



Dear Nuvo Shareholders,

In the third quarter of 2018, we continued to execute on our plans for expanding our business and reinforcing its growth potential.

In the quarter, we announced the signing of definitive agreements to acquire a portfolio of revenue-generating products, as well as the associated personnel and infrastructure to continue the products' management and growth, from Aralez Pharmaceuticals Inc. (Aralez) (Aralez Transaction). As part of the Aralez Transaction, Nuvo would acquire the business of Aralez in Canada, which includes multiple products sold in Canada by Aralez' Canadian sales force, along with royalty streams and global product rights for Vimovo<sup>®</sup>, Treximet<sup>®</sup> and Yosprala<sup>®</sup>. Aralez has filed for Chapter 11 bankruptcy protection in the U.S. and Companies' Creditor Arrangement Act (CCAA) protection in Canada. While definitive agreements have been signed, we still need to work through the bankruptcy process in the U.S and the CCAA process in Canada. Nuvo's definitive agreements with Aralez have resulted in Nuvo being designated as the so called "stalking horse bidder" by the courts. This means that our definitive agreements establish Nuvo as the court approved buyer of the Aralez Canada business and the global product rights for Vimovo, Treximet and Yosprala unless we are outbid in the bankruptcy process. As the court approved "stalking horse bidder", Nuvo is entitled to certain expense reimbursement, return of our US\$4.4 million deposit and the payment of defined break fees if we are ultimately out bid for the assets that we have agreed to purchase. Other qualified parties may submit competing bids until November 26, 2018. For a qualified bidder to outbid Nuvo, it must bid an amount that exceeds the Nuvo bid, plus the value of our expense reimbursement and break fee payments, (which would currently amount to approximately US\$4.6 million) by a defined amount. Nuvo has the right to match or top competing bids in a court approved auction process currently scheduled for November 29, 2018. Closing of the transactions for the successful bidder are expected before the end of the year.

As a former employee of Tribute Pharmaceuticals (the predecessor to Aralez Pharmaceuticals Canada Inc.) and member of the team that built the product portfolio that makes up the Aralez Canada business today, I know that business well. I believe it has the potential to be transformational for Nuvo and to create significant value for you - our shareholders. While Aralez is in bankruptcy protection, it is important to highlight that we are proposing to acquire what in our view, are some of the strongest and most profitable segments of its business. Furthermore, these segments have the potential to deliver continued value and growth post-closing. The business includes multiple products with high-growth potential, patent protection or other forms of market protection and significant royalty streams, some with guaranteed minimum payments. The business has the potential to provide substantial cash flow for years to come. As part of the transaction, we would acquire the infrastructure and the team that has built this Canadian business over the past 2 years. While closing is not guaranteed for the reasons mentioned above, we are hopeful and excited about our prospects.

Our U.S. Pennsaid<sup>®</sup> 2% business continues to deliver consistent manufacturing revenue for Nuvo. Pennsaid 2% prescriptions have stabilized throughout 2018. Our U.S. partner Horizon Pharma (Horizon) has confirmed that its primary care business, of which Pennsaid 2% continues to be the number one product from a revenue and profit generation standpoint, is in maintenance mode and that it has no current intention to change its Pennsaid 2% marketing efforts.

We continue to explore ways to expand the Pennsaid 2% franchise outside of the U.S. and have made continued progress in the third quarter. We anticipate that our registration dossier will be submitted to

the Austrian authorities in December of this year, followed by reviews in Italy, Portugal and Greece - all countries where original Pennsaid was approved and in the case of Greece and Italy, is currently being sold. We had a positive meeting with the Swedish Medical Products Agency (the MPA) in September to present it with our proposed registration pathway for Pennsaid 2%. Sweden is a country that did not originally approve original Pennsaid for marketing and so a Swedish registration application would be a “*de novo*” or brand-new file. The MPA has agreed with our proposed filing strategy for Pennsaid 2%. This is a major step for the international Pennsaid 2% opportunity, as Sweden was opposed to approving original Pennsaid for marketing back in 2000-2002. We believe that the Swedish response demonstrates there may be opportunities to file Pennsaid 2% in other E.U. member states. We intend to submit our application for Swedish approval to the MPA in 2019 and will share further details on timelines and other countries that may be included in this procedure in the coming months.

Our Pennsaid 2% partner in Switzerland, Gebro Pharma AG (Gebro) filed their marketing authorization application to Swissmedic in October. This triggered a milestone payment from Gebro, and represents the first European regulatory submission for Pennsaid 2%. While Switzerland is a relatively small market (total topical diclofenac sales last year were approximately \$25 million), it is a very attractive market from a pricing standpoint. Our agreement with Gebro includes a royalty on net sales and revenue generated from an exclusive supply agreement. Pennsaid 2% is manufactured at the Company's facility in Varennes, Québec.

In India, our exclusive licensee for Pennsaid 2%, Sayre Therapeutics PVT Ltd. is making good progress with their regulatory submission. After some review delays with the Drug Controller General of India, we understand that a review decision will be made in the first quarter of 2019. As always, these dates are moving targets, but we are encouraged that a decision will hopefully be made soon, which could result in a commercial launch in India as early as the second half of 2019.

We are making progress on our partnering efforts for Resultz®. When we announced the Resultz acquisition in January 2018, we anticipated having a U.S. partner in place by the middle of this year. Despite significant outreach and many interested parties, we have not yet concluded a license deal. The initial launch for a branded consumer health product like Resultz is a key determinate to its commercial success and, therefore, we want to ensure we have the right partner who shares our dedication and enthusiasm for the brand. In light of the partnering delays, timelines for U.S. revenue from Resultz have been pushed out. We will keep you updated as we continue to make progress with our U.S. partnering activities.

We have had significant interest in Resultz from some key European markets and expect to make progress with Resultz partnering in this region before the end of this year.

We look forward to updating you on the status of these value creating activities as they come to fruition. Sincere thanks, as always, to our shareholders for your continued support.

Best personal regards,

Jesse Ledger  
President & CEO

## Management's Discussion and Analysis (MD&A)

November 7, 2018 / The following information should be read in conjunction with Nuvo Pharmaceuticals™ Inc. (Nuvo or the Company) Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018 which were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 – Interim Financial Reporting. Additional information about the Company, including the Consolidated Financial Statements and Annual Information Form (AIF), can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### Forward-looking Statements

*This MD&A contains “forward-looking statements” within the meaning of applicable securities laws. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods. Forward looking information in this MD&A includes, but is not limited to, statements with respect to the ability of the parties to complete the Aralez Transaction (as defined below) and the financing arrangements with Deerfield (as defined below) (including the satisfaction of the conditions to completion of the Aralez Transaction and the financing arrangements with Deerfield), the timeline for the closing of the Aralez Transaction, and the receipt of the Company of any expense reimbursement or break fees. The forward-looking information contained in this MD&A is based on certain expectations and assumptions made by Nuvo, including the receipt of required approvals and the satisfaction of other conditions to the Aralez Transaction and the financing arrangements with Deerfield; and that the definitive agreements in respect of the Aralez Transaction and the commitment letter in respect of the financing arrangements with Deerfield will not be amended or terminated.*

*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 due to a number of factors and risks. Material factors and assumptions used to develop the forward-looking information contained in this news release, and material risk factors that could cause actual results to differ materially from the forward-looking information, include but are not limited to, the failure to satisfy the conditions relating to the Aralez Transaction and the financing arrangements with Deerfield (including failure to obtain any required approvals, including the approval of the U.S. Court and the Ontario Court); the occurrence of any event, change or other circumstance that could give rise to the termination of the definitive agreements in respect of the Aralez Transaction or the commitment letter in respect of the financing arrangements with Deerfield; material adverse changes in the business or affairs of the acquired businesses or Nuvo; either party's failure to consummate the Aralez Transaction or the financing arrangements with Deerfield when required; competitive factors in the industries in which the acquired businesses and Nuvo operate; interest rates, prevailing economic conditions; and other factors, many of which are beyond the control of Nuvo. Additional factors that could cause Nuvo's actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the risk factors included in Nuvo's most recent Annual Information Form dated March 22, 2018 under the heading “Risks Factors”, and as described from time to time in the reports and disclosure documents filed by Nuvo with Canadian securities regulatory agencies and commissions. These and other factors should be considered carefully and readers should not place undue reliance on Nuvo's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and none of Nuvo or any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.*

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

## Overview

Nuvo is a publicly traded, globally focused, healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Nuvo has four commercial products that are available in a number of countries: Pennsaid® 2%, Pennsaid, Resultz® and the heated lidocaine/tetracaine patch (HLT Patch). Nuvo manufactures Pennsaid 2% for the U.S. market, Pennsaid for the global market and the bulk drug product for the HLT Patch at its U.S. Food and Drug Administration (FDA), Health Canada and E.U. approved manufacturing facility in Varennes, Québec.

As at September 30, 2018, the Company employed a total of 49 full-time employees at its manufacturing facility and its head office in Mississauga, Ontario.

## Growth Strategy

The Company's focus, in the short-term, is to continue to maximize the value of Pennsaid 2% and Resultz through out-licensing to commercial partners in international markets, identifying new opportunities to acquire additional, revenue generating or late-stage products or businesses to further diversify the Company's existing product portfolio and revenue streams and to better utilize the Company's manufacturing facility.

### Aralez Transaction

On September 19, 2018, the Company announced the entering into of definitive, binding purchase agreements with Aralez Pharmaceuticals Inc. (Aralez) to acquire a portfolio of revenue-generating products, as well as the associated personnel and infrastructure to continue the products' management and growth (the Aralez Transaction). Pursuant to the terms of the definitive agreements, Nuvo paid a deposit of US\$4.4 million (\$5.7 million) to Aralez in connection with the Aralez Transaction.

Aralez, along with its Canadian subsidiary, Aralez Pharmaceuticals Canada Inc., has commenced voluntary proceedings under Canada's *Companies' Creditors Arrangement Act* (the CCAA) in the Ontario Superior Court of Justice (the Ontario Court). In connection with these proceedings, certain other subsidiaries of Aralez have voluntarily filed petitions under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York (the U.S. Court).

As part of the restructuring process, Aralez and its subsidiaries will conduct a sale process in accordance with bidding procedures approved by the Ontario Court and the U.S. Court. Such sale process allows other bidders to submit superior offers for any of the assets subject to the Aralez Transaction in accordance with the bidding procedures. The definitive agreements in respect of the Aralez Transaction will serve as the "stalking horse" bids in the sale process, which may entitle Nuvo to receive a customary termination fee and expense reimbursement, plus the return of its deposit, if it is not ultimately the successful bidder. Pursuant to the terms of the definitive agreements, upon closing of the Aralez Transaction, the Company would pay Aralez US\$110 million in cash (includes the US\$4.4 million deposit previously paid), which the Company would satisfy through funding provided by certain funds managed by Deerfield Management Company, L.P. (Deerfield). Deerfield has provided a binding commitment letter to the Company to be the sole financier and to fund the Aralez Transaction in its entirety (the Financing). The commitment letter provides for the following:

- US\$52.5 million of 6-year term, 3.5% p.a. interest, senior secured convertible debentures with a conversion price of US\$2.70 to fund the acquisition of the Canadian operations and working capital purposes;
- US\$60 million of 6-year term, 3.5% p.a. interest, senior secured loan for an issue price of US\$47.5 million to Nuvo Pharmaceuticals (Ireland) DAC to fund the acquisition of the royalty and product interests in Vimovo®, Yosprala® and MT400. Nuvo will make mandatory quarterly loan payments equal to the greater of US\$2.5 million and 50% of excess cash flow;
- Nuvo will issue to Deerfield, for an aggregate purchase price of US\$12.5 million, warrants to purchase approximately 25.6 million common shares at an exercise price of C\$3.53 and with a 6-year life (the Warrants). The proceeds from the exercise of the Warrants will initially be used to reduce the amount owing on the senior secured loans;
- US\$3.0 million of 18-month term, 12.5% p.a. interest, senior secured loan to Nuvo for working capital purposes;

- Deerfield (and any permitted transferee) will be prohibited from converting debentures or exercising the Warrants if it would result in Deerfield (and its affiliates) holding more than 4.985% of the total issued securities of Nuvo; and
- There will be no changes to the Nuvo senior management team or board of directors.

The Financing is subject to certain terms and conditions. Nuvo has agreed to certain customary restrictions on the conduct of its business until the closing of the Aralez Transaction.

If Nuvo is the successful bidder in the sale process, closing of the Aralez Transaction will be subject to certain conditions, including approval of the Aralez Transaction by the Ontario Court and the U.S. Court, as well as approval by the Toronto Stock Exchange. The approval of Nuvo's shareholders is not a condition to closing the Aralez Transaction or the Financing, but Nuvo intends to seek the approval of its shareholders following closing for certain terms of the warrants and convertible debentures to be issued to Deerfield. If such shareholder approval is not obtained, the convertible debentures and the warrants would be settled solely through cash payments in accordance with their terms.

There can be no assurance that Nuvo will ultimately be the successful bidder in the process or that the Aralez Transaction as described, or otherwise, will be successfully completed. The description of the Aralez Transaction and the Financing contained in herein are qualified in their entirety by the reference to the definitive purchase agreements and binding commitment letter, copies of which will be filed under Nuvo's profile at [www.sedar.com](http://www.sedar.com). Further information about the bankruptcy proceedings can be found via the following link <http://insolvency.richter.ca/A/Aralez-Pharmaceuticals>.

## Significant Transactions

### 2018

#### **Acquisition of U.S. Rights to Resultz**

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

### 2017

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

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

#### **Pennsaid 2% Out-licensing**

In December 2017, the Company entered into a license and distribution agreement with Gebro Pharma AG (Gebro Pharma) for the exclusive right to register, distribute, market and sell Pennsaid 2% in Switzerland and Liechtenstein.

The Company is eligible to receive milestone payments and royalties on net sales of Pennsaid 2% in Switzerland and Liechtenstein and will earn product revenue from Gebro Pharma pursuant to an exclusive supply agreement from its manufacturing facility.

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

## Key Developments

Key developments for the Company during the three months ended September 30, 2018, and up to the date of this MD&A, include the following:

- On July 26, 2018, the Company's wholly owned subsidiary Nuvo Pharmaceuticals (Ireland) DAC (Nuvo Ireland) signed a license and supply agreement with Fagron Belgium NV (Fagron) granting Fagron the rights to commercialize Resultz in Belgium, the Netherlands and Luxembourg (the Territory) as a class one medical device for the human treatment of head lice infestation. Resultz is cleared for marketing in the Territory. Pursuant to the license agreement, Nuvo Ireland received upfront consideration and will receive royalties on net sales of Resultz in the Territory. Nuvo will also earn revenue from Fagron pursuant to the exclusive supply agreement.
- On September 19, 2018, the Company announced the entering into of definitive, binding purchase agreements with Aralez Pharmaceuticals Inc. (Aralez) to acquire a portfolio of revenue-generating products, as well as the associated personnel and infrastructure to continue the products' management and growth (the Aralez Transaction). Upon closing, the Company would pay Aralez US\$110 million in cash (less the US\$4.4 million deposit previously paid), with funding provided by certain funds managed by Deerfield Management Company, L.P. (Deerfield). Aralez, along with its Canadian subsidiary, Aralez Pharmaceuticals Canada Inc., has commenced voluntary proceedings under Canada's *Companies' Creditors Arrangement Act* (the CCAA) in the Ontario Superior Court of Justice (the Ontario Court) and, certain other subsidiaries of Aralez have voluntarily filed petitions under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. (the U.S. Court). The Aralez Transaction is subject to a specified sale process in accordance with certain bidding procedures that were approved by the Ontario Court and the U.S. Court. Such sale process allows other bidders to submit superior offers for the assets to be acquired by Nuvo that Nuvo will have the opportunity to match or exceed in an auction process. If another bidder wins the auction with a superior bid, Nuvo may be entitled to receive expense reimbursement and break-fees in the amount of approximately US\$4.6 million, plus the return of its US\$4.4 million cash deposit. If Nuvo is the successful bidder in the sale process, closing of the Aralez Transaction will be subject to certain conditions, including approval of the Aralez Transaction by the Ontario Court and the U.S. Court, as well as approval by the Toronto Stock Exchange. There can be no assurance that Nuvo will ultimately be the successful bidder or that the Aralez Transaction will be successfully completed. The definitive purchase agreements and binding commitment letter for the funding to be provided by Deerfield can be found under Nuvo's profile at [www.sedar.com](http://www.sedar.com).
- On October 24, 2018, the Company's licensee in Switzerland, Gebro Pharma AG (Gebro), submitted its marketing authorization application for Pennsaid 2% to Swissmedic, the overseeing Swiss regulatory authority. This submission is the first European market where Pennsaid 2% has been submitted for registration and marks another step in the Company's plans to expand the commercialization of Pennsaid 2% internationally.

## Commercial Products

### Resultz

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

ingredients - 50% isopropyl myristate and 50% cyclomethicone D5. It is clinically proven to achieve 100% effectiveness when used as directed.

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

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

<sup>(1)</sup> Partner is working to obtain regulatory approval in licensed territory.

### Pennsaid 2%

Pennsaid 2% is a follow-on product to original Pennsaid. Pennsaid 2% is a topical pain product that combines a dimethyl sulfoxide (DMSO) based transdermal carrier with 2% diclofenac sodium, a leading nonsteroidal anti-inflammatory drug (NSAID), compared to 1.5% for original Pennsaid (described below). It is more viscous than original Pennsaid, is supplied in a metered dose pump bottle and has been approved in the U.S. for twice daily dosing compared to four times a day for Pennsaid. This provides Pennsaid 2% with potential advantages over Pennsaid and other competitor products and with patent protection.

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

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

<sup>(1)</sup> Regulatory approval not yet received in territory.

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

<sup>(3)</sup> Partner is working to obtain regulatory approval in licensed territory.



### Pennsaid 2% - United States

Pennsaid 2% was approved on January 16, 2014 in the U.S. for the treatment of the pain of osteoarthritis (OA) of the knee. OA is the most common joint disease affecting middle-age and older people. It is characterized by progressive damage to the joint cartilage and causes changes in the structures around the joint. These changes can include fluid accumulation, bony overgrowth and loosening and weakness of muscles and tendons, all of which may limit movement and cause pain and swelling. In the U.S., the rights to Pennsaid 2% were sold to Horizon Pharma plc (Horizon) for US\$45.0 million in October 2014 (October 2014 Pennsaid 2% U.S. Sale Agreement). The Company earns revenue from product sales to Horizon under an exclusive manufacturing agreement that ends in 2029. In January 2015, Horizon launched its commercial sale and marketing of Pennsaid 2% in the U.S.

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

### Pennsaid 2% - Russia

In February 2017, the Company received notification from NovaMedica LLC (NovaMedica) that the marketing authorization for Pennsaid 2% had been granted by the Russian Ministry of Health. Pennsaid 2% is approved for the non-prescription, human use in treating back pain, joint pain, muscle pain and inflammation and swelling in soft tissue and joints associated with trauma and rheumatic conditions. Since the approval of Pennsaid 2% in Russia, the Company has been in ongoing discussions with NovaMedica regarding its commercialization plans for Pennsaid 2%. The approval of Pennsaid 2% in Russia as a non-prescription product, combined with the continued devaluation of the Ruble and the changing economic and competitive environment in Russia have made conditions for a successful commercial launch of Pennsaid 2% by NovaMedica difficult. NovaMedica has advised the Company that it may not be in a position to commercially launch Pennsaid 2% in Russia as a result of these challenging market conditions without the participation of a commercial partner. The Company and NovaMedica are in discussions regarding potential pathways forward which may include, but are not limited to, partnering Pennsaid 2% with NovaMedica and another third-party in Russia and/or termination of the existing license agreement between the Company and NovaMedica and a return of marketing authorization rights to the Company.

### Pennsaid 2% - Unlicensed Territories

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

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

During the first quarter of 2018, Nuvo management met with select E.U. regulatory agencies to discuss a potential pathway toward Pennsaid 2% regulatory submissions in select E.U. countries. Based on a favourable response from the regulators, the Company is preparing to file a new, revised registration dossier to the Austrian Medicines and Medical Devices Agency (AGES) in the fourth quarter of 2018.

In September 2018, Nuvo management held scientific advice meetings with the Swedish Medical Products Agency (MPA) to discuss a potential pathway toward Pennsaid 2% regulatory submissions in Sweden and potentially other Nordic countries. Nuvo management was encouraged by the response from the regulators and their advice that Nuvo could submit a *de novo* registration dossier containing existing clinical data to select E.U. member states (including Sweden and potentially other Nordic countries), without an additional costly and lengthy Phase 3 clinical trial. With this positive feedback, the Company is preparing to file a brand new registration dossier to the MPA in 2019.

### 2016 Pennsaid 2% Phase 3 Clinical Trial

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

The 2016 Pennsaid 2% Trial was conducted in Germany and enrolled 134 patients (the full analysis set or FAS) of which 122 patients followed the protocol (the per protocol set or PP) who had suffered a grade I or grade II ankle sprain as assessed by the investigator within 12 hours of injury.

The primary endpoint for the 2016 Pennsaid 2% Trial was reduction in pain on movement (POM) at day 3 in the FAS group. On average, patients treated with Pennsaid 2% had a larger reduction in POM scores over the course of the study. For the FAS group, the difference vs. Control was not statistically significant at the primary time point at day 3 (p=0.5074) or the secondary time point at day 5 (p=0.1642); however, was statistically significant at the secondary time point at day 8 (p=0.0099). In the PP group, the Pennsaid 2% group did not show a statistically significant improvement at day 3 (p=0.6996) or day 5 (p=0.1865), but did show a statistically significant improvement at day 8 (p=0.0154).

At present, the Company has no plans to conduct another trial similar to the 2016 Pennsaid 2% Trial. The Company will continue to pursue registration of Pennsaid 2% in various global territories on the basis of the existing body of Pennsaid and Pennsaid 2% clinical evidence in OA.

### **Pennsaid**

Pennsaid, the Company's first commercial topical pain product, is used to treat the signs and symptoms of OA of the knee. Pennsaid is a combination of a DMSO-based transdermal carrier and 1.5% diclofenac sodium and delivers the active drug through the skin at the site of pain. Pennsaid no longer has patent protection in the territories where it is currently marketed by the Company's partners. In Canada, Pennsaid is available by prescription only and multiple generic versions of Pennsaid have launched that have negatively impacted sales. In the other regions where Pennsaid is available, a prescription is not required (except the U.K.).

#### Pennsaid Commercial Partners

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

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories <sup>(1)</sup>
Pennsaid	Osteoarthritis of the knee	Paladin Labs Inc.	Canada
		Vianex S.A.	Greece
		Recordati S.p.A.	Italy
		Movianto UK Limited	U.K.

<sup>(1)</sup> 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 <sup>(1)</sup>	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 <sup>(1)</sup>		Eurocept B.V.	Europe, Russia <sup>(2)</sup> , Turkey <sup>(2)</sup> , Israel <sup>(2)</sup> and People's Republic of China <sup>(2)</sup>	Granted European patent expiring in 2019.

<sup>(1)</sup> Synera and Rapydan are the brand names for the HLT Patch in their respective jurisdiction.

<sup>(2)</sup> Partner is responsible for obtaining regulatory approval in licensed territory.

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

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

## Product Pipeline

### Foam Technology

The Company owns two U.S. patents with the latest patent expiring November 22, 2031, an issued patent in Canada expiring March 10, 2031 and pending applications in Europe and the U.S. covering DMSO-based foamable formulations. The purchase agreement relating to the Foam Technology also included a commitment to remit a small portion of royalty payments, milestone payments or upfront payments received by the Company for out-licensing of products using the Foam Technology until the end of the applicable patent term, provided the out-licensed products continue to be covered by a valid claim.

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

## Selected Financial Information

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
in thousands, except per share data	\$	\$	\$	\$
<b>Operations</b>				
Product sales	4,456	2,700	13,560	12,139
License revenue	592	199	1,704	597
Contract revenue	37	57	127	302
<b>Total revenue</b>	<b>5,085</b>	<b>2,956</b>	<b>15,391</b>	<b>13,038</b>
<b>Total operating expenses</b>	<b>7,186</b>	<b>3,052</b>	<b>16,730</b>	<b>11,015</b>
Other expenses	301	129	306	255
<b>Income (loss) before income taxes</b>	<b>(2,402)</b>	<b>(225)</b>	<b>(1,645)</b>	<b>1,768</b>
Income tax expense (recovery)	5	1	(123)	1
<b>Net income (loss)</b>	<b>(2,407)</b>	<b>(226)</b>	<b>(1,522)</b>	<b>1,767</b>
Other comprehensive income (loss)	(223)	1	(50)	(1)
<b>Total comprehensive income (loss)</b>	<b>(2,630)</b>	<b>(225)</b>	<b>(1,572)</b>	<b>1,766</b>

### Share Information

Net income (loss) per common share				
- basic	(0.21)	(0.02)	(0.13)	0.15
- diluted	(0.21)	(0.02)	(0.13)	0.14
Average number of common shares outstanding				
- basic	11,362	11,551	11,448	11,550
- diluted	11,422	11,551	11,512	11,724

<b>Financial Position</b>	As at September 30, 2018	As at December 31, 2017
	\$	\$
Cash and cash equivalents	4,088	8,398
Short-term investments	-	2,000
Total assets	30,974	29,918
Other obligations, including current portion	1,932	1,633
Total liabilities	6,277	4,767
Total equity	24,697	25,151

### Adoption of IFRS 15 - Revenue from Contracts with Customers

The Company has adopted IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15) with a date of initial application of January 1, 2018. The Company applied IFRS 15 using the modified retrospective approach, which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 - *Revenue*. The details of the significant changes and quantitative impact of the changes are outlined in Note 3, "Changes in Accounting Policies", in the Company's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018.

### Non-IFRS Financial Measures

The Company discloses non-IFRS measures that do not have standardized meanings prescribed by IFRS, but are considered useful by management, investors and other financial stakeholders to assess the Company's performance and management from a financial and operational standpoint. Total operating expenses is defined as

the sum of: cost of goods sold (COGS), research and development (R&D) expenses, general and administrative (G&A) expenses, amortization of intangibles and net interest income. EBITDA refers to net income (loss) determined in accordance with IFRS, before depreciation and amortization, net interest income and income tax expense (recovery). EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Adjusted EBITDA refers to EBITDA, plus stock-based compensation (SBC) expenses. Management believes Adjusted EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes.

### Fluctuations in Operating Results

The Company anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including: the level of product sales to the Company's customers, licensees and distributors, the timing and amount of royalties, milestones and other payments made or received pursuant to current and future licensing arrangements and fluctuations in foreign exchange rates.

During the quarter ended September 30, 2018, the Company earned 84% [September 30, 2017 - 70%] of its product revenue from a single customer, Horizon. The Company earns product revenue from the sale of Pennsaid 2% commercial bottles and physician samples to Horizon pursuant to a long-term, exclusive supply agreement. Quarterly and annual results of operations will be impacted for the foreseeable future by Horizon's demand for Pennsaid 2% products due to Horizon's promotional strategies, demand for the product in the U.S. market and how Horizon chooses to manage its internal inventory.

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

## Results of Operations

### Product Sales

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
in thousands	\$	\$	\$	\$
Pennsaid 2%	3,726	1,887	11,251	10,367
Pennsaid	730	813	2,072	1,674
Resultz	-	-	130	-
HLT bulk	-	-	107	98
<b>Total product sales</b>	<b>4,456</b>	<b>2,700</b>	<b>13,560</b>	<b>12,139</b>

Product sales, which represent the Company's sales to licensees and distributors, were \$4.5 million and \$13.6 million for the three and nine months ended September 30, 2018 compared to \$2.7 million and \$12.1 million for the three and nine months ended September 30, 2017.

#### *Pennsaid 2%*

Under the terms of the October 2014 Pennsaid 2% U.S. Sale Agreement, the Company earns revenue from product sales of Pennsaid 2% to Horizon. All Pennsaid 2% product sales relate to the U.S. market. The Company believes Horizon's orders are influenced by Horizon's management commercial strategies and inventory levels, as well as U.S. market demand for commercial product.

Pennsaid 2% product sales were \$3.7 million for the three months ended September 30, 2018 compared to \$1.9 million for the three months ended September 30, 2017. In the current quarter, product sales included \$2.2 million of the commercial format and \$1.5 million of the physician sample format. In the comparative quarter, product sales included \$1.9 million of the commercial format and \$nil of the physician sample format.

Pennsaid 2% product sales were \$11.3 million for the nine months ended September 30, 2018 compared to \$10.4 million for the nine months ended September 30, 2017. Product sales for the current nine-month period consisted

of \$9.2 million of the commercial format and \$2.1 million of the physician sample format compared to \$6.3 million of the commercial format and \$4.1 million of the physician sample format in the comparative period.

#### *Pennsaid*

Product sales of Pennsaid were \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2018 compared to \$0.8 million and \$1.7 million for the three and nine months ended September 30, 2017. Geographically for the three and nine months ended September 30, 2018 and 2017, all Pennsaid product sales were generated from the Company's partners in the E.U.

#### *Resultz*

Product sales of Resultz were \$nil and \$0.1 million for the three and nine months ended September 30, 2018.

### 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:

in thousands, except percentages	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
Four largest customers	\$4,439	\$2,468	\$13,400	\$11,861
% of total product sales	100%	91%	99%	98%
Largest customer as % of total product sales	84%	70%	83%	85%

### Other Revenue

in thousands	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
License revenue	\$592	\$199	\$1,704	\$597
Contract revenue	\$37	\$57	\$127	\$302
	\$629	\$256	\$1,831	\$899

License and contract revenue totalled \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2018 compared to \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2017. The Company receives license revenue from Resultz, Pennsaid and the HLT Patch. The Company recognized \$0.4 million and \$1.2 million for Resultz license revenue during the three and nine months ended September 30, 2018. Contract revenue is mainly derived from development services provided by the Company to its partners.

License revenue has been impacted by the adoption of IFRS 15. See Note 3, *Changes in Accounting Policies*, in the Company's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018, for details of the significant changes and quantitative impact of the changes.

### Operating Expenses

in thousands	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
Cost of goods sold	\$2,185	\$1,615	\$6,437	\$5,838
Research and development expenses	-	38	1	535
General and administrative expenses	4,517	1,445	8,828	4,760
Amortization of Intangibles	491	-	1,501	-
Net interest income	(7)	(46)	(37)	(118)
<b>Total operating expenses</b>	<b>7,186</b>	<b>3,052</b>	<b>16,730</b>	<b>11,015</b>

Total operating expenses for the three and nine months ended September 30, 2018 were \$7.2 million and \$16.7 million, an increase from \$3.1 million and \$11.0 million for the three and nine months ended September 30, 2017.

#### **Cost of Goods Sold**

COGS for the three and nine months ended September 30, 2018 was \$2.2 million and \$6.4 million compared to \$1.6 million and \$5.8 million for the three and nine months ended September 30, 2017. Gross margin on product sales was \$2.3 million or 51% and \$7.1 million or 53% for the three and nine months ended September 30, 2018 compared to a gross margin of \$1.1 million or 40% and \$6.3 million or 52% for the three and nine months ended September 30, 2017.

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

#### **General and Administrative**

G&A expenses were \$4.5 million and \$8.8 million for the three and nine months ended September 30, 2018 compared to \$1.4 million and \$4.8 million for the three and nine months ended September 30, 2017.

The increase in the current three-month period includes \$2.4 million for legal and diligence transaction costs related to the Aralez Transaction, \$0.2 million of incremental costs related to the Resultz business, \$0.2 million for increased scientific and regulatory costs associated with the advancement of the Company's Pennsaid 2% European regulatory strategy and an increase in compensation costs due to increased employee headcount resulting from the strengthening of the executive and senior management team to facilitate the Company's growth strategy.

The increase in the current nine-month period includes \$2.4 million for legal and diligence transaction costs related to the Aralez Transaction, \$0.6 million of incremental costs related to the transition and establishment of the Resultz business, \$0.4 million for scientific and regulatory costs associated with the advancement of the Company's Pennsaid 2% European regulatory strategy and an increase in compensation costs due to increased employee headcount resulting from the strengthening of the executive and senior management team to facilitate the Company's growth strategy.

#### **Amortization of Intangibles**

For the three and nine months ended September 30, 2018, the Company recognized non-cash costs of \$0.5 million and \$1.5 million in amortization related to the Resultz patents.

#### **Other Expenses**

The ex-U.S. Resultz acquisition included contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in the non-partnered markets. For the three and nine months ended September 30, 2018, the Company recognized \$0.1 million and \$0.3 million for the fair value remeasurement of the Company's contingent and variable consideration for the passage of time and the impact of changes in foreign exchange.

#### **Income Tax Expense (Recovery)**

For the three and nine months ended September 30, 2018, the Company recognized a \$5,000 income tax expense and \$0.1 million income tax recovery. Due to the adoption of IFRS 15, the Company recognized a deferred tax asset of \$0.2 million for its investment tax credits, as it is now probable that future taxable income will be available against which it can be utilized.

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
in thousands	\$	\$	\$	\$
Net income (loss) before income taxes	(2,402)	(225)	(1,645)	1,768
Income tax expense (recovery)	5	1	(123)	1
Net income (loss)	(2,407)	(226)	(1,522)	1,767
Unrealized gain (loss) on translation of foreign operations	(223)	1	(50)	(1)
<b>Total comprehensive income (loss)</b>	<b>(2,630)</b>	<b>(225)</b>	<b>(1,572)</b>	<b>1,766</b>

### Net Income (Loss)

Net loss for the three months ended September 30, 2018 was \$2.4 million compared to a net loss of \$0.2 million for the three months ended September 30, 2017. In the current quarter, the decrease was primarily attributable to a \$3.1 million increase in G&A expenditures, a \$0.5 million increase in amortization, an increase in foreign currency loss of \$0.1 million and a \$0.1 million increase in the fair value remeasurement of the Company's contingent and variable consideration, offset by an increase in gross margin of \$1.2 million and other revenue increase of \$0.4 million.

Net loss for the nine months ended September 30, 2018 was \$1.5 million compared to net income of \$1.8 million for the nine months ended September 30, 2017. In the current nine-month period, the decrease was primarily attributable to a \$4.0 million increase in G&A expenditures, a \$1.5 million increase in amortization related to the Resultz patents and a \$0.3 million increase in the fair value remeasurement of the Company's contingent and variable consideration, offset by an increase in gross margin of \$0.8 million, an other revenue increase of \$0.9 million, a reduction in R&D expenditures of \$0.5 million, an increase in income tax recovery of \$0.1 million and a decrease in foreign currency losses of \$0.2 million.

### Total Comprehensive Income (Loss)

Total comprehensive loss was \$2.6 million for the three months ended September 30, 2018 compared to a total comprehensive loss of \$0.2 million for the three months ended September 30, 2017. The current quarter included unrealized losses of \$0.2 million on the translation of foreign operations compared to \$1,000 of unrealized gains in the comparative quarter.

Total comprehensive loss was \$1.6 million for the nine months ended September 30, 2018 compared to a total comprehensive income of \$1.8 million for the nine months ended September 30, 2017. The current nine-month period included unrealized losses of \$0.1 million on the translation of foreign operations compared to \$1,000 of unrealized losses in the comparative nine-month period.



## Net Income (Loss) Per Common Share

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
share figures in thousands	\$	\$	\$	\$
<b>Net income (loss) from per common share</b>				
- basic	<b>(0.21)</b>	(0.02)	<b>(0.13)</b>	0.15
- diluted	<b>(0.21)</b>	(0.02)	<b>(0.13)</b>	0.14
<b>Average number of common shares outstanding (in thousands)</b>				
- basic	<b>11,362</b>	11,551	<b>11,448</b>	11,550
- diluted	<b>11,422</b>	11,551	<b>11,512</b>	11,724

Net income (loss) per common share was \$(0.21) and \$(0.13) for the three and nine months ended September 30, 2018 versus \$(0.02) and \$0.15 for the three and nine months ended September 30, 2017. On a diluted basis, net income (loss) per common share was \$(0.21) and \$(0.13) for the three and nine months ended September 30, 2018 versus \$(0.02) and \$0.14 for the three and nine months ended September 30, 2017.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.4 million and 11.4 million for the three months ended September 30, 2018 and 11.6 million and 11.6 million on a basic and diluted basis for the three months ended September 30, 2017.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.4 million and 11.5 million for the nine months ended September 30, 2018 and 11.6 million and 11.7 million on a basic and diluted basis for the nine months ended September 30, 2017. The decrease in average basic number of shares outstanding was attributable to the Company's purchase and cancellation of common shares under a normal course issuer bid. During the current nine-month period, the Company purchased and cancelled 235,543 common shares with available cash on hand for a total cost of \$748,000 or \$3.18 per share. For the nine months ended September 30, 2018, the weighted average number of common shares on a diluted basis included a 64,000 share adjustment for the dilutive impact of stock options. For the nine months ended September 30, 2017, the weighted average number of common shares on a diluted basis included a 143,000 share adjustment for the dilutive impact of stock options and a 31,000 share adjustment for the dilutive impact of Share Appreciation Rights (SARs).

## Segments

IFRS 8 - *Operating Segments* requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and assessing its performance. For the three and nine months ended September 30, 2018, the Company continued to operate as one industry segment: pharmaceutical and healthcare products.

## Geographic Information

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

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
in thousands	\$	\$	\$	\$
United States	<b>3,854</b>	2,048	<b>11,714</b>	11,031
International	<b>1,178</b>	625	<b>3,524</b>	1,530
Canada	<b>53</b>	283	<b>153</b>	477
	<b>5,085</b>	2,956	<b>15,391</b>	13,038

## Adjusted EBITDA

EBITDA is a non-IFRS financial measure. The term EBITDA does not have any standardized meaning under IFRS and therefore, may not be comparable to similar measures presented by other companies.

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

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
in thousands	\$	\$	\$	\$
<b>Net income (loss)</b>	<b>(2,407)</b>	(226)	<b>(1,522)</b>	1,767
Add back:				
Income tax expense (recovery)	5	1	(123)	1
Net interest income	(7)	(46)	(37)	(118)
Depreciation and amortization	635	62	1,860	174
<b>EBITDA</b>	<b>(1,774)</b>	(209)	<b>178</b>	1,824
Add back:				
Stock-based compensation	150	158	611	309
<b>Adjusted EBITDA</b>	<b>(1,624)</b>	(51)	<b>789</b>	2,133

Adjusted EBITDA decreased to \$(1.6) million and \$0.8 million for the three and nine months ended September 30, 2018 compared to \$(0.1) million and \$2.1 million for the three and nine months ended September 30, 2017. The decrease in Adjusted EBITDA for both the current three and nine-month periods was primarily attributable to an increase in G&A expenditures and amortization of intangibles, partially offset by an increase in gross margin and other revenue.

Without the adoption of IFRS 15, the Company would have recognized an increase of \$0.1 million and \$0.3 million in license revenue for the three and nine months ended September 30, 2018 and Adjusted EBITDA would have been \$(1.5) million and \$1.1 million. With the adoption of IFRS 15, the Company recognized this income as an adjustment to the opening balance of equity as at January 1, 2018.

## Liquidity and Capital Resources

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
in thousands	\$	\$	\$	\$
Net income (loss)	(2,407)	(226)	(1,522)	1,767
Items not involving current cash flows	1,051	444	2,582	1,013
Cash provided by (used in) operations	(1,356)	218	1,060	2,780
Net change in non-cash working capital	2,634	(2,274)	1,088	(1,357)
Cash provided by (used in) operating activities	1,278	(2,056)	2,148	1,423
Cash provided by (used in) investing activities	(3,781)	2,944	(5,852)	5,029
Cash provided by (used in) financing activities	(20)	(1)	(662)	6
Effect of exchange rates on cash	(88)	(172)	56	(318)
Net change in cash during the period	(2,611)	715	(4,310)	6,140
Cash beginning of the period	6,699	15,014	8,398	9,589
<b>Cash end of the period</b>	<b>4,088</b>	15,729	<b>4,088</b>	15,729
Short-term investments	-	2,000	-	2,000
<b>Cash and short-term investments</b>	<b>4,088</b>	17,729	<b>4,088</b>	17,729

### Cash and Short-term Investments

Cash and short-term investments were \$4.1 million as at September 30, 2018 compared to \$10.4 million as at December 31, 2017. The decrease included the US\$1.5 million (\$1.9 million) that was paid to Piedmont to acquire

the U.S. product and IP rights to Resultz, as well as a deposit of US\$4.4 million (\$5.7 million) for the Aralez Transaction.

### **Operating Activities**

Cash used in operations was \$1.4 million for the three months ended September 30, 2018 and cash provided by operations was \$1.1 million for the nine months ended September 30, 2018 compared to cash provided by operations of \$0.2 million and \$2.8 million for the three and nine months ended September 30, 2017.

Overall cash provided by operating activities increased to \$1.3 million for the three months ended September 30, 2018 compared to overall cash used in operating activities of \$2.1 million for the three months ended September 30, 2017. In the current quarter, cash provided by operations increased by a \$2.6 million recovery in working capital. The \$2.6 million recovery in non-cash working capital was primarily attributable to a \$2.3 million increase in accounts payable and accrued liabilities and a \$0.6 million decrease in accounts receivable, partially offset by a \$0.4 million increase in inventories. In the comparative quarter, the \$2.3 million investment in working capital was primarily attributable to a \$1.7 million increase in accounts receivable, a \$0.2 million increase in inventories, a \$0.2 million increase in other current assets and a \$0.2 million decrease in accounts payable and accrued liabilities.

Overall cash provided by operating activities increased to \$2.1 million for the nine months ended September 30, 2018 compared to \$1.4 million for the nine months ended September 30, 2017. In the current nine-month period, the \$1.1 million recovery in non-cash working capital was primarily attributable to a \$1.0 million increase in accounts payable and accrued liabilities and a \$0.1 million decrease in accounts receivable, partially offset by a \$0.2 million increase in inventories and \$0.3 million increase in other current assets. In the comparative nine-month period, the \$1.4 million investment in non-cash working capital was primarily attributable to a \$0.5 million increase in accounts receivable and a \$1.9 million decrease in accounts payable, partially offset by a \$0.7 million decrease in inventories and a \$0.3 million decrease in other current assets.

### **Investing Activities**

Net cash used in investing activities was \$3.8 million and \$5.9 million for the three and nine months ended September 30, 2018 compared to net cash provided by investing activities of \$2.9 million and \$5.0 million for the three and nine months ended September 30, 2017. In both the current and comparative three-month periods, cash used in investing activities included the acquisition of property, plant and equipment for production and laboratory equipment acquired by the Company's manufacturing facility. For the current three and nine-month periods, cash used in investing activities included \$2.0 million of the Company's short-term investments that had matured, offsetting the Aralez Transaction deposit. The current nine-month period also includes the acquisition of the U.S. product and IP rights to Resultz from Piedmont. In the comparative nine-month period, \$6.0 million of the Company's short-term investments matured.

### **Financing Activities**

Net cash used in financing activities was \$20,000 for the three months ended September 30, 2018 compared to net cash used in financing activities of \$1,000 for the three months ended September 30, 2017. Net cash used in financing activities was \$0.7 million for the nine months ended September 30, 2018 compared to net cash provided by financing activities of \$6,000 for the nine months ended September 30, 2017.

During the three months ended September 30, 2018, pursuant to the Company's notice of intention to make a normal course issuer bid for a portion of its outstanding common shares, the Company purchased 6,149 common shares with available cash on hand for a total cost of \$19,000 or \$3.01 per share. During the nine months ended September 30, 2018, the Company purchased 235,543 common shares with available cash on hand for a total cost of \$748,000 or \$3.18 per share. All common shares acquired by Nuvo were cancelled.

## Selected Quarterly Information

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017 <sup>(1)</sup>
in thousands, except per share data		\$	\$	\$
<b>Product sales</b>	<b>4,456</b>	5,349	3,755	4,199
<b>License revenue</b>	<b>592</b>	472	640	219
<b>Contract revenue</b>	<b>37</b>	54	36	67
<b>Cost of goods sold</b>	<b>2,185</b>	2,330	1,922	2,277
<b>Research and development expenses</b>	<b>-</b>	-	1	36
<b>General and administrative expense</b>	<b>4,517</b>	1,877	2,434	2,360
<b>Amortization of intangibles</b>	<b>491</b>	497	513	-
<b>Net interest income</b>	<b>(7)</b>	(9)	(21)	(39)
<b>Other expenses (income)</b>	<b>301</b>	80	(75)	37
<b>Net income (loss)</b>	<b>(2,407)</b>	1,054	(169)	(186)
<b>Net income (loss) per common share</b>				
- basic	<b>(0.21)</b>	0.09	(0.01)	(0.02)
- diluted	<b>(0.21)</b>	0.09	(0.01)	(0.02)

	Q3 2017 <sup>(1)</sup>	Q2 2017 <sup>(1)</sup>	Q1 2017 <sup>(1)</sup>	Q4 2016 <sup>(1)</sup>
	\$	\$	\$	\$
Product sales	2,700	2,786	6,653	5,194
License revenue	199	176	222	257
Contract revenue	57	138	107	122
Cost of goods sold	1,615	1,451	2,772	2,528
Research and development expenses	38	186	311	604
General and administrative expense	1,445	1,644	1,671	864
Net interest income	(46)	(34)	(38)	(37)
Other expenses (income)	129	56	70	(125)
Net income (loss)	(226)	(203)	2,196	1,739
Net income per common share (loss)				
- basic	(0.02)	(0.02)	0.19	0.15
- diluted	(0.02)	(0.02)	0.19	0.12

<sup>(1)</sup> Balances using previous accounting policy, IAS 18 - Revenue.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial Instruments at Amortized Cost

Due to their short-term nature, the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value.

For the three and nine months ended September 30, 2018, the Company recognized \$7,000 and \$37,000 in interest from financial assets held at amortized cost.

### Credit Risk

The Company, in the normal course of business, is exposed to credit risk from its global customers, most of whom are in the pharmaceutical industry. The accounts receivable and contract assets are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the

agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement.

As at September 30, 2018, the Company's largest customer represented 54% [December 31, 2017 - 76%] of accounts receivable. Pursuant to their collective terms, accounts receivable were aged as follows:

in thousands	September 30, 2018	December 31, 2017
	\$	\$
Current	1,642	1,731
0 - 30 days past due	11	128
31 - 60 days past due	-	7
Over 60 days past due	45	9
	<b>1,698</b>	1,875

The loss allowance provision as at September 30, 2018 is determined as follows and incorporates forward-looking information.

in thousands	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0%	0%	0%	5%	
Gross carrying amount	\$1,642	\$11	\$45	-	<b>\$1,698</b>
Loss allowance provision	-	-	-	-	-

The revised impairment methodology under IFRS 9 did not generate a loss allowance provision for accounts receivable as at September 30, 2018 [December 31, 2017 - \$nil]. During the three and nine months ended September 30, 2018, the Company did not recognize any bad debts in total comprehensive income [\$nil and \$nil for the three and nine months ended September 30, 2017]. For the three and nine months ended September 30, 2017, the impairment of accounts receivable was assessed based on the incurred loss model. Individual receivables that were known to be uncollectible were written off by reducing the carrying amount directly.

For contract assets within the scope of IFRS 15, the Company recognizes an asset to the extent contractual minimums established in certain customer licensing agreements are deemed fixed consideration. After analysis of historical default rates and forward-looking estimates, the Company's contract assets are considered to have low credit risk and as a result, the Company has not recognized a loss allowance as at September 30, 2018 [December 31, 2017 - \$nil].

The Company's cash, cash equivalents and short-term investments subject the Company to a concentration of credit risk. As at September 30, 2018, the Company had \$4.1 million deposited with three financial institutions in various bank accounts. These financial institutions are major banks including two in Canada and one in Ireland, which the Company believes lessens the degree of credit risk. All of these financial assets are considered to have low credit risk, and therefore, the provision recognized during the period was limited to 12 months of expected losses. The Company has not recognized a loss allowance as at September 30, 2018 [December 31, 2017 - \$nil].

### Financial Instruments at Fair Value Through Profit (Loss)

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and nine months ended September 30, 2018.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 11, *Stock-based Compensation and Other Stock-based Payments* of the Company's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued \$nil for SARs as at September 30, 2018 [December 31, 2017 - \$0.1 million].

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. The Company recognized \$1.9 million in contingent and variable consideration as at September 30, 2018 [December 31, 2017 - \$1.6 million] which represents the present value of the Company's probability-weighted estimate of the cash outflow. The fair value of the contingent and variable consideration is revalued at each reporting period based on management's best estimate that certain milestone targets will be achieved in partnered markets and based on management's best estimate of projected royalty income in non-partnered markets, using an appropriate discount rate. A significant increase (decrease) in the probability of achieving a milestone or projected royalty income would result in higher (lower) fair value of the contingent and variable consideration liability, while a significant increase (decrease) in the discount rate would result in lower (higher) fair value of the liability.

## **Risk Factors**

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

### **Liquidity Risk**

While the Company had \$4.1 million in cash and cash equivalents as at September 30, 2018, it was dependent on a single customer for substantially all of its revenue. During the three months ended September 30, 2018, the Company earned 84% [September 30, 2017 - 70%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to diversify its customer base, in order to help mitigate this concentration risk. On January 12, 2018, the Company acquired the U.S. product and IP rights to Resultz from Piedmont. Nuvo now owns all Resultz product and IP rights throughout the world. The benefits of the Resultz acquisition include expanding the Company's portfolio of commercial products and Resultz can be produced at Nuvo's Varennes, Québec manufacturing facility.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of \$4.7 million that are due in less than one year and \$2.4 million of contractual obligations that are payable from 2019 to 2023.

### **Interest Rate Risk**

All finance lease obligations are at fixed interest rates.

## Currency Risk

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

	Euros		U.S. Dollars	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
in thousands	€	€	\$	\$
Cash	787	621	1,417	1,290
Accounts receivable	9	-	992	1,378
Contract assets	-	-	426	-
Accounts payable and accrued liabilities	(106)	(32)	(709)	(751)
Other obligations	(176)	-	(1,283)	-
	514	589	843	1,917

Based on the aforementioned net exposure as at September 30, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$0.1 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$0.1 million on total comprehensive income (loss).

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

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

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

## Contractual Obligations

The following table lists the Company's contractual obligations for the twelve months ending September 30 as follows:

	2019	2020	2021 and thereafter	Total
in thousands	\$	\$	\$	\$
Finance lease obligations	3	3	-	6
Operating leases	182	204	681	1,067
Other obligations <sup>(1)</sup>	4,556	85	1,453	6,094
	<b>4,741</b>	<b>292</b>	<b>2,134</b>	<b>7,167</b>

<sup>(1)</sup> Other obligations include accounts payable and accrued liabilities and contingent and variable consideration.

## Litigation

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

## Off-Balance Sheet Arrangements

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

## Related Party Transactions

For the three and nine months ended September 30, 2018, there were no related party transactions.

## Outstanding Share Data

The number of common shares outstanding as at September 30, 2018 was 11.4 million, a decrease of 0.2 million from December 31, 2017 due to common shares acquired and cancelled by Nuvo pursuant to the Company's normal course issuer bid.

As at September 30, 2018, there were 1,180,263 options outstanding of which 720,495 have vested.

## Critical Accounting Policies and Estimates

The preparation of Condensed Consolidated Interim Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Management has identified accounting estimates that it believes are most critical to understanding the Condensed Consolidated Interim Financial Statements and those that require the application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's actual results could differ from these estimates and such differences could be material. All significant accounting policies are disclosed in Note 2, *Basis of Preparation* of the Company's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018.

## Recent Accounting Pronouncements

Except for the changes identified in Note 2, *Accounting Standards Adopted*, of the Company's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2018, all significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements.



### **Accounting Standards Issued But Not Yet Applied**

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

#### **IFRS 16 - Leases**

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

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

### **Management's Responsibility for Financial Reporting**

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

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

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

There were no material changes to the Company's ICFR that occurred during the quarter ended September 30, 2018.

### **Risk Factors**

Prospects for companies in the biotechnology and pharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology and pharmaceutical companies should be regarded as speculative. An investor should carefully consider the risks and uncertainties discussed in detail in the MD&A filed on SEDAR on March 23, 2018 for the year ended December 31, 2017 and the "Risk Factors" section of the Company's AIF filed on March 23, 2018.

### **Additional Information**

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

**NUVO PHARMACEUTICALS INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

<i>(Canadian dollars in thousands)</i>	<i>Notes</i>	As at September 30, 2018	As at December 31, 2017
		\$	\$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	16	4,088	8,398
Short-term investments	16	-	2,000
Accounts receivable	16, 17	1,698	1,875
Inventories	5	2,654	2,502
Contract assets	3, 16, 17	363	-
Other current assets	6, 18	6,367	437
<b>TOTAL CURRENT ASSETS</b>		<b>15,170</b>	<b>15,212</b>
<b>NON-CURRENT</b>			
Contract assets	3, 16, 17	796	-
Property, plant and equipment	7	4,222	4,283
Intangible assets	4, 8	9,601	9,236
Goodwill		1,185	1,187
<b>TOTAL ASSETS</b>		<b>30,974</b>	<b>29,918</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	11, 16	4,168	3,134
Current portion of other obligations	9, 16	391	332
Current income tax liabilities	3	105	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,664</b>	<b>3,466</b>
Other obligations	9, 16	1,541	1,301
Deferred income tax liabilities	3	72	-
<b>TOTAL LIABILITIES</b>		<b>6,277</b>	<b>4,767</b>
<b>EQUITY</b>			
Common shares	10	184,692	185,266
Contributed surplus	10, 11	15,287	14,763
Accumulated other comprehensive income (loss) (AOCI)		(51)	(1)
Deficit		(175,231)	(174,877)
<b>TOTAL EQUITY</b>		<b>24,697</b>	<b>25,151</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,974</b>	<b>29,918</b>

Commitments (Note 15)  
See accompanying Notes.

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

		Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
<i>(Canadian dollars in thousands, except per share and share figures)</i>	<i>Notes</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>REVENUE</b>					
Product sales	17	4,456	2,700	13,560	12,139
License revenue	17	592	199	1,704	597
Contract revenue	17	37	57	127	302
<b>Total revenue</b>		<b>5,085</b>	<b>2,956</b>	<b>15,391</b>	<b>13,038</b>
<b>OPERATING EXPENSES</b>					
Cost of goods sold	5, 11, 13	2,185	1,615	6,437	5,838
Research and development expenses		-	38	1	535
General and administrative expenses	11, 13	4,517	1,445	8,828	4,760
Amortization of intangibles	13	491	-	1,501	-
Net interest income		(7)	(46)	(37)	(118)
<b>Total operating expenses</b>		<b>7,186</b>	<b>3,052</b>	<b>16,730</b>	<b>11,015</b>
<b>OTHER EXPENSES</b>					
Change in fair value of contingent and variable consideration	9	89	-	257	-
Foreign currency loss		212	129	49	255
<b>Net income (loss) before income taxes</b>		<b>(2,402)</b>	<b>(225)</b>	<b>(1,645)</b>	<b>1,768</b>
Income tax expense (recovery)	3	5	1	(123)	1
<b>NET INCOME (LOSS)</b>		<b>(2,407)</b>	<b>(226)</b>	<b>(1,522)</b>	<b>1,767</b>
<b>Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods</b>					
Unrealized gain (loss) on translation of foreign operations		(223)	1	(50)	(1)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>(2,630)</b>	<b>(225)</b>	<b>(1,572)</b>	<b>1,766</b>
<b>Net income (loss) per common share</b>					
- basic	12	(0.21)	(0.02)	(0.13)	0.15
- diluted	12	(0.21)	(0.02)	(0.13)	0.14
<b>Average number of common shares outstanding (in thousands)</b>					
- basic	12	11,362	11,551	11,448	11,550
- diluted	12	11,422	11,551	11,512	11,724

See accompanying Notes.

**NUVO PHARMACEUTICALS INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

	Common Shares		Contributed Surplus	AOCI	Deficit	Total
	000s	\$	\$	\$	\$	\$
<i>(Canadian dollars in thousands, except for number of shares)</i>						
	<i>Notes</i>	<i>10, 11</i>	<i>10, 11</i>	<i>10, 11</i>		
Balance, December 31, 2016		11,546	185,255	14,062	2 (176,458)	22,861
Stock options exercised		5	11	(4)	-	7
Stock option compensation expense		-	-	315	-	315
Unrealized loss on translation of foreign operations		-	-	-	(2)	(2)
Net income		-	-	-	1,993	1,993
Balance, June 30, 2017		11,551	185,266	14,373	- (174,465)	25,174
Stock option compensation expense		-	-	169	-	169
Unrealized gain on translation of foreign operations		-	-	-	1	1
Net loss		-	-	-	(226)	(226)
Balance, September 30, 2017		11,551	185,266	14,542	1 (174,691)	25,118
Stock option compensation expense		-	-	221	-	221
Unrealized loss on translation of foreign operations		-	-	-	(2)	(2)
Net loss		-	-	-	(186)	(186)
Balance, December 31, 2017		11,551	185,266	14,763	(1) (174,877)	25,151
Balance, January 1, 2018, as previously reported		11,551	185,266	14,763	(1) (174,877)	25,151
Impact of change in accounting policy (see Note 3)		-	-	-	- 1,168	1,168
<b>Adjusted balance, January 1, 2018</b>		<b>11,551</b>	<b>185,266</b>	<b>14,763</b>	<b>(1) (173,709)</b>	<b>26,319</b>
Employee contribution to Share Purchase Plan		23	87	-	-	87
Employer's portion of Share Purchase Plan		23	87	-	-	87
Stock option compensation expense		-	-	374	-	374
Unrealized gain on translation of foreign operations		-	-	-	173	173
Normal course issuer bid		(229)	(729)	-	-	(729)
Net income		-	-	-	885	885
Balance, June 30, 2018		11,368	184,711	15,137	172 (172,824)	27,196
Stock option compensation expense		-	-	150	-	150
Unrealized loss on translation of foreign operations		-	-	-	(223)	(223)
Normal course issuer bid		(6)	(19)	-	-	(19)
Net loss		-	-	-	(2,407)	(2,407)
<b>Balance, September 30, 2018</b>		<b>11,362</b>	<b>184,692</b>	<b>15,287</b>	<b>(51) (175,231)</b>	<b>24,697</b>

See accompanying Notes.

**NUVO PHARMACEUTICALS INC.**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

	Notes	Three months ended		Nine months ended	
		September 30		September 30	
		2018	2017	2018	2017
(Canadian dollars in thousands)		\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>					
Net income (loss)		(2,407)	(226)	(1,522)	1,767
Items not involving current cash flows:					
Depreciation and amortization	13	635	62	1,860	174
Disposal of development costs	8	-	-	16	-
Equity-settled stock-based compensation	11	150	169	611	484
Unrealized foreign exchange loss (gain)		180	198	(32)	340
Inventory write-down		-	15	-	15
Benefit for deferred income taxes	3	(3)	-	(130)	-
Change in fair value of contingent and variable consideration	9	89	-	257	-
		(1,356)	218	1,060	2,780
Net change in non-cash working capital	14	2,634	(2,274)	1,088	(1,357)
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		<b>1,278</b>	<b>(2,056)</b>	<b>2,148</b>	<b>1,423</b>
<b>INVESTING ACTIVITIES</b>					
Disposal of short-term investments		2,000	3,000	2,000	6,000
Acquisition of property, plant and equipment	7	(103)	(56)	(298)	(971)
Aralez transaction deposit	6, 18	(5,678)	-	(5,678)	-
Resultz U.S. asset purchase	4, 8	-	-	(1,876)	-
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		<b>(3,781)</b>	<b>2,944</b>	<b>(5,852)</b>	<b>5,029</b>
<b>FINANCING ACTIVITIES</b>					
Normal course issuer bid	10	(19)	-	(748)	-
Issuance of common shares	11	-	-	87	-
Repayment of capital lease and other obligations		(1)	(1)	(1)	(1)
Exercise of stock options	11	-	-	-	7
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		<b>(20)</b>	<b>(1)</b>	<b>(662)</b>	<b>6</b>
Effect of exchange rate changes on cash		(88)	(172)	56	(318)
Net change in cash during the period		(2,611)	715	(4,310)	6,140
Cash and cash equivalents, beginning of period		6,699	15,014	8,398	9,589
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>4,088</b>	<b>15,729</b>	<b>4,088</b>	<b>15,729</b>

See accompanying Notes.

**Supplemental Cash Flow Information**

Interest received <sup>1</sup>	77	70	87	127
Income taxes paid	7	1	7	1

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**

	September 30, 2018	September 30, 2017
	\$	\$
Cash and cash equivalents	4,088	15,729
Short-term investments	-	2,000
	<b>4,088</b>	<b>17,729</b>

## NUVO PHARMACEUTICALS™ INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

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

##### Pennsaid 2%

Pennsaid 2% is the follow-on product to original Pennsaid (described below). Pennsaid 2% is a topical pain product that combines a dimethyl sulfoxide (DMSO) based transdermal carrier with 2% diclofenac sodium, a leading nonsteroidal anti-inflammatory drug (NSAID), compared to 1.5% for original Pennsaid. Pennsaid 2% is more viscous than original Pennsaid, is supplied in a metered dose pump bottle and has been approved in the United States for twice-daily dosing compared to four times a day for Pennsaid. On January 16, 2014, Pennsaid 2% was approved in the U.S. for the treatment of the pain of osteoarthritis (OA) of the knee. In the U.S., the rights to Pennsaid 2% were sold to Horizon Pharma plc (Horizon). The Company earns revenue from product sales to Horizon under an exclusive manufacturing agreement that ends in 2029. In January 2015, Horizon launched its commercial sale and marketing of Pennsaid 2% in the U.S.

##### Pennsaid

Pennsaid is a combination of a DMSO-based transdermal carrier and 1.5% diclofenac sodium and delivers the active drug through the skin at the site of pain. It is used to treat the signs and symptoms of OA of the knee. It is approved for sale and marketing in several countries, including Canada, where it is licensed to Paladin Labs Inc. Under the terms of the agreement with Horizon for the sale of the Pennsaid 2% rights, the Company agreed to discontinue the manufacture, sale and marketing of Pennsaid in the U.S.

##### Resultz

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

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

In January 2018, the Company's wholly owned subsidiary, Nuvo Pharmaceuticals (Ireland) DAC (Nuvo Ireland) acquired the U.S. rights to Resultz from Piedmont. Under the terms of the agreement, Nuvo paid US\$1.5 million (\$1.9 million) on close to Piedmont. Resultz was cleared as a Class 1 medical device by the U.S. Food and Drug Administration (FDA) in May 2017 and has not yet been commercially launched in the U.S. (See Note 4, *Resultz U.S. Asset Purchase*).

##### 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.

## 2. BASIS OF PREPARATION

### Statement of Compliance

The Company prepares its Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 34 - *Interim Financial Reporting* (IAS 34). Accordingly, these Condensed Consolidated Interim Financial Statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual Consolidated Financial Statements of the Company for the year ended December 31, 2017, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Except for the changes identified in Note 2, *Accounting Standards Adopted*, the areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to these Condensed Consolidated Interim Financial Statements were the same as those that applied to the Company's annual Consolidated Financial Statements for the year ended December 31, 2017.

These Condensed Consolidated Interim Financial Statements were issued and effective as at November 7, 2018, the date the Board of Directors approved these Condensed Consolidated Interim Financial Statements.

### Basis of Measurement

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

### Basis of Consolidation

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

	<b>% Ownership</b>
Dimethaid (UK) Ltd.	<b>100%</b>
Nuvo Pharmaceuticals (Ireland) DAC	<b>100%</b>

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

### Significant Accounting Policies

Except for the changes identified in Note 2, *Accounting Standards Adopted*, all significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements. The policies applied in these Condensed Consolidated Interim Financial Statements are based on International Financial Reporting Standards (IFRS) issued and effective as at November 7, 2018.

### 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 that are mandatory for fiscal periods beginning on or after January 1, 2019. The standards impacted that may be applicable to the Company are as follows:

#### **IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16 - *Leases* (IFRS 16), the new lease standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a

single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective on or after January 1, 2019, with limited early application permitted. The Company is in the process of reviewing the standard to determine the impact on the annual Consolidated Financial Statements.

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

## **Accounting Standards Adopted**

### **IFRS 15 - Revenue from Contracts with Customers**

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

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

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

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

### **Revenue Recognition**

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

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

#### **Product Sales**

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

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

#### **License Revenue**

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

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



The Company has applied the royalty exception for both sales-based royalties and milestone payments contingent on sales-based thresholds (See Note 3, *Changes in Accounting Policies*). Royalties are typically calculated as a percentage of net sales realized by the Company's licensees of its products (including their sublicensees), as specifically defined in each agreement. The licensees' sales generally consist of revenue from product sales of the Company's pharmaceutical products, and net sales are generally determined by deducting the following: estimates for chargebacks, rebates, sales incentives and allowances, returns and losses and other customary deductions in each region where the Company has licensees. The Company recognizes the sales-based royalties and milestone payments contingent on sales-based thresholds monthly as the subsequent sales occur.

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

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

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

#### Contract Revenue

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

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

#### Contract Costs

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

#### **IFRS 9 - Financial Instruments**

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

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

## Financial Instruments

### Classification

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

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

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

### Measurement

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

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

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

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

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

### Impairment of Financial Assets

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether the asset originated from a contract that is in the scope of IFRS 15 or if there has been a significant increase in credit risk. The Company was required to revise its impairment methodology under IFRS 9 for each of the following classes of assets:

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

### **IFRS 8 - Operating Segments**

IFRS 8 - *Operating Segments* requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. For the three months ended September 30, 2018, the Company continued to operate as one industry segment: pharmaceutical and healthcare products.

## **3. CHANGES IN ACCOUNTING POLICIES**

### **IFRS 15 - Revenue from Contracts with Customers**

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

#### **Product Sales**

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

#### **License Revenue**

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

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

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

#### **Current and Deferred Income Taxes**

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

offset its current and deferred income tax assets and liabilities as it has a legally enforceable right and the income taxes are levied by the same taxation authority.

### Contract Assets

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

### Impact on these Condensed Consolidated Interim Financial Statements

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

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

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

The following tables summarize the impact of adopting IFRS 15 on the Company's Condensed Consolidated Interim Financial Statements for the nine months ended September 30, 2018.

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

	As at September 30, 2018		
	As Reported under IFRS 15 \$	Adjustments \$	Balances under IAS 18 <sup>(i)</sup> \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Contract assets	363	(363)	-
<b>TOTAL CURRENT ASSETS</b>	<b>15,170</b>	<b>(363)</b>	<b>14,807</b>
<b>NON-CURRENT</b>			
Contract assets	796	(796)	-
<b>TOTAL ASSETS</b>	<b>30,974</b>	<b>(1,159)</b>	<b>29,815</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT</b>			
Current income tax liabilities	105	(36)	69
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,664</b>	<b>(36)</b>	<b>4,628</b>
Deferred income tax liabilities	72	(72)	-
<b>TOTAL LIABILITIES</b>	<b>6,277</b>	<b>(108)</b>	<b>6,169</b>
<b>EQUITY</b>			
Accumulated other comprehensive income (loss)	(51)	26	(25)
Deficit	(175,231)	(1,077)	(176,308)
<b>TOTAL EQUITY</b>	<b>24,697</b>	<b>(1,051)</b>	<b>23,646</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>30,974</b>	<b>(1,159)</b>	<b>29,815</b>

<sup>(i)</sup> Balances using previous accounting policy applicable up to December 31, 2017.

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

	Three Months ended September 30, 2018		
	As Reported under IFRS 15 \$	Adjustments \$	Balances under IAS 18 <sup>(i)</sup> \$
<b>REVENUE</b>			
License revenue	592	85	677
<b>Total revenue</b>	<b>5,085</b>	<b>85</b>	<b>5,170</b>
<b>OTHER EXPENSES (INCOME)</b>			
Foreign currency loss (gain)	212	(12)	200
<b>Net income (loss) before income taxes</b>	<b>(2,402)</b>	<b>97</b>	<b>(2,305)</b>
Income tax expense	5	13	18
<b>NET INCOME (LOSS)</b>	<b>(2,407)</b>	<b>84</b>	<b>(2,323)</b>
<b>Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods</b>			
Unrealized gain (loss) on translation of foreign operations	(223)	42	(181)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(2,631)</b>	<b>126</b>	<b>(2,505)</b>
<b>Net income (loss) per common share</b>			
- basic	(0.21)	-	(0.20)
- diluted	(0.21)	-	(0.20)
<b>Average number of common shares outstanding (in thousands)</b>			
- basic	11,362	-	11,362
- diluted	11,422	-	11,422

<sup>(i)</sup> Balances using previous accounting policy applicable up to December 31, 2017.

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

	Nine Months ended September 30, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18 <sup>(i)</sup>
	\$	\$	\$
<b>REVENUE</b>			
License revenue	1,704	337	2,041
<b>Total revenue</b>	<b>15,391</b>	<b>337</b>	<b>15,728</b>
<b>OTHER EXPENSES</b>			
Foreign currency loss	49	23	72
<b>Net income (loss) before income taxes</b>	<b>(1,645)</b>	<b>314</b>	<b>(1,331)</b>
Income tax expense (recovery)	(123)	224	101
<b>NET INCOME (LOSS)</b>	<b>(1,522)</b>	<b>90</b>	<b>(1,432)</b>
<b>Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods</b>			
Unrealized gain (loss) on translation of foreign operations	(50)	26	(24)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(1,572)</b>	<b>116</b>	<b>(1,456)</b>
<b>Net income (loss) per common share</b>			
- basic	(0.13)	-	(0.13)
- diluted	(0.13)	-	(0.12)
<b>Average number of common shares outstanding (in thousands)</b>			
- basic	11,448	-	11,448
- diluted	11,512	-	11,512

<sup>(i)</sup> Balances using previous accounting policy applicable up to December 31, 2017.

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

	Three Months ended September 30, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18 <sup>(i)</sup>
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	(2,407)	84	(2,323)
Items not involving current cash flows:			
Depreciation and amortization	635	-	635
Equity-settled stock-based compensation	150	-	150
Unrealized foreign exchange loss	180	-	180
Provision (benefit) for deferred income taxes	(3)	13	10
Change in fair value of contingent and variable consideration	89	-	89
	<b>(1,356)</b>	<b>97</b>	<b>(1,259)</b>
Net change in non-cash working capital	2,634	(97)	2,537
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,278</b>	<b>-</b>	<b>1,278</b>

<sup>(i)</sup> Balances using previous accounting policy applicable up to December 31, 2017.

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

	<b>Nine Months ended September 30, 2018</b>		
	<b>As Reported under IFRS 15</b>	<b>Adjustments</b>	<b>Balances under IAS 18<sup>(i)</sup></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	(1,522)	90	(1,432)
Items not involving current cash flows:			
Depreciation and amortization	1,860	-	1,860
Disposal of development costs	16	-	16
Equity-settled stock-based compensation	611	-	611
Unrealized foreign exchange gain	(32)	-	(32)
Provision (benefit) for deferred income taxes	(130)	224	94
Change in fair value of contingent and variable consideration	257	-	257
	<b>1,060</b>	<b>314</b>	<b>1,374</b>
Net change in non-cash working capital	<b>1,088</b>	<b>(314)</b>	<b>774</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,148</b>	<b>-</b>	<b>2,148</b>

<sup>(i)</sup> Balances using previous accounting policy applicable up to December 31, 2017.

**IFRS 9 - Financial Instruments**

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

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

**Classification and Measurement of Financial Instruments**

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

**Reclassification from FVTPL to Amortized Cost**

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

**Impairment of Financial Assets**

The following financial assets are subject to the new IFRS 9 expected credit loss model:

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

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



#### 4. RESULTZ U.S. ASSET PURCHASE

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

#### 5. INVENTORIES

Inventories consist of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Raw materials	2,130	2,162
Work in process	24	24
Finished goods	500	316
	<b>2,654</b>	<b>2,502</b>

During the three and nine months ended September 30, 2018, inventories in the amount of \$1.7 million and \$5.1 million were recognized as cost of goods sold (COGS) [\$1.2 million and \$4.7 million for the three and nine months ended September 30, 2017]. During the three and nine months ended September 30, 2018 and 2017, there were no inventory write-downs and no reversals of prior period write-downs.

#### 6. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Deposits <sup>(i)</sup>	5,739	117
Prepaid expenses	470	234
Other receivables	158	86
	<b>6,367</b>	<b>437</b>

<sup>(i)</sup> Deposits include US\$4.4 million (\$5.7 million) pledged as security towards the Aralez Pharmaceuticals Inc. transaction (see Note 18, *Aralez Transaction*).

## 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) consists of the following as at:

	Land	Buildings	Leasehold Improvements	Furniture & Fixtures	Computer Equipment & Software <sup>(ii)</sup>	Production, Laboratory & Other Equipment <sup>(iii)</sup>	Total
Cost	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2017	42	1,491	194	132	211	6,052	8,122
Additions/disposals	-	3	73	35	11	163	285
<b>Balance, September 30, 2018</b>	<b>42</b>	<b>1,494</b>	<b>267</b>	<b>167</b>	<b>222</b>	<b>6,215</b>	<b>8,407</b>
<b>Accumulated depreciation</b>							
Balance, December 31, 2017	-	917	3	59	166	2,694	3,839
Depreciation expense, net	-	51	27	13	4	251	346
<b>Balance, September 30, 2018</b>	<b>-</b>	<b>968</b>	<b>30</b>	<b>72</b>	<b>170</b>	<b>2,945</b>	<b>4,185</b>
Net book value as at December 31, 2017	42	574	191	73	45	3,358	4,283
<b>Net book value as at September 30, 2018<sup>(i)</sup></b>	<b>42</b>	<b>526</b>	<b>237</b>	<b>95</b>	<b>52</b>	<b>3,270</b>	<b>4,222</b>

<sup>(i)</sup> As at September 30, 2018, all of the Company's PP&E was located in Canada.

<sup>(ii)</sup> Computer equipment includes disposals during the period of \$13 for fully depreciated equipment.

<sup>(iii)</sup> Production, laboratory and other equipment as at September 30, 2018 included a cost of \$11 [December 31, 2017 - \$11] and accumulated depreciation of \$7 [December 31, 2017 - \$5] for assets under finance leases.

## 8. INTANGIBLE ASSETS

Intangible assets consist of the following as at:

	Patents	Brand	Development Costs	Total
Cost	\$	\$	\$	\$
Balance, December 31, 2017	8,430	790	16	9,236
Acquired in Resultz U.S. asset purchase (Note 4)	1,876	-	-	1,876
Disposal	-	-	(16)	(16)
Foreign exchange movements	(37)	(3)	-	(40)
<b>Balance, September 30, 2018</b>	<b>10,269</b>	<b>787</b>	<b>-</b>	<b>11,056</b>
<b>Accumulated amortization</b>				
Balance, December 31, 2017	-	-	-	-
Amortization expense	1,501	-	-	1,501
Foreign exchange movements	(46)	-	-	(46)
<b>Balance, September 30, 2018</b>	<b>1,455</b>	<b>-</b>	<b>-</b>	<b>1,455</b>
Net book value as at December 31, 2017	8,430	790	16	9,236
<b>Net book value as at September 30, 2018</b>	<b>8,814</b>	<b>787</b>	<b>-</b>	<b>9,601</b>

## 9. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Contingent and variable consideration related to the ex-U.S. acquisition of Resultz <sup>(i)</sup>	1,926	1,626
Finance lease obligations	6	7
Less amounts due within one year	(391)	(332)
<b>Long-term balance</b>	<b>1,541</b>	<b>1,301</b>

<sup>(i)</sup> As at September 30, 2018, the Company recognized \$1.9 million [December 31, 2017 - \$1.6 million] in contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. For the three and nine months ended September 30, 2018, the remeasurement of the fair value of the contingent and variable consideration recognized the passage of time and the impact of changes in foreign exchange, resulting in a charge of \$0.1 million and \$0.3 million, respectively, reflected in the results of operations for the periods.

## 10. CAPITAL STOCK

### Authorized

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

### Normal Course Issuer Bid

During the three months ended September 30, 2018, pursuant to the Company's notice of intention to make a normal course issuer bid for a portion of its outstanding common shares, the Company purchased 6,149 common shares with available cash on hand for a total cost of \$19 or \$3.01 per share. The common shares acquired by Nuvo were cancelled.

During the nine months ended September 30, 2018, the Company purchased 235,543 common shares with available cash on hand for a total cost of \$748 or \$3.18 per share. The common shares acquired by Nuvo were cancelled.

## 11. STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company has four stock-based compensation plans: the Share Option Plan, the Share Purchase Plan and the Share Bonus Plan, each a component of the Company's Share Incentive Plan and the Share Appreciation Rights (SARs) Plan.

### Share Incentive Plan

Under the Company's Share Incentive Plan, there are three sub plans: (i) the Share Option Plan, (ii) the Share Purchase Plan, and (iii) the Share Bonus Plan. On May 11, 2017, Nuvo shareholders approved a resolution affirming, ratifying and approving the Share Incentive Plan and approving all of the unallocated common shares issuable pursuant to the Share Incentive Plan. The Toronto Stock Exchange (TSX) requires that the Company's Share Incentive Plan, along with any unallocated options, rights or other entitlements, receive shareholder approval at the Company's annual meeting every three years.

The maximum number of common shares that will be reserved for issuance under the Share Incentive Plan shall be 15% of the total number of common shares outstanding from time-to-time. The allocation of such maximum percentage among the three sub plans comprising the Share Incentive Plan shall be determined by the Board of Directors (or a committee thereof) from time-to-time (provided that the maximum number of common shares that

may be issued under the Share Bonus Plan shall not exceed a fixed number of common shares equal to 3% of the number of common shares outstanding immediately following the arrangement, which was 344,615).

As at September 30, 2018, the number of common shares available for issuance under the Share Incentive Plan was 524,082.

### Share Option Plan

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

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

	Options 000s	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, December 31, 2017	1,029	1.53 - 11.18	4.88
Granted	195	3.55	3.55
Expired	(34)	4.32 - 6.35	5.52
Balance, June 30, 2018	1,190	1.53 - 11.18	4.64
Forfeited	(10)	3.55	3.55
<b>Balance, September 30, 2018</b>	<b>1,180</b>	<b>1.53 - 11.18</b>	<b>4.65</b>

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, 2017 - 7.0%] and the remaining model inputs for options granted during the nine-month period ended September 30, 2018 were as follows:

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

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at September 30, 2018:

Exercise Price Range \$	Options 000s	<u>Outstanding</u> Remaining Contractual Life years	Weighted Average Exercise Price \$	<u>Exercisable</u> Vested Options 000s	Weighted Average Exercise Price \$
1.53 - 4.45	530	6.78	3.10	366	2.79
5.08 - 5.75	604	7.18	5.52	309	5.38
11.18	46	1.71	11.18	46	11.18
	<b>1,180</b>	<b>6.79</b>	<b>4.65</b>	<b>721</b>	<b>4.43</b>

### Share Purchase Plan

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

During the three and nine months ended September 30, 2018, employees contributed \$nil and \$87 [\$nil for the three and nine months ended September 30, 2017] to the plan and the Company matched these contributions by issuing nil and 23,476 common shares [nil for the three and nine months ended September 30, 2017] with a fair

value of \$nil and \$87 [\$nil for the three and nine months ended September 30, 2017] that was recorded as compensation expense. The total number of shares issued under this plan during the three and nine months ended September 30, 2018 was nil and 46,952 [nil for the three and nine months ended September 30, 2017].

### Share Appreciation Rights Plan

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

The fair values of each tranche issued and outstanding in the period were measured as at September 30, 2018 using the Black-Scholes option pricing model with the following inputs:

SARs 000s	Grant Date	Exercise Price \$	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor	Fair Values \$
52	January 7, 2015	5.63	2.11	1	44	-

The following table summarizes the outstanding SARs and related accrual as at:

	SARs 000s	Fair Values \$	Accrual \$
Balance, December 31, 2017	171	0.00 - 4.21	74
Vested	(119)	0.00 - 1.05	(70)
Adjustment to market value	-	-	(4)
Balance, June 30, 2018	52	-	-
Adjustment to market value	-	-	-
<b>Balance, September 30, 2018</b>	<b>52</b>	<b>-</b>	<b>-</b>

### Summary of Stock-based Compensation

Stock-based compensation is as follows:

	Three Months ended September 30		Nine Months ended September 30	
	2018 \$	2017 \$	2018 \$	2017 \$
Stock option compensation expense under the Share Option Plan	150	169	524	484
Shares issued to employees under the Share Purchase Plan	-	-	87	-
SARs compensation expense	-	(11)	(4)	(175)
<b>Stock-based compensation expense</b>	<b>150</b>	<b>158</b>	<b>607</b>	<b>309</b>

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

	2018	2017	2018	2017
Cost of goods sold	9	8	48	21
General and administrative expenses	141	150	559	288
	<b>150</b>	<b>158</b>	<b>607</b>	<b>309</b>

## 12. NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is computed as follows:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Basic income (loss) per share:</b>				
Net income (loss)	(2,407)	(226)	(1,522)	1,767
Average number of shares outstanding during the period	11,362	11,551	11,448	11,550
<b>Basic income (loss) per share</b>	<b>(0.21)</b>	<b>(0.02)</b>	<b>(0.13)</b>	<b>0.15</b>
Net income (loss), assuming dilution	(2,407)	(226)	(1,522)	1,680
Average number of shares outstanding during the period	11,362	11,551	11,448	11,550
Dilutive effect of:				
Stock options	60	-	64	143
Share appreciation rights	-	-	-	31
<b>Weighted average common shares outstanding, assuming dilution</b>	<b>11,422</b>	<b>11,551</b>	<b>11,512</b>	<b>11,724</b>
<b>Diluted income (loss) per share</b>	<b>(0.21)</b>	<b>(0.02)</b>	<b>(0.13)</b>	<b>0.14</b>

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:

	September 30, 2018	September 30, 2017
	000s	000s
Common shares issued and outstanding	11,362	11,551
Stock options outstanding (Note 11)	1,180	1,158
Share appreciation rights outstanding (Note 11)	52	171
	<b>12,594</b>	<b>12,880</b>

## 13. EXPENSES BY NATURE

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

### (a) Employee costs

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Short-term employee wages, bonuses and benefits	1,517	1,074	4,498	3,897
Share-based payments	137	144	532	232
<b>Total employee costs</b>	<b>1,654</b>	<b>1,218</b>	<b>5,030</b>	<b>4,129</b>
<b>Included in:</b>				
Cost of goods sold	728	533	2,100	2,153
General and administrative expenses	926	685	2,930	1,976
<b>Total employee costs</b>	<b>1,654</b>	<b>1,218</b>	<b>5,030</b>	<b>4,129</b>

(b) Depreciation and amortization

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Amortization of intangibles	491	-	1,501	-
Cost of goods sold	121	62	305	174
General and administrative expenses	23	-	54	-
<b>Total depreciation and amortization</b>	<b>635</b>	<b>62</b>	<b>1,860</b>	<b>174</b>

#### 14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accounts receivable	590	(1,723)	137	(504)
Inventories	(370)	(181)	(152)	746
Contract assets	97	-	314	-
Other current assets	(25)	(161)	(250)	289
Accounts payable and accrued liabilities	2,342	(209)	1,039	(1,888)
<b>Net change in non-cash working capital</b>	<b>2,634</b>	<b>(2,274)</b>	<b>1,088</b>	<b>(1,357)</b>

#### 15. COMMITMENTS

The Company has minimum future rental payments under operating leases for the twelve months ending September 30 as follows:

	\$
2019	182
2020	204
2021 and thereafter	681
	<b>1,067</b>

For the three and nine months ended September 30, 2018, payments under operating leases totalled \$67 and \$0.1 million [\$29 and \$0.1 million for the three and nine months ended September 30, 2017].

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

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

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

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

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial Instruments at Amortized Cost

Due to their short-term nature, the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value.

For the three and nine months ended September 30, 2018, the Company recognized \$7 and \$37 in interest from financial assets held at amortized cost.

### Credit Risk

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

As at September 30, 2018, the Company's largest customer represented 54% [December 31, 2017 - 76%] of accounts receivable. Pursuant to their collective terms, accounts receivable were aged as follows:

	September 30, 2018	December 31, 2017
	\$	\$
Current	1,642	1,731
0 - 30 days past due	11	128
31 - 60 days past due	-	7
Over 60 days past due	45	9
	<b>1,698</b>	<b>1,875</b>

The loss allowance provision as at September 30, 2018 is determined as follows and incorporates forward-looking information.

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0%	0%	0%	5%	
Gross carrying amount	\$1,642	\$11	\$45	-	<b>\$1,698</b>
Loss allowance provision	-	-	-	-	-

The revised impairment methodology under IFRS 9 did not generate a loss allowance provision for accounts receivable as at September 30, 2018 [December 31, 2017 - \$nil]. During the three and nine months ended September 30, 2018, the Company did not recognize any bad debts in total comprehensive income [\$nil and \$nil for the three and nine months ended September 30, 2017]. For the three and nine months ended September 30, 2017, the impairment of accounts receivable was assessed based on the incurred loss model. Individual receivables that were known to be uncollectible were written off by reducing the carrying amount directly.

For contract assets within the scope of IFRS 15, the Company recognizes an asset to the extent contractual minimums established in certain customer licensing agreements are deemed fixed consideration. After analysis of historical default rates and forward-looking estimates, the Company's contract assets are considered to have low credit risk and as a result, the Company has not recognized a loss allowance as at September 30, 2018 [December 31, 2017 - \$nil].

The Company's cash, cash equivalents and short-term investments subject the Company to a concentration of credit risk. As at September 30, 2018, the Company had \$4.1 million deposited with three financial institutions in



various bank accounts. These financial institutions are major banks, including two in Canada and one in Ireland, which the Company believes lessens the degree of credit risk. All of these financial assets are considered to have low credit risk, and therefore, the provision recognized during the period was limited to 12 months of expected losses. The Company has not recognized a loss allowance as at September 30, 2018 [December 31, 2017 - \$nil].

### **Financial Instruments at Fair Value Through Profit (Loss)**

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and nine months ended September 30, 2018.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 11, *Stock-based Compensation and Other Stock-based Payments*. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued \$nil for SARs as at September 30, 2018 [December 31, 2017 - \$0.1 million].

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. The Company recognized \$1.9 million in contingent and variable consideration as at September 30, 2018 [December 31, 2017 - \$1.6 million] which represents the present value of the Company's probability-weighted estimate of the cash outflow. The fair value of the contingent and variable consideration is revalued at each reporting period based on management's best estimate that certain milestone targets will be achieved in partnered markets and based on management's best estimate of projected royalty income in non-partnered markets, using an appropriate discount rate. A significant increase (decrease) in the probability of achieving a milestone or projected royalty income would result in higher (lower) fair value of the contingent and variable consideration liability, while a significant increase (decrease) in the discount rate would result in lower (higher) fair value of the liability.

### **Risk Factors**

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

### **Liquidity Risk**

While the Company had \$4.1 million in cash and cash equivalents as at September 30, 2018, it was dependent on a single customer for substantially all of its revenue. During the three months ended September 30, 2018, the Company earned 84% [September 30, 2017 - 70%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to diversify its customer base, in order to help mitigate this concentration risk. On January 12, 2018, the Company acquired the U.S. product and IP rights to Resultz from Piedmont. Nuvo now owns all Resultz product and IP rights throughout the world. The benefits of the Resultz acquisition include expanding the Company's portfolio of commercial products and Resultz can be produced at Nuvo's Varennes, Québec manufacturing facility.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of \$4.7 million that are due in less than one year and \$2.4 million of contractual obligations that are payable from 2019 to 2023.

### Interest Rate Risk

All finance lease obligations are at fixed interest rates.

### Currency Risk

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

	Euros		U.S. Dollars	
	September 30, 2018 €	December 31, 2017 €	September 30, 2018 \$	December 31, 2017 \$
Cash	787	621	1,417	1,290
Accounts receivable	9	-	992	1,378
Contract assets	-	-	426	-
Accounts payable and accrued liabilities	(106)	(32)	(709)	(751)
Other obligations	(176)	-	(1,283)	-
	514	589	843	1,917

Based on the aforementioned net exposure as at September 30, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$0.1 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$0.1 million on total comprehensive income (loss).

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

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

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

## 17. REVENUE

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

	Three Months ended September 30							
	2018	2017 <sup>(i)</sup>	2018	2017 <sup>(i)</sup>	2018	2017 <sup>(i)</sup>	2018	2017 <sup>(i)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
	United States		International		Canada		Total	
<b>Primary categories of revenue</b>								
Product sales	3,726	1,887	730	600	-	213	4,456	2,700
License revenue	91	120	448	25	53	54	592	199
Contract revenue	37	41	-	-	-	16	37	57
	<b>3,854</b>	<b>2,048</b>	<b>1,178</b>	<b>625</b>	<b>53</b>	<b>283</b>	<b>5,085</b>	<b>2,956</b>
<b>Timing of revenue recognition</b>								
Transferred over time	-	-	-	-	-	16	-	16
Transferred at a point in time	3,854	2,048	1,178	625	53	267	5,085	2,940
	<b>3,854</b>	<b>2,048</b>	<b>1,178</b>	<b>625</b>	<b>53</b>	<b>283</b>	<b>5,085</b>	<b>2,956</b>

<sup>(i)</sup> The 2017 balances have not been restated to reflect the adoption of IFRS 15.

	Nine Months ended September 30							
	2018	2017 <sup>(i)</sup>	2018	2017 <sup>(i)</sup>	2018	2017 <sup>(i)</sup>	2018	2017 <sup>(i)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
	United States		International		Canada		Total	
<b>Primary categories of revenue</b>								
Product sales	11,313	10,465	2,247	1,461	-	213	13,560	12,139
License revenue	298	379	1,264	56	142	162	1,704	597
Contract revenue	103	187	13	13	11	102	127	302
	<b>11,714</b>	<b>11,031</b>	<b>3,524</b>	<b>1,530</b>	<b>153</b>	<b>477</b>	<b>15,391</b>	<b>13,038</b>
<b>Timing of revenue recognition</b>								
Transferred over time	-	-	-	-	11	102	11	102
Transferred at a point in time	11,714	11,031	3,524	1,530	142	375	15,380	12,936
	<b>11,714</b>	<b>11,031</b>	<b>3,524</b>	<b>1,530</b>	<b>153</b>	<b>477</b>	<b>15,391</b>	<b>13,038</b>

<sup>(i)</sup> The 2017 balances have not been restated to reflect the adoption of IFRS 15.

### Contract Balances

	September 30, 2018	January 1, 2018
	\$	\$
Accounts receivable	1,698	1,875
Contract assets	1,159	1,475

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

Significant changes in the contract assets' current and long-term balance during the period were as follows:

	\$
Balance, January 1, 2018	1,475
Transfers to accounts receivable	(252)
Foreign exchange movements	51
Balance, June 30, 2018	1,274
Transfers to accounts receivable	(91)
Foreign exchange movements	(24)
<b>Balance, September 30, 2018</b>	<b>1,159</b>

### Significant Customers

For the three months ended September 30, 2018, the Company's four largest customers generating product sales represented 100% [September 30, 2017 - 91%] of total product sales and the Company's largest customer represented 84% [September 30, 2017 - 70%] of total product sales.

### 18. ARALEZ TRANSACTION

On September 19, 2018, the Company announced the signing of definitive, binding purchase agreements with Aralez Pharmaceuticals Inc. (Aralez) to acquire a portfolio of revenue-generating products, as well as the associated personnel and infrastructure to continue the products' management and growth (the Aralez Transaction). Pursuant to the terms of the definitive agreements, Nuvo paid a deposit of US\$4.4 million (\$5.7 million) to Aralez in connection with the Aralez Transaction.

Aralez, along with its Canadian subsidiary, Aralez Pharmaceuticals Canada Inc., has commenced voluntary proceedings under Canada's *Companies' Creditors Arrangement Act* (the CCAA) in the Ontario Superior Court of Justice (the Ontario Court). In connection with these proceedings, certain other subsidiaries of Aralez have voluntarily filed petitions under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York (the U.S. Court).

As part of the restructuring process, Aralez and its subsidiaries will conduct a sale process in accordance with bidding procedures approved by the Ontario Court and the U.S. Court. Such sale process allows other bidders to submit superior offers for any of the assets subject to the Aralez Transaction in accordance with the bidding procedures. The definitive agreements in respect of the Aralez Transaction will serve as the "stalking horse" bids in the sale process, which may entitle Nuvo to receive a customary termination fee and expense reimbursement, plus the return of its deposit, if it is not ultimately the successful bidder. Pursuant to the terms of the definitive agreements, upon closing of the Aralez Transaction, the Company would pay Aralez US\$110 million in cash (less the US\$4.4 million deposit previously paid), which the Company would satisfy through funding provided by certain funds managed by Deerfield Management Company, L.P. (Deerfield). Deerfield has provided a binding commitment letter to the Company to be the sole financier and to fund the Aralez Transaction in its entirety (the Financing). Assuming certain conditions of the commitment letter are met, the commitment letter provides for Nuvo to reimburse Deerfield legal fees related to the negotiation of the commitment letter, not to exceed US\$350. As certain conditions have not yet been met, the reimbursement of Deerfield legal fees have not been accrued in the three or nine months ended September 30, 2018.

If Nuvo is the successful bidder in the sale process, closing of the Aralez Transaction will be subject to certain conditions, including approval of the Aralez Transaction by the Ontario Court and the U.S. Court, as well as approval by the Toronto Stock Exchange. The approval of Nuvo's shareholders is not a condition to closing the Aralez Transaction or the Financing, but Nuvo intends to seek the approval of its shareholders following closing for certain terms of the warrants and convertible debentures to be issued to Deerfield. If such shareholder approval is not obtained, the convertible debentures and the warrants would be settled solely through cash payments in accordance with their terms.

There can be no assurance that Nuvo will ultimately be the successful bidder in the process or that the Aralez Transaction as described, or otherwise, will be successfully completed. The description of the Aralez Transaction and the Financing contained in herein are qualified in their entirety by the reference to the definitive purchase agreements and binding commitment letter, copies of which will be filed under Nuvo's profile at [www.sedar.com](http://www.sedar.com).