August 26, 2019

Notice to Reader:

The condensed consolidated interim financial statements of Nuvo Pharmaceuticals Inc. (the “Company”), for the period ended June 30, 2019 (the “Interim Financial Statements”) are being refiled to include comparative financial information with respect to the Statement of Changes in Equity for the corresponding interim period in the immediately preceding financial year (i.e. June 30, 2018), which comparative information was inadvertently omitted in the original filing on August 14, 2019.

This correction is the only change from the materials originally filed by the Company on August 14, 2019. Apart from the additional comparative financial information, there is no change to the Interim Financial Statements or the accompanying notes thereto, and the following materials are the same as those originally filed. This notice does not form part of the Interim Financial Statements.

Yours truly,

/s/ “*Mary-Jane E. Burkett*”

Mary-Jane E. Burkett
Vice President & Chief Financial Officer

Nuvo Pharmaceuticals™ Inc.

Condensed Consolidated Interim Financial Statements June 30, 2019 (unaudited)

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

		As at June 30, 2019	As at December 31, 2018
(Canadian dollars in thousands)	***Notes***	**$**	$
ASSETS			
CURRENT			
Cash and cash equivalents	*17*	**14,667**	28,074
Accounts receivable	*17, 18*	**12,120**	5,217
Inventories	*5*	**11,779**	13,747
Other current assets	*6*	**1,933**	3,007
Contract assets	*17, 18*	**109**	8,642
TOTAL CURRENT ASSETS		**40,608**	58,687
NON-CURRENT			
Contract assets	*17, 18*	**354**	18,110
Property, plant and equipment		**4,273**	4,659
Right-of-use assets	*7*	**2,531**	-
Intangible assets		**89,208**	95,234
Goodwill		**25,334**	25,712
TOTAL ASSETS		**162,308**	202,402
LIABILITIES AND EQUITY			
CURRENT			
Accounts payable and accrued liabilities	*17*	**9,063**	21,790
Current portion of long-term debt	*8, 17*	**9,093**	6,821
Current portion of other obligations	*3, 10, 17*	**793**	408
Current income tax liabilities		**211**	82
TOTAL CURRENT LIABILITIES		**19,160**	29,101
Long-term debt	*8, 17*	**113,967**	117,386
Derivative liabilities	*9, 17*	**5,699**	33,646
Other obligations	*3, 10, 17*	**2,931**	1,264
Deferred income tax liabilities		**299**	299
TOTAL LIABILITIES		**142,056**	181,696
EQUITY			
Common shares	*11*	**184,764**	184,764
Contributed surplus	*12*	**15,666**	15,435
Accumulated other comprehensive income (AOCI)		**292**	369
Deficit		**(180,470)**	(179,862)
TOTAL EQUITY		**20,252**	20,706
TOTAL LIABILITIES AND EQUITY		**162,308**	202,402

Note 16, *Commitments*
See accompanying Notes.

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

		Three Months ended June 30		Six Months ended June 30	
		2019	2018	**2019**	2018
(Canadian dollars in thousands, except per share and share figures)	***Notes***	**$**	$	**$**	$
REVENUE					
Product sales	*4, 18*	**13,235**	5,349	**24,465**	9,104
License revenue	*4, 18*	**2,655**	472	**5,069**	1,112
Contract revenue	*18*	**690**	54	**1,596**	90
Total revenue		**16,580**	5,875	**31,130**	10,306
Cost of goods sold	*4, 5, 12*	**6,931**	2,330	**12,474**	4,252
Gross profit		**9,649**	3,545	**18,656**	6,054
OPERATING EXPENSES					
Sales and marketing expenses	*4*	**3,043**	-	**5,873**	-
General and administrative expenses	*4, 12*	**5,125**	1,877	**10,315**	4,311
Amortization of intangibles	*4*	**2,181**	497	**4,281**	1,011
Net interest expense (income)	*4, 8, 13*	**2,067**	(9)	**3,997**	(30)
Total operating expenses		**12,416**	2,365	**24,466**	5,292
OTHER EXPENSES (INCOME)					
Change in fair value of derivative liabilities (gain)	*9, 17*	**(32,641)**	-	**(27,428)**	-
Change in fair value of contingent and variable consideration (gain)	*10, 17*	**(507)**	85	**(435)**	168
Contract asset impairment	*4*	**23,621**	-	**23,621**	-
Other losses	*7*	**608**	-	**608**	-
Foreign currency gain	*17*	**(740)**	(5)	**(1,718)**	(163)
Net income (loss) before income taxes		**6,892**	1,100	**(458)**	757
Income tax expense (recovery)		**96**	46	**150**	(128)
NET INCOME (LOSS)		**6,796**	1,054	**(608)**	885
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods					
Unrealized gain (loss) on translation of foreign operations		**718**	(412)	**(77)**	173
TOTAL COMPREHENSIVE INCOME (LOSS)		**7,514**	642	**(685)**	1,058
Net income (loss) per common share					
- basic	*14*	**0.60**	0.09	**(0.05)**	0.08
- diluted	*14*	**(0.52)**	0.09	**(0.54)**	0.08
Average number of common shares outstanding (in thousands)					
- basic	*14*	**11,388**	11,409	**11,388**	11,492
- diluted	*14*	**48,428**	11,466	**30,586**	11,565

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars in thousands, except for number of shares)	Common Shares		Contributed Surplus	AOCI	Deficit	Total
	000s	**$**	**$**	**$**	**$**	**$**
Notes	*11, 12, 14*	*11, 12*	*11, 12*			
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
Adjusted balance, January 1, 2018	11,551	185,266	14,763	(1)	(173,709)	26,319
Stock option compensation expense	-	-	374	-	-	374
Unrealized gain on translation of foreign operations	-	-	-	173	-	173
Employee contribution to Share Purchase Plan	23	87	-	-	-	87
Employer's portion of Share Purchase Plan	23	87	-	-	-	87
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
Employee contribution to Share Purchase Plan	13	36	-	-	-	36
Employer's portion of Share Purchase Plan	13	36	-	-	-	36
Stock option compensation expense	-	-	298	-	-	298
Unrealized gain on translation of foreign operations	-	-	-	197	-	197
Normal course issuer bid	(6)	(19)	-	-	-	(19)
Net loss	-	-	-	-	(7,038)	(7,038)
Balance, December 31, 2018	**11,388**	**184,764**	**15,435**	**369**	**(179,862)**	**20,706**
Stock option compensation expense	-	-	231	-	-	231
Unrealized loss on translation of foreign operations	-	-	-	(77)	-	(77)
Net income	-	-	-	-	(608)	(608)
Balance, June 30, 2019	**11,388**	**184,764**	**15,666**	**292**	**(180,470)**	**20,252**

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

		Three Months ended June 30		Six Months ended June 30	
		2019	2018	**2019**	2018
(Canadian dollars in thousands)	***Notes***	**$**	$	**$**	$
OPERATING ACTIVITIES					
Net income (loss)		**6,796**	1,054	**(608)**	885
Items not involving current cash flows:					
Depreciation and amortization		**2,451**	611	**4,885**	1,225
Accreted non-cash interest, net and amortization of deferred financing fees	*13*	**512**	-	**966**	-
Disposal of development costs		**-**	16		16
Equity-settled stock-based compensation	*12*	**105**	153	**231**	461
Unrealized foreign exchange gain		**(900)**	(21)	**(1,768)**	(212)
Modification of debt	*8*	**881**	-	**881**	-
Change in allowance for doubtful accounts	*17*	**(157)**	-	**(78)**	-
Inventory write-down	*5*	**140**	-	**177**	-
Inventory step-up expense	*5*	**1,309**	-	**2,524**	-
Change in fair value of derivative liabilities	*10, 17*	**(32,794)**	-	**(27,581)**	-
Contract asset impairment	*4*	**23,621**	-	**23,621**	-
Benefit for deferred income taxes		**-**	47	**-**	(127)
Change in fair value of contingent and variable consideration	*10, 17*	**(507)**	85	**(435)**	168
		1,457	1,945	**2,815**	2,416
Net change in non-cash working capital	*15*	**(345)**	1,092	**(12,573)**	(1,546)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**1,112**	3,037	**(9,758)**	870
INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		**(47)**	(144)	**(63)**	(195)
Aralez acquisition	*4*	**(2,547)**	-	**(2,547)**	-
Resultz U.S. asset purchase		**-**	-	**-**	(1,876)
CASH USED IN INVESTING ACTIVITIES		**(2,594)**	(144)	**(2,610)**	(2,071)
FINANCING ACTIVITIES					
Normal course issuer bid		**-**	(729)	**-**	(729)
Issuance of common shares		**-**	-	**-**	87
Principal payment on debt	*8*	**(59)**	-	**(59)**	-
Cash payment of lease liabilities	*3*	**(132)**	-	**(267)**	-
CASH USED IN FINANCING ACTIVITIES		**(191)**	(729)	**(326)**	(642)
Effect of exchange rate changes on cash		**(183)**	33	**(713)**	144
Net change in cash during the period		**(1,856)**	2,197	**(13,407)**	(1,699)
Cash and cash equivalents, beginning of period		**16,523**	4,502	**28,074**	8,398
CASH AND CASH EQUIVALENTS, END OF PERIOD		**14,667**	6,699	**14,667**	6,699

See accompanying Notes.

Supplemental Cash Flow Information				
Interest received[1]	**50**	1	**112**	10
Interest paid[1]	**1,567**	-	**3,125**	-

1. Amounts have been reflected as operating cash flows in the Consolidated Interim Statements of Cash Flows.

NUVO PHARMACEUTICALS™ INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. NATURE OF BUSINESS

Nuvo Pharmaceuticals Inc. (Nuvo or the Company) is a Canadian focused, healthcare company with global reach and a diversified portfolio of commercial products. The Company targets several therapeutic areas, including pain, allergy and dermatology. The Company's strategy is to in-license and acquire growth-oriented, complementary products for Canadian and international markets and to out-license select products in global markets. The Company's registered office and principal place of business is located at 6733 Mississauga Road, Suite 610, Mississauga, Ontario, Canada, L5N 6J5, the Company's Commercial Business is located in Mississauga, Ontario, its international operations are located in Dublin, Ireland and its manufacturing facility is located in Varennes, Québec, Canada. The Varennes facility operates in a Good Manufacturing Practices (GMP) environment respecting the U.S, Canada and E.U. GMP regulations and is regularly inspected by Health Canada and the U.S. Food and Drug Administration (FDA).

The Aralez Transaction

On December 31, 2018, the Company announced the acquisition of a portfolio of more than 20 revenue-generating products from Aralez Pharmaceuticals Inc., (Aralez) (the Aralez Transaction). The Aralez Transaction included the acquisition of Aralez Pharmaceuticals Canada Inc. (Aralez Canada), a growing business that includes the products Cambia®, Blexten®, as well as the Canadian distribution rights to Resultz®, and provides a platform for the Company to acquire and launch additional commercial products in Canada. The Company also acquired the worldwide rights and royalties from licensees for Vimovo®, Yosprala™ and global, ex-U.S. product rights to Suvexx™. For further details please refer to the annual Consolidated Financial Statements of the Company for the year ended December 31, 2018, which are available on SEDAR at www.sedar.com.

The Deerfield Financing

The aggregate purchase price paid by the Company for the Aralez Transaction was $146.4 million (US$110 million, subject to certain working capital and indebtedness adjustments). The Company satisfied the purchase price through funding provided by certain funds managed by Deerfield Management Company, L.P. (Deerfield), a leading, global, healthcare-specialized investor (the Deerfield Financing). (See Note 8, *Loans and Borrowings* and Note 9, *Derivative Liabilities)*.

The facility agreement with Deerfield (Deerfield Facility Agreement) contains customary representations and warranties and affirmative and negative covenants, including, among other things, limitations on asset sales, mergers and acquisitions, indebtedness, liens and dividends. In addition, the Company is subject to an annual financial covenant based on minimum levels of trailing twelve-month net sales per fiscal year and a mandatory quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable as long as US$10.0 million in prepayments have been made over such four fiscal quarters. The mandatory quarterly prepayments are first applied to the Bridge Loan, which is at a higher interest rate than the Amortization Loan. The Company has agreed to an amendment to the financing agreement dated June 25, 2019, to provide, among other things, for a payment deferral mechanism in the event that Vimovo U.S. market exclusivity is lost and an extension of the maturity date in respect of the Company's US$6.0 million Bridge Loan by 6 months to December 31, 2020. The amendment will allow the Company to defer a portion of the mandatory minimum quarterly prepayments by the difference between one quarter of the existing US$7.5 million minimum annual royalty due from Vimovo sales in the U.S. and the actual amount of royalties received in the applicable quarter in the event Vimovo U.S. market exclusivity is lost earlier than had been expected prior to the United States Court of Appeals (Court of Appeals) decision. The amount of any deferred prepayment would, until repaid in accordance with the amendment, be subject to an interest rate of 12.5% per annum. As a result of this amendment, the Amortization Loan and Bridge Loan were revalued and a loss on modification of $0.7 million was recorded (See Note 8, *Loans and Borrowings*).

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, 2018, which are available on SEDAR at www.sedar.com.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Except for the changes identified in Note 3, *Changes in Accounting Policies*, 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 as at and for the year ended December 31, 2018.

These Condensed Consolidated Interim Financial Statements were issued and effective as at August 13, 2019, the date the Board of Directors approved these Condensed Consolidated Interim Financial Statements.

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

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

	% Ownership
Aralez Pharmaceuticals Canada Inc.	**100%**
Nuvo Pharmaceuticals (Ireland) Designated Activity Company	**100%**

All significant intercompany balances and transactions have been eliminated upon consolidation.

Significant Accounting Policies

Operating Segments
IFRS 8 - *Operating Segments* (IFRS 8) 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. Pursuant to the Aralez Transaction, the Company determined that the operating segments' structure reviewed by the chief operating decision maker required adjustment. For the three and six months ended June 30, 2019, the Company had three operating segments: Commercial Business, Production and Service Business and Licensing and Royalty Business (See Note 19, *Segment Reporting)*. During the year ended December 31, 2018, the Company operated as one segment: pharmaceutical and healthcare products. The Company modified this disclosure on a retrospective basis.

Except for the change above regarding IFRS 8, as well as those identified in Note 3, *Changes in Accounting Policies*, all significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements. The policies applied in these Condensed Consolidated Interim Financial Statements are based on International Financial Reporting Standards (IFRS) issued and outstanding as at August 13, 2019.

<u>IFRS 16 – *Leases*</u>

Leased assets
Leased assets are capitalized at the commencement date of the lease and are comprised of the initial lease liability amount, initial direct costs incurred when entering into the lease, less any lease incentives received.

Leased liabilities
The lease liability is measured at the present value of the fixed and variable lease payments, net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability.

Lease modifications are accounted for as a new lease with an effective date of the modification.

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, 2020. The standards impacted that may be applicable to the Company are as follows:

(a) Definition of Material
In October 2018, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements* and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify the explanations accompanying the definition of material. The amendments are effective January 1, 2020 and are required to be applied prospectively. Early adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

(b) Definition of Business
In October 2018, the IASB issued amendments to IFRS 3 - *Business Combinations* (IFRS 3). The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Early adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

3. CHANGES IN ACCOUNTING POLICIES

<u>IFRS 16 - *Leases*</u>
In January 2016, the IASB issued IFRS 16 - *Leases* (IFRS 16), which replaced IAS 17 - *Leases* (IAS 17). This standard introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard was effective for annual periods beginning on or after January 1, 2019 and has been adopted by the Company using the modified retrospective approach where comparative figures were not restated.

As a result of adopting IFRS 16, the Company recognized right-of-use assets of $2.8 million (See Note 7, *Right-of-Use Assets*), lease liabilities of $2.8 million and a $40 reduction to prepaid expenses as a result of the leasing arrangements currently entered into or to be entered into by its subsidiaries.

The right to use the leased asset was measured at the amount of the lease liability, using the Company's incremental borrowing rate on January 1, 2019, representing what the Company would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The weighted average interest rate used to measure the lease liabilities as at January 1, 2019 was 8.03%.

The Company elected to use the following practical expedients and accounting policy choices on adoption of IFRS 16 on all its leases:

(a) In accordance with IFRS 16.C3, the election is being taken to not reassess whether a contract is or contains a lease at the date of initial application and instead to only apply IFRS 16 to contracts that were in the scope of IAS 17;
(b) In accordance with IFRS 16.C10(b), the election is being taken to rely on the IAS 37 assessment of whether leases are onerous instead of performing an impairment review;
(c) In accordance with IFRS 16.C10(c), the election is being taken to exclude leases for which the term ends within 12 months from January 1, 2019;
(d) In accordance with IFRS 16.C10(d), the election is being taken to exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019;
(e) In accordance with IFRS 16.15, the election is being taken, by class of underlying asset, not to separate non-lease components from lease components and instead account for each lease component and any associated non-lease components as a single lease component where the non-lease components are not significant compared to the lease components;
(f) In accordance with IFRS 16.5(a), the election is being taken to not recognize a right-of-use asset and lease liability for leases for which the lease has a term less than 12 months; and
(g) In accordance with IFRS 16.5(b), the election is being taken to not recognize a right-of-use asset and lease liability for leases for which the underlying asset is of low value when new.

The following is a reconciliation between the Company's commitments disclosed applying IAS 17 as at December 31, 2018 and the lease liabilities as at January 1, 2019:

	$
Commitments as at December 31, 2018	22,001
Minimum future payments not related to lease payments	(18,302)
Gross lease liabilities as at January 1, 2019	3,699
Discounting	(894)
Present value of finance lease liabilities as at January 1, 2019	**2,805**

4. BUSINESS COMBINATIONS

Aralez Transaction

On December 31, 2018, the Company acquired 100% of the issued and outstanding shares of Aralez Canada, as well as control of a global portfolio of pharmaceutical products from Aralez. The acquisition included Aralez's Canadian specialty pharmaceutical business, formerly known as Tribute Pharmaceuticals Canada Inc., and worldwide rights and royalties from licensees for Vimovo, Yosprala and global ex-US product rights to Suvexx (marketed as Treximet in the U.S.).

In the quarter ended March 31, 2019, the consideration for the acquisition and preliminary measurement of assets acquired and liabilities assumed was adjusted as additional information was obtained. Measurement period fair value adjustments are a result of closing working capital and indebtedness adjustments.

These adjustments have been accounted for retrospectively, as required under IFRS 3.

Accounts impacted by provisional adjustments, as at December 31, 2018

	December 31, 2018 ORIGINAL	Measurement period - fair value adjustments	December 31, 2018 RESTATED
	$	$	$
Accounts payable and accrued liabilities	20,976	814	21,790
Goodwill	24,898	814	25,712

The consideration for the acquisition and preliminary measurement of assets acquired and liabilities assumed, in accordance with IFRS 3, is provisionally estimated as follows:

Fair value of consideration	$
Amount settled in cash (US$105,100)	143,379
Fair value of contingent and variable consideration (Note 10)	475
Plus: amounts due for cash, working capital and indebtedness adjustments	1,443
Plus: provisional adjustment made to working capital for the period ended March 31, 2019	1,104
Total consideration transferred[(i)]	**146,401**

(i) The US$110 million purchase price was reduced for working capital delivered on close that was less than the target working capital, indebtedness assumed and cash assumed upon close.

Recognized amounts of identifiable net assets	$
Cash	4,908
Inventory	11,051
Contract asset	26,152
Property, plant and equipment	580
Patents	33,141
License agreements	51,055
Brands	1,578
Deferred tax asset	7,608
Total identifiable net assets	**136,073**
Other net working capital	(400)
Less liabilities assumed	(6,148)
Plus: provisional adjustment to liabilities assumed for the period ended March 31, 2019	290
Deferred tax liability	(7,907)
Goodwill on acquisition	**24,493**

Due to the timing of the Aralez Transaction and the complexity associated with the valuation process, the identification and measurement of the assets acquired and liabilities assumed, including deferred taxes, and the fair value of contingent consideration is subject to adjustment on completion of the valuation process and analysis of resulting tax effects. Specifically, judgments and estimates have been made with respect to the sales returns provision. The measurements of the provision are subject to change as additional information is obtained, along with the analysis of resulting tax effects. Management will finalize the accounting for the acquisition no later than one year from the acquisition date and will reflect these adjustments retrospectively, as required under IFRS 3. Differences between these provisional estimates and the final acquisition accounting may occur.

Consideration transferred

The Company satisfied the purchase price through funding provided by certain funds managed by Deerfield (See Note 1, *Nature of Business - The Deerfield Financing*).

The purchase agreement included contingent consideration in the form of 50% of the lifetime net earnings from monetization of the Yosprala product. The fair value of contingent consideration initially recognized represents the present value of the Company's probability-weighted estimate of cash outflows discounted at 12% (See Note 10, *Other Obligations)*.

Identifiable net assets
The identifiable patents, license agreements and brands have been provisionally valued on a product-by-product basis using an income approach. Specifically, patents and licenses were valued using a multi-period excess earnings method discounted at 12% and 20%, respectively. Brands were valued using a relief-from-royalty method incorporating a royalty rate of 3% and discount rates of 13% to 20% respectively.

Patents and licenses are considered finite-lived intangible assets and will be amortized over their estimated useful lives, amortization commenced on January 1, 2019. Useful lives are expected to range from 4 to 27 years. Brands were concluded to be indefinite-lived intangible assets, and as a result, are not being amortized.

The contract asset acquired related to a minimum royalty the Company is entitled to receive from Horizon Therapeutics plc (Horizon), as per its license agreement for Vimovo in the U.S. The fair value of the contract asset initially recognized represents the present value of the Company's then future estimated minimum royalty payments discounted at a rate of 11%.

As at June 30, 2019, the Company assessed that the contract asset attributable to the Company's U.S. Vimovo royalty was impaired and a $23.6 million loss on contract asset was recorded. See Note 20, *Subsequent Event*.

Reacquired rights to Resultz
The Company reacquired the Canadian distribution rights to Resultz, which were previously owned by Aralez. Management determined the fair value of these rights to be $2.5 million and are included in the identified net assets, license agreements acquired.

Goodwill
Goodwill is primarily related to growth expectations, particularly for products in the early stages of medical trials or close to market release. Goodwill recognized will not be deductible for income tax purposes going forward.

5. INVENTORIES

Inventories consist of the following as at:

	June 30, 2019	December 31, 2018
	$	$
Raw materials	**2,459**	2,759
Work in process	**599**	833
Finished goods, net of provision	**8,721**	10,155
	11,779	13,747

During the three and six months ended June 30, 2019, inventories in the amount of $4.6 million and $8.9 million were recognized as cost of goods sold (COGS) [$1.9 million and $3.4 million for the three and six months ended June 30, 2018]. During the three and six months ended June 30, 2019, inventories in the amount of $140 and $177 were written down [$nil for the three and six months ended June 30, 2018] and there were no reversals of prior year write-downs during the three and six months ended June 30, 2019 and 2018.

COGS for the three and six months ended June 30, 2019 included $1.3 million and $2.5 million of inventory step-up expense [$nil for the three and six months ended June 30, 2018] for the sale of inventory that was acquired by the Company as part of the Aralez Transaction. In accordance with IFRS 3, inventory was initially recognized at fair value less reasonable selling costs.

6. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	June 30, 2019	December 31, 2018
	$	$
Deposits	**245**	522
Prepaid expenses	**1,396**	1,756
Other receivables	**292**	729
	1,933	3,007

7. RIGHT-OF-USE ASSETS

The change in carrying value of the Company's right-of-use assets was as follows:

	$
As at January 1, 2019	-
Transition to IFRS 16	2,845
Depreciation expense	(111)
Foreign exchange	(17)
As at March 31, 2019	2,717
Depreciation expense	(112)
Foreign exchange	(74)
As at June 30, 2019	**2,531**

8. LOANS AND BORROWINGS

The Company financed the acquisition of Aralez Canada, as described in Note 1, *Nature of Business - The Deerfield Financing*, through funding provided by Deerfield on December 31, 2018. The Company received total proceeds of $161.7 million (US$118.5 million) from Deerfield in exchange for issuing the Amortization Loan, the Bridge Loan, the Convertible Loan and warrants (Warrants). In addition to these freestanding instruments, there were two embedded derivatives requiring bifurcation: the conversion option in the Convertible Loan (See Note 9, *Derivative Liabilities*) and the prepayment option in the Amortization Loan.

The Company's loans and borrowings were measured at amortized cost as follows:

	June 30, 2019 **$**	December 31, 2018 $
CURRENT		
Bridge Loan (i)	**7,922**	6,821
Amortization Loan (ii)	**1,171**	-
	9,093	6,821
NON-CURRENT		
Bridge Loan (i)	**-**	1,165
Amortization Loan (ii)	**64,497**	65,985
Convertible Loan – debt host (iii)	**49,470**	50,236
	113,967	117,386

The Deerfield Loans are guaranteed by Aralez Canada and cross-guaranteed by each of the Company and Nuvo Pharmaceuticals (Ireland) DAC (Nuvo Ireland) as to each other's obligations and are secured by a first ranking charge over substantially all property of each of the Company, Nuvo Ireland and Aralez Canada.

The Amortization Loan and Bridge Loan were issued on December 31, 2018. Interest on these loans is accrued on a quarterly basis. Any repayment of principal on these loans prior to their respective maturities is considered a prepayment to which a 0.25% prepayment fee applies.

Each quarter, the Company shall pay to the lenders the greater of US$2.5 million and 50% of the Company's excess cash flows, which is applied in the following order: (a) any unpaid fees and transaction costs; (b) proportionately to any accrued and unpaid interest related to these loans; (c) any unpaid principal of the Bridge Loan, including the applicable prepayment fee; (d) any unpaid principal of the Amortization Loan, including the applicable prepayment fee; and (e) any other obligations owing to the lenders, administrative agent or other secured parties (the Waterfall Provisions).

The Company has the right to prepay the loans at any time. The fair value of the prepayment option bifurcated from the term loan was a derivative asset with a nominal value as at June 30, 2019 and is presented net of the non-current portion of the long-term debt. The prepayment option on the Bridge Loan was deemed to be clearly and closely related to the host and no bifurcation was required.

If the Company does not have sufficient cash flows to make the minimum payments during the first four quarters from the issuance date of these loans, it may delay the payments for those first four quarters, so long as a minimum of US$10 million in aggregate has been paid by the payment date of the fourth quarter. As a result of the Waterfall Provisions, the first US$6.0 million paid by the Company will be applied to the Bridge Loan. The remaining US$4.0 million is required to be paid by April 2020 and applied to the Amortization Loan. Thereafter, quarterly principal payments will commence on the Amortization Loan until December 31, 2024. The Company has agreed to an amendment to the financing agreement dated June 25, 2019, to provide, among other things, for a payment deferral mechanism in the event that Vimovo U.S. market exclusivity is lost and an extension of the maturity date in respect of the Company's US$6.0 million Bridge Loan by 6 months to December 31, 2020. The amendment will allow the Company to defer a portion of the mandatory minimum quarterly prepayments by the difference between one quarter of the existing US$7.5 million minimum annual royalty due from Vimovo sales in the U.S. and the actual amount of royalties received in the applicable quarter in the event Vimovo U.S. market exclusivity is lost earlier than had been expected prior to the Court of Appeals decision. The amount of any prepayment deferred would, until repaid in accordance with the amendment, be subject to an interest rate of 12.5% per annum. As a result of this amendment, the Amortization Loan and Bridge Loan were revalued and a loss on modification of $0.7 million was recorded.

(i) Bridge Loan

The Bridge Loan was issued on December 31, 2018 in the principal amount of $8.2 million (US$6.0 million). The carrying value reflects an allocation of transaction costs which reduces the carrying value of the respective liability and are reflected in the calculation of interest expense under the effective interest rate method.

The change in carrying value of this liability was as follows:

	$
As at January 1, 2019	7,986
Interest accretion during the period	(61)
Foreign exchange gain	(164)
As at March 31, 2019	7,761
Interest accretion during the period	(62)
Prepayment	(59)
Modification on prepayment and debt amendment	395
Foreign exchange gain	(113)
As at June 30, 2019	**7,922**

(ii) Amortization Loan

The Amortization Loan was issued on December 31, 2018 in the principal amount of $81.9 million (US$60 million). The carrying value reflects an allocation of transaction costs which reduces the carrying value of the respective liability and are reflected in the calculation of interest expense under the effective interest rate method.

The change in carrying value of this liability was as follows:

	$
As at January 1, 2019	65,985
Interest accretion during the period	943
Foreign exchange gain	(1,343)
As at March 31, 2019	65,585
Interest accretion during the period	973
Modification on debt amendment	486
Foreign exchange gain	(1,376)
As at June 30, 2019	**65,668**

(iii) Convertible Loan
The Convertible Loan was issued on December 31, 2018 in the principal amount of $71.6 million (US$52.5 million), convertible at any time at the option of the holder into 19,444,444 common shares of the Company at a conversion price of US$2.70 per share. Interest is payable on a quarterly basis and any debenture not converted will be repaid on December 31, 2024. The conversion feature has been classified as a derivative financial liability, as described in Note 9, *Derivative Liabilities*. The carrying value reflects an allocation of transaction costs, which reduces the carrying value of the respective liability and are reflected in the calculation of interest expense under the effective interest rate method.

The change in carrying value of this liability was as follows:

	$
As at January 1, 2019	50,236
Interest accretion during the period	641
Foreign exchange gain	(1,024)
As at March 31, 2019	49,853
Interest accretion during the period	661
Foreign exchange gain	(1,044)
As at June 30, 2019	**49,470**

9. DERIVATIVE LIABILITIES

The Company's derivative liabilities are measured at fair value through profit or loss and are summarized below:

	June 30, 2019	December 31, 2018
	$	$
Conversion feature on Convertible Loan	**2,351**	14,534
Warrants	**3,348**	19,112
	5,699	33,646

During the three and six months ended June 30, 2019, the Company recognized a net non-cash $32.6 million recovery and a $27.4 million recovery on the change in fair value of derivative liabilities [$nil for the three and six months ended June 30, 2018], net of adjustments relating to prepayment modifications. During the three and six months ended June 30, 2019, the Company recognized a $0.1 million gain and a $0.4 million gain on foreign exchange relating to the conversion feature [$nil for the three and six months ended June 30, 2018].

Conversion feature
The conversion feature is embedded in the Convertible Loan described in Note 8, *Loans and Borrowings* and allows the holder to convert the outstanding principal amount of the debentures into common shares of the Company at any time at a conversion price of US$2.70 per share, subject to a restriction that the holder shall not ultimately hold more than 4.985% of the total number of common shares of the Company at any one time.

Warrants
On December 31, 2018, the Company issued 25,555,556 Warrants with a total fair value of $19.1 million (US$14.0 million). Each Warrant is exercisable at the option of the holder for one common share of the Company at an exercise price of $3.53 per Warrant and expire December 31, 2024. Any exercise is subject to a restriction that the holder shall not ultimately hold more than 4.985% of the total number of common shares of the Company at any one time. The fair value of the Warrants is determined using the Black-Scholes option pricing model.

The Warrants contain contingent settlement provisions that would require the Company to settle the Warrants as a financial liability in certain circumstances, some of which are beyond the control of both the Company and the holder, such as bankruptcy or insolvency, which requires the Warrants to be classified as derivative liabilities.

There are three methods of Warrant settlement, all at the option of the holder. The first method of settlement requires the holder to remit the exercise price of $3.53 per Warrant and the Company will issue a common share of the Company. The second method results in the $3.53 per Warrant strike price being applied as a payment against the principal balance of the Amortization Loan outstanding. The third method of exercise applies to those Warrants classified as Flexible Exercise Shares (FES). Warrants considered FES can be exercised without upfront remuneration to the Company. Instead, the Company issues fractional shares equal to the difference between the current share price and the $3.53 exercise price of the Warrant. As at June 30, 2019, 3,333,334 of the 25,555,556 Warrants outstanding were classified as FES.

Inputs to fair value models
Key assumptions used in determining the fair values of the Company's derivative liabilities at initial recognition are summarized below as at:

Conversion Feature		
Issue date	**December 31, 2018**	December 31, 2018
Valuation date	**June 30, 2019**	December 31, 2018
Share price	**$0.82**	$2.10
Risk-free interest rate	**1.79**	2.55%
Discount for lack of marketability	**17.20%**	8.10%
Dividend yield	**0%**	0%
Volatility factor	**58.4%**	53.9%
Expected life	**5.5 years**	6 years

Warrants		
Issue date	**December 31, 2018**	December 31, 2018
Valuation date	**June 30, 2019**	December 31, 2018
Share price	**$0.82**	$2.10
Risk-free interest rate	**1.79**	1.90%
Discount for lack of marketability	**17.20%**	8.20%
Dividend yield	**0%**	0%
Volatility factor	**58.4%**	53.9%
Expected life	**5.5 years**	6 years

10. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	June 30, 2019	December 31, 2018
	$	$
Contingent and variable consideration related to the ex-U.S. acquisition of Resultz	**956**	1,192
Contingent and variable consideration related to the acquisition of Aralez	**200**	475
Lease obligations[(i)]	**2,568**	5
Less amounts due within one year	**(793)**	(408)
Long-term balance	**2,931**	1,264

(i) As at June 30, 2019, the Company recognized $2.6 million [December 31, 2018 - $nil] of lease obligations related to IFRS 16 using the modified retrospective approach.

Lease Obligations

The change in carrying value of this liability was as follows:

	$
As at January 1, 2019	5
Transition to IFRS 16	2,805
Payments during the period	(135)
Interest expense during the period	51
Foreign exchange	(60)
As at March 31, 2019	2,666
Payments during the period	(132)
Interest expense during the period	50
Foreign exchange	(16)
As at June 30, 2019	**2,568**

11. 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.

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

The Company has three 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.

Share Incentive 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 341,648).

As at June 30, 2019, the number of common shares available for issuance under the Share Incentive Plan was 303,622.

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, 2018	1,189	1.53 – 11.18	4.64
Granted	120	2.30	2.30
Forfeited	(62)	2.30 – 11.18	2.77
Balance, March 31, 2019	1,247	1.53 – 11.18	4.41
Granted	180	2.26	2.26
Forfeited	(22)	2.30 – 3.55	2.43
Balance, June 30, 2019	**1,405**	**1.53 – 11.18**	**4.59**

The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Options are valued with a calculated forfeiture rate of 7% [December 31, 2018 - 7%] and the remaining model inputs for options granted during the six months ended June 30, 2019 were as follows:

Options 000s	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor	Fair Values $
120	January 10, 2019	2.30	2.30	1.96	5-7	58-65	1.22 – 1.46
180	April 5, 2019	2.26	2.26	1.49	5-7	58-63	1.18 – 1.60

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at June 30, 2019:

	Outstanding			Exercisable	
Exercise Price Range $	Options 000s	Remaining Contractual Life years	Weighted Average Exercise Price $	Vested Options 000s	Weighted Average Exercise Price $
1.53 – 3.55	695	7.48	2.70	328	2.63
3.80 – 4.45	92	5.71	4.17	76	4.24
5.08 – 5.75	582	6.58	5.54	468	5.50
11.18	36	1	11.18	37	11.18
	1,405	**6.83**	**4.11**	**909**	**4.59**

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 six months ended June 30, 2019, there was no issuance of shares under the Share Purchase Plan. In the comparative three and six-month periods, employees contributed $nil and $87 to the plan and the Company matched these contributions by issuing 23,478 common shares with a fair value of $nil and $87 that was recorded as compensation expense. The total number of shares issued under this plan during the three and six months ended June 30, 2018 was nil and 46,956.

Summary of Stock-based Compensation

Stock-based compensation was as follows:

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Stock option compensation expense under the Share Option Plan	**105**	153	**231**	374
Shares issued to employees under the Share Purchase Plan	**-**	-	**-**	87
Share Appreciation Rights Plan compensation expense	**-**	(4)	**-**	(4)
Stock-based compensation expense	**105**	149	**231**	457
Recorded in the Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) as follows:				
Cost of goods sold	**11**	9	**21**	39
General and administrative expenses	**94**	140	**210**	418
	105	149	**231**	457

13. NET INTEREST EXPENSE (INCOME)

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Interest expense on financial liabilities measured at amortized cost(i)	**3,178**	(12)	**6,339**	1
Interest income on contract assets	**(1,081)**	-	**(2,231)**	-
Interest income on cash and cash equivalents	**(30)**	3	**(111)**	(31)
Net interest expense (income)	**2,067**	(9)	**3,997**	(30)

(i) The Deerfield Financing requires the Company to make quarterly interest payments on outstanding loans. The coupon rates for the Company's Bridge Loan, Amortization Loan and Convertible Loan are 12.5%, 3.5% and 3.5%, respectively. During the three and six months ended June 30, 2019, the Company made interest payments of $1.6 million and $3.1 million to Deerfield.

14. NET INCOME (LOSS) PER COMMON SHARE

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

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Basic income (loss) per share:				
Net income (loss)	**6,796**	1,054	**(608)**	885
Average number of shares outstanding during the period	**11,388**	11,409	**11,388**	11,492
Basic income (loss) per share	**0.60**	0.09	**(0.05)**	0.08

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Net income (loss)	**6,796**	1,054	**(608)**	885
Dilutive effect of:				
Warrants	**(18,359)**	-	**(16,032)**	-
Convertible Loan	**(13,399)**	-	**-**	-
Net income (loss), assuming dilution	**(24,962)**	1,054	**(16,640)**	885

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Average number of shares outstanding during the period	**11,388**	11,409	**11,388**	11,492
Dilutive effect of:				
Stock options	**-**	57	**-**	73
Warrants	**17,596**	-	**19,198**	-
Convertible Loan	**19,444**	-	**-**	-
Weighted average common shares outstanding, assuming dilution	**48,428**	11,466	**30,586**	11,565
Diluted income (loss) per share	**(0.52)**	0.09	**(0.54)**	0.08

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

	June 30, 2019	June 30, 2018
	000s	000s
Common shares issued and outstanding	**11,388**	11,368
Stock options outstanding (Note 12)	**1,405**	1,190
Share appreciation rights outstanding	**-**	52
Convertible Loan (Note 8)	**19,444**	-
Warrants (Note 9)	**25,556**	-
	57,793	12,610

15. NET CHANGE IN NON-CASH WORKING CAPITAL

Net change in non-cash working capital consists of:

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Accounts receivable	**(2,494)**	1,348	**(6,685)**	(453)
Inventories	**137**	386	**(733)**	218
Contract assets	**2,498**	144	**5,060**	217
Other current assets	**739**	(180)	**1,037**	(225)
Accounts payable and accrued liabilities	**(1,225)**	(606)	**(11,252)**	(1,303)
Net change in non-cash working capital	**(345)**	1,092	**(12,573)**	(1,546)

16. COMMITMENTS

The Company has minimum future payments under variable lease payment obligations, purchase commitments, minimum royalties and anticipated milestones for the twelve months ending June 30 as follows:

	$
2019	4,033
2020	2,985
2021	3,156
2022	3,651
2023	3,437
2024 and thereafter	2,758
	20,020

For the three and six months ended June 30, 2019, payments for lease obligations totalled $0.1 million and $0.1 million [$31 and $72 for the three and six months ended June 30, 2018].

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.

The Company has a long-term supply agreement with a third-party manufacturer for Blexten. The agreement automatically renews for successive five-year terms, unless terminated in writing by either party at least 12 months prior to the expiration of the current term in 2024. The agreement requires the Company to purchase 100% of its Blexten requirements from the third-party manufacturer at specified pricing.

Under certain licensing agreements, the Company is required to make royalty payments ranging from 1% to 30% for annual net sales of the Heated Lidocaine/Tetracaine (HLT) Patch, Cambia and Durela®.

Under certain licensing, distribution and supply agreements, the Company is required to make milestone payments relating to net sales of Resultz, Blexten, Cambia and Durela.

Under certain exclusive distribution agreements, the Company is required to make minimum royalty payments to a company of $0.3 million to $0.5 million per year and 30% incremental royalty payments on net receipts above the minimum payments for Soriatane™.

During the period, the Company leased real property for offices in Canada and Ireland. The Company expenses the lease payments for short-term leases and low-value leases as incurred. There are no financial covenants imposed by any of the leases.

	Three Months ended June 30, 2019 $	**Six Months ended June 30, 2019 $**
Interest expense on lease liabilities	**50**	**101**
Expenses related to variable lease payments not included in lease liabilities	**58**	**115**
Total cash outflow for leases classified as lease obligations	**132**	**267**

The Company did not have any sale and leaseback transactions during the three and six months ended June 30, 2019.

The Company's future cash outflows may change due to variable lease payments, renewal options, termination options, residual value guarantees and leases not yet commenced to which the Company is committed that are not reflected in the lease obligations.

The following is a maturity analysis for undiscounted lease payments that are reflected in the lease obligations as at June 30, 2019:

	$
Less than 1 year	537
1 to 2 years	540
2 to 3 years	415
3 to 4 years	406
4 to 5 years	348
5 to 6 years	291
Beyond 6 years	799
	3,336

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments at Amortized Cost

For the three and six months ended June 30, 2019, the Company recognized $1.1 million and $2.3 million in interest from financial assets held at amortized cost [$9 and $30 for the three and six months ended June 30, 2018].

For the three and six months ended June 30, 2019, the Company recognized $3.2 million and $6.3 million in interest from financial liabilities held at amortized cost [$nil for the three and six months ended June 30, 2018].

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.

Pursuant to the Aralez Transaction, the Company has expanded its customer base primarily in Canada with well-established wholesale and retail pharmacy chains. Management does not expect the expanded customer base will have a significant impact on the Company's credit risk assessment.

As at June 30, 2019, the Company's largest customer represented 20% [December 31, 2018 - 47%] of accounts receivable. Pursuant to their collective terms, accounts receivable, net of allowance, were aged as follows:

	June 30, 2019	December 31, 2018
	$	$
Current	**9,530**	4,052
0 - 30 days past due	**391**	571
31 - 60 days past due	**2,104**	84
Over 60 days past due	**95**	510
	12,120	5,217

The loss allowance provision as at June 30, 2019 was determined as follows:

	Current	**Less than 181 days past due**	**181 to 270 days past due**	**271 to 365 days past due**	**More than 365 days past due**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Expected loss rate	0%	0%	10%	25%	60%	
Gross carrying amount	9,530	2,588	37	121	21	**12,297**
Loss allowance provision	-	(80)	-	(76)	(21)	**(177)**

During the three and six months ended June 30, 2019, the Company recorded bad debt reversal of $78 and $nil in total comprehensive income [December 31, 2018 - $nil]. For the three and six months ended June 30, 2019, 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 were considered to have low credit risk, and as a result, the Company has not recognized a loss allowance as at June 30, 2019 [December 31, 2018 - $nil].

The Company's cash and cash equivalents subject the Company to a concentration of credit risk. As at June 30, 2019, the Company had $14.7 million deposited with five financial institutions in various bank accounts. These financial institutions are major banks, including four 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 June 30, 2019 [December 31, 2018 - $nil].

Financial Instruments

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. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets
- Level 2 - Observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data
- Level 3 - Significant unobservable inputs that are supported by little or no market activity

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The

Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and six months ended June 30, 2019.

As at June 30, 2019, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, contingent and variable consideration, long-term debt and derivative liabilities. 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.

The Company's cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values. Cash and cash equivalents are Level 1, while the other short-term financial instruments are Level 3.

The fair values of the Company's Amortization Loan, Bridge Loan and host liability of the Convertible Loan in Note 8, *Loans and Borrowings* are Level 3 measurements determined using a discounted cash flow model that considers the present value of the contractual cash flows using a risk-adjusted discount rate. The Company recognized $123.1 million for the Amortization Loan, Bridge Loan and host liability of the Convertible Loan as at June 30, 2019 [December 31, 2018 - $124.2 million].

The conversion option that accompanies the Company's Convertible Loan is considered a Level 3 liability. The value is determined as the difference between the fair value of the hybrid Convertible Loan contract, determined using an income approach with a binomial lattice model and the fair value of the host liability contract, determined using a discounted cash flow model, as described in Note 9, *Derivative Liabilities*. The Company recognized $2.4 million for the conversion option as at June 30, 2019 [December 31, 2018 - $14.5 million].

The fair values of the prepayment option that allows the Company to make prepayments against the Bridge Loan or Amortization Loan at any time is considered a Level 3 Financial Instrument. The fair value of the prepayment option bifurcated from the term loan was a derivative asset with a nominal value as at June 30, 2019 and is presented net of the non-current portion of the long-term debt (See Note 8, *Loans and Borrowings*). The fair value of this option was determined using a binomial lattice model.

The fair value of the Company's Warrants are revalued at each reporting period using the Black-Scholes option pricing model. As at June 30, 2019, the Company recognized a $3.3 million derivative liability relating to outstanding Warrants [December 31, 2018 - $19.1 million]. These Warrants are Level 3.

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz and the Aralez Transaction. 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 Aralez Transaction included additional contingent consideration related to profits earned from Yosprala. The Company recognized $1.2 million in contingent and variable consideration as at June 30, 2019 [December 31, 2018 - $1.7 million] which represented the present value of the Company's probability-weighted estimate of the cash outflow (See Note 10, *Other Obligations*).

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 - *Financial Instruments*. This is not an exhaustive list of all risks nor will the mitigation strategies eliminate all risks listed.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations as they become due.

As at June 30, 2019, the Company's financial liabilities have undiscounted contractual maturities (including interest payments where applicable) as summarized below:

		Current	Non-current		
	Total $	Within 12 Months $	1 to 2 Years $	2 to 5 Years $	> 5 years $
Accounts payable and accrued liabilities	9,063	9,063	-	-	-
Other obligations	3,225	532	613	1,529	551
Senior secured Amortization Loan	100,172	4,163	15,849	80,159	-
Senior secured Bridge Loan	8,524	8,524	-	-	-
Senior secured Convertible Loan	81,933	2,405	4,809	74,719	
	202,917	**24,687**	**21,271**	**156,407**	**551**

The Company's ability to satisfy its debt obligations will depend principally upon its future operating performance. The Company's inability to generate sufficient cash flow to satisfy its debt service obligations or to refinance its obligations on commercially reasonable terms could have a materially adverse impact on the Company's business, financial condition or operating results.

The Deerfield Facility Agreement contains customary representations and warranties and affirmative and negative covenants, including, among other things, an annual financial covenant based on minimum levels of net sales per fiscal year and a mandatory quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable as long as US$10.0 million in prepayments have been made over such four fiscal quarters. The Company has agreed to an amendment to the financing agreement dated June 25, 2019, to provide, among other things, for a payment deferral mechanism in the event that Vimovo U.S. market exclusivity is lost and an extension of the maturity date in respect of the Company's US$6.0 million Bridge Loan by 6 months to December 31, 2020. The amendment will allow the Company to defer a portion of the mandatory minimum quarterly prepayments by the difference between one quarter of the existing US$7.5 million minimum annual royalty due from Vimovo sales in the U.S. and the actual amount of royalties received in the applicable quarter in the event Vimovo U.S. market exclusivity is lost earlier than had been expected prior to the Court of Appeals decision. The amount of any deferred prepayment would, until repaid in accordance with the amendment, be subject to an interest rate of 12.5% per annum. As a result of this amendment, the Amortization Loan and Bridge Loan were revalued and a loss on modification of $0.7 million was recorded.

The Company anticipates that its current cash of $14.7 million as at June 30, 2019, together with the cash flow generated from operations will be sufficient to execute its current business plan for 2019 and will meet its current debt obligations.

Interest Rate Risk

All finance lease obligations are at fixed interest rates.

The Company's policy is to minimize interest rate cash flow risk exposures on its long-term financing. The Company's loans and borrowings and finance lease obligations are at fixed interest rates.

The fair value of the Company's prepayment option on the Amortization Loan and Bridge Loan and the Company's derivative liabilities are impacted by market rate changes.

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	
	June 30, 2019 €	December 31, 2018 €	**June 30, 2019 $**	December 31, 2018 $
Cash	**719**	755	**5,109**	15,051
Accounts receivable	**3**	581	**6,326**	1,332
Contract assets	**-**	-	**-**	19,170
Loans and borrowings	**-**	-	**(93,660)**	(93,869)
Derivative liabilities	**-**	-	**(1,796)**	(10,654)
Accounts payable and accrued liabilities	**(378)**	(405)	**(2,776)**	(6,063)
Other obligations	**(278)**	(244)	**(569)**	(942)
	66	687	**(87,366)**	(75,975)

Based on the aforementioned net exposure as at June 30, 2019, 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 $11.4 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $10 on total comprehensive income (loss).

In terms of the U.S. dollar, the Company has five significant exposures: its U.S. dollar-denominated cash held in its Canadian operations, its U.S. dollar-denominated loans and borrowings and derivative liabilities held in its Canadian and European operations, its net investment and net cash flows in its European operations, the cost of purchasing raw materials either priced in U.S. dollars or sourced from U.S. suppliers and payments made to the Company under its U.S. dollar-denominated licensing arrangements.

The Company does not currently hedge its U.S. dollar cash flows. The Company funds its U.S. dollar-denominated interest expense and loan obligations using the Company's U.S. dollar-denominated cash and cash equivalents and payments received under the terms of the licensing and 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.

In terms of the euro, the Company has three significant exposures: its euro-denominated cash held in its Canadian operations, sales of Pennsaid by the Canadian operations to European distributors and the cost of purchasing raw materials priced in euros.

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 and to fund the day-to-day expenses of the Nuvo Ireland operations as required. Periodically, the Company reviews the amount of euros held, and if they are excessive compared to the Company's projected future euro cash flows, they may be converted into U.S. or Canadian dollars. If the amount of euros held is insufficient, the Company may convert a portion of other currencies into euros.

Market Risk
The Company's derivative liabilities, respectively the Warrants and conversion feature that accompanies the Company's Convertible Loan, are impacted by a variety of valuation inputs (See Note 9, *Derivative Liabilities*), including changes in the Company's share price. As at June 30, 2019, a $1.00 increase in the Company's share price would increase the value of the Warrants by $10.6 million and an increase to the conversion feature of $7.8 million, with a corresponding loss of $18.4 million on change in fair value of derivative liabilities. As at June 30, 2019, a $2.00 increase in the Company's share price would increase the value of the Warrants by $25.7 million and increase the value of the conversion feature by $17.7 million, with a corresponding loss of $43.4 million on change in fair value of derivative liabilities.

18. 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 June 30							
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	$	$	**$**	$	**$**	$	**$**	$
	United States		International		Canada		Total	
Primary categories of revenue								
Product sales	**3,475**	4,660	**48**	689	**9,712**	-	**13,235**	5,349
License revenue	**111**	105	**2,454**	315	**90**	52	**2,655**	472
Contract revenue	**650**	36	**40**	13	**-**	5	**690**	54
	4,236	4,801	**2,542**	1,017	**9,802**	57	**16,580**	5,875
Timing of revenue recognition								
Transferred over time	**557**	-	**-**	-	**-**	5	**557**	5
Transferred at a point in time	**3,679**	4,801	**2,542**	1,017	**9,802**	52	**16,023**	5,870
	4,236	4,801	**2,542**	1,017	**9,802**	57	**16,580**	5,875

	Six Months ended June 30							
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	$	$	**$**	$	**$**	$	**$**	$
	United States		International		Canada		Total	
Primary categories of revenue								
Product sales	**7,346**	7,587	**669**	1,517	**16,450**	-	**24,465**	9,104
License revenue	**175**	207	**4,743**	816	**151**	89	**5,069**	1,112
Contract revenue	**1,544**	66	**52**	13	**-**	11	**1,596**	90
	9,065	7,860	**5,464**	2,346	**16,601**	100	**31,130**	10,306
Timing of revenue recognition								
Transferred over time	**1,367**	-	-	-	**-**	11	**1,367**	11
Transferred at a point in time	**7,698**	7,860	**5,464**	2,346	**16,601**	89	**29,763**	10,295
	9,065	7,860	**5,464**	2,346	**16,601**	100	**31,130**	10,306

Accounts Receivable and Contract Assets

	June 30, 2019	December 31, 2018
	$	$
Accounts receivable	**12,120**	5,217
Contract assets	**463**	26,752

The timing of revenue recognition, billings and cash collections results in accounts receivable and unbilled receivables (contract assets). Generally, receipt of payment occurs subsequent to billing and 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 quarter were as follows:

	$
Balance, December 31, 2018	26,752
Transfers to accounts receivable	(1,412)
Foreign exchange movements	(1,047)
Balance, March 31, 2019	24,293
Transfers to accounts receivable	(1,417)
Vimovo impairment	(22,216)
Foreign exchange movements	(197)
Balance, June 30, 2019	**463**

In the three months ended June 30, 2019, an impairment was recorded of $22.2 million related to the Vimovo contract asset. This impairment is due to the Court of Appeals denying the Company's request to reconsider a May 2019 decision with respect to the validity of U.S. patents 6,926,907 and 8,557,285 (the '907 and '285 Patents) covering specialty pain medicine Vimovo.

Significant Customers
For the three months ended June 30, 2019, the Company's four largest customers generating product sales represented 88% [June 30, 2018 - 97%] of total product sales and the Company's largest customer represented 31% [June 30, 2018 - 86%] of total product sales.

Throughout fiscal 2019 and compared to fiscal 2018, the Company expects to continue to see a reduction in the concentration of revenue earned from its four largest customers, as the Company now has an expanded customer base and increased product offerings pursuant to the Aralez Transaction.

19. SEGMENT REPORTING

Operating Segments
The Company has three operating segments: Commercial Business, Production and Service Business and Licensing and Royalty Business.

The Commercial Business segment is comprised of products commercialized by the Company in Canada. This includes products with dedicated promotional efforts - Blexten, Cambia and the Canadian business for Resultz, as well as 18 mature products sold by Aralez Canada.

The Production and Service Business segment includes revenue from the sale of products manufactured by or contracted by Nuvo from its manufacturing facility in Varennes, Québec, as well as service revenue for testing, development and related quality assurance/quality control services provided by the Company. Key revenue streams in this segment include Pennsaid 2%, Pennsaid, the bulk drug product for the HLT Patch and Resultz product sales, as well as transition services provided by Nuvo Ireland to two companies.

The Licensing and Royalty Business segment includes: the revenue generated by the licensing of intellectual property and ongoing royalties from exclusive licensing agreements with global partners. Key revenue streams in this segment include royalties from the Company's Vimovo, Resultz and the HLT Patch license agreements.

The Corporate and Other total includes overhead and financing costs incurred by the Company to support its public company infrastructure and the three operating segments.

The following outlines the segment allocations and Corporate and Other costs as at:

Three Months ended June 30, 2019	**Commercial Business**	**Production and Service Business**	**Licensing and Royalty Business**	**Corporate and Other**	**Total**
	$	**$**	**$**	**$**	**$**
Total revenue	**9,713**	**4,212**	**2,655**	**-**	**16,580**
Cost of goods sold	**5,035**	**1,896**	**-**	**-**	**6,931**
Gross profit	**4,678**	**2,316**	**2,655**	**-**	**9,649**
Sales and marketing expenses	**3,043**	**-**	**-**	**-**	**3,043**
General and administrative expenses	**-**	**-**	**-**	**4,978**	**4,978**
Interest expense (income)	**-**	**-**	**(1,081)**	**3,148**	**2,067**
Depreciation and amortization, excluded from cost of goods sold	**-**	**-**	**-**	**2,328**	**2,328**
Other income	**-**	**-**	**-**	**(9,659)**	**(9,659)**
Income tax expense	**-**	**-**	**-**	**96**	**96**
Segment net income (loss)	**1,635**	**2,316**	**3,736**	**(891)**	**6,796**

Six Months ended June 30, 2019	**Commercial Business**	**Production and Service Business**	**Licensing and Royalty Business**	**Corporate and Other**	**Total**
	$	**$**	**$**	**$**	**$**
Total revenue	**16,459**	**9,602**	**5,069**	**-**	**31,130**
Cost of goods sold	**8,529**	**3,945**	**-**	**-**	**12,474**
Gross profit	**7,930**	**5,657**	**5,069**	**-**	**18,656**
Sales and marketing expenses	**5,873**	**-**	**-**	**-**	**5,873**
General and administrative expenses				**9,955**	**9,955**
Interest expense (income)	**-**	**-**	**(2,231)**	**6,228**	**3,997**
Depreciation and amortization, excluded from cost of goods sold	**-**	**-**	**-**	**4,641**	**4,641**
Other income	**-**	**-**	**-**	**(5,352)**	**(5,352)**
Income tax expense	**-**	**-**	**-**	**150**	**150**
Segment net income (loss)	**2,057**	**5,657**	**7,300**	**(15,622)**	**(608)**

	Commercial Business	**Production and Service Business**	**Licensing and Royalty Business**	**Corporate and Other**	**Total**
Three Months ended June 30, 2018	$	$	$	$	$
Total revenue	-	5,404	471	-	5,875
Cost of goods sold	-	2,330	-	-	2,330
Gross profit	-	3,074	471	-	3,545
Sales and marketing expenses	-	-	-	-	-
General and administrative expenses	-	-	-	1,862	1,862
Interest income	-	-	-	(9)	(9)
Depreciation and amortization, excluded from cost of goods sold	-	-	-	512	512
Other expenses	-	-	-	80	80
Income tax expense	-	-	-	46	46
Segment net income (loss)	-	3,074	471	(2,491)	1,054

	Commercial Business	Production and Service Business	Licensing and Royalty Business	Corporate and Other	Total
Six Months ended June 30, 2018	$	$	$	$	$
Total revenue	-	9,195	1,111	-	10,306
Cost of goods sold	-	4,252	-	-	4,252
Gross profit	-	4,943	1,111	-	6,054
Sales and marketing expenses	-	-	-	-	-
General and administrative expenses	-	-	-	4,281	4,281
Interest income	-	-	-	(30)	(30)
Depreciation and amortization, excluded from cost of goods sold	-	-	-	1,041	1,041
Other expenses	-	-	-	5	5
Income tax recovery	-	-	-	(128)	(128)
Segment net income (loss)	-	4,943	1,111	(5,169)	885

20. SUBSEQUENT EVENT

Subsequent to June 30, 2019, the Company received notice that the Court of Appeals had denied the Company's and Horizon’s request to reconsider the May 2019 decision with respect to the validity of the '907 and '285 Patents covering speciality pain medicine Vimovo. On May 15, 2019, the Company disclosed a decision by the Court of Appeals that invalidated the '907 and '285 Patents, reversing a previous decision by the United States District Court. Following this decision, the Company filed a request to the Court of Appeals to reconsider the Company’s request, which was subsequently denied.

As a result of this decision, the Company now anticipates a generic version of Vimovo could be launched in the U.S. in the second half of 2019 and, if this occurs, the Company’s US$7.5 million annual minimum royalty from Horizon will cease. The Company has written off its contract asset attributable to its Vimovo U.S. royalty and recognized a $23.6 million impairment charge on June 30, 2019.