Nuvo Pharmaceuticals Inc. First Quarter Report 2017

May 10, 2017

Dear Nuvo Shareholder -

Review of Q1 2017

2017 is off to a very positive start for Nuvo Pharmaceuticals Inc. (Nuvo Pharma) (TSX:NRI)!

Revenue in Q1 was $7.0 million including $6.7 million of product sales. The gross margin on product sales was $3.9 million or 58%. Adjusted EBITDA[(1)] was $2.3 million and net income was $2.2 million which translates to $0.19 of net earnings per share. We closed the quarter with cash and short-term investments of $18.6 million, an increase of $1.0 million from our cash position at the end of 2016 and no debt.

The base for Nuvo Pharma's business, at least in the short-term, continues to be the sale of our lead prescription topical non-steroidal anti-inflammatory drug (NSAID), Pennsaid® 2%, for treating the pain of osteoarthritis of the knee in the United States by our partner, Horizon Pharma plc (Horizon) (NASDAQ:HZNP). Nuvo Pharma earns its revenue by selling commercial bottles and physician samples of Pennsaid 2% to Horizon under an exclusive supply agreement that extends to 2029. Pennsaid 2% is manufactured at our facility in Varennes, Québec.

According to IMS Health, U.S. prescriptions of Pennsaid 2% decreased slightly to 105,000 in the first quarter of 2017 compared to 119,000 for the fourth quarter of 2016. We expect Pennsaid 2% U.S. prescriptions to vary from quarter to quarter. Many drug products experience seasonality and strong prescription months are often followed by weaker ones.

Nuvo Pharma records revenue when it ships Pennsaid 2% commercial bottles and product samples to Horizon for Horizon's sale into the U.S. market. The amount earned by Nuvo is based on a defined transfer price for each commercial bottle and product sample shipped to Horizon pursuant to its long-term, exclusive supply agreement with Horizon. Nuvo Pharma's transfer price for Pennsaid 2% commercial bottles and product samples is not affected by Horizon's net selling price for prescriptions filled in the U.S. Nuvo Pharma also receives contract service revenue from Horizon. Also, the timing of Nuvo Pharma shipments to Horizon does not necessarily align with when U.S. patients fill prescriptions written by their physicians. As a result, there may not be a correlation in any particular period between reported prescriptions filled by U.S. pharmacies and product sold by Nuvo Pharma to Horizon.

Horizon's orders from Nuvo Pharma are influenced by demand in the U.S. market, Horizon's inventory levels and management strategies. On November 27, 2017, Federal Drug Supply Chain Security Act (DSCSA) rules come into force that require all manufacturers of drug products sold in the U.S. to "serialize" each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, also known as the Serialization Track and Trace Bill, we have purchased new packaging equipment and technology systems that will give us the ability to individually serialize all Pennsaid 2% packaging. In coordination with Horizon, we have planned to complete installation of this new equipment well before the November 27th implementation date of the DSCSA. The new packaging equipment has arrived at our manufacturing plant in Varennes, Québec and we have commenced the process of installing and qualifying it for commercial production. The longest lead time relates to software installation and qualification which is being impacted by overwhelming demand on the small number of qualified software providers from pharmaceutical manufacturers striving to have their serialization equipment operational by November 27th. We expect to have our new equipment with qualified software available to produce individually serialized commercial bottles in the second half of Q3.

The FDA was expected to publish regulations that grandfather existing non-serialized inventory in the supply chain as of November 27th, but hasn't released these much anticipated regulations yet. Due to the uncertainty respecting how the rule will treat non-serialized inventory, Horizon has decided to draw down its existing Pennsaid 2% inventory of non-serialized product in advance of the November 27th implementation date. Horizon has therefore advised us that it plans to defer any further commercial bottle production until our serialization equipment is operational. Our sample production is not affected by the serialization issue. These anticipated production changes will have a negative impact on our Q2 and Q3 sales and earnings relative to normal prescription trends and purchases by Horizon; however, we expect that our sales to Horizon will pick up in the remainder of the year, when our serialization equipment comes on stream and Horizon resumes its more typical ordering patterns, including rebuilding its inventory with serialized product to replace non-serialized inventory that it draws down. Horizon purchases all of their U.S. Pennsaid 2% requirements from Nuvo Pharma – the only question is in what quarter will those shipments to Horizon occur.

Our goal is to build off of the success of Pennsaid 2% in the U.S. and make Pennsaid 2% a global brand. We are currently in late stage discussions with a number of potential international licensing partners. Our priority is to ensure that our partners have the marketing capability, desire and commitment to make Pennsaid 2% the dominant topical pain product in their respective territories. We expect to complete licensing transactions throughout 2017 and 2018, which means that revenue from these transactions should start to benefit our financial results in late 2018 and 2019 as our marketing partners obtain marketing approvals from their local regulatory authorities and then launch sales. Our ideal transaction structure includes upfront payments (expected to be modest),

compensation for our technology by way of a licensing agreement that includes royalty payments and an exclusive manufacturing agreement. The manufacturing component is important to us given that we have unutilized capacity at our Varennes plant – which means that most of the margin from incremental product sales to licensing partners drops to our bottom line.

Our efforts to secure new, international partners for Pennsaid 2% are achieving success. In March, we announced the completion of a licensing transaction with Sayre Therapeutics PVT Ltd. (Sayre) for the territories of India, Bangladesh, Nepal and Sri Lanka. With our support, Sayre will be proceeding to file for regulatory approval in each of these jurisdictions. We anticipate that commercial launches will commence late 2018/early 2019 subject to regulatory approval.

On February 21, 2017, we received notification from NovaMedica LLC (NovaMedica), our Russian commercial partner, that marketing authorization for Pennsaid 2% had been granted by the Russian Ministry of Health. We are in discussions with NovaMedica regarding its commercialization plans and will provide updates as they become available.

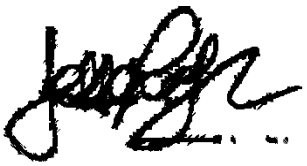
Currently, Pennsaid 2% has been approved for marketing only in the U.S. and Russia. Many jurisdictions will base their regulatory approval of Pennsaid 2% on its U.S. FDA approval and won't require additional clinical trials. It is important to note that a separate registration procedure must still be followed in these markets before our licensing partners can launch sales. However, for Canada, the E.U. and Australia, we need an additional successful Phase 3 trial to support our applications for regulatory approval. In March 2017, we completed a Phase 3 trial in Germany studying Pennsaid 2% for the treatment of ankle sprains. We expect to receive the results of that study later this month.

We have also ramped up our activity for product acquisitions that can add to our revenue and enhance our profitability. Our ideal product is one that has multi-territorial rights available that we can out-license and that can be manufactured at our Varennes manufacturing facility which currently is utilizing only about 35% of its capacity. This focus means that priority product acquisition candidates will be gels, creams and liquids, etc. that are usually in the pain, dermatology or women's health therapeutic areas.

Our management team has been built to generate out-licensing and merger and acquisition (M&A) deal flow that we can support without a material increase in corporate overhead. As mentioned, our manufacturing facility is currently running at about 35% capacity and is poised to support our growth plans. Our shareholder base has evolved. A year ago, Nuvo Pharma's shareholders were predominantly retail investors. Over the past year, a number of institutional investors have been acquiring shares in Nuvo Pharma, such that we now believe our stock is predominantly institutionally held.

We are off to a great start in 2017 which we expect to be a busy and productive year for Nuvo Pharma. I would like to thank our employees for their continuing dedication, our board of directors for their support and advice and most of all you, our shareholders, for your patience and support. As always, if you have any questions or comments about the business, please don't hesitate to call or email us. We look forward to hearing from you.

Yours,



John London
Chief Executive Officer

Jesse Ledger
President

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

Management's Discussion and Analysis (MD&A)

May 10, 2017 / The following information should be read in conjunction with the Nuvo Pharmaceuticals™ Inc. (Nuvo or the Company) Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2017 which were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 – Interim Financial Reporting filed on SEDAR on May 10, 2017. Additional information relating to the Company, including its Annual Information Form (AIF), can be found on SEDAR at www.sedar.com.

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

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

Forward-looking Statements

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

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the Company's current beliefs, expectations and assumptions regarding the future of its business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. Nuvo's actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, readers should not rely on any of these forward-looking statements. Important factors that could cause Nuvo's actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the risk factors included in Nuvo's most recent Annual Information Form dated March 1, 2017 under the heading "Risks Factors", and as described from time to time in the reports and disclosure documents filed by Nuvo with Canadian securities regulatory agencies and commissions. These and other factors should be considered carefully and readers should not place undue reliance on Nuvo's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and none of Nuvo or any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

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

Corporate Reorganization

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

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo and Crescita. Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Prior to the Reorganization, Crescita was a drug development business.

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

Overview

Background

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

As at March 31, 2017, the Company employed a total of 46 full-time employees at its manufacturing facility in Varennes, Québec and its head office in Mississauga, Ontario.

Pennsaid 2%

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

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

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Pennsaid 2%	Osteoarthritis of the knee	Horizon Pharma plc	United States	Nineteen granted U.S. patents listed in the FDA's Orange Book with latest expiry in 2030.
		Paladin Labs Inc.[1]	Canada	One patent granted in Canada expiring in 2027. Pending patent application through 2033.
		NovaMedica LLC[2]	Russia; some Community of Independent States	One patent granted in Russia expiring in 2027. Pending patent application through 2033.
		Sayre Therapeutics PVT Ltd.[3]	India, Sri Lanka, Bangladesh and Nepal	One patent granted in India expiring in 2027. Pending patent application through 2027.

(1) Regulatory approval not yet received in territory.
(2) In February 2017, the Company received notification from NovaMedica LLC (NovaMedica) that the marketing authorization for Pennsaid 2% had been granted by the Russian Ministry of Health. The marketing authorization is inclusive of the non-prescription, human use of Pennsaid 2% in treating back pain, joint pain, muscle pain and inflammation and swelling in soft tissue and joints associated with trauma and rheumatic conditions.
(3) Partner is working to obtain regulatory approval in licensed territory.

Pennsaid 2% 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. market, the rights to Pennsaid 2% were sold to Horizon Pharma plc (Horizon) for US$45.0 million in October 2014. The Company earns revenue from product sales of Pennsaid 2% to Horizon under an exclusive manufacturing agreement that ends in 2029. In January 2015, Horizon launched its commercial sale and marketing of Pennsaid 2% in the U.S.

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

Horizon's orders from Nuvo are influenced by demand in the U.S. market, Horizon's inventory levels and management strategies. On November 27, 2017, Federal Drug Supply Chain Security Act (DSCSA) rules come into force that require all manufacturers of drug products sold in the U.S. to serialize each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, also known as the Serialization Track and Trace Bill, the Company has purchased new packaging equipment and technology systems to individually serialize all Pennsaid 2% packaging. In coordination with Horizon, the Company has planned to complete installation of this new equipment well before the November 27th implementation date of the DSCSA. The new packaging equipment has arrived at the manufacturing plant in Varennes, Québec and the process of installing and qualifying it for commercial production has commenced. It is expected that the new equipment with qualified software will be available to produce individually serialized commercial bottles in the second half of Q3.

The U.S. Food and Drug Administration (FDA) was expected to publish regulations that grandfather existing non-serialized inventory in the supply chain as of November 27th, but has not released these much anticipated regulations yet. Due to the uncertainty respecting how the rule will treat non-serialized inventory, Horizon has decided to draw down its existing Pennsaid 2% inventory of non-serialized product in advance of the November 27th implementation date. Horizon has therefore advised Nuvo that it plans to defer any further commercial bottle production until the serialization equipment is operational. Sample production is not affected by the serialization issue. These anticipated production changes will have a negative impact on Nuvo's Q2 and Q3 sales and earnings relative to normal prescription trends and purchases by Horizon; however, it is expected that sales to Horizon will pick up in the remainder of the year, when the serialization equipment comes on stream and Horizon resumes its more typical ordering patterns, including rebuilding its inventory with serialized product to replace non-serialized inventory that it draws down.

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

Product	Therapeutic Area	Stage of Development	Intellectual Property
Pennsaid 2%	Acute strains and sprains	Phase 3 clinical trials	Patents granted in Australia, Canada, Switzerland, Germany, Denmark, France, Great Britain, Greece, India, Ireland, Israel, Italy, Netherlands, Hong Kong, Japan, Mexico, New Zealand, Russia Federation, South Africa, expiring in 2027. Applications pending in 5 countries. Patent applications pending in Australia, Brazil, Canada, Chile, China, Europe, Hong Kong, Israel, Japan, Mexico and Russia Federation through 2033.

2016 Pennsaid 2% Phase 3 Clinical Trial

The 2016 Pennsaid 2% Trial was conducted in Germany and enrolled approximately 133 patients 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 placebo arm and applied either Pennsaid 2% or a placebo consisting of a topical vehicle that includes all the constituent ingredients of Pennsaid 2%, except its active ingredient diclofenac sodium, to their injured ankle twice a day for 8 days. The patients returned to the investigational site for in-depth evaluation on days 3, 5 and 8 of treatment. The primary endpoint for the 2016 Pennsaid 2% Trial is reduction in pain on movement at day 3. The 2016 Pennsaid 2% Trial will also measure a number of secondary endpoints including tenderness, ankle function, ankle swelling, overall assessment of benefit and satisfaction and use of

rescue medication. The 2016 Pennsaid 2% Trial commenced in November 2016 and was fully enrolled in March 2017. Topline results for the 2016 Pennsaid 2% Trial are expected later in May 2017.

2015 Pennsaid 2% Phase 3 Clinical Trial Results

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

Primary Endpoint

The primary endpoint for the 2015 Pennsaid 2% Trial was reduction in POM at day 5 in the FAS group. On average, patients treated with Pennsaid 2% had a larger reduction in POM scores over the course of the study. For the FAS group, the difference vs. placebo was statistically significant on the secondary time point on day 3 (p=0.0119), but not at the primary time point on day 5 (p=0.2430) or the secondary time point on day 8 (p=0.2603). In the PP group, which excluded those patients with a lower usage of medication than as set out in the 2015 Pennsaid 2% Trial protocol (9 patients excluded out of 126 for this reason), the Pennsaid 2% group showed a statistically significant improvement at both the primary time point (day 5 p=0.0416), as well as the secondary time points (day 3 p=0.0018 and day 8 p=0.0490).

Secondary Endpoints

The 2015 Pennsaid 2% Trial also included the measure of a number of secondary endpoints. These data are supportive of Pennsaid 2% being effective to treat ankle sprain injuries and specifically demonstrated the following outcomes:

Tenderness	Pennsaid 2% demonstrated a statistically significant reduction in tenderness compared to placebo in the FAS group at days 3, 5 and 8 with p-values of 0.0055, 0.0150 and 0.0104, respectively.
Ankle Function	Pennsaid 2% demonstrated a statistically significant increase in ankle function compared to placebo in the FAS group at days 3 and 8 with p-values of 0.0115 and 0.0232, respectively, but not at day 5 with a p-value of 0.1549.
Ankle Swelling	Pennsaid 2% demonstrated a statistically significant decrease in ankle swelling compared to placebo in the FAS group at days 3, 5 and 8 with p-values of 0.0020, 0.0018 and 0.0142, respectively.
Overall Assessment of Benefit and Satisfaction	Patients treated with Pennsaid 2% reported a statistically significantly higher level of satisfaction with and benefit of their treatment compared to placebo in the FAS group with a p-value of 0.0001 for the treatment benefit and a p-value of <0.0001 for satisfaction.

After reviewing the 2015 Pennsaid 2% Trial results in detail, the Company met with its consultants to determine what steps should be taken to obtain regulatory approval of Pennsaid 2% in Canada, Australia and the E.U. The Company determined that it would conduct another trial similar to the 2015 Pennsaid 2% Trial (2016 Pennsaid 2% Trial), but with certain changes to the protocol and endpoints.

Additional clinical and non-clinical trials may be required to support applications for the regulatory approval of Pennsaid 2% in other countries in which the Company, or other licensees and distributors, could potentially market the product. The Company was advised by regulatory authorities in Canada and the United Kingdom that the data from the Phase 2 trial conducted by its former U.S. licensee was insufficient to support approval of Pennsaid 2% in their respective countries and that additional clinical trials would be required. In addition, NovaMedica advised the Company that their Pennsaid 2% clinical

trial, required for regulatory approval in Russia, was successful. There can be no assurance that the current trials will be sufficient for regulatory authorities in any jurisdiction or that all trials will yield successful results or that the required regulatory approvals will be obtained.

Pennsaid

Pennsaid, the Company's first commercial topical pain product, is used to treat the signs and symptoms of OA of the knee. Pennsaid combines the transdermal carrier (containing dimethyl sulfoxide, popularly known as DMSO), with diclofenac sodium, a leading NSAID and delivers the active drug through the skin at the site of pain. Pennsaid no longer has patent protection in the territories where it is currently marketed by 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.
		NovaMedica LLC	Russia; some Community of Independent States

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

Heated Lidocaine/Tetracaine Patch

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

HLT Patch Commercial Partners:

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

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Synera[(2)]	Local Dermal Analgesia (Patch)	Galen US Incorporated	United States	One granted U.S. patent listed in the FDA's Orange Book expiring in 2020. Method of manufacturing patent that expires 2019 (U.S.).
Rapydan[(2)]		Eurocept B.V.	Europe, Russia[(1)], Turkey[(1)], Israel[(1)] and People's Republic of China[(1)]	Granted European patent expiring in 2019. Method of manufacturing patents that expire 2020 (Europe).

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

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

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

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

The Company is subject to the Federal Drug Supply Chain Security Act which takes effect November 27, 2017. The U.S. government has enacted the Federal Drug Supply Chain Security Act that requires the implementation of systems to track and trace prescription drugs at the saleable unit level through the distribution system. The Company has purchased certain equipment and software that will enable compliance with the Federal Drug Supply Chain Security Act.

Key Developments

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

Pennsaid 2%

- U.S. prescriptions of Pennsaid 2% decreased to 105,000 in the first quarter of 2017 from 119,000 prescriptions in the fourth quarter of 2016 according to IMS Health.

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

- In March, the Company completed a new placebo-controlled, multi-centre Phase 3 trial (2016 Pennsaid 2% Trial) in Germany to study Pennsaid 2% for the treatment of acute ankle sprains. The 2016 Pennsaid 2% Trial is being conducted to support regulatory applications for marketing approval of Pennsaid 2% for the treatment of acute pain in the E.U., Canada and Australia. The Company expects the 2016 Pennsaid 2% Trial data will be unblinded and topline results to be available later this month.

- In February, the Company received notification from NovaMedica LLC (NovaMedica), its Russian licensee for Pennsaid 2%, 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. The Company and NovaMedica are in discussions respecting NovaMedica's commercial strategy and launch plans.

Selected Financial Information

in thousands, except per share data	**Three Months ended March 31, 2017** **$**	Three Months ended March 31, 2016 $
Operations		
Product sales	**6,653**	7,325
Royalties	**222**	309
Contract and other revenue	**107**	208
Total revenue	**6,982**	7,842
Total operating expenses	**4,716**	5,378
Other loss	**70**	536
Income before income taxes	**2,196**	1,928
Income tax expense	**-**	-
Net income from continuing operations	**2,196**	1,928
Net loss from discontinued operations	**-**	(3,180)
Net income (loss)	**2,196**	(1,252)
Other comprehensive income (loss)	**(1)**	32
Total comprehensive income (loss)	**2,195**	(1,220)
Share Information		
Net income from continuing operations per common share		
- basic	**0.19**	0.17
- diluted	**0.19**	0.15
Average number of common shares outstanding		
- basic	**11,547**	11,294
- diluted	**11,760**	11,496

Financial Position	**As at March 31, 2017**	As at December 31, 2016
Cash and cash equivalents	**$ 13,617**	$ 9,589
Short-term investments	**5,000**	8,000
Total assets	**27,484**	26,516
Other obligations, including current portion	**9**	9
Total liabilities	**2,294**	3,655
Total equity	**25,190**	22,861

Non-IFRS Financial Measures

The Company discloses non-IFRS measures that do not have standardized meanings prescribed by IFRS, but are considered useful by management, investors and other financial stakeholders to assess the Company's performance and management from a financial and operational standpoint. Total operating expenses is defined as the sum of: cost of goods sold (COGS), research and development (R&D) expenses, general and administrative (G&A) expenses and net interest income. EBITDA refers to net income from continuing operations determined in accordance with IFRS, before depreciation and amortization, net interest income and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Adjusted EBITDA refers to EBITDA plus stock-based compensation (SBC) expenses. Management believes Adjusted EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes.

Fluctuations in Operating Results
The Company anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including: the level of product sales to the Company's customers, licensees and distributors, the timing and amount of royalties and other payments received pursuant to current and future collaborations and licensing arrangements, and the progress and timing of expenditures related to R&D and regulatory approval efforts for Pennsaid 2%.

During the quarter ended March 31, 2017, the Company earned 92% [March 31, 2016 - 95%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. It is possible that quarterly and annual results of operations will be impacted for the foreseeable future by Horizon's demand for Nuvo product which is a function of demand for the product in the U.S. market and how Horizon chooses to manage its internal inventory.

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

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

Significant Transactions

2017

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

2016

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

Pennsaid 2% U.S. Supply Agreement
In connection with the October 2014 Pennsaid 2% U.S. Sale Agreement, the Company also entered into a long-term supply agreement with Horizon. Pursuant to the supply agreement, the Company agreed to supply Pennsaid 2% to Horizon from its Varennes, Québec manufacturing facility for commercialization in the U.S. The initial term of the supply agreement would have expired on December 31, 2022 and, unless terminated, would have automatically renewed for successive two-year terms, thereafter. In February 2016, the supply agreement was amended (Amended Supply Agreement) to extend the term of the agreement to December 31, 2029 and to introduce volume tiered pricing. The transfer price is subject to semi-annual adjustments based on Nuvo's raw material costs and annual adjustments based upon changes in a national manufacturing cost index for pharmaceutical products. The supply agreement may be terminated earlier by either party for any uncured material breach or other customary conditions. Under the Amended Supply Agreement, Nuvo is obligated to supply Pennsaid 2% to Horizon and Horizon is obligated to obtain 90% of its requirements for Pennsaid 2% from Nuvo. The supply agreement also

provides for the selection and qualification of alternate suppliers of Pennsaid 2% and its active pharmaceutical ingredient (API). Following the approval by the FDA of a selected alternate supplier, and subject to certain limitations, the Company is required to enter into a supply agreement with the alternate supplier with respect to Pennsaid 2% or its API. To the extent that maintaining regulatory approvals for an alternative supplier requires the Company to purchase minimum quantities of drug product or API from the alternate supplier, the Company is obligated to purchase such minimum quantities, subject to Horizon's obligation to reimburse the Company for any excess cost compared to the cost to otherwise obtain such drug product or API.

Results of Operations

Product Sales

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Pennsaid 2%	**6,101**	6,982
Pennsaid	**454**	163
HLT bulk	**98**	180
Total product sales	**6,653**	7,325

Product sales, which represent the Company's sales to our licensees and distributors, were $6.7 million for the three months ended March 31, 2017 compared to $7.3 million for the three months ended March 31, 2016.

Pennsaid 2%
Under the terms of the October 2014 Pennsaid 2% U.S. Sale Agreement, the Company earns revenue from product sales of Pennsaid 2% to Horizon. All Pennsaid 2% product sales relate to the U.S. market.

Pennsaid 2% product sales were $6.1 million for the three months ended March 31, 2017 compared to $7.0 million for the three months ended March 31, 2016 and represent the Company's sales of the Pennsaid 2% commercial format and its physician sample format to Horizon. In the current quarter, product sales included $3.4 million of the commercial format and $2.7 million of the physician sample format. In the comparative quarter, product sales included $4.6 million of the commercial format and $2.4 million of the physician sample format. In the current quarter, the decrease in commercial format product revenues was attributable to a decrease in bottles shipped to Horizon and the $0.9 million decrease in Pennsaid 2% product sales included a $0.2 million foreign exchange loss.

According to IMS Health, approximately 105,000 Pennsaid 2% prescriptions were dispensed in the three months ended March 31, 2017 compared to 109,000 prescriptions in the three months ended March 31, 2016.

Pennsaid
Product sales of Pennsaid were $0.5 million for the three months ended March 31, 2017 compared to $0.2 million for the three months ended March 31, 2016. In the current quarter, the $0.3 million increase in Pennsaid product sales primarily related to a $0.4 million increase in Pennsaid product sales to the Company's partner in Greece, slightly offset by a $0.1 million decrease in sales to the Company's partner in Italy. Geographically for the three months ended March 31, 2017, sales in the E.U. were 100% of Pennsaid product sales [March 31, 2016 - 100%].

HLT Bulk
HLT Bulk sales were $0.1 million for the three months ended March 31, 2017 compared to sales of $0.2 million for the three months ended March 31, 2016. Sales related to the bulk drug substance that is used in manufacturing the HLT Patch for both the U.S. and E.U. markets. The bulk drug substance is shipped to a contract manufacturing organization in the U.S. that manufactures the HLT Patch.

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands, except percentages	**$**	$
Four largest customers	**6,631**	7,249
% of total product sales	**100%**	99%
Largest customer as % of total product sales	**92%**	95%

Other Revenue

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Royalties	**222**	309
Contract and other revenue	**107**	208
Total other revenue	**329**	517

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

Royalty revenue decreased to $0.2 million for the three months ended March 31, 2017 compared to $0.3 million for the three months ended March 31, 2016. The decrease in the current quarter of $0.1 million was attributable to lower royalties from both Pennsaid and the HLT Patch.

Contract and Other Revenue
Contract and other revenue for the three months ended March 31, 2017 decreased to $0.1 million compared to $0.2 million for the three months ended March 31, 2016. Contract revenues were mainly derived from development services provided by the Company to its partners and other revenue includes an upfront payment from the Company's exclusive license agreement with Sayre.

Operating Expenses

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Cost of goods sold	**2,772**	3,135
Research and development expenses	**311**	208
General and administrative expenses	**1,671**	2,091
Net interest income	**(38)**	(56)
Total operating expenses	**4,716**	5,378

Total operating expenses for the three months ended March 31, 2017 were $4.7 million, a decrease from $5.4 million for the three months ended March 31, 2016.

Cost of Goods Sold

COGS for the three months ended March 31, 2017 was $2.8 million compared to $3.1 million for the three months ended March 31, 2016. COGS decreased in the three months ended March 31, 2017 due to decreased product sales. Gross margin on product sales was $3.9 million or 58% for the three months ended March 31, 2017 compared to a gross margin of $4.2 million or 57% for the three months ended March 31, 2016.

The Company's gross margin on product sales was impacted by the Canadian dollar versus the U.S. dollar, the currency in which it sources certain Pennsaid and Pennsaid 2% raw materials and sells Pennsaid 2%. In the current quarter, a 10% appreciation in the Canadian dollar versus the U.S. dollar would have reduced gross margin by approximately $0.3 million and a 10% depreciation in the Canadian dollar versus the U.S. dollar would have increased gross margin by approximately $0.3 million.

Research and Development

R&D expenses were $0.3 million for the three months ended March 31, 2017 compared to $0.2 million for the three months ended March 31, 2016. The increase in spending in the current quarter related to the 2016 Pennsaid 2% Trial for the treatment of acute ankle sprains. In October 2016, the Company received approval to conduct the 2016 Pennsaid 2% Trial from the German Federal Institute for Drugs and Medical Devices and Ethical Review Committee. See Overview – Pennsaid 2% for an overview of the 2016 Pennsaid 2% Trial. R&D expenses incurred in the comparative quarter related entirely to the 2015 Pennsaid 2% Trial. The 2015 Pennsaid 2% Trial did not meet its primary endpoint. See Overview – Pennsaid 2% for detailed results of the trial.

General and Administrative

G&A expenses were $1.7 million for the three months ended March 31, 2017 compared to $2.1 million for the three months ended March 31, 2016. In the current quarter, a $1.0 million decrease in SBC was partially offset by an increase in regulatory consulting fees and an increase in general corporate costs due to the allocation of certain corporate G&A costs to Crescita in the comparative quarter. In the comparative quarter, the Company recognized a $1.0 million SBC expense primarily related to the adjustment to market value for the outstanding share appreciation rights (SARs) and the adjustment to market value for the outstanding deferred share units (DSUs) prior to settling the DSU obligation on March 1, 2016.

Interest

Net interest income was $38,000 for the three months ended March 31, 2017 compared to $56,000 for the three months ended March 31, 2016. The decrease in net interest income in the current quarter related to the significantly lower cash balances as compared to the comparative period whereby $35.0 million was transferred to Crescita on March 1, 2016 as part of the Reorganization.

Foreign Currency Gain (Loss)

For the three months ended March 31, 2017, the Company experienced a net foreign currency loss of $0.1 million compared to a net foreign currency loss of $0.5 million in the comparative quarter. In the current quarter, the impact of a stronger Canadian dollar versus the U.S. dollar decreased the value of U.S. dollar denominated cash, receivables, payables and other obligations and the impact of a weaker Canadian dollar versus the euro increased euro denominated cash, receivables, payables and other obligations. In the comparative quarter, the impact of a stronger Canadian dollar versus the U.S. dollar and euro decreased the value of U.S. dollar and euro denominated cash, receivables, payables and other obligations.

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Net income before income taxes from continuing operations	**2,196**	1,928
Income tax expense	**-**	-
Net income from continuing operations	**2,196**	1,928
Net loss from discontinued operations	**-**	(3,180)
Net income (loss)	**2,196**	(1,252)
Unrealized gains (losses) on translation of foreign operations	**(1)**	32
Total comprehensive income (loss)	**2,195**	(1,220)

Net Income from Continuing Operations

Net income from continuing operations was $2.2 million for the three months ended March 31, 2017 compared to $1.9 million for the three months ended March 31, 2016. In the current quarter, the decrease in gross margin and a slight increase in R&D expenses were more than offset by a decrease in G&A expenses.

Net Loss from Discontinued Operations

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Discontinued Operations		
Product sales	**-**	45
Royalties	**-**	14
Total revenue	**-**	59
Total operating expenses	**-**	3,247
Foreign currency gain	**-**	(8)
Net loss from discontinued operations	**-**	(3,180)

Net loss from discontinued operations was $nil for three months ended March 31, 2017 compared to $3.2 million for the three months ended March 31, 2016. The decrease was attributable to the timing of the Reorganization, which was effective March 1, 2016.

Net Income (Loss)

Net income for the three months ended March 31, 2017 was $2.2 million compared to a net loss of $1.3 million for the three months ended March 31, 2016. The Company generated net income in the current quarter, whereas in the comparative quarter, the net income from continuing operations was more than offset by the two-month net loss from discontinued operations.

Total Comprehensive Income (Loss)

Total comprehensive income was $2.2 million for the three months ended March 31, 2017 compared to a total comprehensive loss of $1.2 million for the three months ended March 31, 2016. The current quarter included unrealized losses of $1,000 on the translation of foreign operations compared to $32,000 of unrealized gains in the comparative quarter.

Net Income Per Common Share

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
share figures in thousands	**$**	$
Net earnings from continuing operations per common share		
- basic	**0.19**	0.17
- diluted	**0.19**	0.15
Average number of common shares outstanding		
- basic	**11,547**	11,294
- diluted	**11,760**	11,496

Net earnings from continuing operations per common share was $0.19 for the three months ended March 31, 2017 versus $0.17 for the three months ended March 31, 2016. On a diluted basis, net earnings from continuing operations per common share was $0.19 for the three months ended March 31, 2017 versus $0.15 for the three months ended March 31, 2016.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.5 million and 11.8 million for the three months ended March 31, 2017 and 11.3 million and 11.5 million on a basic and diluted basis for the three months ended March 31, 2016. The increase in average basic number of shares outstanding was attributable to employee stock options exercised. On a diluted basis, the weighted average number of common shares included an 180,000 share adjustment for the dilutive impact of stock options and a 33,000 share adjustment for the dilutive impact of SARs for the three months ended March 31, 2017. On a diluted basis, the weighted average number of common shares included a 161,000 share adjustment for the dilutive impact of stock options, a 3,000 share adjustment for the dilutive impact of warrants and a 38,000 share adjustment for the dilutive impact of DSUs for the three months ended March 31, 2016.

Segments

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

Geographic Information

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
United States	**6,411**	7,423
Europe	**455**	282
Canada	**103**	137
Other	**13**	-
Total revenue	**6,982**	7,842

Adjusted EBITDA

EBITDA is a non-IFRS financial measure. The term EBITDA does not have any standardized meaning under IFRS and therefore, may not be comparable to similar measures presented by other companies. The Company defines Adjusted EBITDA as net income from continuing operations before net interest income, plus income tax expense, depreciation, amortization and SBC. Management believes Adjusted

EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes.

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Net income from continuing operations	**2,196**	1,928
Add back:		
Net interest income	**(38)**	(56)
Depreciation and amortization	**54**	58
EBITDA	**2,212**	1,930
Add back:		
SBC	**86**	1,059
Adjusted EBITDA	**2,298**	2,989

Adjusted EBITDA decreased to $2.3 million for the three months ended March 31, 2017 compared to $3.0 million for the three months ended March 31, 2016. In the current quarter, an increase in net income from continuing operations was more than offset by a decrease in SBC expenses.

Liquidity and Capital Resources

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
in thousands	**$**	$
Net income from continuing operations	**2,196**	1,928
Net loss from discontinued operations	**-**	(3,180)
Net income (loss)	**2,196**	(1,252)
Items not involving current cash flows	**235**	2,123
Cash provided by operations	**2,431**	871
Net change in non-cash working capital	**(1,260)**	(438)
Cash provided by operating activities	**1,171**	433
Cash provided by (used in) investing activities	**2,897**	(3,075)
Cash provided by (used in) financing activities	**7**	(34,911)
	4,075	(37,553)
Effect of exchange rates on cash	**(47)**	(110)
Net change in cash during the period	**4,028**	(37,663)
Cash, beginning of the period	**9,589**	48,680
Cash, end of the period	**13,617**	11,017
Short-term investments	**5,000**	3,000
Cash and short-term investments	**18,617**	14,017

Cash and Short-term Investments

Cash and short-term investments were $18.6 million as at March 31, 2017 compared to $17.6 million as at December 31, 2016. The $1.0 million increase in cash and short-term investments was primarily attributable to an increase in cash provided by operations.

Operating Activities

Cash provided by operations was $2.4 million for the three months ended March 31, 2017 compared to cash provided by operations of $0.9 million for the three months ended March 31, 2016. In the current quarter, the increase in cash provided by operations was due to an increase in net income.

Overall cash provided by operating activities increased to $1.2 million for the three months ended March 31, 2017 compared to cash provided by operating activities of $0.4 million for the three months ended March 31, 2016. In the current quarter, an increase in cash provided by operations was partially offset by the Company's investment in working capital. In the current 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, 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. In the comparative quarter, the $0.4 million investment in working capital was primarily attributable to a $2.0 million decrease in accounts payable and accrued liabilities that was only partially offset by the $1.8 million decrease in accounts receivable.

Investing Activities

Net cash provided by investing activities was $2.9 million for the three months ended March 31, 2017 compared to net cash used in investing activities of $3.1 million for the three months ended March 31, 2016. In the current quarter, $3.0 million of the Company's short-term investments matured. In both the current and comparative quarters, cash used in investing activities included the acquisition of property, plant and equipment for production and laboratory equipment acquired by the Company's manufacturing facility in Varennes, Québec. In the comparative quarter, the Company purchased $3.0 million of the Company's short-term investments.

Financing Activities

Net cash provided by financing activities was $7,000 for the three months ended March 31, 2017 compared to net cash used in financing activities of $34.9 million for the three months ended March 31, 2016. In the comparative quarter, the Company transferred $35.0 million to Crescita as part of the Reorganization of the Company. See Corporate Reorganization.

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 2017** **$**	Q4 2016 $	Q3 2016 $	Q2 2016 $
Product sales	**6,653**	5,194	4,988	7,317
Royalties	**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

	Q1 2016 $	Q4 2015 $	Q3 2015 $	Q2 2015 $
Product sales	7,325	7,077	5,047	2,740
Royalties	309	285	251	133
Contract revenue	208	332	211	86
Cost of goods sold	3,135	3,049	2,510	1,789
Research and development expenses	208	253	338	301
General and administrative expense	2,091	125	1,067	1,501
Net interest income	(56)	(111)	(117)	(138)
Other expenses (income)	536	(323)	(398)	13
Income tax expense		-	-	-
Net income (loss)	1,928	4,701	2,109	(507)
Net income (loss) per common share				
- basic	0.17	0.43	0.19	(0.05)
- diluted	0.15	0.42	0.19	(0.05)

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended March 31, 2017.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could

realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 7, *Stock-based Compensation and Other Stock-based Payments*. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued $0.3 million for SARs as at March 31, 2017 [December 31, 2016 - $1.0 million].

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

FINANCIAL RISK MANAGEMENT

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

Liquidity Risk
While the Company had $13.6 million in cash and $5.0 million in short-term investments as at March 31, 2017, it is dependent on a single customer for substantially all of its revenue. During the three months ended March 31, 2017, the Company earned 92% [March 31, 2016 – 95%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to diversify its customer base in order to help mitigate this concentration risk.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $4.5 million that are due in less than a year and $9,000 of contractual obligations that are payable from 2019 to 2020.

Credit Risk
The Company's cash and short-term investments subject the Company to a concentration of credit risk. As at March 31, 2017, the Company had $13.6 million invested with two financial institutions in various bank accounts. These financial institutions are major Canadian banks, which the Company believes lessens the degree of credit risk. Additionally, the Company maintains $5.0 million in short-term investments with a creditworthy Canadian insurance company.

The Company, in the normal course of business, is exposed to credit risk from its global customers, most of whom are in the pharmaceutical industry. The accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement. As at March 31, 2017, the Company's largest customer represented 74% [December 31, 2016 - 73%] of accounts receivable.

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

in thousands	**March 31, 2017 $**	December 31, 2016 $
Current	**3,018**	2,159
0 - 30 days past due	**21**	11
31 - 60 days past due	**-**	216
	3,039	2,386

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

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

	Euros		U.S. Dollars	
in thousands	**March 31, 2017 €**	December 31, 2016 €	**March 31, 2017 $**	December 31, 2016 $
Cash	**154**	242	**3,993**	3,929
Accounts receivable	**311**	-	**1,880**	1,636
Other current assets	**-**	-	**535**	-
Accounts payable and accrued liabilities	**(184)**	(305)	**(205)**	(289)
	281	(63)	**6,203**	5,276

Based on the aforementioned net exposure as at March 31, 2017, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $0.8 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $40,000 on total comprehensive income (loss).

In terms of the euro, the Company has three significant exposures: its euro denominated cash held in its Canadian operations, sales of Pennsaid by the Canadian operations to European distributors and the cost of running the Pennsaid 2% Phase 3 clinical trial in Germany. In terms of the U.S. dollar, the Company has three significant exposures: its U.S. dollar denominated cash held in its Canadian operations, the cost of purchasing raw materials either priced in U.S. dollars or sourced from U.S. suppliers that are needed to produce Pennsaid, Pennsaid 2% or other products at the Canadian manufacturing facility and revenue generated in U.S. dollars from agreements with Horizon, Galen and Eurocept.

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

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

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

U.S. dollars held is excessive, they may be converted into Canadian dollars or other currencies, as needed for the Company's other operations.

Contractual Obligations

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

	Total	2018	2019	2020 and thereafter
in thousands	$	$	$	$
Finance lease obligations	12	3	3	6
Operating leases	178	178	-	-
Purchase obligations[1][2]	2,058	2,058	-	-
Other obligations[3]	2,285	2,285	-	-
	4,533	**4,524**	**3**	**6**

(1) The Company has committed to $1.9 million of capital investments for its manufacturing facility.
(2) The Company has committed to $0.2 million for the 2016 Pennsaid 2% Trial.
(3) Other obligations include accounts payable and accrued liabilities.

Litigation

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

Off-Balance Sheet Arrangements

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

Related Party Transactions

Crescita Therapeutics Inc.
Subsequent to the Reorganization, Nuvo and Crescita were related parties due to shared key management personnel. Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, (a) Nuvo provides Crescita corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, research and development and legal support and facility and equipment rental.

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

For the three months ended March 31, 2016, services provided to Crescita were $62,000 and services received from Crescita were $53,000.

Outstanding Share Data

The number of common shares outstanding as at March 31, 2017 was 11.6 million compared to 11.5 million as at December 31, 2016. The increase was due to stock options exercised during the quarter.

As at March 31, 2017, there were 1,158,906 options outstanding of which 688,753 have vested.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 - *Financial Instruments*

In July 2014, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9), which will replace IAS 39 - *Financial Instruments* and all previous versions of IFRS 9. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual Consolidated Financial Statements commencing January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the annual Consolidated Financial Statements.

IFRS 15 - *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is currently in the process of assessing its contracts and based on progress to-date, the Company expects to complete this assessment by the third quarter of 2017.

IFRS 16 - *Leases*

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

Amendments to IFRS 2 - *Share-based Payments*

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

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

The Company assesses the impact of adoption of future standards on its annual Consolidated Financial Statements, but does not anticipate significant changes in 2017.

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, 2017.

Risk Factors

Prospects for companies in the biotechnology and pharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology and pharmaceutical companies should be regarded as speculative. R&D involves a high and significant degree of risk. An investor should carefully consider the risks and uncertainties discussed in detail in the MD&A filed on SEDAR on March 1, 2017 for the year ended December 31, 2016 and the "Risk Factors" section of the Company's AIF filed March 1, 2017.

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

Dependency on Horizon

The Company currently derives the majority of its revenue from Pennsaid 2% U.S. product sales to Horizon. If Horizon was unable to successfully sell or stops selling Pennsaid 2%, for any reason, it would have an adverse effect on the Company's product sales and cash resources.

On November 27, 2017, the DSCSA rules come into force that require all manufacturers of drug products sold in the U.S. to individually "serialize" each drug package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, the Company has purchased new packaging equipment and technology systems that will give the Company the ability to individually serialize all Pennsaid 2% commercial bottle packaging. Although the Company has planned to install this new equipment and technology, as well as commence production of serialized product well before the November 27, 2017 implementation date, there can be no assurance that this will be the case. Any delay in successfully implementing the new packaging equipment and technology systems required to produce "serialized" product could significantly delay the manufacture and sale of the Company's commercial Pennsaid 2% product to Horizon and may have an adverse effect on the Company's product sales.

In February 2017, as a result of the DSCSA, Horizon advised the Company that it plans to draw down some if its existing inventory of commercial bottles of Pennsaid 2% and defer any further commercial bottle production until the Company's serialization equipment is operational. The Company expects to have its serialization equipment operational in the second half of Q3. These anticipated production changes will have a negative impact on the Company's Q2 and Q3 sales and earnings relative to normal prescription trends and purchases by Horizon. While the Company expects that sales to Horizon will increase when the serialization equipment becomes operational and Horizon resumes its more typical ordering patterns, there can be no assurance that this will be the case. If sales to Horizon do not increase once the Company's serialization equipment is operational, the negative impact on the Company's sales and earnings may be prolonged beyond the second and third quarter of 2017.

Actavis Litigation

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

In Horizon Pharma Ireland Limited, et al v. Actavis Laboratories UT, Inc., C.A. No. 14-cv-7992-NLH-AMD, a bench trial was held in March 2017. A decision in this trial is anticipated to be issued by the judge in May 2017. An adverse decision could have an adverse effect on the Company's future revenue from product sales.

No trial date has been set in any other pending Pennsaid 2% cases. The approval or launch of generic versions of Pennsaid 2% in the U.S. market could have an adverse effect on the Company's future revenue from product sales.

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

Additional Information

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

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Canadian dollars in thousands)	***Notes***	**As at March 31, 2017** **$**	As at December 31, 2016 $
ASSETS			
CURRENT			
Cash and cash equivalents	*13*	**13,617**	9,589
Short-term investments	*13*	**5,000**	8,000
Accounts receivable	*13*	**3,039**	2,386
Inventories	*3*	**3,239**	3,817
Other current assets	*4*	**1,316**	1,500
TOTAL CURRENT ASSETS		**26,211**	25,292
NON-CURRENT			
Property, plant and equipment	*5*	**1,273**	1,224
TOTAL ASSETS		**27,484**	26,516
LIABILITIES AND EQUITY			
CURRENT			
Accounts payable and accrued liabilities	*7*	**2,285**	3,646
Current portion of other obligations		**2**	2
TOTAL CURRENT LIABILITIES		**2,287**	3,648
Other obligations		**7**	7
TOTAL LIABILITIES		**2,294**	3,655
EQUITY			
Common shares	*6*	**185,266**	185,255
Contributed surplus	*6, 7*	**14,185**	14,062
Accumulated other comprehensive income (AOCI)		**1**	2
Deficit	*6*	**(174,262)**	(176,458)
TOTAL EQUITY		**25,190**	22,861
TOTAL LIABILITIES AND EQUITY		**27,484**	26,516

Commitments (Note 12)
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, 2017** **$**	Three Months ended March 31, 2016 $
REVENUE			
Product sales	*14*	**6,653**	7,325
Royalties	*14*	**222**	309
Contract and other revenue	*14*	**107**	208
Total revenue		**6,982**	7,842
OPERATING EXPENSES			
Cost of goods sold	*3, 7, 9*	**2,772**	3,135
Research and development expenses	*7, 9*	**311**	208
General and administrative expenses	*7, 9*	**1,671**	2,091
Net interest income		**(38)**	(56)
Total operating expenses		**4,716**	5,378
OTHER EXPENSES (INCOME)			
Foreign currency loss		**70**	536
Net income before income taxes from continuing operations		**2,196**	1,928
Income tax expense		**-**	-
NET INCOME FROM CONTINUING OPERATIONS		**2,196**	1,928
NET LOSS FROM DISCONTINUED OPERATIONS	*11*	**-**	(3,180)
NET INCOME (LOSS)		**2,196**	(1,252)
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods			
Unrealized gains (losses) on translation of foreign operations		**(1)**	32
TOTAL COMPREHENSIVE INCOME (LOSS)		**2,195**	(1,220)
Net earnings from continuing operations per common share			
- basic	*8*	**0.19**	0.17
- diluted	*8*	**0.19**	0.15
Net loss from discontinued operations per common share			
- basic and diluted	*8*	**-**	(0.28)
Net earnings (loss) per common share			
- basic and diluted	*8*	**0.19**	(0.11)
Average number of common shares outstanding (in thousands)			
- basic	*8*	**11,547**	11,294
- diluted	*8*	**11,760**	11,496

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars in thousands, except for number of shares)	Common Shares		Contributed Surplus	AOCI	Deficit	Total
	(000s)	$	$	$	$	$
Notes	*6, 7*	*6, 7*	*6, 7*	*6*		
Balance, December 31, 2015	11,145	234,763	13,956	1,059	(200,059)	49,719
Warrants exercised	54	177	(19)	-	-	158
Stock option compensation expense	-	-	138	-	-	138
Unrealized gain on translation of foreign operations	-	-	-	32	-	32
Common shares issued under Deferred Share Unit Plan	288	1,599	-	-	-	1,599
Common shares cancelled on execution of the Arrangement	(11,487)	(236,539)	-	-	-	(236,539)
New common shares issued on execution of the Arrangement	11,487	184,926	-	-	-	184,926
Unrealized income on translation of foreign operations transferred to Crescita Therapeutics Inc. (Crescita)	-	-	-	(1,107)	-	(1,107)
Distribution of Crescita	-	-	-	-	19,372	19,372
Net loss	-	-	-	-	(1,252)	(1,252)
Balance, March 31, 2016	11,487	184,926	14,075	(16)	(181,939)	17,046
Stock option compensation expense	-	-	93	-	-	93
Unrealized gain on translation of foreign operations	-	-	-	18	-	18
Stock options exercised	53	293	(106)	-	-	187
Employee contributions to Share Purchase Plan	3	18	-	-	-	18
Employer's portion of Share Purchase Plan	3	18	-	-	-	18
Net income	-	-	-	-	5,481	5,481
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**

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Canadian dollars in thousands)	***Notes***	**Three Months ended March 31, 2017** **$**	Three Months ended March 31, 2016 $
OPERATING ACTIVITIES			
Net income from continuing operations		**2,196**	1,928
Net loss from discontinued operations	*11*	**-**	(3,180)
Items not involving current cash flows:			
Depreciation and amortization	*5, 9*	**54**	66
Equity-settled stock-based compensation	*7*	**127**	1,737
Unrealized foreign exchange loss		**54**	310
Interest and accretion of long-term other obligations		**-**	7
Other		**-**	3
		2,431	871
Net change in non-cash working capital	*10*	**(1,260)**	(438)
CASH PROVIDED BY OPERATING ACTIVITIES		**1,171**	433
INVESTING ACTIVITIES			
Disposal (acquisition) of short-term investments		**3,000**	(3,000)
Acquisition of property, plant and equipment	*5*	**(103)**	(75)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		**2,897**	(3,075)
FINANCING ACTIVITIES			
Cash transferred to Crescita	*1*	**-**	(35,016)
Exercise of warrants	*6*	**-**	158
Repayment of capital lease and other obligations		**-**	(53)
Exercise of stock options		**7**	-
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**7**	(34,911)
Effect of exchange rate changes on cash		**(47)**	(110)
Net change in cash during the period		**4,028**	(37,663)
Cash, beginning of period		**9,589**	48,680
CASH, END OF PERIOD		**13,617**	11,017

See accompanying Notes.

Supplemental Cash Flow Information:

Interest received[1]	**47**	30

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, 2017 **$**	March 31, 2016 $
Cash and cash equivalents	**13,617**	11,017
Short-term investments	**5,000**	3,000
	18,617	14,017

NUVO PHARMACEUTICALS™ INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. NATURE OF BUSINESS

Nuvo Pharmaceuticals Inc. (Nuvo or the Company) is a commercial healthcare company with a portfolio of products and pharmaceutical manufacturing capabilities. Nuvo has three commercial products that are available in a number of countries: Pennsaid® 2%, Pennsaid and the heated lidocaine/tetracaine patch (HLT Patch). The Company's registered office and principal place of business is located at 7560 Airport Road, Unit 10, Mississauga, Ontario, L4T 4H4.

Pennsaid 2%
Pennsaid 2% is the follow-on product to original Pennsaid (described below). Pennsaid 2% is a topical non-steroidal anti-inflammatory drug (NSAID) containing 2% diclofenac sodium compared to 1.5% for original Pennsaid. Pennsaid 2% is more viscous than original Pennsaid, is supplied in a metered dose pump bottle and has been approved in the U.S. for twice-daily dosing compared to four times a day for Pennsaid. On January 16, 2014, Pennsaid 2% was approved in the U.S. for the treatment of the pain of osteoarthritis (OA) of the knee. The sales and marketing rights in the U.S. were originally licensed to Mallinckrodt Inc. (Mallinckrodt). In September 2014, the Company reached a settlement related to its litigation with Mallinckrodt. Under the terms of the settlement agreement, Mallinckrodt paid US$10.0 million to settle the claims and returned the sales and marketing rights for Pennsaid 2% and Pennsaid to Nuvo. In October 2014, the Company sold the U.S. rights to Pennsaid 2% to Horizon Pharma plc (Horizon) for US$45.0 million. In January 2015, Horizon launched its commercial sale and marketing of Pennsaid 2% in the U.S. Pennsaid 2% is currently manufactured by the Company for sale to Horizon.

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

HLT Patch
The HLT Patch is a topical patch that combines lidocaine, tetracaine and heat, using Nuvo's proprietary Controlled Heat-Assisted Drug Delivery (CHADD™) technology. The HLT Patch is approved in the U.S. to provide local dermal analgesia for superficial venous access and superficial dermatological procedures and is marketed by Galen US Incorporated (Galen) under the brand name Synera. In Europe, the HLT Patch is approved for surface anaesthesia of normal intact skin and is marketed by the Company's European-based licensee, Eurocept International B.V. (Eurocept), under the brand name Rapydan.

Nuvo Reorganization
On March 1, 2016, Nuvo completed a transaction (the Reorganization) pursuant to which Nuvo was reorganized into two separate publicly traded companies, Nuvo and Crescita Therapeutics Inc. (Crescita). The Reorganization proceeded by way of arrangement under the *Canada Business Corporations Act* (the Arrangement). Per the terms of the Arrangement, Nuvo transferred $35.0 million to Crescita and changed its name from "Nuvo Research Inc." to "Nuvo Pharmaceuticals Inc." Detailed information regarding the Reorganization and its effects, including a description of certain risks and uncertainties in respect of the Reorganization and the operations of the Company and Crescita as separate publicly traded companies, is included in the Management Information Circular dated December 31, 2015 (Nuvo Reorganization Circular) that is available under the Company's profile at www.sedar.com.

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo and Crescita. Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Prior

to the Reorganization, Crescita was a drug development business. The operations related to Crescita are accounted for as a discontinued operation (See Note 11, *Discontinued Operations*).

2. BASIS OF PREPARATION

Statement of Compliance

The Company prepares its Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 34 - *Interim Financial Reporting* (IAS 34). Accordingly, these Condensed Consolidated Interim Financial Statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual Consolidated Financial Statements of the Company for the year ended December 31, 2016, which are available on SEDAR at www.sedar.com.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements were the same as those that applied to the Company's annual Consolidated Financial Statements as at and for the year ended December 31, 2016.

These Condensed Consolidated Interim Financial Statements were issued and effective as at May 10, 2017, the date the Board of Directors approved these Condensed Consolidated Interim Financial Statements.

Basis of Measurement

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

Basis of Consolidation

These Condensed Consolidated Interim Financial Statements include the accounts of the Company and its subsidiary as follows:

	% Ownership
Dimethaid (UK) Ltd.	**100%**

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

Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements. The policies applied in these Condensed Consolidated Interim Financial Statements are based on International Financial Reporting Standards (IFRS) issued and outstanding as at May 10, 2017.

Accounting Standards Issued But Not Yet Applied

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 - *Financial Instruments*

In July 2014, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9), which will replace IAS 39 - *Financial Instruments* and all previous versions of IFRS 9. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual Consolidated Financial Statements commencing

January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the annual Consolidated Financial Statements.

IFRS 15 - *Revenue from Contracts with Customers*
In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is currently in the process of assessing its contracts and based on progress to-date, the Company expects to complete this assessment by the third quarter of 2017.

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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.

The Company assesses the impact of adoption of future standards on its annual Consolidated Financial Statements, but does not anticipate significant changes in 2017.

3. INVENTORIES

Inventories consist of the following as at:

	March 31, 2017	December 31, 2016
	$	$
Raw materials	**2,752**	3,026
Work in process	**113**	75
Finished goods	**374**	716
	3,239	3,817

During the three months ended March 31, 2017, inventories in the amount of $2.3 million were recognized as cost of goods sold [March 31, 2016 - $2.9 million]. During the three months ended March 31, 2017 and 2016, there were no inventory write-downs and no reversals of prior period write-downs.

4. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	March 31, 2017	December 31, 2016
	$	$
Deposits[(i)]	958	995
Prepaid expenses	299	276
Other receivables	59	229
	1,316	1,500

(i) As at March 31, 2017, deposits included $919 [December 31, 2016 - $932] for deposits on production equipment.

5. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings	Furniture & Fixtures	Computer Equipment & Software	Production, Laboratory & Other Equipment[(i)]	Total
Cost	$	$	$	$	$	$
Balance, December 31, 2016	42	1,433	60	162	3,133	4,830
Additions	-	11	-	3	89	103
Disposals	-	-	-	-	(25)	(25)
Balance, March 31, 2017	**42**	**1,444**	**60**	**165**	**3,197**	**4,908**
Accumulated depreciation						
Balance, December 31, 2016	-	852	59	160	2,535	3,606
Depreciation expense	-	16	-	-	38	54
Disposals	-	-	-	-	(25)	(25)
Balance, March 31, 2017	**-**	**868**	**59**	**160**	**2,548**	**3,635**
Net book value as at December 31, 2016	42	581	1	2	598	1,224
Net book value as at March 31, 2017	**42**	**576**	**1**	**5**	**649**	**1,273**

(i) Production, laboratory and other equipment as at March 31, 2017 included a cost of $10 [December 31, 2016 - $35] and accumulated depreciation of $3 [December 31, 2016 - $27] for assets under finance leases. Depreciation of PP&E was $1 for the three months ended March 31, 2017 [December 31, 2016 - $2] related to assets under finance leases.

6. CAPITAL STOCK

Authorized

- Unlimited first and second preferred shares, non-voting, non-participating, issuable in series, number, designation, rights, privileges, restrictions and conditions are determinable by the Company's Board of Directors.
- Unlimited common shares, voting, without par value.

Reorganization

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

To determine Nuvo's share capital amount after the Arrangement, Nuvo's stated capital immediately prior to the Arrangement was split based on the butterfly proportion, as defined in the Nuvo Reorganization Circular, of the Nuvo and Crescita common shares at the effective date of the Arrangement. The butterfly proportion was determined to be 78.18% for Nuvo and 21.82% for Crescita (Butterfly Allocation). The butterfly proportion is based on the volume weighted average prices (VWAP) of the Crescita common shares and the Post-

Arrangement Nuvo common shares during the five trading days during the period from March 7, 2016 to March 11, 2016.

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

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

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

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

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

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

The Company has four stock-based compensation plans: the Share Option Plan, the Share Purchase Plan and the Share Bonus Plan, each a component of the Company's Share Incentive Plan and the Share Appreciation Rights (SARs) Plan. As part of the Arrangement, the Deferred Share Unit (DSU) Plan for non-employee directors and the DSU Plan for employees were terminated and settled in shares on March 1, 2016.

Share Incentive Plan
Under the Company's Share Incentive Plan, there are three sub plans: (i) the Share Option Plan, (ii) the Share Purchase Plan and (iii) the Share Bonus Plan. As the Share Incentive Plan is a "rolling plan", the TSX requires that it, along with any unallocated options, rights or other entitlements, receive shareholder approval at the Company's annual meeting every three years. On February 18, 2016, shareholders of Nuvo approved a resolution affirming, ratifying and approving the Share Incentive Plan and approving all of the unallocated common shares issuable pursuant to the Share Incentive Plan. The Share Incentive Plan came into effect on March 1, 2016.

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

As at March 31, 2017, the number of common shares available for issuance under the Share Incentive Plan was 573,728.

Share Option Plan

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

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

The exercise price of each Post-Arrangement stock option issued by Nuvo was determined by allocating the exercise price of the original Nuvo stock option between the Post-Arrangement stock option issued by Nuvo and the Post-Arrangement stock option issued by Crescita based on the relative fair market values of the Nuvo and Crescita common shares at the effective date of the Arrangement. The relative fair market values were determined using the Butterfly Allocation (See Note 6, *Capital Stock*).

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

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

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000s	$	$
Balance, December 31, 2016	849	1.53 - 12.70	5.01
Granted	314	5.75	5.75
Exercised	(5)	1.53	1.53
Balance, March 31, 2017	**1,158**	**1.53 - 12.70**	**5.22**

The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Options are valued with a calculated forfeiture rate of 7.0% [December 31, 2016 - 7.0%], and the remaining model inputs for options granted during the period ended March 31, 2017 were:

Options (000s)	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor %	Fair Values $
314	March 7, 2017	5.75	5.75	1.02 - 1.42	5 - 7	67 - 71	3.28 - 3.66

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at March 31, 2017:

	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 - 4.32	306	6.5	2.71	262	2.70
5.08 - 5.75	622	8.6	5.52	196	5.22
6.35 - 6.86	181	0.7	6.80	181	6.80
11.18 - 12.70	49	2.9	11.31	49	11.31
	1,158	**6.6**	**5.22**	**688**	**5.07**

Share Appreciation Rights Plan

On October 30, 2013, the Company established the SARs Plan for directors, officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. Under the SARs Plan, participants receive, upon vesting, a cash amount equal to the difference between the SARs fair market value and the grant price value, also known as the intrinsic value. Fair market value is determined by the closing price of the Company's common share on the 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.

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

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

The fair values of each tranche issued and outstanding in the period were measured as at March 31, 2017 using the Black-Scholes option pricing model with the following inputs:

SARs (000s)	Grant Date	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor %	Fair Values $
67	April 4, 2014	2.65	0.75	1	34	2.91
104	January 7, 2015	5.63	0.75	1 – 2	34 – 41	0.63 – 1.17

The following table summarizes the outstanding SARs and related accrual as at March 31, 2017:

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

Deferred Share Unit Plan

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

Under the employee DSU Plan, employees could elect to have a portion of their quarterly earnings issued in units of the DSU Plan. Consistent with non-employee directors, one DSU had a cash value equal to the market price of one of the Company's common shares. The number of units to be credited to an employee was calculated by

dividing the elected portion of the compensation payable to the employee by the five-day VWAP of the Company's common shares immediately preceding the close of each quarter.

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

Upon execution of the Reorganization on March 1, 2016, all outstanding DSUs for directors and employees were settled in shares of Nuvo net of the cash tax obligation that was paid by Nuvo. Nuvo settled the DSU Plan by issuing 288,226 common shares to settle 451,111 outstanding DSUs. The shares issued were restricted from trading for twelve months. The common shares were issued net of the cash tax obligation that was payable by the Company. The DSU Plan for employees was terminated March 1, 2016. There was no DSU accrual as at March 31, 2017 [March 31, 2016 - nil].

Summary of Stock-based Compensation

Stock-based compensation from continuing operations is as follows:

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
	$	$
Stock option compensation expense under the Share Option Plan	**127**	109
SARs compensation expense	**(41)**	446
DSUs – issued for settlement of directors' fees	**-**	120
DSUs – adjustment to market value	**-**	384
Stock-based compensation expense[(i)]	**86**	1,059
Recorded in the Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) as follows:		
Cost of goods sold	**5**	1
Research and development expenses	**-**	11
General and administrative expenses	**81**	1,047
	86	1,059

(i) During the three months ended March 31, 2017, the Company's discontinued operations included $nil of stock-based compensation [March 31, 2016 - $288].

8. NET EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per share is computed as follows:

(Canadian dollars in thousands, except per share and share figures)	**Three Months ended March 31, 2017** **$**	Three Months ended March 31, 2016 $
Basic earnings (loss) per share:		
Net income (loss)	**2,196**	(1,252)
Average number of shares outstanding during the period	**11,547**	11,294
Basic earnings (loss) per share	**0.19**	(0.11)
Basic earnings per share from continuing operations	**0.19**	0.17
Basic loss per share from discontinued operations	**-**	(0.28)
Net income (loss), assuming dilution	**2,190**	(1,252)
Net income from continuing operations, assuming dilution	**2,190**	1,680
Average number of shares outstanding during the period	**11,547**	11,294
Dilutive effect of:		
Stock options	**180**	161
Warrants	**-**	3
DSUs	**-**	38
SARs	**33**	-
Weighted average common shares outstanding, assuming dilution	**11,760**	11,496
Diluted earnings (loss) per share	**0.19**	(0.11)
Diluted earnings per share from continuing operations	**0.19**	0.15
Diluted loss per share from discontinued operations	**-**	(0.28)

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

	March 31, 2017 **000s**	March 31, 2016 000s
Common shares issued and outstanding	**11,551**	11,487
Stock options outstanding (Note 7)	**1,158**	958
SARs outstanding (Note 7)	**171**	495
	12,880	12,940

9. EXPENSES BY NATURE

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

(a) Employee costs from continuing operations:

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
	$	$
Short-term employee wages, bonuses and benefits	**1,584**	1,875
Share-based payments	**56**	685
Total employee costs	**1,640**	2,560
Included in:		
Cost of goods sold	**929**	1,030
Research and development expenses	**-**	25
General and administrative expenses	**711**	1,505
Total employee costs	**1,640**	2,560

(b) Depreciation and amortization from continuing operations:

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
	$	$
Cost of goods sold	**54**	46
Research and development expenses	**-**	12
Total depreciation and amortization [(i)]	**54**	58

[(i)] During the three months ended March 31, 2017, the Company's discontinued operations included $nil of depreciation expense [March 31, 2016 - $8].

10. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
	$	$
Accounts receivable	**(663)**	1,812
Inventories	**578**	(482)
Other current assets	**184**	190
Accounts payable and accrued liabilities	**(1,359)**	(1,958)
Net change in non-cash working capital	**(1,260)**	(438)

11. DISCONTINUED OPERATIONS

On March 1, 2016, the Company completed the Reorganization of Nuvo into two separate publicly traded companies, Nuvo and Crescita, each initially owned 100% by Nuvo's shareholders. With the completion of the Reorganization on March 1, 2016, operating results have been restated to reflect Crescita as a discontinued operation. Accordingly, Crescita is no longer presented in Note 14, *Segmented Information*.

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
(In thousands, except per share figures)	**$**	$
REVENUE		
Product sales	-	45
Royalties	-	14
Total revenue	-	59
OPERATING EXPENSES		
Cost of goods sold	-	96
Research and development	-	648
General and administrative	-	2,498
Interest expense	-	5
Total operating expenses	-	3,247
OTHER EXPENSE (INCOME)		
Foreign currency gain	-	(8)
NET LOSS FROM DISCONTINUED OPERATIONS	-	(3,180)
Net loss from discontinued operations per common share		
- basic and diluted	**-**	(0.28)
Average number of common shares outstanding		
- basic and diluted	**-**	11,294

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
	$	$
Cash used in operating activities	**-**	(5,203)
Cash provided by investing activities	**-**	4,801
Cash provided by financing activities	**-**	34,963
Net cash inflow	**-**	34,561

12. COMMITMENTS

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

	Research & Other Service Contracts	**Operating Leases**	**Purchase Commitments[(i)]**	**Total**
	$	**$**	**$**	**$**
2018	151	178	1,907	2,236

(i) The Company has committed to $1.9 million of capital investments for its manufacturing facility.

For the three months ended March 31, 2017, payments under operating leases totalled $nil [March 31, 2016 - $32].

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. 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 and Pennsaid 2% for its customers.

The Company has a long-term supply agreement with a third-party manufacturer for the supply of dimethyl sulfoxide, one of its key raw materials, 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 obligates the Company to purchase 100% of its dimethyl sulfoxide requirements from the third party at specified pricing, but does not contain any minimum purchase commitments.

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended March 31, 2017.

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

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 7, *Stock-based Compensation and Other Stock-based Payments*. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued $0.3 million for SARs as at March 31, 2017 [December 31, 2016 - $1.0 million].

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

Risk Factors

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

Liquidity Risk

While the Company had $13.6 million in cash and $5.0 million in short-term investments as at March 31, 2017, it is dependent on a single customer for substantially all of its revenue. During the three months ended March 31, 2017, the Company earned 92% [March 31, 2016 – 95%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The loss of this customer would have a material adverse effect on the Company's

revenue, operating results and cash flows. The Company continues to seek business opportunities to diversify its customer base in order to help mitigate this concentration risk.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $4.5 million that are due in less than a year and $9 of contractual obligations that are payable from 2019 to 2020.

Credit Risk

The Company's cash and short-term investments subject the Company to a concentration of credit risk. As at March 31, 2017, the Company had $13.6 million invested with two financial institutions in various bank accounts. These financial institutions are major Canadian banks, which the Company believes lessens the degree of credit risk. Additionally, the Company maintains $5.0 million in short-term investments with a creditworthy Canadian insurance company.

The Company, in the normal course of business, is exposed to credit risk from its global customers, most of whom are in the pharmaceutical industry. The accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement. As at March 31, 2017, the Company's largest customer represented 74% [December 31, 2016 - 73%] of accounts receivable.

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

	March 31, 2017	December 31, 2016
	$	$
Current	**3,018**	2,159
0 - 30 days past due	**21**	11
31 - 60 days past due	**-**	216
	3,039	2,386

Interest Rate Risk

All finance lease obligations are at fixed interest rates.

Currency Risk

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

	Euros		U.S. Dollars	
	March 31, 2017	December 31, 2016	**March 31, 2017**	December 31, 2016
	€	€	**$**	$
Cash	**154**	242	**3,993**	3,929
Accounts receivable	**311**	-	**1,880**	1,636
Other current assets	**-**	-	**535**	-
Accounts payable and accrued liabilities	**(184)**	(305)	**(205)**	(289)
	281	(63)	**6,203**	5,276

Based on the aforementioned net exposure as at March 31, 2017, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $0.8 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $40 on total comprehensive income (loss).

In terms of the euro, the Company has three significant exposures: its euro denominated cash held in its Canadian operations, sales of Pennsaid by the Canadian operations to European distributors and the cost of

running the Pennsaid 2% Phase 3 clinical trial in Germany. In terms of the U.S. dollar, the Company has three significant exposures: its U.S. dollar denominated cash held in its Canadian operations, the cost of purchasing raw materials either priced in U.S. dollars or sourced from U.S. suppliers that are needed to produce Pennsaid, Pennsaid 2% or other products at the Canadian manufacturing facility and revenue generated in U.S. dollars from agreements with Horizon, Galen and Eurocept.

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

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

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

14. SEGMENTED INFORMATION

Segments

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

Geographic Information

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

	Three Months ended March 31, 2017	Three Months ended March 31, 2016
	$	$
United States	**6,411**	7,423
Europe	**455**	282
Canada	**103**	137
Other	**13**	-
	6,982	7,842

As at March 31, 2017, all of the Company's PP&E was located in Canada.

Significant Customers

For the three months ended March 31, 2017, the Company's four largest customers generating product sales represented 100% [March 31, 2016 - 99%] of total product sales and the Company's largest customer represented 92% [March 31, 2016 - 95%] of total product sales.

15. RELATED PARTY TRANSACTIONS

Crescita Therapeutics Inc.
Subsequent to the Reorganization, Nuvo and Crescita were related parties due to shared key management personnel. Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, (a) Nuvo provides Crescita corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, research and development and legal support and facility and equipment rental.

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

For the three months ended March 31, 2016, services provided to Crescita were $62 and services received from Crescita were $53.