes attributable to the $1.5 million adjustment disclosed above for a net impact of $1.2 million to the Company's opening balance of equity as at January 1, 2018. Within the scope of IAS 12, *Income Taxes*, the Company recognized its investment tax credits as a reduction against current and deferred income taxes payable of $0.2 million as it is now probable that future taxable income will be available to offset this corresponding tax liability. The Company has offset its current and deferred tax assets and tax liabilities as it has a legally enforceable right and the income taxes are levied by the same taxation authority.

Contract Assets

The adjustment to the Company's opening balance of equity triggered the recognition of current and non-current contract asset accounts. The contract asset accounts represent the present value of current and future guaranteed minimum sales-based royalties that are expected to be received over the life of the licensing agreements.

Impacts on Financial Statements

The following table summarizes the impacts of adopting IFRS 15 on the Company's Condensed Consolidated Interim Statements of Financial Position as at January 1, 2018.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
Impact of Changes in Accounting Policies

	December 31, 2017	Adjustments	**January 1, 2018**
	$	$	**$**
ASSETS			
CURRENT			
Contract assets	-	484	**484**
TOTAL CURRENT ASSETS	15,212	484	**15,696**
NON-CURRENT			
Contract assets	-	991	**991**
TOTAL ASSETS	29,918	1,475	**31,393**
LIABILITIES AND EQUITY			
CURRENT			
Current income tax liabilities	-	125	**125**
TOTAL CURRENT LIABILITIES	3,466	125	**3,591**
Deferred income tax liabilities	-	182	**182**
TOTAL LIABILITIES	4,767	307	**5,074**
EQUITY			
Deficit	(174,877)	1,168	**(173,709)**
TOTAL EQUITY	25,151	1,168	**26,319**
TOTAL LIABILITIES AND EQUITY	29,918	1,475	**31,393**

The following tables summarize the impacts of adopting IFRS 15 on the Company's Condensed Consolidated Interim Financial Statements as at and for the three months ended March 31, 2018.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
Impact of Changes in Accounting Policies

	As at March 31, 2018		
	As Reported under IFRS 15	**Adjustments**	**Balances under IAS 18[(i)]**
	$	**$**	**$**
ASSETS			
CURRENT			
Contract assets	**519**	**(519)**	**-**
TOTAL CURRENT ASSETS	**13,924**	**(519)**	**13,405**
NON-CURRENT			
Contract assets	**923**	**(923)**	**-**
TOTAL ASSETS	**31,475**	**(1,442)**	**30,033**
LIABILITIES AND EQUITY			
CURRENT			
Current income tax liabilities	**61**	**(35)**	**26**
TOTAL CURRENT LIABILITIES	**2,865**	**(35)**	**2,830**
Deferred income tax liabilities	**72**	**(72)**	**-**
TOTAL LIABILITIES	**4,345**	**(107)**	**4,238**
EQUITY			
Accumulated other comprehensive income (loss) (AOCI)	**584**	**(41)**	**543**
Deficit	**(173,878)**	**(1,294)**	**(175,172)**
TOTAL EQUITY	**27,130**	**(1,335)**	**25,795**
TOTAL LIABILITIES AND EQUITY	**31,475**	**(1,442)**	**30,033**

[(i)] Balances using previous accounting policy applicable up to December 31, 2017.

CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
Impact of Changes on Accounting Policies

	Three Months ended March 31, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18[(i)]
	$	$	$
REVENUE			
License revenue	**640**	**93**	**733**
Total revenue	**4,431**	**93**	**4,524**
OTHER EXPENSES (INCOME)			
Foreign currency (gain) loss	**(158)**	**19**	**(139)**
Net income (loss) before income taxes	**(343)**	**74**	**(269)**
Income tax expense (recovery)	**(174)**	**200**	26
NET INCOME (LOSS)	**(169)**	**(126)**	**(295)**
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods			
Unrealized gain (loss) on translation of foreign operations	**585**	**(41)**	**544**
TOTAL COMPREHENSIVE INCOME	**416**	**(167)**	**249**
Net income (loss) per common share			
- basic	**(0.01)**	**-**	**(0.03)**
- diluted	**(0.01)**	**-**	**(0.03)**
Average number of common shares outstanding (in thousands)			
- basic	**11,575**	**-**	**11,575**
- diluted	**11,575**	**-**	**11,575**

[(i)] Balances using previous accounting policy applicable up to December 31, 2017.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
Impact of Changes in Accounting Policies

	Three Months ended March 31, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18[(i)]
	$	$	$
OPERATING ACTIVITIES			
Net income (loss)	**(169)**	**(126)**	**(295)**
Items not involving current cash flows:			
Depreciation and amortization	**614**	**-**	**614**
Equity-settled stock-based compensation	**308**	**-**	**308**
Unrealized foreign exchange loss	**(191)**	**(1)**	**(192)**
Provision (benefit) for deferred income taxes	**(174)**	**200**	**26**
Change in fair value of contingent and variable consideration	**83**	**-**	**83**
	471	**73**	**544**
Net change in non-cash working capital	**(2,638)**	**(73)**	**(2,711)**
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(2,167)**	**-**	**(2,167)**

[(i)] Balances using previous accounting policy applicable up to December 31, 2017.

IFRS 9 - *Financial Instruments*

The Company has adopted IFRS 9 which resulted in changes in accounting policies, but noted no transitional adjustments to the carrying amounts of the financial assets and liabilities as of January 1, 2018. The details and quantitative impact of the changes in accounting policies are disclosed below.

The accounting policies were changed to comply with IFRS 9 as issued by the IASB in July 2014. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, *Financial Instruments: Disclosures*.

Classification and Measurement of Financial Instruments

On January 1, 2018, the Company assessed the classification and measurement of the financial instruments held at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories. There was no transitional impact to the Company's opening balance of equity as at January 1, 2018.

Reclassification from FVTPL to Amortized Cost

The Company's short-term investments include guaranteed investment certificates (GICs) held by the Company which were reclassified from the FVTPL measurement category to amortized cost. At the date of initial application, the Company's GICs meet the criteria for amortized cost. The Company intends to hold the GICs to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of the GICs as at January 1, 2018.

Impairment of Financial Assets

The following financial assets are subject to IFRS 9's new, expected credit loss model:

- Accounts receivable for product sales, license revenue and contract revenue
- Contract assets for license revenue
- Cash equivalents and short-term investments

There was no impact to the Company's opening balance of equity as at January 1, 2018, as a result of the change in impairment methodology (See Note 16, *Financial Instruments and Risk Management*).

4. RESULTZ U.S. ASSET PURCHASE

On January 12, 2018, the Company's wholly owned subsidiary, Nuvo Ireland acquired control of the U.S. product and IP rights to Resultz (the U.S. Patent). Resultz was cleared as a Class 1 medical device by the FDA in May 2017. As the product has not yet been commercially launched in the U.S. market, the transaction did not include any royalty streams. Further, Nuvo has not assumed a licensee agreement to sell and distribute Resultz as part of this transaction. The transaction has been accounted for as an asset acquisition. The cost of the U.S. Patent was US$1.5 million ($1.9 million), settled from cash on hand. The U.S. Patent will be amortized over the remaining patent life which expires on April 14, 2023. The purchase agreement included variable consideration related to future earnings associated with the U.S. Patent during the period from 2018 to 2034 and will be expensed as incurred.

5. INVENTORIES

Inventories consist of the following as at:

	March 31, 2018	December 31, 2017
	$	$
Raw materials	**2,193**	2,162
Work in process	**98**	24
Finished goods	**379**	316
	2,670	2,502

During the three months ended March 31, 2018, inventories in the amount of $1.6 million were recognized as cost of goods sold [March 31, 2017 - $2.3 million]. During the three months ended March 31, 2018 and 2017, there were no inventory write-downs and no reversals of prior period write-downs.

6. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	March 31, 2018	December 31, 2017
	$	$
Deposits	**74**	117
Prepaid expenses	**304**	234
Other receivables	**105**	86
	483	437

7. PROPERTY, PLANT AND EQUIPMENT

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

	Land	**Buildings**	**Leasehold Improvements**	**Furniture & Fixtures**	**Computer Equipment & Software**	**Production, Laboratory & Other Equipment[(i)]**	**Total**
Cost	$	$	$	$	$	$	$
Balance, December 31, 2017	42	1,491	194	132	211	6,052	8,122
Additions/disposals	-	-	(5)	1	5	50	51
Balance, March 31, 2018	**42**	**1,491**	**189**	**133**	**216**	**6,102**	**8,173**
Accumulated depreciation							
Balance, December 31, 2017	-	917	3	59	166	2,694	3,839
Depreciation expense	-	17	8	3	5	67	100
Balance, March 31, 2018	**-**	**934**	**11**	**62**	**171**	**2,761**	**3,939**
Net book value as at December 31, 2017	42	574	191	73	45	3,358	4,283
Net book value as at March 31, 2018	**42**	**557**	**178**	**71**	**45**	**3,341**	**4,234**

[(i)] Production, laboratory and other equipment as at March 31, 2018 included a cost of $11 [December 31, 2017 - $11] and accumulated depreciation of $5 [December 31, 2017 - $5] for assets under finance leases.

8. INTANGIBLE ASSETS

Intangible assets consist of the following as at:

	Patents	Brand	Development Costs	Total
Cost	$	$	$	$
Balance, December 31, 2017	8,430	790	16	9,236
Acquired in Resultz U.S. asset purchase (Note 4)	1,876	-	-	1,876
Foreign exchange movements	522	36	-	558
Balance, March 31, 2018	**10,828**	**826**	**16**	**11,670**
Accumulated amortization				
Balance, December 31, 2017	-	-	-	-
Amortization expense	514	-	-	514
Foreign exchange movements	(2)	-	-	(2)
Balance, March 31, 2018	**512**	**-**	**-**	**512**
Net book value as at December 31, 2017	8,430	790	16	9,236
Net book value as at March 31, 2018	**10,316**	**826**	**16**	**11,158**

9. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	March 31, 2018	December 31, 2017
	$	$
Contingent and variable consideration relating to the ex-U.S. acquisition of Resultz	**1,757**	1,626
Finance lease obligations	**7**	7
Less amounts due within one year	**(356)**	(332)
Long-term balance	**1,408**	1,301

As at March 31, 2018, the Company recognized $1.8 million [December 31, 2017 - $1.6 million] in contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. For the three months ended March 31, 2018, the remeasurement of the fair value of the contingent and variable consideration recognized the passage of time and the impact of changes in foreign exchange, resulting in a charge of $0.1 million reflected in the results of operations for the period.

10. 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.

11. 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.

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

As at March 31, 2018, the number of common shares available for issuance under the Share Incentive Plan was 522,897.

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, 2017	1,029	1.53 - 11.18	4.88
Granted	195	3.55	3.55
Expired	(8)	5.08	5.08
Balance, March 31, 2018	1,216	1.53 - 11.18	4.64

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% [December 31, 2017 - 7.0%] and the remaining model inputs for options granted during the period ended March 31, 2018 were as follows:

Options (000s)	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor	Fair Values $
195	March 28, 2018	3.55	3.55	1.74 - 2.14	1 - 7	34 - 66	0.63 - 2.02

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at March 31, 2018:

		Outstanding		Exercisable	
Exercise Price Range $	Number of Options (000s)	Remaining Contractual Life (years)	Weighted Average Exercise Price $	Vested Options (000s)	Weighted Average Exercise Price $
1.53 - 4.45	549	7.27	3.12	329	2.76
5.08 - 5.75	604	7.68	5.52	301	5.38
6.35 - 11.18	63	1.63	9.85	63	9.85
	1,216	**7.18**	**4.64**	**693**	**4.54**

Share Purchase Plan

Under the Share Purchase Plan, eligible officers or employees of the Company may contribute up to 10% of their annual base salary to the plan to purchase Nuvo common shares. The Company matches each participant's contribution by issuing Nuvo common shares having a value equal to the aggregate amount contributed by each participating employee.

During the three months ended March 31, 2018, employees contributed $87 [March 31, 2017 - $nil] to the plan and the Company matched these contributions by issuing 23,476 common shares [March 31, 2017 - $nil] with a fair value of $87 [March 31, 2017 - $nil] that was recorded as compensation expense. The total number of shares issued under this plan during the three months ended March 31, 2018 was 46,952 [March 31, 2017 – $nil].

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 March 31, 2018 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 $
52	January 7, 2015	5.63	1.74	1	33	0.07

The following table summarizes the outstanding SARs and related accrual as at March 31, 2018:

	Number of SARs 000s	Fair Values $	Accrual $
Balance, December 31, 2017	171	0.00 - 4.21	74
Vested	(119)	0.00 - 1.05	(70)
Balance, March 31, 2018	**52**	**0.07**	**4**

Summary of Stock-based Compensation
Stock-based compensation is as follows:

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
	$	$
Stock option compensation expense under the Share Option Plan	**221**	127
Shares issued to employees under the Share Purchase Plan	**87**	-
SARs compensation expense	**-**	(41)
Stock-based compensation expense	**308**	86
Recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as follows:		
Cost of goods sold	**30**	5
General and administrative expenses	**278**	81
	308	86

12. NET INCOME (LOSS) PER COMMON SHARE

Income (loss) per share is computed as follows:

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
	$	$
Basic income (loss) per share:		
Net income (loss)	**(169)**	2,196
Average number of shares outstanding during the year	**11,575**	11,547
Basic income (loss) per share	**(0.01)**	0.19
Net income (loss), assuming dilution	**(169)**	2,190
Average number of shares outstanding during the year	**11,575**	11,547
Dilutive effect of:		
Stock options	**-**	180
Share appreciation rights	**-**	33
Weighted average common shares outstanding, assuming dilution	**11,575**	11,760
Diluted income (loss) per share	**(0.01)**	0.19

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

	March 31, 2018	March 31, 2017
	000s	000s
Common shares issued and outstanding	**11,597**	11,551
Stock options outstanding (Note 11)	**1,216**	1,158
Share appreciation rights outstanding (Note 11)	**52**	171
	12,865	12,880

13. EXPENSES BY NATURE

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

(a) Employee costs

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
	$	$
Short-term employee wages, bonuses and benefits	**1,447**	1,584
Share-based payments	**259**	56
Total employee costs	**1,706**	1,640
Included in:		
Cost of goods sold	**660**	929
General and administrative expenses	**1,046**	711
Total employee costs	**1,706**	1,640

(b) Depreciation and amortization

Depreciation and amortization was $614 for the three months ended March 31, 2018 [March 31, 2017 - $54]. Cost of goods sold included $85 of depreciation on PP&E [March 31, 2017 - $54].

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
	$	$
Accounts receivable	**(1,801)**	(663)
Inventories	**(168)**	578
Contract assets	**73**	-
Other current assets	**(45)**	184
Accounts payable and accrued liabilities	**(697)**	(1,359)
Net change in non-cash working capital	**(2,638)**	(1,260)

15. COMMITMENTS

The Company has minimum future rental payments under operating leases for the twelve months ending March 31 as follows:

	$
2019	149
2020	193
2021 and thereafter	777
	1,119

For the three months ended March 31, 2018, payments under operating leases totalled $41 [March 31, 2017 - $nil].

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 the 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 manufacturer 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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments at Amortized Cost

The amortized cost carrying amounts of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

For the three months ended March 31, 2018, the Company recognized $22,000 in interest from financial assets held at amortized cost.

Credit Risk

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 and contract assets are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement.

As at March 31, 2018, the Company's largest customer represented 55% [December 31, 2017 - 76%] of accounts receivable. Pursuant to their collective terms, accounts receivable were aged as follows:

	March 31, 2018	December 31, 2017
	$	$
Current	**3,750**	1,731
0 - 30 days past due	**-**	128
31 - 60 days past due	**-**	7
Over 60 days past due	**-**	9
	3,750	1,875

The loss allowance provision as at March 31, 2018 is determined as follows and incorporates forward-looking information.

	Current	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Total**
Expected loss rate	0%	0%	0%	5%	5%
Gross carrying amount	3,750	-	-	-	-
Loss allowance provision	-	-	-	-	-

The revised impairment methodology under IFRS 9 did not generate a loss allowance provision for accounts receivable as at March 31, 2018 [December 31, 2017 - $nil]. During the three months ended March 31, 2018, the Company has not recognized any bad debts in total comprehensive income [March 31, 2017 - $nil]. For the three months ended March 31, 2017, the impairment of accounts receivable was assessed based on the incurred loss

model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly.

For contract assets within the scope of IFRS 15, the Company recognizes an asset to the extent contractual minimums established in certain customer licensing agreements are deemed fixed consideration. After analysis of historical default rates and forward-looking estimates, the Company's contract assets are considered to have low credit risk and as a result, the Company has not recognized a loss allowance as at March 31, 2018 [December 31, 2017 - $nil].

The Company's cash, cash equivalents and short-term investments subject the Company to a concentration of credit risk. As at March 31, 2018, the Company had $6.5 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 $2.0 million in short-term investments with a creditworthy Canadian insurance company. All of these financial assets are considered to have low credit risk, and therefore, the provision recognized during the period was limited to 12 months of expected losses. The Company has not recognized a loss allowance as at March 31, 2018 [December 31, 2017 - $nil].

Financial Instruments at Fair Value Through Profit (Loss)

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended March 31, 2018.

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 liabilities include obligations of the Company for the SARs Plan described in Note 11, *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 $4,000 for SARs as at March 31, 2018 [December 31, 2017 - $0.1 million].

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. The Company recognized $1.8 million in contingent and variable consideration as at March 31, 2018 [December 31, 2017 - $1.6 million] which represents the present value of the Company's probability-weighted estimate of the cash outflow. The fair value of the contingent and variable consideration is revalued at each reporting period based on management's best estimate that certain milestone targets will be achieved in partnered markets and based on management's best estimate of projected royalty income in non-partnered markets, using an appropriate discount rate. A significant increase (decrease) in the probability of achieving a milestone or projected royalty income would result in higher (lower) fair value of the contingent and variable consideration liability, while a significant increase (decrease) in the discount rate would result in lower (higher) fair value of the liability.

Risk Factors

The following is a discussion of liquidity risk and market risk and related mitigation strategies that have been identified. Credit risk has been discussed above in the Company's assessment of impairment under IFRS 9. This is not an exhaustive list of all risks nor will the mitigation strategies eliminate all risks listed.

Liquidity Risk
While the Company had $4.5 million in cash and cash equivalents and $2.0 million in short-term investments as at March 31, 2018, it was dependent on a single customer for substantially all of its revenue. During the three months ended March 31, 2018, the Company earned 78% [March 31, 2017 - 92%] 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. On January 12, 2018, the Company acquired the U.S. product and IP rights to Resultz from Piedmont. Nuvo now owns all Resultz product and IP rights throughout the world. The benefits of the Resultz acquisition include expanding the Company's portfolio of commercial products and Resultz can be produced at Nuvo's Varennes, Québec manufacturing facility.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $3.0 million that are due in less than one year and $2.5 million of contractual obligations that are payable from 2019 to 2023.

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

	Euros		U.S. Dollars	
	March 31, 2018 €	December 31, 2017 €	**March 31, 2018 $**	December 31, 2017 $
Cash	**443**	621	**1,974**	1,290
Accounts receivable	**491**	-	**1,748**	1,378
Contract assets	**-**	-	**543**	-
Accounts payable and accrued liabilities	**(30)**	(32)	**(407)**	(751)
Other obligations	**(155)**	-	**(1,172)**	-
	749	589	**2,686**	1,917

Based on the aforementioned net exposure as at March 31, 2018, 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 $0.3 million on total comprehensive income and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $0.1 million on total comprehensive income.

In terms of the euro, the Company has three significant exposures: its net investment and net cash flows in its European operations, 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.

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 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 its various U.S.

denominated supply agreements. 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.

17. REVENUE

In the following table, revenue is disaggregated by primary geographic market, major categories of revenue and timing of revenue recognition as follows:

	Three Months Ended March 31							
.	**2018**	2017[(i)]	**2018**	2017[(i)]	**2018**	2017[(i)]	**2018**	2017[(i)]
	$	$	**$**	$	**$**	$	**$**	$
	United States		International		Canada		Total	
Primary categories of revenue								
Product sales	**2,927**	6,198	**828**	455	**-**	-	**3,755**	6,653
License revenue	**102**	165	**501**	-	**37**	57	**640**	222
Contract revenue	**30**	48	**-**	13	**6**	46	**36**	107
	3,059	6,411	**1,329**	468	**43**	103	**4,431**	6,982
Timing of revenue recognition								
Transferred over time	**-**	-	**-**	-	**6**	46	**6**	46
Transferred at a point in time	**3,059**	6,411	**1,329**	468	**37**	57	**4,425**	6,936
	3,059	6,411	**1,329**	468	**43**	103	**4,431**	6,982

[(i)] The 2017 balances have not been restated to reflect the adoption of IFRS 15.

Contract Balances

	March 31, 2018	January 1, 2018
	$	$
Accounts receivable	3,750	1,875
Contract assets	1,442	1,475

The timing of revenue recognition, billings and cash collections results in accounts receivable and unbilled receivables (contract assets). Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. The Company's contract assets relate to license revenue attributable to minimum guaranteed sales-based royalties, upfront fees and milestone payments which have not been billed at the reporting date. Unbilled receivables (contract assets) will be billed (and subsequently transferred to accounts receivable) in accordance with the agreed-upon contractual terms.

Significant changes in the contract assets balance during the period were as follows:

	$
Balance, January 1, 2018	1,475
Transfers to accounts receivable	(93)
Foreign exchange movements	60
Balance, March 31, 2018	**1,442**

18. 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. For the three months ended March 31, 2018, the Company continued to operate as one industry segment: pharmaceutical and healthcare products.

Geographic Information

The Company's revenue was derived from sales to, and licensing revenue derived from, external customers located in the following geographic areas:

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
	$	$
United States	**3,059**	6,411
International	**1,329**	468
Canada	**43**	103
	4,431	6,982

As at March 31, 2018, all of the Company's PP&E was located in Canada.

Significant Customers

For the three months ended March 31, 2018, the Company's four largest customers generating product sales represented 98% [March 31, 2017 - 100%] of total product sales and the Company's largest customer represented 78% [March 31, 2017 - 92%] of total product sales.

19. SUBSEQUENT EVENT

In April 2018, pursuant to the Company's notice of intention to make a normal course issuer bid for a portion of its outstanding common shares, the Company purchased 164,049 common shares with available cash on hand for a total cost of $547,930 or $3.34 per share. The common shares acquired by Nuvo were cancelled upon purchase.