Nuvo Pharmaceuticals Inc. Annual Report 2016

March 1, 2017

Dear Nuvo Shareholder -

2016 in Review

What a year 2016 was for Nuvo Pharmaceuticals Inc. (Nuvo Pharma) (TSX:NRI)! A year ago, we were still Nuvo Research Inc., a hybrid life sciences company generating revenue and gross margins that we were spending on developing new drug candidates. On March 1, 2016, we spun out our research and development assets and their related expenses to a newly created Toronto Stock Exchange listed company, Crescita Therapeutics Inc. (Crescita) (TSX:CTX). We shed not only the direct expenses of early stage drug development, but also the overhead that was required to keep that segment of the business operational. Overnight, Nuvo Pharma went from being an unprofitable business to a profitable commercial stage company with prospects for increasing revenue and EBITDA, cash in the bank and no debt.

Most importantly, the spin out of Crescita positioned Nuvo Pharma for future growth. Our management team has been built to generate out-licensing and merger and acquisition (M&A) deal flow that we can support without a material increase in corporate overhead. Our manufacturing facility near Montreal is currently running at about 35% capacity and is poised to support our growth plans. Our shareholder base has evolved with new shareholders who prefer Nuvo as a pure-play profitable revenue growth business.

Financially in 2016, our business grew significantly year-over-year. Revenue in 2016 was $27.0 compared to $20.5 for our comparable business in 2015[(1)]. The gross margin on product sales in 2016 was $13.5 million or 54% compared to $8.8 million or 47% in 2015. Adjusted EBITDA[(2)] was $8.9 million for 2016 compared to $8.0 million for the comparable business in 2015[(1)]. We closed the year with net income of $4.2 million, a cash balance of $17.6 million and no debt.

We also strengthened our management team. Jesse Ledger joined us as Nuvo's first Vice President, Business Development in April 2016. Jesse has done a terrific job generating out-licensing and product acquisition/licensing opportunities which earned him a promotion to President in November. Mary-Jane Burkett is our very bright Chief Financial Officer who was promoted to that position in September 2016, having most recently been our Corporate Controller. Tina Loucaides has rejoined the Nuvo Pharma team from Crescita. Tina is a brilliant patent and commercial lawyer. She led our Nuvo Research patent team, which has successfully secured a patent portfolio to protect our Pennsaid 2% franchise in a number of countries throughout the world and resulted in 19 Orange book listed patents in the United States. Cally Lunetta is a veteran of 30 years of pharmaceutical manufacturing and does an excellent job running our U.S. Food and Drug Administration (FDA), Health Canada and MHRA approved manufacturing facility. Sandee Dela Cruz, our Director of Information Technology has also joined the management team. Sandee is a seasoned IT veteran of 18 years with a proven track record of transforming IT departments from a back office expense into a technology solutions partner. Sandee's participation in management decisions ensure that IT is aligned with our corporate objectives and that we are proactive rather than reactive in our IT strategies. Each of these members of the executive team know what it takes to run our business efficiently and how to get deals done – which is our priority for 2017, as we seek to grow our current business and expand into new revenue streams.

2017 Outlook

The key driver to Nuvo Pharma's business, at least in the short-term, continues to be the sale of our lead prescription topical non-steroidal anti-inflammatory drug (NSAID), Pennsaid 2%, for treating the pain of osteoarthritis of the knee in the United States by our partner, Horizon Pharma plc (Horizon) (NASDAQ:HZNP). Horizon has continued to do an excellent job since they took over the marketing of Pennsaid 2% on January 1, 2015. Nuvo Pharma earns its revenue by selling commercial bottles and physician samples of Pennsaid 2% to Horizon under an exclusive supply agreement that extends to 2029. Pennsaid 2% is manufactured at our facility in Varennes, Québec.

In 2016, U.S. prescriptions of Pennsaid 2% were 457,000 compared to 320,000 in 2015, an increase of 43%. Horizon sells Pennsaid 2% utilizing approximately 360 sales reps calling on rheumatologists, orthopedic surgeons and primary care physicians. Pennsaid 2% is Horizon's largest selling product– so it is very important to Horizon's financial performance. Horizon's CEO recently publicly stated that he believes that Pennsaid 2% U.S. sales will continue to grow. We don't expect Pennsaid 2% U.S. prescription growth to be completely linear. Many drug products experience seasonality and periods of slower growth. There are often strong prescription months followed by weaker ones; but if the overall trend continues to demonstrate Pennsaid 2% prescription growth through 2017, we should all be happy shareholders.

We continue to emphasize that there are timing differences between when doctors write prescriptions for patients and when we record revenue by supplying bottles of Pennsaid 2% and product samples to Horizon under our exclusive supply agreement. As a result, there may not be a correlation in any particular period between reported prescriptions filled by U.S. pharmacies and product sold by Nuvo Pharma to Horizon.

Horizon's orders from Nuvo are influenced by their inventory levels and management strategies. In the second half of 2015 and the first half of 2016, we understand that Horizon built a Pennsaid 2% inventory bank in order to insure against supply disruption contingencies. On November 27, 2017, Federal Drug Supply Chain Security Act (DSCSA) rules come into force that require all manufacturers of drug products sold in the U.S. to "serialize" each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, also known as the Serialization Track and Trace Bill, we have purchased new packaging equipment and technology systems that will give us the ability to individually serialize all Pennsaid 2% packaging. In coordination with Horizon, we had planned to install this new equipment well before the November 27th implementation date of the FDA rule change. The FDA was expected to publish regulations that grandfather existing non-serialized inventory in the supply chain, but hasn't released these much anticipated regulations yet. Due to this uncertainty, Horizon has decided to draw down some of its existing Pennsaid 2% inventory of non-serialized product in advance of the November 27th implementation date. Horizon has therefore advised our Varennes manufacturing plant to shift commercial bottle production planned for Q2 to later in the year. Our sample production is not affected by the serialization issue

and Horizon has asked that we pull forward into Q2 some sample orders planned for later in the year. These production changes will have a negative impact on our Q2 sales and earnings relative to normal prescription trends and purchases by Horizon); however, we expect that our sales to Horizon will pick up in the second half of the year, as our serialization equipment comes on stream and Horizon resumes its more typical ordering patterns, including re-building of inventory drawdowns that might occur in the near-term.

Strategy Update on Increasing Shareholder Value

Horizon has done a great job growing sales of Pennsaid 2% in the U.S. That growth has significantly increased Nuvo's shareholder value. We are confident in Pennsaid 2%'s ongoing U.S. growth prospects, but also recognize an opportunity to grow our business by expanding the territories and partners for Pennsaid 2% and also by adding other revenue-generating products to our portfolio. A top priority of our management team is to expand Nuvo's revenue streams.

As described previously, our goal is to build off of the success of Pennsaid 2% in the U.S. and make Pennsaid 2% a global brand. We are currently in late stage discussions with a number of potential international licensing partners. Our priority is to ensure that our partners have the marketing capability, desire and commitment to make Pennsaid 2% the dominant topical pain product in their respective territories. We expect to complete licensing transactions throughout 2017, which means that revenue from these transactions should start to benefit our financial results in late 2018 and 2019 as our marketing partners obtain marketing approvals from their local regulatory authorities and then launch sales. Our ideal transaction structure includes upfront payments (expected to be modest), compensation for our technology by way of a licensing agreement that includes royalty payments and an exclusive manufacturing agreement. The manufacturing component is important to us given that we have unutilized capacity at our Varennes plant – which means that most of the margin from incremental product sales to licensing partners drops to our bottom line.

On February 21, 2017, we received notification from NovaMedica LLC (NovaMedica), our Russian commercial partner, that marketing authorization for Pennsaid 2% had been granted by the Russian Ministry of Health. We are in discussions with NovaMedica regarding its commercialization plans and will provide updates as they become available. According to DMS Group data (DMS group is a Russian pharmaceutical market research and analytics provider similar to IMS Health), the Russian market for topical NSAID formulations was valued at approximately 6.4 billion rubles (US$109 million) with approximately 37.5 million packs dispensed in 2016.

Currently, Pennsaid 2% has been approved for marketing only in the U.S. and Russia. Many jurisdictions will base their regulatory approval of Pennsaid 2% on its U.S. FDA approval and won't require additional clinical trials. It is important to note that a separate registration procedure must still be followed in these markets before our licensing partners can launch sales. However, for Canada, the E.U. and Australia, we need an additional successful Phase 3 trial to support our applications for regulatory approval. We are currently running a trial in Germany studying Pennsaid 2% for the treatment of ankle sprains. As of the date of this letter, 107 patients (of a target 126 patients) have enrolled in the study. We continue to expect the trial will be completed so we can release top-line results in Q2 2017.

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

It is difficult to predict the timing of out-licensing and product acquisition transactions, but we certainly expect 2017 to be a busy year for both. In closing, I would like to thank our employees for their continuing dedication, our board of directors for their support and advice and most of all you, our shareholders, for your patience and support. 2016 was a transformational year for Nuvo. We expect to parlay our 2016 success into growth in 2017 via out-licensing and product acquisitions. As always, if you have any questions or comments about the business, please don't hesitate to call or email us. We look forward to hearing from you.

Yours,

John London
Chief Executive Officer

(1) The financial information presented herein reflects results from continuing operations with Nuvo's previously disclosed segment, Crescita, presented as a discontinued operation.

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

Management's Discussion and Analysis (MD&A)

March 1, 2017 / The following information should be read in conjunction with the Nuvo Pharmaceuticals™ Inc. (Nuvo or the Company) Consolidated Financial Statements for the year ended December 31, 2016 which were prepared in accordance with International Financial Reporting Standards (IFRS) and filed on SEDAR on March 1, 2017. Additional information relating to the Company, including its Annual Information Form (AIF), can be found on SEDAR at www.sedar.com.

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

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

Forward-looking Statements

Certain statements in this MD&A constitute forward-looking information and/or forward-looking statements (collectively, "forward-looking statements") within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements concerning the Company's future objectives, strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include general business and economic uncertainties and adverse market conditions as well as other risk factors included in this MD&A under the heading "Risks Factors", the Company's AIF and as described from time to time in the reports and disclosure documents filed by the Company with Canadian securities regulatory agencies and commissions. Additional factors that could affect the operation of the Company as a result of the Reorganization (as defined below) are described in the Nuvo Reorganization Circular under the heading "Risk Factors". This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company'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 neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. All forward-looking statements in this MD&A are qualified by these cautionary statements. The forward-looking statements contained herein are made as of the date of this MD&A and except as required by applicable law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Corporate Reorganization

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

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

capabilities. Crescita is a drug development business, that at the time of the Reorganization, operated two sub-groups: the Topical Products and Technology (TPT) Group and the Immunology Group. The TPT Group had one commercial product, a pipeline of topical and transdermal products focusing on pain and dermatology and multiple drug delivery platforms that support the development of patented formulations that can deliver actives into or through the skin. The Immunology Group had two commercial products and was discontinued during the year ended December 31, 2016.

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

Overview

Background

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

As at December 31, 2016, the Company employed a total of 40 full-time employees at its manufacturing facility in Varennes, Québec and its head office in Mississauga, Ontario.

Pennsaid 2%

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

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

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

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

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

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

Horizon's orders from Nuvo are influenced by demand in the U.S. market, Horizon inventory levels and their management strategies. On November 27, 2017, the Federal Drug Supply Chain Security Act (DSCSA) rules come into force that require all manufacturers of drug products sold in the U.S. to "serialize" each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. In order to be in compliance with the DSCSA, also known as the Serialization Track and Trace Bill, the Company has purchased new packaging equipment and technology systems that will give it the ability to individually serialize all Pennsaid 2% packaging. In coordination with Horizon, the Company has planned to install this new equipment well before the November 27, 2017 implementation date of the U.S. Food and Drug Administration (FDA) rule change. The FDA was expected to publish regulations that grandfather existing non-serialized inventory in the supply chain, but hasn't released these much anticipated regulations yet. Due to this uncertainty, Horizon has decided to draw down some of its existing Pennsaid 2% inventory of non-serialized product in advance of the November 27, 2017 implementation date. Horizon has therefore advised the Company's Varennes manufacturing plant to shift commercial bottle production planned for the second quarter to later in the year. Sample production is not affected by the serialization issue and Horizon has asked that the Company pull forward into the second quarter some sample orders planned for later in the year. These production changes will have a negative impact on the second quarter sales and earnings; however, the Company expects that sales to Horizon will increase in the second half of the year, as the serialization equipment comes on stream and Horizon resumes its more typical ordering patterns.

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

Product	Therapeutic Area	Stage of Development	Intellectual Property[(1)]
Pennsaid 2%	Acute strains and sprains	Phase 3 clinical trials	Patents granted in AU, CA, CH, DE, DK, FR, GB, GR, IN, IE, IL, IT, NL, HK, JP, MX, NZ, RU, ZA, expiring in 2027. Applications pending in 5 countries. Patent applications pending in AU, BR, CA, CL, CN, EP, HK, IL, JP, MX and RU through 2033.

(1) Region and country abbreviations defined as follows: Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Denmark (DK), Europe (EP), France (FR), Germany (DE), Great Britain (GB), Greece (GR), India (IN), Ireland (IE), Israel (IL), Italy (IT), Netherlands (NL), Hong Kong (HK), Japan (JP), Mexico (MX), New Zealand (NZ), Russian Federation (RU), South Africa (ZA), Switzerland (CH).

2016 Pennsaid 2% Phase 3 Clinical Trial

The 2016 Pennsaid 2% Phase 3 Clinical Trial (2016 Pennsaid 2% Trial) is being conducted in Germany and will enroll approximately 126 patients who have suffered a grade I or grade II ankle sprain as assessed by the investigator within 12 hours of injury. Patients will then be randomly assigned on a double-blind basis to an active arm or a placebo arm and will apply either Pennsaid 2% or a placebo consisting of a topical vehicle that includes all the constituent ingredients of Pennsaid 2%, except its active ingredient diclofenac sodium, to their injured ankle twice a day for 8 days. The patients will return to the investigational site for in-depth evaluation on days 3, 5 and 8 of treatment. The primary endpoint for the 2016 Pennsaid 2% Trial will be reduction in pain on movement (POM) at day 3. The 2016 Pennsaid 2% Trial will measure a number of secondary endpoints including tenderness, ankle function, ankle swelling, overall assessment of benefit and satisfaction and use of rescue medication. The 2016 Pennsaid 2% Trial commenced in November 2016. Top-line results are expected to be available in the second quarter of 2017.

2015 Pennsaid 2% Phase 3 Clinical Trial Results

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

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

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

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

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

Additional clinical and non-clinical trials may be required to support applications for the regulatory approval of Pennsaid 2% in other countries in which the Company, or other licensees and distributors, could potentially market the product. The Company was advised by regulatory authorities in Canada and the United Kingdom that the data from the Phase 2 trial conducted by its former U.S. licensee was insufficient to support approval of Pennsaid 2% in their respective countries and that additional clinical trials would be required. In addition, NovaMedica advised the Company that their Pennsaid 2% clinical trial, required for regulatory approval in Russia, was successful. There can be no assurance that the current trials will be sufficient for regulatory authorities in any jurisdiction or that all trials will yield successful results or that the required regulatory approvals will be obtained.

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

Pennsaid Commercial Partners

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

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories[1]
Pennsaid	Osteoarthritis of the knee	Paladin Labs Inc.	Canada
		Vianex S.A.	Greece
		Italchimici S.p.A.	Italy
		Movianto UK Limited	U.K.
		NovaMedica LLC	Russia; some Community of Independent States

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

Heated Lidocaine/Tetracaine Patch

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

HLT Patch Commercial Partners:

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

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

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

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

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

Manufacturing

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

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

Selected Financial Information

in thousands, except per share data	**Year ended December 31, 2016** **$**	Year ended December 31, 2015 $
Operations		
Product sales	**24,824**	18,579
Royalties	**1,023**	1,162
Contract revenue	**1,192**	754
Total revenue	**27,039**	20,495
Total operating expenses	**19,307**	13,166
Other (income) loss	**323**	(1,006)
Income before income taxes	**7,409**	8,335
Income tax expense	**-**	7
Net income from continuing operations	**7,409**	8,328
Net loss from discontinued operations	**(3,180)**	(15,448)
Net income (loss)	**4,229**	(7,120)
Other comprehensive income (loss)	**50**	(65)
Total comprehensive income (loss)	**4,279**	(7,185)
Share Information		
Net income from continuing operations per common share		
- basic	**0.65**	0.76
- diluted	**0.63**	0.74
Average number of common shares outstanding		
- basic	**11,455**	10,926
- diluted	**11,711**	11,224
Financial Position		
Cash and cash equivalents	**9,589**	48,680
Short-term investments	**8,000**	-
Total assets	**26,516**	59,132
Other obligations, including current portion	**9**	235
Total liabilities	**3,655**	9,413
Total equity	**22,861**	49,719

Non-IFRS Financial Measures

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

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

During the year ended December 31, 2016, the Company earned 92% [December 31, 2015 - 82%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. It is possible that quarterly and annual results of operations will be impacted for the foreseeable future by Horizon's demand for Nuvo product which is a function of demand for the product in the U.S. market and how Horizon chooses to manage its internal inventory. In February 2017, Horizon advised the Company that, it plans to draw down some of its existing inventory of commercial bottles of Pennsaid 2% and shift commercial bottle production from the second quarter to later in 2017. Horizon has asked that the Company pull forward into the second quarter some product sample orders planned for later in the year. These inventory adjustments are in response to the U.S. Federal Drug Supply Chain Act taking effect November 27, 2017 that requires all pharmaceutical drugs manufactured for the U.S. market to have individually serialized tracking and will have a negative impact on the Company's second quarter sales and earnings. The Company expects that sales to Horizon will increase in the second half of the year as Horizon resumes its more typical ordering patterns. See "Overview – Pennsaid 2%."

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

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

Significant Transactions

2016

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

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

To the extent that maintaining regulatory approvals for an alternative supplier requires the Company to purchase minimum quantities of drug product or API from the alternate supplier, the Company is obligated to purchase such minimum quantities, subject to Horizon's obligation to reimburse the Company for any excess cost compared to the cost to otherwise obtain such drug product or API.

Results of Operations

Product Sales

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Pennsaid 2%	**22,806**	15,256
Pennsaid	**1,558**	3,147
HLT bulk	**460**	176
Total product sales	**24,824**	18,579

Product sales which represent the Company's sales to its licensees and distributors were $24.8 million for the year ended December 31, 2016 compared to $18.6 million for the year ended December 31, 2015.

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

Pennsaid 2% product sales were $22.8 million for the year ended December 31, 2016 compared to $15.3 million for the year ended December 31, 2015 and represent the Company's sales of the Pennsaid 2% commercial format and its physician sample format to Horizon. In the current year, product sales included $14.6 million of the commercial format and $8.2 million of the physician sample format. In the comparative year, product sales included $10.1 million of the commercial format and $5.2 million of the physician sample format. The increase in the year ended December 31, 2016 related to growth in prescriptions from Horizon's efforts to sell Pennsaid 2% in the U.S. market and an increase in bottles shipped for the achievement of certain inventory targets by Horizon.

During the current year, the Company benefitted from a weaker Canadian dollar versus the U.S. dollar, the currency in which it sells Pennsaid 2% to Horizon. The $7.6 million increase in Pennsaid 2% sales in the current year included a $0.8 million foreign exchange gain.

According to IMS Health, approximately 457,000 Pennsaid 2% prescriptions were dispensed in the year ended December 31, 2016 compared to 320,000 prescriptions in the year ended December 31, 2015.

Pennsaid
Product sales of Pennsaid were $1.6 million for the year ended December 31, 2016 compared to $3.1 million for the year ended December 31, 2015.

Geographic Pennsaid Product Sales

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Europe	**1,344**	2,699
Canada	**214**	448
Total Pennsaid product sales	**1,558**	3,147

The decrease in Pennsaid product sales primarily relates to a decrease in product sales to the Company's partners in Greece and Canada, slightly offset by an increase in product sales to the Company's partner in Italy. Product sales to the Company's partner in Greece decreased $1.5 million in the current year over

the comparative year due to the timing of shipments. Product sales to the Company's partner in Canada decreased by $0.2 million due to increased generic competition in the Canadian market. Product sales to the Company's partner in Italy increased due to an increase in volumes shipped. Geographically for the year ended December 31, 2016, sales in the E.U. were 86% of Pennsaid product sales [December 31, 2015 - 86%] and sales in Canada were 14% of Pennsaid product sales [December 31, 2015 - 14%].

HLT Bulk
HLT Bulk sales were $0.5 million for the year ended December 31, 2016 compared to sales of $0.2 million for the year ended December 31, 2015. Sales related to the bulk drug substance that is used in manufacturing the HLT Patch for both the U.S. and E.U. markets. The bulk drug substance is shipped to a contract manufacturing organization in the U.S. that manufactures the HLT Patch.

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

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands, except percentages	**$**	$
Four largest customers	**24,282**	17,916
% of total product sales	**98%**	96%
Largest customer as % of total product sales	**92%**	82%

Other Revenue

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Royalties	**1,023**	1,162
Contract revenue	**1,192**	754
Total other revenue	**2,215**	1,916

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

Royalty revenue decreased to $1.0 million for the year ended December 31, 2016 compared to $1.2 million for the year ended December 31, 2015. As discussed above, the decrease in the current year was attributable to lower royalties from Pennsaid of $0.3 million. In the U.S. market, the Company earned royalties in the comparative year from a generic version of Pennsaid. There were no royalties received in the year ended December 31, 2016 from sales of this generic, as it is currently not available in the U.S. due to a manufacturing issue. Partially offsetting the decrease in Pennsaid royalties was a $0.2 million increase in royalties from the HLT Patch, primarily related to an increase in net sales by the Company's U.S. partner.

Contract Revenue
Contract revenue for the year ended December 31, 2016 increased to $1.2 million compared to $0.8 million for the year ended December 31, 2015. The current year included $0.3 million of transitional services

provided to Crescita as part of the Reorganization (See Corporate Reorganization). In both the current and comparative years, the balance of revenues were primarily derived from contract services provided by the Company to its partners.

Operating Expenses

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Cost of goods sold	**11,357**	9,775
Research and development expenses	**1,417**	1,261
General and administrative expenses	**6,677**	2,645
Net interest income	**(144)**	(515)
Total operating expenses	**19,307**	13,166

Total operating expenses for the year ended December 31, 2016 were $19.3 million, an increase from $13.2 million for the year ended December 31, 2015.

Cost of Goods Sold

COGS for the year ended December 31, 2016 was $11.4 million compared to $9.8 million for the year ended December 31, 2015. COGS increased in the year ended December 31, 2016 due to increased product sales. Gross margin on product sales was $13.5 million or 54% for the year ended December 31, 2016 compared to a gross margin of $8.8 million or 47% for the year ended December 31, 2015.

The Company's gross margin on product sales was impacted by the Canadian dollar versus the U.S. dollar, the currency in which it sources certain Pennsaid and Pennsaid 2% raw materials and sells Pennsaid 2%. In the current year, a 10% appreciation in the Canadian dollar versus the U.S. dollar would have reduced gross margin by approximately $1.1 million and a 10% depreciation in the Canadian dollar versus the U.S. dollar would have increased gross margin by approximately $1.1 million.

Research and Development

R&D expenses were $1.4 million for the year ended December 31, 2016 compared to $1.3 million for the year ended December 31, 2015. The increase in spending in the current year related to the 2016 Pennsaid 2% Trial for the treatment of acute ankle sprains. In October 2016, the Company received approval from the German Federal Institute for Drugs and Medical Devices and Ethical Review Committee. See Overview – Pennsaid 2% for an overview of the 2016 Pennsaid 2% Trial. R&D expenses incurred in the comparative year related entirely to the 2015 Pennsaid 2% Trial. The 2015 Pennsaid 2% Trial did not meet its primary endpoint. See Overview – Pennsaid 2% for detailed results of the trial.

In the years ended December 31, 2016 and 2015, the Company's discontinued operations included $0.6 million and $9.1 million of R&D expenses. The decrease primarily relates to the Reorganization which took effect March 1, 2016 and the expenses incurred in the comparative year for the 2015 WF10 Trial and the Ferndale collaboration. The Company's discontinued operations reflect Crescita on a combined carve-out basis as if it had always operated as a stand-alone entity. Crescita's R&D expenses included allocations of the Company's R&D expenses that the Company considers to be a reasonable reflection of the underlying nature of operations and utilization of services provided.

General and Administrative

G&A expenses were $6.7 million for the year ended December 31, 2016 compared to $2.6 million for the year ended December 31, 2015. The increase in G&A expenses related to a $1.5 million increase in SBC, primarily from the adjustment to market value for the outstanding share appreciation rights (SARs) as at December 31, 2016 and deferred share units (DSUs) as at March 1, 2016, $1.0 million for professional fees, primarily related to fees incurred for the Reorganization and a merger transaction the Company is no longer pursuing, $0.4 million for transition services provided by Crescita and an increase in corporate costs, primarily related to the allocation of certain corporate G&A costs to Crescita in the comparative year.

A change in the Company's share price can result in a significant charge or recovery of G&A expenses in a reporting period due to the revaluation of SARs to fair market value at the end of each reporting period. Assuming all other valuation assumptions remain constant, a $1.00 increase in the Company's share price at December 31, 2016 would have resulted in an additional $0.4 million of G&A expenses in the year ended December 31, 2016. A $1.00 decrease in the Company's share price at December 31, 2016 would have resulted in a decrease of $0.3 million of G&A expenses in the year ended December 31, 2016.

The Company's discontinued operations reflect Crescita on a combined carve-out basis as if it had always operated as a stand-alone entity. In the year ended December 31, 2016, the Company's discontinued operations included $2.5 million of G&A expenses compared to $6.7 million in the year ended December 31, 2015. The decrease primarily relates to the Reorganization that took effect March 1, 2016. Crescita's G&A included allocations of the Company's corporate expenses that the Company considers to be a reasonable reflection of the underlying nature of operations and utilization of services provided.

Interest

Net interest income was $0.1 million for the year ended December 31, 2016 compared to $0.5 million for the year ended December 31, 2015. The decrease in net interest income in the current year related to the significantly lower cash balances due to the $35.0 million transfer of funds to Crescita as part of the Reorganization, slightly offset by interest earned on the $8.0 million of short-term investments.

Foreign Currency Gain (Loss)

For the year ended December 31, 2016, the Company experienced a net foreign currency loss of $0.3 million compared to a net foreign currency gain of $1.0 million in the comparative year. In the current year, the impact of a stronger Canadian dollar versus the U.S. dollar and euro decreased the value of U.S. dollar and euro denominated cash, receivables, payables and other obligations. In the comparative year, the weaker Canadian dollar versus the U.S. dollar and euro, increased the value of U.S. dollar and euro denominated cash, receivables, payables and the company's other obligations.

Gain on Asset Disposal

The Company recognized a gain of $25,000 for the year ended December 31, 2016 due to a purchase credit received for fully depreciated manufacturing equipment. The Company has applied this credit to current capital expenditures.

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

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Net income before income taxes from continuing operations	**7,409**	8,335
Income tax expense	**-**	7
Net income from continuing operations	**7,409**	8,328
Net loss from discontinued operations	**(3,180)**	(15,448)
Net income (loss)	**4,229**	(7,120)
Unrealized gains (losses) on translation of foreign operations	**50**	(65)
Total comprehensive income (loss)	**4,279**	(7,185)

Net Income from Continuing Operations

Net income from continuing operations was $7.4 million for the year ended December 31, 2016 compared to $8.3 million for the year ended December 31, 2015. In the current year, the increase in gross margin was partially offset by an increase in G&A expenses and R&D expenses, lower net interest income and foreign exchange losses.

Net Loss from Discontinued Operations

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

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Discontinued Operations		
Product sales	**45**	629
Royalties	**14**	228
Total revenue	**59**	857
Total operating expenses	**3,247**	16,259
Foreign currency (gain) loss	**(8)**	46
Net loss from discontinued operations	**(3,180)**	(15,448)

Net loss from discontinued operations was $3.2 million for the year ended December 31, 2016 compared to $15.4 million for the year ended December 31, 2015. The decrease in net loss from discontinued operations was attributable to the timing of the Reorganization, which was effective March 1, 2016.

Net Income (Loss)

Net income for the year ended December 31, 2016 was $4.2 million compared to a net loss of $7.1 million for the year ended December 31, 2015. For the current year, net income from continuing operations was slightly offset by the two-month net loss from discontinued operations. In the comparative year, the net income from continuing operations was more than offset by the net loss from discontinued operations.

Total Comprehensive Income (Loss)

Total comprehensive income was $4.3 million for the year ended December 31, 2016 compared to a total comprehensive loss of $7.2 million for the year ended December 31, 2015. The current year included unrealized gains of $0.1 million on the translation of foreign operations compared to $0.1 million of unrealized losses in the comparative year.

Net Income Per Common Share

	Year ended December 31, 2016	Year ended December 31, 2015
share figures in thousands	**$**	$
Net earnings from continuing operations per common share		
- basic	**0.65**	0.76
- diluted	**0.63**	0.74
Average number of common shares outstanding		
- basic	**11,455**	10,926
- diluted	**11,711**	11,224

Net earnings from continuing operations per common share was $0.65 for the year ended December 31, 2016 versus $0.76 for the year ended December 31, 2015. On a diluted basis, net earnings from continuing operations per common share was $0.63 for the year ended December 31, 2016 versus $0.74 for the year ended December 31, 2015.

The weighted average number of common shares outstanding on a basic and diluted basis was 11.5 million and 11.7 million for the year ended December 31, 2016 and 10.9 million and 11.2 million on a basic and diluted basis for the year ended December 31, 2015. The increase was attributable to common shares issued from the exercise of warrants, common shares issued on the settlement of DSUs and stock options exercised. On a diluted basis, the weighted average number of common shares included a 235,000 share adjustment for the dilutive impact of stock options, a 1,000 share adjustment for the dilutive impact of warrants, a 9,000 share adjustment for the dilutive impact of DSUs and a 11,000 share adjustment for the dilutive impact of SARs for the year ended December 31, 2016. On a diluted basis, the weighted average number of common shares included a 158,000 share adjustment for the dilutive impact of stock options and a 140,000 share adjustment for the dilutive impact of warrants for the year ended December 31, 2015.

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

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

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
United States	**24,528**	16,038
Europe	**1,712**	3,748
Canada	**799**	709
Total revenue	**27,039**	20,495

Adjusted EBITDA
EBITDA is a non-IFRS financial measure. The term EBITDA does not have any standardized meaning under IFRS and therefore, may not be comparable to similar measures presented by other companies. The Company defines Adjusted EBITDA as net income from continuing operations before net interest income, plus income tax expense, depreciation, amortization and SBC. Management believes Adjusted EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for working capital, capital expenditures and income taxes.

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

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Net income from continuing operations	**7,409**	8,328
Add back:		
Net interest income	**(144)**	(515)
Income tax expense	**-**	7
Depreciation and amortization	**225**	276
EBITDA	**7,490**	8,096
Add back:		
SBC	**1,383**	(141)
Adjusted EBITDA	**8,873**	7,955

Adjusted EBITDA increased to $8.9 million for the year ended December 31, 2016 compared to $8.0 million for the year ended December 31, 2015. The increase in Adjusted EBITDA is primarily related to an increase in gross margin, which was partially offset by an increase in G&A expenses and R&D expenses, lower net interest income and foreign exchange losses.

Liquidity and Capital Resources

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Net income from continuing operations	**7,409**	8,328
Net loss from discontinued operations	**(3,180)**	(15,448)
Net income (loss)	**4,229**	(7,120)
Items not involving current cash flows	**2,132**	(171)
Cash provided by (used in) operations	**6,361**	(7,291)
Net change in non-cash working capital	**(2,493)**	(3,341)
Cash provided by (used in) operating activities	**3,868**	(10,632)
Cash (used in) provided by investing activities	**(8,368)**	9,668
Cash (used in) provided by financing activities	**(34,708)**	827
Effect of exchange rates on cash	**117**	542
Net change in cash during the year	**(39,091)**	405
Cash, beginning of the year	**48,680**	48,275
Cash, end of the year	**9,589**	48,680
Short-term investments	**8,000**	-
Cash and short-term investments	**17,589**	48,680

Cash and Short-term Investments
Cash and short-term investments were $17.6 million as at December 31, 2016, a decrease of $31.1 million compared to $48.7 million as at December 31, 2015. The decrease was primarily related to the $35.0 million that was transferred to Crescita as part of the Reorganization of the Company (See Corporate Reorganization).

Operating Activities
Cash provided by operations was $6.4 million for the year ended December 31, 2016 compared to cash used in operations of $7.3 million for the year ended December 31, 2015. In the current year, the increase in cash provided by operations was due to an increase in net income.

Overall cash provided by operating activities increased by $14.5 million to $3.9 million for the year ended December 31, 2016 compared to cash used in operating activities of $10.6 million for the year ended December 31, 2015, primarily due to a decrease in net loss from discontinued operations of $12.3 million and a $0.8 million reduction in non-cash working capital. In the current year, the $2.5 million investment in non-cash working capital was attributable to a $3.2 million decrease in accounts payable and accrued liabilities, primarily the result of the settlement of DSUs on March 1, 2016 and the revaluation of SBC, a $1.8 million increase in inventories due to increased raw materials purchases to meet the safety stock inventory requirements of the Horizon supply agreement and a $0.2 million increase in other current assets, slightly offset by a $2.8 million decrease in accounts receivable due to lower product sales in the fourth quarter of 2016. In the comparative year, the $3.3 million investment of non-cash working capital was primarily attributable to a $2.1 million increase in accounts receivable, a $0.6 million increase in inventories and a $0.6 million increase in other current assets.

Investing Activities
Net cash used in investing activities was $8.4 million for the year ended December 31, 2016 compared to net cash provided by investing activities of $9.7 million for the year ended December 31, 2015. In both the current and comparative years, cash used in investing activities included the acquisition of property, plant and equipment for production and laboratory equipment acquired by the Company's manufacturing facility in Varennes, Québec. In the current year, the Company purchased $8.0 million of short-term investments. In the comparative year, the Company's $10.0 million of short-term investments matured.

Financing Activities

Net cash used in financing activities was $34.7 million for the year ended December 31, 2016 compared to net cash provided by financing activities of $0.8 million for the year ended December 31, 2015. In the current year, the Company transferred $35.0 million to Crescita as part of the Reorganization of the Company (See Corporate Reorganization). In the current and comparative years, the Company received cash from the exercise of warrants and the exercise of stock options that was partially offset by payments towards the five-year consulting agreement. On March 1, 2016, the five-year consulting agreement was transferred to Crescita as part of the Reorganization.

Selected Quarterly Information

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

	Q1 2016	**Q2 2016**	**Q3 2016**	**Q4 2016**	**2016 Total**
in thousands, except per share data	**$**	**$**	**$**	**$**	**$**
Product sales	**7,325**	**7,317**	**4,988**	**5,194**	**24,824**
Royalties	**309**	**134**	**323**	**257**	**1,023**
Contract revenue	**208**	**655**	**207**	**122**	**1,192**
Cost of goods sold	**3,135**	**3,159**	**2,535**	**2,528**	**11,357**
Research and development expenses	**208**	**211**	**394**	**604**	**1,417**
General and administrative expense	**2,091**	**2,260**	**1,462**	**864**	**6,677**
Net interest income	**(56)**	**(22)**	**(29)**	**(37)**	**(144)**
Other expenses (income)	**536**	**7**	**(95)**	**(125)**	**323**
Net income	**1,928**	**2,491**	**1,251**	**1,739**	**7,409**
Net income per common share					
- basic	**0.17**	**0.22**	**0.11**	**0.15**	**0.65**
- diluted	**0.15**	**0.21**	**0.10**	**0.12**	**0.63**

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015 Total
	$	$	$	$	$
Product sales	3,715	2,740	5,047	7,077	18,579
Royalties	493	133	251	285	1,162
Contract revenue	125	86	211	332	754
Cost of goods sold	2,427	1,789	2,510	3,049	9,775
Research and development expenses	369	301	338	253	1,261
General and administrative expense	(48)	1,501	1,067	125	2,645
Net interest income	(149)	(138)	(117)	(111)	(515)
Other expenses (income)	(298)	13	(398)	(323)	(1,006)
Income tax expense	7	-	-	-	7
Net income (loss)	2,025	(507)	2,109	4,701	8,328
Net income (loss) per common share					
- basic	0.19	(0.05)	0.19	0.43	0.76
- diluted	0.18	(0.05)	0.19	0.42	0.74

Fourth Quarter Results

	Three months ended December 31, 2016	Three months ended December 31, 2015
in thousands	**$**	$
Product sales	**5,194**	7,077
Royalties	**257**	285
Contract revenue	**122**	332
Total revenue	**5,573**	7,694
Cost of goods sold	**2,528**	3,049
Research and development	**604**	253
General and administrative expenses	**864**	125
Net interest income	**(37)**	(111)
Total operating expenses	**3,959**	3,316
Other income	**(125)**	(323)
Net income before income taxes	**1,739**	4,701
Income taxes	**-**	-
Net income from continuing operations	**1,739**	4,701
Net loss from discontinued operations	**-**	(4,405)
Net income	**1,739**	296
Other comprehensive income (loss)	**4**	(18)
Total comprehensive income	**1,743**	278

Key Developments

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

Pennsaid 2%

- U.S. prescriptions of Pennsaid 2% increased to 119,000 in the fourth quarter of 2016 from 103,000 prescriptions in the third quarter of 2016 according to IMS Health.

- In November 2016, the Company commenced a new placebo-controlled, multi-centre Phase 3 trial (2016 Pennsaid 2% Trial) in Germany to study Pennsaid 2% for the treatment of acute ankle sprains. Top-line results of the Trial are expected to be available in the second quarter of 2017. The 2016 Pennsaid 2% Trial will be conducted to support regulatory applications for marketing approval of Pennsaid 2% for the treatment of acute pain in the E.U., Canada and Australia. As at February 27, 2017, 85% of patients had been enrolled in the trial.

- In November 2016, the board of directors of the Company appointed Jesse Ledger to the position of President. Mr. Ledger had previously held the position of Vice President, Business Development. John London, who had been Nuvo's President and Chief Executive Officer continued to lead the Company as its CEO.

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

- In February 2017, Horizon advised the Company that, it plans to draw down some of its existing inventory of commercial bottles of Pennsaid 2% and shift commercial bottle production from the second quarter to later in 2017. Horizon has asked that the Company pull forward into the second quarter some product sample orders planned for later in the year. These inventory adjustments are in response to the U.S. Federal Drug Supply Chain Act taking effect November 27, 2017 that requires all pharmaceutical drugs manufactured for the U.S. market to have individually serialized tracking and will have a negative impact on the Company's second quarter sales and earnings. The Company expects that sales to Horizon will increase in the second half of the year as Horizon resumes its more typical ordering patterns. See "Overview – Pennsaid 2%."

Operating Results

Total revenue for the three months ended December 31, 2016 was $5.6 million compared to $7.7 million for the three months ended December 31, 2015. The decrease in revenue was primarily related to a $0.9 million decrease in Pennsaid 2% product sales, a $0.8 million decrease in Pennsaid product sales to the Company's partner in Greece, a $0.2 million decrease in Pennsaid product sales to the Company's partner in Italy and a $0.2 million decrease in contract revenue.

Total operating expenses for the three months ended December 31, 2016 increased to $4.0 million compared to $3.3 million for the three months ended December 31, 2015. The increase in operating expenses was primarily attributable to an increase in G&A and R&D expenses, partially offset by a decrease in COGS.

COGS for the three months ended December 31, 2016 was $2.5 million compared to $3.0 million for the three months ended December 31, 2015. The decrease in COGS was primarily related to a decrease in Pennsaid 2% and Pennsaid product sales. The decrease in product sales reduced the gross margin on product sales to $2.7 million or 51% for the three months ended December 31, 2016 compared to $4.0 million or 57% for the three months ended December 31, 2015.

R&D expenses increased to $0.6 million for the three months ended December 31, 2016 compared to $0.3 million for the three months ended December 31, 2015. The increase in the quarter related to costs associated with the 2016 Pennsaid 2% Trial for the treatment of acute ankle sprains.

G&A expenses increased to $0.9 million for the three months ended December 31, 2016 compared to $0.1 million for the three months ended December 31, 2015. The increase in the quarter was primarily related to a $0.2 million increase in SBC expense, an increase of $0.1 million for transition services provided by Crescita and an increase in corporate costs, primarily related to the allocation of certain corporate G&A costs to Crescita in the comparative quarter.

Net interest income was $37,000 for the three months ended December 31, 2016 compared to $0.1 million for the three months ended December 31, 2015. The decrease in net interest income in the current three-month period related to the significantly lower cash balances due to the $35.0 million transfer of funds to Crescita as part of the Reorganization.

Included in other income is a net foreign currency gain of $0.1 million for the three months ended December 31, 2016 compared to a net foreign currency gain of $0.3 million for the three months ended December 31, 2015. In the current quarter, the impact of a weaker Canadian dollar versus the U.S. dollar increased the value of U.S. denominated cash, receivables, payables and other obligations, slightly offset by a stronger Canadian dollar versus the euro which decreased the value of and euro denominated cash, receivables, payables and other obligations. In the comparative quarter, the weaker Canadian dollar versus the U.S. dollar and euro, increased the value of the U.S. dollar and euro denominated cash, receivables, payables and other obligations.

Net income from continuing operations was $1.7 million for the three months ended December 31, 2016 compared to $4.7 million for the three months ended December 31, 2015. The decrease in net income from continuing operations was primarily related to a decrease in gross margin coupled with an increase in G&A expenses and R&D expenses.

Net loss from discontinued operations was $nil for the three months ended December 31, 2016 compared to $4.4 million for the three months ended December 31, 2015. The decrease in net loss from discontinued operations was attributable to the timing of the Reorganization, which was effective March 1, 2016.

Net income for the three months ended December 31, 2016 was $1.7 million compared to a net income of $0.3 million for the three months ended December 31, 2015. The Company generated net income in the current quarter attributable to continuing operations, whereas in the comparative quarter, the net income from continuing operations was more than offset by the net loss from discontinued operations.

Total comprehensive income was $1.7 million for the three months ended December 31, 2016 compared to $0.3 million for the three months ended December 31, 2015. Included in other comprehensive income was $4,000 of unrealized gains on the translation of foreign operations for the three months ended December 31, 2016 compared to unrealized losses of $18,000 for the three months ended December 31, 2015.

Liquidity

	Three months ended December 31, 2016	Three months ended December 31, 2015
in thousands	**$**	$
Net income from continuing operations	**1,739**	4,701
Net loss from discontinued operations	**-**	(4,405)
Net income	**1,739**	296
Items not involving current cash flows	**(42)**	(88)
Cash provided by operations	**1,697**	208
Net change in non-cash working capital	**(1,731)**	(2,993)
Cash (used in) operating activities	**(34)**	(2,785)
Cash (used in) provided by investing activities	**(57)**	9,979
Cash provided by financing activities	**165**	419
	74	7,613
Effect of exchange rates on cash	**109**	218
Net change in cash	**183**	7,831
Cash, beginning of period	**9,406**	40,849
Cash, end of period	**9,589**	48,680

Cash was $9.6 million at December 31, 2016, an increase of $0.2 million compared to $9.4 million at September 30, 2016. The increase in cash primarily related to an increase in cash provided by operations.

Cash used in operating activities was $34,000 for the three months ended December 31, 2016 compared to cash used in operating activities of $2.8 million for the three months ended December 31, 2015. In the current period, an increase in cash provided by operations was more than offset by the Company's investment in working capital. In the current three-month period, the $1.7 million investment in non-cash working capital was primarily related to an increase in inventories due to increased raw materials purchases to meet safety stock inventory requirements as part of the Horizon supply agreement, a decrease in accounts payable and accrued liabilities, primarily due to the settlement of termination SARs and the revaluation of SARs, slightly offset by a $0.6 million decrease in accounts receivable. In the comparative period, the investment in non-cash working capital was primarily related to an increase in accounts receivable from increased product sales and a decrease in accounts payable and accrued liabilities due to the revaluation of cash-settled share-based compensation.

Net cash used in investing activities was $57,000 for the three months ended December 31, 2016 compared to net cash provided by investing activities of $10.0 million for the three months ended December 31, 2015. In both the current and comparative periods, cash used in investing activities included the acquisition of property, plant and equipment for production and laboratory equipment acquired by the Company's

manufacturing facility in Varennes, Québec. In the comparative period, the Company's $10.0 million of short-term investments matured.

Net cash provided by financing activities was $0.2 million for the three months ended December 31, 2016 compared to net cash provided by financing activities of $0.4 million for the three months ended December 31, 2015. In the current period, the Company received $0.2 million in proceeds for the issuance of common shares. In the comparative quarter, the Company received $0.4 million in proceeds from the exercise of warrants and $0.1 million on the issuance of common shares that was slightly offset by payments made towards the five-year consulting agreement related to the acquisition of the non-controlling interest in Nuvo Research AG in 2011. On March 1, 2016, this consulting agreement was transferred to Crescita.

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. 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 year ended December 31, 2016.

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 following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2016:

in thousands	Total $	Using Quoted Prices in Active Markets for Identical Assets (Level 1) $	Using Significant Other Unobservable Inputs (Level 2) $	Using Significant Unobservable Inputs (Level 3) $
Assets:				
Short-term investments	**8,000**	**-**	**8,000**	**-**
Total assets	**8,000**	**-**	**8,000**	**-**
Liabilities:				
Share Appreciation Rights	**1,031**	**-**	**1,031**	**-**
Total liabilities	**1,031**	**-**	**1,031**	**-**

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2015:

in thousands	Total $	Using Quoted Prices in Active Markets for Identical Assets (Level 1) $	Using Significant Other Unobservable Inputs (Level 2) $	Using Significant Unobservable Inputs (Level 3) $
Liabilities:				
Deferred Share Units	2,231	2,231	-	-
Share Appreciation Rights	1,328	-	1,328	-
Total liabilities	3,559	2,231	1,328	-

Level 1 liabilities include obligations of the Company for the DSUs described in Note 9, *Stock-based Compensation and Other Stock-based Payments*. One DSU has a cash value equal to the market price of one of the Company's common shares. The Company revalues the DSU liability each reporting period using the market value of the underlying shares. There was no DSU accrual as at December 31, 2016 [December 31, 2015 - $2.2 million], as the DSU plans were terminated on March 1, 2016.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 9, *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 $1.0 million for SARs as at December 31, 2016 [December 31, 2015 - $1.3 million].

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

FINANCIAL RISK MANAGEMENT

Risk Factors

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

Liquidity Risk

While the Company had $9.6 million in cash and $8.0 million in short-term investments as at December 31, 2016, it is dependent on a single customer for substantially all of its revenue. During the year ended December 31, 2016, the Company earned 92% [December 31, 2015 - 82%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon, pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to diversify its customer base in order to help mitigate this concentration risk.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $6.2 million that are due in less than a year and $9,000 of contractual obligations that are payable from 2018 to 2020.

Credit Risk

The Company's cash and short-term investments subject the Company to a concentration of credit risk. As at December 31, 2016, the Company had $9.6 million invested with two financial institutions in various bank accounts. These financial institutions are major Canadian banks, which the Company believes lessens the

degree of credit risk. Additionally, the Company maintains $8.0 million in short-term investments with a creditworthy Canadian cooperative financial group and a Canadian insurance company.

The Company, in the normal course of business, is exposed to credit risk from its global customers, most of whom are in the pharmaceutical industry. The accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement. As at December 31, 2016, the Company's largest customer represented 73% [December 31, 2015 - 70%] of accounts receivable.

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

in thousands	**December 31, 2016 $**	December 31, 2015 $
Current	**2,159**	5,497
0 - 30 days past due	**11**	36
31 - 60 days past due	**216**	-
	2,386	5,533

Interest Rate Risk

All finance lease obligations are at fixed interest rates.

Currency Risk

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

	Euros		U.S. Dollars	
in thousands	**December 31, 2016 €**	December 31, 2015 €	**December 31, 2016 $**	December 31, 2015 $
Cash	**242**	885	**3,929**	4,783
Accounts receivable	**-**	782	**1,636**	3,010
Other current assets	**-**	2	**-**	-
Accounts payable and accrued liabilities	**(305)**	(959)	**(289)**	(520)
Finance lease and other long-term obligations	**-**	-	**-**	(162)
	(63)	710	**5,276**	7,111

Based on the aforementioned net exposure as at December 31, 2016, 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 $0.7 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $9,000 on total comprehensive income (loss).

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

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

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

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

Contractual Obligations

The following table lists the Company's contractual obligations for the years ending December 31 as follows:

	Total	2017	2018	2019 and thereafter
in thousands	$	$	$	$
Finance lease obligations	12	3	3	6
Operating leases	138	138	-	-
Purchase obligations[1]	2,411	2,411	-	-
Other obligations[2]	3,646	3,646	-	-
	6,207	**6,198**	**3**	**6**

(1) The Company has committed to $1.9 million of capital investments for its manufacturing facility and $0.5 million for the 2016 Pennsaid 2% Trial.
(2) Other obligations include accounts payable and accrued liabilities.

Litigation

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

Off-Balance Sheet Arrangements

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

Related Party Transactions

Crescita Therapeutics Inc.
Subsequent to the Reorganization, Nuvo and Crescita are related parties due to shared key management personnel.

Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, (a) Nuvo provides Crescita with corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, R&D and legal support and facility and equipment rental.

Effective September 12, 2016, the Chief Financial Officer transition services agreement between Nuvo and Crescita was terminated.

The following is a summary of the transactions between Nuvo and Crescita for the period from April 1, 2016 to December 31, 2016:

	Year ended December 31, 2016
in thousands	**$**
Transactions under the transitional services agreement:	
Services provided to Crescita	**312**
Services received from Crescita	**359**

As at December 31, 2016, Nuvo recognized a $0.1 million payable to Crescita.

As a result of the restructuring of key management personnel, Nuvo and Crescita are no longer related parties as at December 31, 2016.

Key Management Compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors. Key management includes four executive officers and four non-employee directors. Compensation for the Company's key management personnel was as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
in thousands	**$**	$
Short-term wages, bonuses and benefits [(i)]	**1,772**	622
Share-based payments	**968**	(7)
Total key management compensation	**2,740**	615
Included in:		
Research and development expenses	**11**	1
General and administrative expenses	**2,729**	614
Total key management compensation	**2,740**	615

[(i)] For the year ended December 31, 2016, certain officers of the Company were assessed on the achievement of corporate objectives including: Pennsaid 2% out-licensing transactions. The Company expects the achievement of these targets to be determined during the first quarter of 2017.

Outstanding Share Data

The number of common shares outstanding as at December 31, 2016 was 11.5 million compared to 11.1 million as at December 31, 2015. The increase was due to the issuance of approximately 0.1 million shares for the settlement of warrants and 0.3 million shares for the settlement of DSUs, which was completed as part of the Reorganization.

As at December 31, 2016, there were 849,217 options outstanding of which 583,990 have vested.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

differences could be material. All significant accounting policies are disclosed in Note 3, "Summary of Significant Accounting Policies" of the Company's Consolidated Financial Statements for the year ended December 31, 2016.

Critical Accounting Estimates

Key areas of estimation or use of managerial assumptions are as follows:

(i) Discontinued Operations:
The Company's discontinued operations reflect Crescita on a combined carve-out basis as if it had always operated as a stand-alone entity. Prior to March 1, 2016, Nuvo paid certain costs for Crescita and performed certain activities on behalf of Crescita. As a result, the Company's discontinued operations include allocations of certain transactions reported in the accounts of Nuvo. These cost allocations have been determined on a basis considered by the Company to be a reasonable reflection of the utilization of services provided to Crescita. Compensation-related costs have been allocated using methodologies primarily based on proportionate time spent on Nuvo and Crescita's respective activities.

Management believes both the assumptions and allocations underlying the discontinued operations are reasonable. However, as a result of the combined carve-out methodology to determining the results of Crescita, the discontinued operations may not necessarily be indicative of the operating results and financial position that would have resulted had Crescita historically operated as a stand-alone entity.

(ii) Share-based Payments:
The Company measures the cost of share-based payments, either equity or cash-settled, with employees by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. In addition, cash-settled share-based payments are revalued to fair value at every reporting date.

Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of stock-based payments, such as incentive stock options and stock appreciation rights, the Company uses the Black-Scholes option pricing model.

Several assumptions are used in the underlying calculation of fair values of the Company's stock options and stock appreciation rights using the Black-Scholes option pricing model, including the expected life of the option, stock price volatility and forfeiture rates.

(iii) Revenue Recognition:
As is typical in the pharmaceutical industry, the Company's royalty streams are subject to a variety of deductions that are generally estimates and recorded in the same period that the revenues are recognized and primarily represent rebates, discounts and incentives and product returns. These deductions represent estimates of the related obligations. Amounts recorded for sales deductions can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions.

(iv) Impairment of Non-financial Assets:
The Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test on cash-generating units (CGUs) is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods, such as the discounted cash flow method, which requires numerous assumptions to estimate future cash flows. The recoverable amount is impacted significantly by the discount rate selected to be used in the discounted cash flow model, as well as the quantum and timing of expected future cash flows and the growth rate used for the extrapolation.

Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee that are

mandatory for fiscal periods beginning on or after January 1, 2015. The standards impacted that may be applicable to the Company are as follows:

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

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

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

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

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

Management's Responsibility for Financial Reporting

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

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

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

There were no material changes to the Company's ICFR that occurred during the year ended December 31, 2016.

Risk Factors

Prospects for companies in the biotechnology and pharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology and pharmaceutical companies should be regarded as speculative. R&D involves a high and significant degree of risk. An investor should carefully consider the risks and uncertainties described below, as well as other information contained in this MD&A, as well as broader risk factors discussed in the Company's AIF. The risks and uncertainties described below are not an exhaustive list. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business. If any one or more of the following risks occur, the Company's business, financial condition and results of operations could be seriously harmed. Further, if the Company fails to meet the expectations of the public market in any given period, the market price of the Company's common shares could decline. Before making an investment decision, each prospective investor should carefully consider the risk factors set out below and those included in the AIF and other public documents.

Economic Environment
Economic conditions may limit the Company's ability to access capital or may cause the Company's suppliers to increase their prices, reduce their output or change their terms of sale. If the Company's customers' or suppliers' operating and financial performance deteriorates or if they are unable to make scheduled payments or obtain credit, its customers may not be able to pay or may delay payment of accounts receivable owed and its suppliers may restrict credit or impose different payment terms. Any inability of customers to pay the Company for its products or any demands by suppliers for different payment terms, may adversely affect its earnings and cash flow.

The Company has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or the possibility of political unrest, legal and regulatory changes in jurisdictions in which the Company operates. These factors could negatively affect the Company's future results of operations in those markets.

Dependence on Sales and Marketing Partnerships
The Company has limited sales and marketing experience and lacks financial and other resources necessary to undertake marketing and advertising activities worldwide. Accordingly, the Company relies on marketing arrangements, including joint ventures, licensing or other third-party arrangements, to distribute its products in jurisdictions where it lacks the resources or expertise. The Company faces, and will continue to face, significant competition in seeking appropriate partners and distributors. Moreover, collaboration and distribution arrangements are complex and time consuming to negotiate, document and implement. Therefore, there can be no assurance that the Company will be able to find additional marketing and distribution partners in any jurisdiction or be able to enter into any marketing and distribution arrangements on any terms, acceptable or not. Moreover, there can be no assurance that its partners will dedicate the resources needed to successfully market and distribute the Company's products and maximize sales. In addition, under these arrangements, disputes may arise with respect to payments that the Company or its partners believe are due under such distribution or marketing arrangements, a partner or distributor may develop or distribute products that compete with the Company's products or they may terminate the relationship.

The Company has no influence in sales and marketing activities for Pennsaid and Pennsaid 2% in the markets in which they are currently available. Decisions impacting sales and marketing efforts are made by the Company's partners for their respective territories. If one of the Company's partners is unable to successfully sell or stops selling its respective product, for any reason, it could have an adverse effect on the Company's product sales and cash resources, as well as royalties earned in Canada.

The Company has licensed the rights for the HLT Patch to Galen for the U.S. and Eurocept for the E.U. and certain other territories and has no influence on sales and marketing activities for this product in the licensed territories.

The Company depends on all of its partners and licensees to comply with all government legislation and regulations relating to selling the Company's products in their respective territories. If any of the Company's partners do not comply, this could have a material impact on the cash flows of the Company.

Dependency on Horizon

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

In February, Horizon advised the Company that, it plans to draw down some of its existing inventory of commercial bottles of Pennsaid 2% and shift commercial bottle production from the second quarter to later in 2017. Horizon has asked that the Company pull forward into the second quarter some product sample orders planned for later in the year. These inventory adjustments are in response to the U.S. Federal Drug Supply Chain Act taking effect November 27, 2017 that requires all pharmaceutical drugs manufactured for the U.S. market to have individually serialized tracking and will have a negative impact on the Company's second quarter sales and earnings. While the Company expects that sales to Horizon will increase in the second half of the year as Horizon resumes its more typical ordering patterns, there can be no assurance that this will be the case. If sales to Horizon do not increase in the second half of the year, the negative impact on the Company's sales and earnings may be prolonged beyond the second quarter.

Generic Drug Manufacturers

Regulatory approval for competing generic drugs can be obtained without investing in the same level of costly and time-consuming clinical trials that the Company has conducted or might conduct in the future. Due to the substantially reduced development costs, generic drug manufacturers are often able to charge much lower prices for their products than the original developer. The Company faces competition from manufacturers of generic drugs on some of its products that are commercial, since a number of the Company's patents have expired, or if not yet expired, may be ignored by generic drug manufacturers who choose to launch their products "at risk" of a possible patent infringement lawsuit brought by the Company or its licensing partners. Generic competition may impact the prices at which the Company's products are sold, the royalty rates the Company receives and the volume of product sold which may substantially reduce the Company's overall revenues.

The Company's partner in Canada has launched an authorized generic version of Pennsaid to compete with the generic version of Pennsaid and protect market share. The Company earns revenue in the form of product sales to Paladin and a royalty on Canadian net sales of the generic. In February 2014, Taro Pharmaceutical Industries, Ltd. received approval in Canada for a generic version of Pennsaid which they launched in March 2014. This generic impacted the net sales that Paladin earns from Pennsaid, thereby reducing the Company's royalty income. There are currently four generic versions of Pennsaid approved in Canada, including the authorized generic and three have launched.

In the U.S., under the Hatch-Waxman Act, the FDA can approve an Abbreviated New Drug Application (ANDA) for a generic version of a branded drug or a variation of an existing branded drug, without undertaking the clinical testing necessary to obtain approval to market a new drug. This is referred to as the "ANDA process". In place of such clinical studies, an ANDA applicant usually needs to submit data and information demonstrating that its product has the same active ingredient(s) and is bioequivalent to the branded product, in addition to, for example, any data necessary to establish that any difference in inactive ingredients does not result in different safety or efficacy profiles, as compared to the reference drug. The

Hatch-Waxman Act, in addition to providing brand-name drug manufacturers with periods of marketing exclusivity, such as three-year "new clinical investigation" exclusivity, requires an applicant for a drug that relies, at least in part, on the FDA's findings of safety or effectiveness for a branded drug, to notify the sponsor of the branded drug of their application and potential infringement of any patents listed in the FDA Orange Book. Upon receipt of this notice, the sponsor of the branded drug has 45 days to bring a patent infringement suit in federal district court against the applicant seeking approval of a product covered by the patent. If such a suit is commenced and the ANDA was filed after the patent had been listed in the FDA Orange Book, then the FDA is generally prohibited from granting approval of the ANDA or Section 505(b)(2) NDA, a type of NDA that relies on information for which the applicant does not have a right of reference, until the earliest of 30 months from the date the FDA accepted the application for filing (the 30-Month Stay), or the conclusion of patent infringement litigation in the generic's favour or expiration of the patent. If an ANDA was filed before the patent had been listed in the FDA Orange Book, the 30-Month Stay does not apply and it is possible that the ANDA holder may launch its generic product "at risk" of patent infringement proceedings initiated by the innovator drug company. If the litigation is resolved in favour of the applicant or the challenged patent expires during the 30-month stay period, the stay is terminated and the FDA may thereafter approve the application based on the standards for approval of ANDAs and Section 505(b)(2) NDAs. Frequently, the unpredictable nature and significant costs of patent litigation leads the parties to settle out of court. Settlement agreements between branded companies and generic applicants may allow, among other things, a generic product to enter the market prior to the expiration of any or all of the applicable patents covering the branded product, either through the introduction of an authorized generic or by providing a license to the patents in suit.

In the U.S., Pennsaid 2% is protected by multiple patents listed in the FDA Orange Book (Pennsaid 2% Orange Book Patents) and has received 3-year exclusivity under the Hatch-Waxman Act. All of the intellectual property for Pennsaid 2% for the U.S. is owned by Horizon and it is their responsibility to litigate any claims against these patents from generic companies. It is our understanding that patent litigation is currently pending in the United States District Court for the District of New Jersey against several companies intending to market a generic version of Pennsaid 2% prior to the expiration of certain Pennsaid 2% Orange Book Patents. These cases involve the following sets of defendants: (i) Actavis Laboratories UT, Inc., formerly known as Watson Laboratories, Inc., Actavis, Inc. and Actavis plc; and (ii) Lupin Limited and Lupin Pharmaceuticals, Inc. In Horizon Pharma Ireland Limited, et al v. Actavis Laboratories UT, Inc., C.A. No. 14-cv-7992-NLH-AMD, a bench trial is scheduled to begin on March 21, 2017. No trial date has been set in any other pending Pennsaid 2% cases. The approval or launch of generic versions of Pennsaid 2% in the U.S. market could have an adverse effect on the Company's future revenue from product sales.

Obtaining Government and Regulatory Approvals

The research, testing, manufacturing, packaging, labeling, approval, storage, selling, marketing and distribution of drug products are subject to extensive regulation in the U.S. by the FDA, in Canada by the TPD and by similar regulatory authorities in the E.U., Japan and elsewhere, and regulations and requirements differ from country-to-country. Despite the time and expense exerted by the Company, failure can occur at any stage.

The process of completing a drug development program and obtaining regulatory approval for a drug can be long and may involve significant delays despite the Company's best efforts and can require substantial cash resources. Even after initial approval has been obtained, further research, including post-marketing studies, may be required to expand indications covered under the product approvals and labelling. Also, regulatory agencies require post-marketing surveillance programs to monitor side effects. Results of post-marketing programs may limit or expand additional marketing of the drug. Moreover, regulations are rigorous, time consuming and costly and the Company cannot predict the extent to which it may be affected by changes in regulatory developments and its ability to meet such regulations. There is also a risk that the Company's products may be withdrawn from the market and the required approvals suspended as a result of non-compliance with regulatory requirements.

Furthermore, there can be no assurance that the regulators will not require modification to any submissions, which may result in delays or failure to obtain regulatory approvals. Any delay or failure to obtain regulatory approvals could adversely affect the Company's business, financial condition and operational results. Further, there can be no assurance that the Company's products will prove to be safe and effective in clinical trials or receive the requisite regulatory approval in any market.

In addition to the regulatory product approval framework, pharmaceutical companies are subject to a number of other regulations covering occupational safety, laboratory practices, environmental protection and hazardous substance control. They may also be subject to existing and future local, provincial, state, federal and foreign regulation, including possible future regulation of the overall industry.

Failure to obtain necessary regulatory approvals, the restriction, suspension or revocation of existing approvals or any other failure to comply with regulatory requirements, could have a material adverse effect on the Company's business, financial condition and operational results.

United States Regulation

The FDA has substantial discretion in the drug approval process. The FDA may delay, limit or deny approval of a drug candidate for many reasons including:

- a drug candidate may not be deemed safe or effective;
- the FDA may find the data from preclinical studies, CMC and clinical trials insufficient;
- the FDA may change its approval policies or adopt new regulations; or
- third-party products may enter the market and change approval requirements.

Even once drug candidates are approved, these approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. The FDA may require further testing and surveillance programs to monitor the pharmaceutical product that has been commercialized. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product seizures, injunction actions and criminal prosecutions.

The process of receiving FDA approval has become more difficult with the requirement to submit a Risk Evaluation and Mitigation Strategy (REMS) as part of the drug application for certain classes of drugs and some individual drug products. In addition, the FDA may require REMS after approving a covered application, including applications approved before the REMS program was initiated.

In addition, the FDA has the authority to regulate the claims the Company's partners make in marketing its prescription drug products to ensure that such claims are true, not misleading, supported by scientific evidence and consistent with the product's approved labelling. Failure to comply with FDA requirements in this regard could result in, among other things, suspensions or withdrawal of approvals, product seizures and injunctions against the manufacture, holding, distribution, marketing and sale of a product, civil and criminal sanctions.

Canada Regulation

The TPD may deny issuance of a NOC for an NDS if applicable regulatory criteria are not satisfied or may require additional testing. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. The TPD may require further testing and surveillance programs to monitor a pharmaceutical product which has been commercialized. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product seizures, injunction actions and criminal prosecutions.

Additional Regulatory Considerations

There is no assurance that problems will not arise that could delay or prevent the commercialization of the Company's products currently under development or that the TPD, FDA or other foreign regulatory agencies will be satisfied with the information submitted by the Company, including results of clinical trials, to approve the marketing of such products. In addition to the regulatory approval process, pharmaceutical companies are subject to regulations under local, provincial, state and federal law, including requirements regarding occupational safety, laboratory practices, environmental protection and hazardous substance control and may be subject to other present and future local, provincial, state, federal and foreign regulations, including possible future regulations of the pharmaceutical industry. The Company cannot predict the time required for regulatory approval or the extent of clinical testing and documentation that is required by regulatory authorities. Any delays in obtaining, or failure to obtain regulatory approvals in Canada, the U.S., the E.U. or other foreign countries, would significantly delay the development of the Company's markets and the receipt of revenues from the sale of its products.

Changes in Government Regulation
The business of the Company may be adversely affected by such factors as changes in the regulatory environment with respect to intellectual property, regulation, export controls, import controls, tariffs and taxes or product marketing approvals. Such changes remain beyond the Company's control and have an unpredictable impact.

Risks Related to Unexpected Product Safety or Efficacy Concerns
Unexpected safety or efficacy concerns can arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales, as well as potential product liability, consumer fraud or other claims. Any of such occurrences could have a material adverse effect on the Company's business, financial condition and results of operations.

Manufacturing and Supply Risks
The Company purchases key raw materials necessary for the manufacture of its products and finished products from a limited number of suppliers around the world and in some cases relies on its licensing partners to manufacture its products.

In the case of Pennsaid and Pennsaid 2%, the Company has a supply agreement with a single supplier based in the U.S. to purchase all of the Company's requirements for pharmaceutical grade DMSO (one of the key ingredients in Pennsaid and Pennsaid 2%) until December 31, 2022 using the supplier's patented process. It may be difficult to find another manufacturer if the supplier is unable to supply the Company with a sufficient amount of DMSO or if the Company is forced for any other reason to find another supplier. It could take another supplier a significant period of time to develop and certify the necessary processes to manufacture the product on terms acceptable to the Company or the related regulatory authority. There may not be suppliers who are able to meet the Company's volume or quality requirements at a price that is as favourable as the current supplier. Any operating, production or quality problems experienced by these suppliers that result in a reduction or interruption in supply could significantly delay the manufacture and sale of the Company's products.

If the relationships with any of the single-sourced suppliers is discontinued or if any manufacturer is unable to supply or produce required quantities of product on a timely basis, or at all, or if a supplier ceases production of an ingredient or component, the operations would be negatively impacted and the business would be harmed.

For the HLT Patch, Galen and Eurocept are responsible for manufacturing the patch and both rely on the same CMO in the U.S. The Company does and will depend on Galen and Eurocept to ensure the CMO remains a qualified supplier of the product for all global markets and will have limited ability, if any, to control the manufacturing process. The HLT Patch also contains the active drugs lidocaine and tetracaine and in the past, the form of tetracaine used in the product has, at times, been difficult to procure. The Company is reliant on Galen and Eurocept to ensure that the CMO maintains the facility at which it manufactures the HLT Patch in compliance with FDA, EMA, state and local regulations and other regulatory agencies. If the CMO fails to maintain compliance with FDA, EMA or other critical regulations, they could be ordered to cease manufacturing which would have a material adverse impact on the Company's business, results of operations, financial condition and cash flows. In addition to FDA regulations, violation of standards enforced by the United States Environmental Protection Agency, the Occupational Safety and Health Administration, and their counterpart agencies at the state level, could slow down or curtail operations of the CMO.

In addition, the FDA and other regulatory agencies require that raw material manufacturers comply with all applicable regulations and standards pertaining to the manufacture, control, testing and use of the raw materials as appropriate. For the Active API or critical raw materials depending on the drug product, this means compliance to current GMPs for APIs and submission of all data related to the manufacture, control and testing of the API for quality, purity, identity and stability, as well as a complete description of the process, equipment, controls and standards used for the production of the API. This is usually submitted to the FDA in the form of a Drug Master File (DMF) by the manufacturer and referenced by the sponsor of the NDA. The DMF information and data is reviewed by the FDA as a critical component of the approvability of the NDA.

As a result, in the case where only one supplier of a particular API or critical raw material meets all of the FDA's (or other regulatory agencies) requirements and has a DMF (or similar filing) on file with the FDA, the Company is at risk should a supplier violate GMP, fail an FDA inspection, terminate access to its DMF, be unable to manufacture product, choose not to supply the Company or decide to increase prices. For DMSO and tetracaine, the Company has only one approved supplier for all jurisdictions in which Pennsaid and the HLT Patch has been approved. For Pennsaid and Pennsaid 2%'s API, diclofenac sodium, the Company has two approved suppliers for Canada, the E.U. and the U.S. For some of the Company's other raw materials required to manufacture Pennsaid and the bulk substance for the HLT Patch, the Company currently has only one approved supplier.

In addition, the Company could be subject to various import duties applicable to both finished products and raw materials and it may be affected by other import and export restrictions, as well as developments with an impact on international trade. Under certain circumstances, these international trade factors could affect manufacturing costs, which will in turn, affect the Company's margins, as well as the wholesale and retail prices of manufactured products.

The Company's current internal manufacturing capabilities are limited to its site in Varennes, Québec, which is the sole manufacturing site of Pennsaid, Pennsaid 2% and the bulk drug product for the HLT Patch for all markets. The Company has never achieved capacity in this facility. This exposes the Company to the following risks, any of which could delay or prevent the commercialization of its products, result in higher costs or deprive it of potential product revenues:

- The Company may encounter difficulties in achieving volume production, quality control and quality assurance, as well as relating to shortages of qualified personnel. Accordingly, the Company might not be able to manufacture sufficient quantities to meet its clinical trial needs or to commercialize its products;
- The Company's manufacturing facilities are required to undergo satisfactory current GMP inspections prior to regulatory approval and are obliged to operate in accordance with FDA, E.U. and other nationally mandated GMP, which govern manufacturing processes, stability testing, record keeping and quality standards. Failure to establish and follow GMPs and to document adherence to such practices, may lead to significant delays in the availability of material for clinical studies and may delay or prevent filing or approval of marketing applications for the Company's products; and
- Changing manufacturing locations would be difficult and the number of potential manufacturers is limited. Changing manufacturers generally requires re-validation of the manufacturing processes and procedures in accordance with FDA, E.U. and other nationally mandated GMPs. Such re-validation may be costly and would be time consuming. It would be difficult or impossible to quickly find replacement manufacturers on acceptable terms, if at all.

The Company's manufacturing facilities are subject to ongoing periodic unannounced inspection by the FDA and corresponding agencies, including E.U. and Canadian agencies, and may be subject to inspection by local, state, provincial and federal authorities from various jurisdictions to ensure strict compliance with GMPs and other government regulations. Failure by the Company to comply with applicable regulations could result in sanctions being imposed on it, including fines, injunctions, civil penalties, failure of the government to grant review of submissions or market approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of product, operating restrictions, facility closures and criminal prosecutions, any of which could materially adversely affect the Company's business.

The Company may encounter manufacturing failures that could impede or delay commercial production of its products. Any failure in the Company's manufacturing operations could cause the Company to be unable to meet the demand for its products and lose potential revenue and harm its reputation. The Company's manufacturing operations may encounter difficulties involving, among other things, production yields, regulatory compliance, quality control and quality assurance and shortages of qualified personnel.

Impact of demand fluctuations outside our ability to control or influence
In general, the Company's marketing partners are required to provide 12 to 24-month rolling forecasts of their demand on a quarterly basis, and are also required to place firm purchase orders based on the near-term portion of those forecasts. If wholesaler or market demand for these products is lower than forecasted, the Company's marketing partners or their wholesaler customers may accumulate excess inventory. If such conditions persist, the Company's marketing partners may sharply reduce subsequent purchase orders for a sustained period of time until such excess inventory is consumed, if ever. Significant and unplanned reductions in our manufacturing orders have occurred in the past and the Company's results of operations were adversely affected. If such reductions occur again in the future, the Company's revenues will be negatively impacted, economies of scale will be lost, and revenues may be insufficient to fully absorb overhead costs, which could result in net losses. Conversely, if the Company's marketing partners promote significantly increased demand, the Company may not be able to manufacture such unplanned increases in a timely manner, especially following prolonged periods of reduced demand. As the Company has no control over these factors, purchase orders could fluctuate significantly from quarter-to-quarter, and the results of operations could fluctuate accordingly.

Impact of natural disasters or other events that disrupt our business operations
Nuvo's manufacturing facilities are located in Varennes, Québec, where natural disasters or similar events, like blizzards, fires or explosions or large-scale accidents or power outages, could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects. If a disaster, power outage or other event occurred that prevented Nuvo from using all or a significant portion this facility, that damaged critical infrastructure or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for Nuvo to continue our business for a substantial period of time.

Patents, Trademarks and Proprietary Technology
There can be no assurance as to the breadth or degree of protection that existing or future patents or patent applications may afford the Company or that any patent applications will result in issued patents or that the Company's patents or trademarks will be upheld if challenged. It is possible that the Company's existing patent or trademark rights may be deemed invalid. Although the Company believes that its products do not, and will not, infringe valid patents or trademarks or violate the proprietary rights of others, it is possible that use, sale or manufacture of its products may infringe on existing or future patents, trademarks or proprietary rights of others. If the Company's products infringe the patents or proprietary rights of others, the Company may be required to stop selling or making its products, may be required to modify or rename its products or may have to obtain licenses to continue using, making or selling them. There can be no assurance that the Company will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. The failure to do any of the foregoing could have a material adverse effect upon the Company. In addition, there can be no assurance that the Company will have sufficient financial or other resources to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if the Company's products infringe patents, trademarks or proprietary rights of others, the Company could, under certain circumstances, become liable for substantial damages which could also have a material adverse effect.
Regardless of the validity of the Company's patents, there can be no assurance that others will be unable to obtain patents or develop competitive non-infringing products or processes that permit such parties to compete with the Company. The Company may not be able to protect its intellectual property rights throughout the world as filing, prosecuting and defending patents and trademarks on all of the Company's product candidates, products and product names, when and if they exist, in every jurisdiction would be prohibitively expensive and can take several years. Competitors may manufacture, sell or use the Company's technologies and use its trademarks in jurisdictions where the Company or its partners have not obtained patent and trademark protection. These products may compete with the Company's products, when and if it has any, and may not be covered by any of its or its partners' patent claims or other intellectual property rights.

The laws of some countries do not protect intellectual property rights to the same extent as the laws of Canada and the U.S. and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favour the enforcement of patents, trademarks and other intellectual property protection, particularly those protections relating to biotechnology and pharmaceuticals, which could make it difficult for the Company to stop the infringement of its patents. Proceedings to enforce patent rights in

foreign jurisdictions could result in substantial cost and divert efforts and attention from other aspects of the business.

The discovery, trial and appeals process in patent litigation can take several years. Should the Company commence a lawsuit against a third party for patent infringement or should there be a lawsuit commenced against the Company with respect to the validity of its patents or any alleged patent infringement by the Company, the cost of such litigation, as well as the ultimate outcome of such litigation, if commenced, whether or not the Company is successful, could have a material adverse effect on its business, results of operations, financial condition and cash flows.

Inability to Achieve Drug Development Goals within Expected Time Frames

From time-to-time, the Company sets targets and makes public statements regarding its expected timing for achieving drug development goals. These include targets for the commencement and completion of preclinical and clinical trials, studies and tests and anticipated regulatory filing and approval dates. These targets are set based on a number of assumptions that may not prove to be accurate. The actual timing of these forward-looking events can vary dramatically from the Company's estimates or they might not be achieved at all, due to factors such as delays or failures in clinical trials or preclinical work, scheduling changes at CROs, the need to develop additional data required by regulators as a condition of approval, the uncertainties inherent in the regulatory approval process, delays in achieving manufacturing or marketing arrangements necessary to commercialize product candidates and limitations on the funds available to the Company. If the Company does not meet these targets, including those which are publicly announced, the ultimate commercialization of its products may be delayed and, as a result, its business could be harmed.

Also, there can be no assurance that such trials and studies will be sufficient for regulatory authorities or that the required regulatory approvals will be obtained.

Uncertainty of Drug Research and Development

There can be no assurance that any of the Company's product candidates will be successfully developed in a timely manner or that they will prove to be more effective than products based on existing or new technologies or that a sufficient number of medical professionals will recommend their use. The risk that a product candidate may fail clinical trials, the Company may be unable to successfully complete development or a decision for financial or other reasons to halt development of any product candidate, particularly in instances where significant capital expenditures have already been made, could have a material adverse effect on the Company.

There can be no assurance that preclinical or clinical testing of the Company's product candidates will yield sufficiently positive results to enable progress toward commercialization and any such trials will take significant time to complete. Unsatisfactory results may prompt the Company to reduce or abandon future testing or commercialization of particular product candidates and this may have a material adverse effect on the Company.

Due to the inherent risk associated with R&D efforts in the pharmaceutical industry, particularly with respect to new drugs, the Company's R&D expenditures may not result in the successful introduction of government approved new pharmaceutical products. Also, after submitting a drug candidate for regulatory approval, the regulatory authority may require additional studies, and as a result, the Company may be unable to reasonably predict the total R&D costs to develop a particular product.

Risk Related to Clinical Trials

The Company and its drug development partners must demonstrate, through preclinical studies and clinical trials, that the product being developed is safe and efficacious before obtaining regulatory approval for the commercial sale of such product. The results of preclinical studies and previous clinical trials are not necessarily predictive of future results and the Company's current product candidates may not have favourable results in later testing or trials. Preclinical tests and Phase 1 and Phase 2 clinical trials are primarily designed to test safety, to study PK and pharmacodynamics and to understand the side effects of products at various doses and schedules. Success in preclinical or animal studies and early clinical trials does not ensure that later large-scale efficacy trials will be successful and such success is not necessarily predictive of final results. Favourable results in early trials may not be repeated in later trials and positive

interim results do not ensure success in final results. Even after the completion of Phase 3 clinical trials, the FDA, TPD, EMA or other regulatory authorities may disagree with the clinical trial design and interpretation of data and may require additional clinical trials to demonstrate the efficacy of product candidates.

A number of companies in the biotechnology and pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials and preclinical studies. The Company suffered a similar setback with the results of its 2015 Pennsaid 2% Trial. In many cases where clinical results were not favourable, were perceived negatively or otherwise did not meet expectations, the share prices of these companies declined significantly. Failure to complete clinical trials successfully and to obtain successful results on a timely basis could have an adverse effect on the Company's future business and its common share price.

Reliance on Third Parties to Conduct Clinical and Preclinical Studies

The Company and its drug development partners rely on third parties such as CROs, medical institutions and clinical investigators to enroll qualified patients, conduct, supervise and monitor its clinical trials, conduct preclinical studies and complete CMC work. The reliance on these third parties for clinical development activities reduces its control over these activities. The reliance on these third parties; however, does not relieve the Company or its drug development partners of their regulatory responsibilities, including ensuring that its clinical trials are conducted in accordance with GCPs and that its preclinical studies are conducted in accordance with GLPs. Furthermore, these third parties may have relationships with other entities, some of which may be competitors. In addition, they may not complete activities on schedule or may not conduct preclinical studies or clinical trials in accordance with regulatory requirements or the Company's trial design. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Company's ability to obtain regulatory approvals for product candidates may be delayed or prevented.

Competition

The pharmaceutical industry is characterized by evolving technology and intense competition. The Company is engaged in areas of research where developments are expected to continue at a rapid pace. Many companies, including major pharmaceutical and specialized biotechnology companies, are engaged in activities focused on medical conditions that are the same as or similar to those targeted by the Company. The Company's success depends upon maintaining its competitive position in the R&D and commercialization of its products. Competition from pharmaceutical, chemical and biotechnology companies, as well as universities and research institutes, is intense and is expected to increase. Many of these organizations have substantially greater R&D, experience in manufacturing, marketing, financial and managerial resources and they represent significant competition. If the Company fails to compete successfully in any of these areas, its business, results of operations, financial condition and cash flows could be adversely affected.

The intensely competitive environment of the branded products business requires an ongoing, extensive search for medical and technological innovations and the ability to market products effectively, including the ability to communicate the effectiveness, safety and value of branded products for their intended uses to healthcare professionals in private practice, group practices and managed care organizations. There can be no assurance that the Company and its drug development partners will be able to successfully develop medical or technological innovations or that the Company and its licensing partners will be able to effectively market the Company's existing products or any future products.

The Company's branded products may face competition from generic versions. Generic versions are generally significantly cheaper than the branded version, and, where available, may be required or encouraged in preference to the branded version under third-party reimbursement programs or substituted by pharmacies for branded versions by law. The entrance of generic competition to the Company's branded products generally reduces the market share and adversely affects the Company's profitability and cash flows. Generic competition with the Company's branded products would be expected to have a material adverse effect on net sales and profitability of the branded product and of the Company.

Additionally, the Company competes to acquire the intellectual property assets that are required to continue to broaden its product portfolio. The Company seeks to acquire rights to new intellectual property through

corporate acquisitions, asset acquisitions, licensing and joint venture arrangements. Competitors with greater resources may acquire assets that the Company seeks, and even if the Company is successful, competition may increase the acquisition price of such assets. If the Company fails to compete successfully, its growth may be limited.

Competition for Pennsaid and Pennsaid 2%

Several major pharmaceutical companies have developed oral COX-2 selective NSAIDs designed to reduce gastrointestinal side effects associated with other types of NSAIDs. Many of these products have been taken off the market or drug development has stopped in response to safety concerns. Those that remain represent competition for market share. While the Company believes that topical administration gives Pennsaid and Pennsaid 2% a better safety profile than all oral NSAIDs, including those with PPIs and COX-2 selective medications, it may be subject to regulations and regulatory decisions of governing bodies, such as the FDA in the U.S., including label warnings that apply to NSAIDs generally.

Pennsaid 2% faces competition in the U.S. from at least two other topically applied diclofenac drug products available by prescription that were approved for marketing by the FDA, as well as numerous OTC products. The FLECTOR Patch, which contains the NSAID diclofenac epolamine was approved by the FDA for the topical treatment of acute pain due to minor strains, sprains and contusions and is marketed by Pfizer Inc. The second drug product, GSK's Voltaren Gel which contains the NSAID diclofenac sodium was approved by the FDA for the relief of the pain of OA of joints amenable to topical treatment, such as the knees and those of the hand and is marketed by Endo Pharmaceuticals Inc. Both of these topical products have achieved respectable sales levels and they provide significant competition for market share. If patients and practitioners believe these competing products provide pain relief, it may be difficult for our partner to convince them to use Pennsaid 2%. Conversely, if they do not believe that they provide pain relief, this may create a perception that all topically applied products have similar efficacy, making it more difficult to convince physicians and their patients of the value of Pennsaid 2%.

In Canada, there are four generic versions of Pennsaid approved in the market. The first generic was launched in 2014. In addition, our partner launched an authorized generic to protect market share. The launch of these generic versions of Pennsaid had an adverse impact on the Company's revenue from Canada. A topical diclofenac product, GSK's Voltaren Emulgel (1.16% w/w diclofenac diethylamine) has been available in Canada as an OTC since October 2008. In August 2014, Voltaren Emulgel Extra Strength (2.32% w/w diclofenac diethylamine) was approved in Canada as an OTC product and was launched by GSK in October 2014. In the E.U., several major pharmaceutical companies market oral and topical NSAIDs that compete against Pennsaid in countries where it is marketed.

In addition to recently approved products, there may be other companies that are developing topical NSAID products for the U.S. and other markets that may present additional competition in the future. Like Pennsaid and Pennsaid 2%, these drugs may be efficacious yet reduce the incidence of some of the side effects associated with oral NSAIDs.

The impact of competitive branded products and generic products could have a significant adverse effect on Pennsaid 2% product sales in the U.S. market, as well as the resulting level of royalties earned and product sales in Canada from Pennsaid sales.

Competition for the HLT Patch

The HLT Patch faces competition in all markets from other topically applied local anaesthetic drug products such as compounded anaesthetic creams that are available from certain pharmacies, EMLA Cream (a eutectic mixture of lidocaine 2.5% and prilocaine 2.5%), and L.M.X 4 and L.M.X.5 Anorectal Creams that are available OTC.

Products May Fail to Achieve Market Acceptance

Any products successfully developed by the Company may not achieve market acceptance and, as a result, may not generate significant revenues. Market acceptance of the Company's products by physicians or patients will depend on a number of factors, including:

- availability, cost and effectiveness of products when compared to competing products and alternative treatments;
- relative convenience and ease of administration;

- the prevalence and severity of any adverse side effects;
- the acceptance of competing products;
- pricing, which may be subject to regulatory control;
- effectiveness of marketing and distribution partners' sales and marketing strategies; and
- the ability to obtain sufficient third-party insurance coverage or reimbursement.

If any product commercialized by the Company does not provide a treatment regimen that is as beneficial as the current standard of care or otherwise does not provide patient benefit, there is the potential that it will not achieve market acceptance. This may result in a shortfall in revenues and an inability to achieve or maintain profitability.

Publications of Negative Study or Clinical Trial Results

The publication of negative results of studies or clinical trials related to the Company's products, or the therapeutic areas in which its products compete, may adversely affect sales, the prescription trends for the products, the reputation of the products and the price of the Company's common shares. From time-to-time, studies or clinical trials on various aspects of pharmaceutical products are conducted by the Company, academics or others, including government agencies. The results of these studies or trials, when published, may have a dramatic effect on the market for the pharmaceutical product that is the subject of the study. In the event of the publication of negative results of studies or clinical trials related to the Company's marketed products or the therapeutic areas in which these products compete, the business, financial condition, results of operations and cash flows of the Company may be adversely affected.

Reimbursement and Product Pricing

There can be no assurance that Pennsaid, Pennsaid 2% or the HLT Patch will be successfully commercialized in current markets or that the additional regulatory approvals necessary to commercialize Pennsaid, Pennsaid 2% and the HLT Patch in markets where they are not currently approved will be obtained.

In Canada, private health coverage insurers have generally approved reimbursement of Pennsaid costs, but government health authorities have not approved such reimbursement. Obtaining reimbursement approval for a product from each government or other third-party payer is a time consuming and costly process that could require the Company to provide supporting scientific, clinical and cost effectiveness data for the use of its products to each payer. In certain territories, this process is the responsibility of the licensee and the Company will have little financial impact from this process except to the extent the licensees are forced to provide significant discounts or rebates which would affect the level of net sales of the product and reduce the amount of royalties the Company earns. The Company may not have or be able to provide data sufficient to gain acceptance with respect to reimbursement. Even when a payer determines that a product is eligible for reimbursement, they may impose coverage limitations that preclude payment for some approved uses or that full reimbursement may not be available for the Company's products.

Furthermore, even after approval for reimbursement for the Company's products is obtained from private health coverage insurers or government health authorities, it may be removed at any time. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products and there can be no assurance that third-party coverage will be sufficient to give the Company an appropriate return on its investment in developing existing or new products. Increasingly, government and other third-party payers are attempting to contain expenditures for new therapeutic products by limiting or refusing coverage, limiting reimbursement levels, imposing high co-pays, requiring prior authorizations and implementing other measures. Inadequate coverage or reimbursement could adversely affect market acceptance of the Company's products. Third-party payers increasingly challenge the pricing of pharmaceutical products. Moreover, the trend toward managed healthcare in the U.S., the growth of organizations such as health maintenance organizations and reforms to healthcare and government insurance programs, could significantly influence the purchase of healthcare services and products, resulting in lower prices and reduced demand for the Company's products.

In the U.S., each third-party payer plan is organized into tiers and the number of tiers will vary. Each tier represents a different reimbursement level. There is no guarantee that the Company's products will be reimbursed even at tiers where the reimbursement amounts are minimal.

In some countries, particularly the countries of the E.U., the pricing of prescription pharmaceuticals is subject to government control. In these countries, pricing negotiations with governmental authorities can take considerable time and delay the introduction of a product to the market. To obtain reimbursement or pricing approval in some countries, the Company may be required to conduct a clinical trial that compares the cost effectiveness of its product candidate to other available therapies. If reimbursement of the Company's product is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, its business could be adversely affected. In addition, any country could pass legislation or change regulations affecting the pricing of pharmaceuticals before or after a regulatory agency approves any of its product candidates for marketing in ways that could adversely affect the Company. While the Company cannot predict the likelihood of any legislative or regulatory changes, if any government or regulatory agency adopts new legislation or new regulations, the Company's business could be harmed.

Potential Product Liability

The Company may be subject to product liability claims associated with the use of its products either after their approval or during clinical trials and there can be no assurance that liability insurance will continue to be available on commercially reasonable terms or at all. Product liability claims might also exceed the amounts or fall outside of such coverage. Product liability claims against the Company, regardless of their merit or potential outcome, could be costly and divert management's attention from other business matters or adversely affect its reputation and the demand for its products.

In addition, certain drug retailers and distributors require minimum liability insurance as a condition of purchasing or accepting products for retail or wholesale distribution. Failure to satisfy such insurance requirements could impede the ability of the Company or its potential partners in achieving broad retail distribution of its products, resulting in a material adverse effect on the Company.

There can be no assurance that a product liability claim or series of claims brought against the Company would not have a material adverse effect on its business, financial condition, results of operations and cash flows. If any claim is brought against the Company, regardless of the success or failure of the claim, there can be no assurance that the Company will be able to obtain or maintain product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities or the cost of a recall.

Quarterly Fluctuations

The Company's quarterly and annual operating results are likely to fluctuate in the future. These fluctuations could cause the Company's stock price to decline. The nature of the Company's business involves variable factors, such as the timing of launch and market acceptance of the Company's products, the timing and costs associated with the research, development and regulatory submissions of the Company's products in development, the costs of maintaining manufacturing facilities operating below capacity and the costs associated with public company and other regulatory compliance. As a result, in some future quarters or years, the Company's clinical, financial or operating results may not meet the expectations of securities analysts and investors which could result in a decline in the price of Nuvo's stock.

Acquisition and Integration of Complementary Technologies or Businesses

The Company may pursue product or business acquisitions that could complement or expand its business. However, it may not be able to identify appropriate acquisition candidates in the future. If an acquisition candidate is identified, the Company may not be able to successfully negotiate the terms of any such acquisition or finance such acquisition. Any such acquisition could result in unanticipated costs or liabilities, diversion of management's attention from the core business, the expenditure of resources and the potential loss of key employees, particularly those of the acquired organizations. In addition, the Company may not be able to successfully integrate any businesses, products, technologies or personnel that it might acquire in the future, which may harm its business.

To the extent the Company issues common shares or other rights to finance any acquisition, existing shareholders may be diluted. In connection with an acquisition, the Company may acquire goodwill and other long-lived assets that are subject to impairment tests, which could result in future impairment charges.

Inability to Achieve Expected Savings from Restructurings
The Company may, from time-to-time, seek to restructure its operations, which may require it to incur restructuring charges and it may not be able to achieve the level of benefits that it expects to realize from any restructuring activities or it may not be able to realize these benefits within the expected time frames. Furthermore, upon the closure of any facilities in connection with restructuring efforts, the Company may not be able to divest such facilities at a fair price or in a timely manner. Changes in the amount, timing and nature of charges related to restructurings and the failure to complete or a substantial delay in completing any restructuring plan could have a material adverse effect on the Company's business.

Losses Due to Foreign Currency Fluctuations
The Company anticipates that the majority of the revenue from commercialization of its product candidates may be in currencies other than Canadian dollars. Fluctuation in the exchange rate of the Canadian dollar relative to these other currencies could result in the Company realizing a lower profit margin on sales of its product candidates than anticipated at the time of entering into such commercial agreements. Adverse movements in exchange rates could have a material adverse effect on the Company's financial condition and results of operations.

Taxes
Significant judgment is required in determining the Company's provision for income taxes and claims for investment tax credits (ITCs) related to qualifying Scientific Research and Experimental Development (SR&ED) expenditures in Canada. Various internal and external factors may have favourable or unfavourable effects on future provisions for income taxes and the Company's effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, results of audits by tax authorities, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, future levels of R&D spending and changes in overall levels of income before taxes. Furthermore, new accounting pronouncements or new interpretation of existing accounting pronouncements can have a material impact on the Company's effective income tax rate.

Prior to the Reorganization, the Company was a multinational corporation with global operations. As such, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments, the U.S. and many international jurisdictions, including transfer pricing laws and regulations between many of these jurisdictions.

The Company could be impacted by certain tax treatments for various revenue streams in different tax jurisdictions. The Company was subject to withholding taxes on certain of its revenue streams. The withholding tax rates that were used were based on the interpretation of specific tax acts and related treaties. If a tax authority has a different interpretation from the Company's, it could potentially impose additional taxes, penalties or fines. This would potentially reduce the amounts of revenue ultimately received by the Company.

The Company, from time-to-time, has executed multiple reorganization transactions impacting its tax structure. If a tax authority has a different interpretation from the Company's, it could potentially impose additional taxes, penalties or fines.

Volatility of Share Price
Market prices for pharmaceutical related securities, including those of the Company, have been historically volatile and subject to substantial fluctuations. The stock market, from time-to-time, experiences significant price and volume fluctuations unrelated to the operating performance of particular companies. Future announcements concerning the Company or its competitors, including the results of testing, technological innovations, new commercial products, marketing arrangements, government regulations, developments concerning regulatory actions affecting the Company's products and its competitors' products in any jurisdiction, developments concerning proprietary rights, litigation, additions or departures of key personnel, cash flow, public concerns about the safety of the Company's products and economic conditions and political factors in the U.S., E.U., Canada or other regions may have a significant impact on the market price of the common shares. In addition, there can be no assurance that the common shares will continue to be listed on the TSX.

The market price of the Company's common shares could fluctuate significantly for many other reasons, including for reasons unrelated to our specific performance, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. For example, to the extent that other companies within our industry experience declines in their stock price, the share price of the Company's common shares may decline as well. In addition, when the market price of a company's shares drops significantly, shareholders may institute securities class action lawsuits against the company. A lawsuit against the Company could result in substantial costs and could divert the time and attention of the Company's management and other resources.

Ability to Have Access to Additional Financing and Capital and Dilution

The Company may consider issuing debt or equity securities in the future to fund potential acquisitions or for general corporate purposes. If the Company raises additional funding or completes an acquisition or merger by issuing additional equity securities, such issuance may substantially dilute the interests of shareholders of the Company and reduce the value of their investment. The market price of the Company's common shares could decline as a result of issuances of new shares or sales by existing shareholders of common shares in the market or the perception that such sales could occur. Sales by shareholders might also make it more difficult for the Company itself to sell equity securities at a time and price that it deems appropriate. If the Company incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring the Company to pay interest expenses. The Company may not be able to market such issuances on favourable terms, or at all, in which case, the Company may not be able to execute its business plan.

Active Trading Market for Common Shares

The Company's common shares are listed for trading on the TSX. There can be no assurance that an active trading market in the Company's common shares on the TSX will be sustained.

Securities Industry Analyst Research Reports

The trading market for the Company's common stock is influenced by the research and reports that industry or securities analysts publish about the Company or any of its partners. If covered, a decision by an analyst to cease coverage of the Company or failure to regularly publish reports on the Company, could cause the Company to lose visibility in the financial markets, which in turn could cause the stock price or trading volume to decline. Moreover, if an analyst who covers the Company or any of its partners downgrades its, or its partner's stock or if operating results do not meet analysts' expectations, the stock price could decline. Currently, to the Company's knowledge, there are two analysts that publish research reports about the Company. The Company and its products have also been discussed in analyst research reports published about its partners and competitors.

Compliance with Laws and Regulations Affecting Public Companies

Any future changes to the laws and regulations affecting public companies, compliance with existing provisions of Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings of the Canadian Securities Administrators and the other applicable Canadian securities laws and regulation and related rules and policies, may cause the Company to incur increased costs as it evaluates the implications of new rules and implements any new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

Any new laws and regulations may make it more expensive for the Company to provide indemnities to the Company's officers and directors and may make it more difficult to obtain certain types of insurance, including liability insurance for directors and officers. Accordingly, the Company may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for the Company to attract and retain qualified persons to serve on its Board of Directors or as executive officers. The Company may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which could cause general and administrative costs to increase beyond what the Company currently has planned. The Company is continuously evaluating and monitoring developments with respect to these laws, rules and regulations and it cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs.

The Company is required annually to review and report on the effectiveness of its internal control over financial reporting in accordance with Multilateral Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* of the Canadian Securities Administrators. The results of this review are reported in the Company's Annual Report and in its Management's Discussion and Analysis of Results of Operations and Financial Condition. The Company's Chief Executive Officer and Chief Financial Officer are required to report on the effectiveness of the Company's internal control over financial reporting.

Management's review is designed to provide reasonable assurance, not absolute assurance, that all material weaknesses existing within the Company's internal controls are identified. Material weaknesses represent deficiencies existing in the Company's internal controls that may not prevent or detect a misstatement occurring which could have a material adverse effect on the quarterly or annual financial statements of the Company. In addition, management cannot provide assurance that the remedial actions being taken by the Company to address any material weaknesses identified will be successful, nor can management provide assurance that no further material weaknesses will be identified within its internal controls over financial reporting in future years.

If the Company fails to maintain effective internal controls over its financial reporting, there is the possibility of errors or omissions occurring or misrepresentations in the Company's disclosures which could have a material adverse effect on the Company's business, its financial statements and the value of the Company's common shares.

Additional Risks

Additional risks that could materially adversely affect the Company's business or an investment in the common shares include, but are not limited to:

- Ability to protect know how and trade secrets
- Patient enrolment may not be adequate for current trials or future clinical trials
- Rapid technological change could make products or drug delivery technology obsolete
- Prolonged development time
- Hazardous materials and environmental
- Security and Cyber Security Breaches
- Accumulated deficit
- Personnel
- Information technology infrastructure
- Litigation and regulation
- Issue of preferred shares
- Absence of dividends
- Shareholders' rights plan
- Public company requirements may strain resources
- Management of growth

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.

Management's Report

The accompanying Consolidated Financial Statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and the accompanying Management's Discussion and Analysis. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The significant accounting policies followed by the Company are set out in Note 3 to these Consolidated Financial Statements.

To assist management in discharging these responsibilities, the Company maintains a system of procedures and internal controls which are designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization, and that the financial records form a reliable base for the preparation of accurate and timely financial information.

The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of accounting records and procedures to enable them to report their opinion as to the fairness of the consolidated financial statements and their conformity with IFRS.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through an Audit Committee composed of three Directors, all of whom are not involved in the day-to-day operations of the Company. The Audit Committee meets quarterly with management, and with external auditors to review audit recommendations and any matters that the auditors believe should be brought to the attention of the Board of Directors. The Audit Committee reviews the Consolidated Financial Statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

John C. London
Chief Executive Officer
March 1, 2017

Mary-Jane E. Burkett
Vice President & Chief Financial Officer
March 1, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Nuvo Pharmaceuticals Inc.

We have audited the accompanying consolidated financial statements of Nuvo Pharmaceuticals Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nuvo Pharmaceuticals Inc. as at December 31, 2016 and 2015, and their financial performance and cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

March 1, 2017
Toronto, Canada

NUVO PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars in thousands)	***Notes***	**As at December 31, 2016** **$**	As at December 31, 2015 $
ASSETS			
CURRENT			
Cash and cash equivalents	*16*	**9,589**	48,680
Short-term investments	*16*	**8,000**	-
Accounts receivable	*16*	**2,386**	5,533
Inventories	*4*	**3,817**	2,402
Other current assets	*5*	**1,500**	1,337
TOTAL CURRENT ASSETS		**25,292**	57,952
NON-CURRENT			
Property, plant and equipment	*6*	**1,224**	1,180
TOTAL ASSETS		**26,516**	59,132
LIABILITIES AND EQUITY			
CURRENT			
Accounts payable and accrued liabilities	*9, 19*	**3,646**	9,178
Current portion of other obligations	*7*	**2**	192
TOTAL CURRENT LIABILITIES		**3,648**	9,370
Other obligations	*7*	**7**	43
TOTAL LIABILITIES		**3,655**	9,413
EQUITY			
Common shares	*8*	**185,255**	234,763
Contributed surplus	*8, 9*	**14,062**	13,956
Accumulated other comprehensive income (AOCI)		**2**	1,059
Deficit	*8*	**(176,458)**	(200,059)
TOTAL EQUITY		**22,861**	49,719
TOTAL LIABILITIES AND EQUITY		**26,516**	59,132

Commitments (Note 15)
See accompanying Notes.

On behalf of the Nuvo Board of Directors

Anthony E. Dobranowski
Director

David A. Copeland
Director

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

(Canadian dollars in thousands, except per share and share figures)	***Notes***	**Year ended December 31, 2016** **$**	Year ended December 31, 2015 $
REVENUE			
Product sales	*18*	**24,824**	18,579
Royalties	*18*	**1,023**	1,162
Contract revenue	*18, 19*	**1,192**	754
Total revenue		**27,039**	20,495
OPERATING EXPENSES			
Cost of goods sold	*4, 9, 11*	**11,357**	9,775
Research and development expenses	*9, 11, 19*	**1,417**	1,261
General and administrative expenses	*9, 11, 19*	**6,677**	2,645
Net interest income		**(144)**	(515)
Total operating expenses		**19,307**	13,166
OTHER EXPENSES (INCOME)			
Foreign currency loss (gain)		**348**	(1,006)
Gain on asset disposal	*6*	**(25)**	-
Net income before income taxes from continuing operations		**7,409**	8,335
Income tax expense	*13*	**-**	7
NET INCOME FROM CONTINUING OPERATIONS		**7,409**	8,328
NET LOSS FROM DISCONTINUED OPERATIONS	*14*	**(3,180)**	(15,448)
NET INCOME (LOSS)		**4,229**	(7,120)
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods			
Unrealized gains (losses) on translation of foreign operations		**50**	(65)
TOTAL COMPREHENSIVE INCOME (LOSS)		**4,279**	(7,185)
Net earnings from continuing operations per common share			
- basic	*10*	**0.65**	0.76
- diluted	*10*	**0.63**	0.74
Net loss from discontinued operations per common share			
- basic and diluted	*10*	**(0.28)**	(1.41)
Net earnings (loss) per common share			
- basic	*10*	**0.37**	(0.65)
- diluted	*10*	**0.36**	(0.65)
Average number of common shares outstanding (in thousands)			
- basic		**11,455**	10,926
- diluted		**11,711**	11,224

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars in thousands, except for number of shares)	Common Shares		Contributed Surplus	AOCI	Deficit	Total
	(000s)	$	$	$	$	$
Notes	*8, 9*	*8, 9*	*8, 9*	*8*		
Balance, December 31, 2014	10,775	233,568	13,910	1,124	(192,939)	55,663
Warrants exercised	332	1,035	(116)	-	-	919
Stock option compensation expense	-	-	177	-	-	177
Unrealized losses on translation of foreign operations	-	-	-	(65)	-	(65)
Stock options exercised	24	62	(15)	-	-	47
Employee contributions to Share Purchase Plan	7	49	-	-	-	49
Employer's portion of Share Purchase Plan	7	49	-	-	-	49
Net loss	-	-	-	-	(7,120)	(7,120)
Balance, December 31, 2015	11,145	234,763	13,956	1,059	(200,059)	49,719
Warrants exercised	54	177	(19)	-	-	158
Stock option compensation expense	-	-	231	-	-	231
Unrealized gains on translation of foreign operations	-	-	-	50	-	50
Common shares issued under DSU Plan	288	1,599	-	-	-	1,599
Common shares cancelled on execution of the Arrangement	(11,487)	(236,539)	-	-	-	(236,539)
New common shares issued on execution of the Arrangement	11,487	184,926	-	-	-	184,926
Unrealized income on translation of foreign operations transferred to Crescita Therapeutics Inc. (Crescita)	-	-	-	(1,107)	-	(1,107)
Distribution of Crescita	-	-	-	-	19,372	19,372
Stock options exercised	53	293	(106)	-	-	187
Employee contributions to Share Purchase Plan	3	18	-	-	-	18
Employer's portion of Share Purchase Plan	3	18	-	-	-	18
Net income	-	-	-	-	4,229	4,229
Balance, December 31, 2016	**11,546**	**185,255**	**14,062**	**2**	**(176,458)**	**22,861**

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars in thousands)	***Notes***	**Year ended December 31, 2016** **$**	Year ended December 31, 2015 $
OPERATING ACTIVITIES			
Net income from continuing operations		**7,409**	8,328
Net loss from discontinued operations	*14*	**(3,180)**	(15,448)
Items not involving current cash flows:			
Depreciation and amortization	*6, 11*	**233**	313
Equity-settled stock-based compensation	*9*	**1,848**	226
Unrealized foreign exchange loss (gain)		**41**	(919)
Inventory write-down	*4*	**-**	138
Interest and accretion of long-term other obligations	*7*	**7**	40
Other		**3**	31
		6,361	(7,291)
Net change in non-cash working capital	*12*	**(2,493)**	(3,341)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**3,868**	(10,632)
INVESTING ACTIVITIES			
Disposal (acquisition) of short-term investments		**(8,000)**	10,000
Acquisition of property, plant and equipment	*6*	**(368)**	(332)
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		**(8,368)**	9,668
FINANCING ACTIVITIES			
Cash transferred to Crescita	*1*	**(35,016)**	-
Issuance of common shares	*9*	**205**	96
Exercise of warrants	*8*	**158**	919
Repayment of capital lease and other obligations	*7*	**(55)**	(188)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		**(34,708)**	827
Effect of exchange rate changes on cash		**117**	542
Net change in cash during the year		**(39,091)**	405
Cash, beginning of year		**48,680**	48,275
CASH, END OF YEAR		**9,589**	48,680

See accompanying Notes.

Supplemental Cash Flow Information:

Interest received[1]	**65**	542
Income taxes paid[1]	**-**	7

1. Amounts received for interest and paid for income taxes were reflected as operating cash flows in the Consolidated Statements of Cash Flows.

Total Cash and Short-term Investments

	December 31, 2016 **$**	December 31, 2015 $
Cash and cash equivalents	**9,589**	48,680
Short-term investments	**8,000**	-
	17,589	48,680

NUVO PHARMACEUTICALS™ INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF BUSINESS

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

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

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

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

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

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo and Crescita. Nuvo is a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Crescita is a drug development business that at the time of the Reorganization operated two sub-groups: the Topical Products and Technology (TPT) Group and the Immunology Group. The TPT Group had one commercial product,

a pipeline of topical and transdermal products focusing on pain and dermatology and multiple drug delivery platforms that support the development of patented formulations that can deliver actives into or through the skin. The Immunology Group had two commercial products and was discontinued during the year ended December 31, 2016. The operations related to Crescita are accounted for as a discontinued operation (See Note 14, *Discontinued Operations*).

2. BASIS OF PREPARATION

Statement of Compliance

These Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The policies applied to these Consolidated Financial Statements are based on IFRS, which have been applied consistently to all periods presented. These Consolidated Financial Statements were issued and effective as at March 1, 2017, the date the Board of Directors approved these Consolidated Financial Statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement

These Consolidated 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 Consolidated Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

Use of Estimates and Judgments

The preparation of financial statements 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 these Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates, and such differences could be material.

Key areas of estimation or use of managerial assumptions are as follows:

(i) Discontinued Operations:

The Company's discontinued operations reflect Crescita on a combined carve-out basis as if it had always operated as a stand-alone entity. Prior to March 1, 2016, Nuvo paid certain costs for Crescita and performed certain activities on behalf of Crescita. As a result, the Company's discontinued operations include allocations of certain transactions reported in the accounts of Nuvo. These cost allocations have been determined on a basis considered by the Company to be a reasonable reflection of the utilization of services provided to Crescita. Compensation-related costs have been allocated using methodologies primarily based on proportionate time spent on Nuvo and Crescita's respective activities.

Management believes both the assumptions and allocations underlying the discontinued operations are reasonable. However, as a result of the combined carve-out methodology in determining the results of Crescita, the discontinued operations may not necessarily be indicative of the operating results and financial position that would have resulted had Crescita historically operated as a stand-alone entity.

(ii) Share-based Payments:

The Company measures the cost of share-based payments, either equity or cash-settled, with employees by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. In addition, cash-settled, share-based payments are revalued to fair value at every reporting date.

Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of stock-based payments, such as incentive stock options and stock appreciation rights, the Company uses the Black-Scholes option pricing model.

Several assumptions are used in the underlying calculation of fair values of the Company's stock options and stock appreciation rights using the Black-Scholes option pricing model, including the expected life of the option, stock - price volatility and forfeiture rates.

(iii) Revenue Recognition:
As is typical in the pharmaceutical industry, the Company's royalty streams are subject to a variety of deductions that are generally estimates and recorded in the same period that the revenues are recognized and primarily represent rebates, discounts and incentives and product returns. These deductions represent estimates of the related obligations. Amounts recorded for sales deductions can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions.

(iv) Impairment of Non-financial Assets:
The Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test on cash generating units (CGUs) is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods, such as the discounted cash flow method, which requires numerous assumptions to estimate future cash flows. The recoverable amount is impacted significantly by the discount rate selected to be used in the discounted cash flow model, as well as the quantum and timing of expected future cash flows and the growth rate used for the extrapolation.

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

	December 31, 2016	December 31, 2015
Dimethaid (UK) Ltd.	**100%**	100%
Nuvo Research America, Inc. and its subsidiaries:		
Nuvo Research US, Inc., ZARS Pharma, Inc., and ZARS (UK) Limited	**-**	100%
Dimethaid Immunology Inc.	**-**	100%
Nuvo Research AG and its subsidiaries:		
Nuvo Manufacturing GmbH and Nuvo Research GmbH	**-**	100%

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

Foreign Currency Translation

The Company and its subsidiary companies each determine their functional currency based on the currency of the primary economic environment in which they operate. The Company's functional currency is the Canadian dollar and its subsidiary entity's functional currency is the British pound.

(i) Transactions
Transactions denominated in a currency other than the functional currency of an entity are translated at exchange rates prevailing at the time the transaction occurred. The resulting exchange gains and losses are included in each entity's net income (loss) in the period in which they arise.

(ii) Translation into Presentation Currency
The Company's foreign operations are translated to the Company's presentation currency, which is the Canadian dollar, for inclusion in these Consolidated Financial Statements. Foreign denominated monetary and non-monetary assets and liabilities of foreign operations are translated at exchange rates in effect at the end of the reporting period, and revenue and expenses are translated at the average exchange rate for the period (as this is considered a reasonable approximation to actual rates). The resulting translation gains and losses are included in other comprehensive income (OCI) with the cumulative gain or loss reported in accumulated other comprehensive income (AOCI).

When the Company disposes of its entire interest in a foreign operation or loses control or influence over a foreign operation, the foreign currency gains or losses in AOCI related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation that remains a subsidiary, the

proportionate amount of foreign currency gains or losses in AOCI related to the subsidiary are reallocated between controlling and non-controlling interests.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand and current balances with banks, including money market mutual funds. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value. Cost approximates fair value.

Short-term Investments
Short-term investments are held in highly liquid instruments such as guaranteed investment certificates or other securities, with an original term to maturity of more than three months and expected to be realized in less than one year.

Inventories
Inventories include raw materials, work-in-process and finished goods. Raw materials are stated at the lower of cost and replacement cost with cost determined on a first-in, first-out basis. Manufactured inventory (finished goods and work-in-process) is valued at the lower of cost and net realizable value determined on a first-in, first-out basis. Manufactured inventory cost includes the cost of raw materials, direct labour, an allocation of overhead and the cost to acquire finished goods. The Company monitors the shelf life and expiry of finished goods to determine when inventory values are not recoverable and a write-down is necessary.

Property, Plant and Equipment
Property, plant and equipment (PP&E) is recorded at cost. Assets acquired under finance leases are carried at cost, which is the present value of minimum lease payments after deduction of any executory costs.

The Company allocates the amount initially recognized in respect of an item of PP&E to its significant parts and amortizes separately each such part. Depreciation of PP&E is provided for over the estimated useful lives from the date the assets become available for use as follows:

Buildings	10 to 25 years	Straight line
Leasehold improvements	Term of lease	Straight line
Furniture and fixtures	5 years	Straight line
Computer equipment and software	1 to 3 years	Straight line
Production, laboratory and other equipment	3 to 5 years	Straight line

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Impairment of Non-financial Assets
The Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows or CGUs. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount, but cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. An impairment reversal is recognized as other income.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases. The capitalized finance lease obligation reflects the present value of future lease payments, discounted at the appropriate interest rate. Assets under finance leases are amortized over the term of the lease. All other leases are accounted for as operating leases with rental payments being expensed on a straight-line basis.

Financial Instruments
All financial instruments are classified into one of the following five categories: fair value through profit or loss (FVTPL), held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the Consolidated Statements of Financial Position and are measured at fair market value upon inception. Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification. FVTPL financial investments are measured at fair value, and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in OCI until the asset is removed from the Consolidated Statements of Financial Position. Loans and receivables, instruments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, impairment write-downs and foreign exchange translation adjustments are recognized immediately.

The Company classifies its financial instruments as follows:

- Cash, cash equivalents and accounts receivable are classified as loans and receivables and are measured at amortized cost. Interest income is recorded in net income (loss), as applicable.
- Short-term investments are classified as held for trading and are measured at fair value through profit and loss.
- Accounts payable and accrued liabilities, long-term other obligations and finance lease obligations are classified as other financial liabilities and are measured at amortized cost using the effective interest method. Interest expense is recorded in net income (loss), as applicable.

Financing costs associated with the issuance of debt are netted against the related debt and are deferred and amortized over the term of the related debt using the effective interest method.

Impairment of Financial Assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. For financial assets carried at amortized cost, the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying value of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Comprehensive Income (Loss)
Comprehensive income (loss) is the change in equity from transactions and other events and circumstances from non-shareholder sources. Other comprehensive income (loss) refers to items recognized in comprehensive income (loss), but that are excluded from net income (loss) calculated in accordance with IFRS. The resulting changes from translating the financial statements of foreign operations to the Company's presentation currency of Canadian dollars are recognized in comprehensive income (loss) for the year.

Revenue Recognition
The Company recognizes revenue from product sales, royalties, contract service and licensing arrangements, which may include multiple elements. Revenue arrangements with multiple elements are reviewed in order to determine whether the multiple elements can be divided into separate units of accounting, if certain criteria are met. If separable, the consideration received is allocated amongst the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria is applied to each of the separate units. If not separable, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

Product Sales
Revenue from product sales is recognized upon shipment of the product to the customer, provided transfer of title to the customer occurs upon shipment and provided the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped, the price is fixed and determinable and collection is reasonably assured. Where applicable, revenue from product sales is recognized net of reserves for estimated sales discounts and allowances, returns, rebates and chargebacks.

Royalties
Revenue arising from royalties is recognized when reasonable assurance exists regarding measurement and collectability. 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 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. While the Company receives royalty payments quarterly, it can only recognize the amounts as revenue when reasonable assurance exists regarding measurement and collectability. Royalty revenue from the launch of a product in a new territory, for which the Company or its licensee are unable to develop the requisite historical data on which to base estimates of returns, may be deferred until such time that a reasonable estimate can be made and once the product has achieved market acceptance. Any royalty payments received or receivable in advance of when they would be recognized as revenue are recorded in deferred revenue.

Licensing Arrangements
The Company may enter into licensing agreements for supply and distribution for its commercial products. The terms of the agreements may include non-refundable signing and licensing fees, milestone payments and royalties on any product sales derived from collaborations. These multiple-element arrangements are analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. License fees are recognized as revenue when persuasive evidence of an arrangement exists, the fee is fixed or determinable, delivery or performance has been substantially completed and collection is reasonably assured. If there are no substantive performance obligations over the life of the contract, the up-front non-refundable payment is recognized when the underlying performance obligation is satisfied. If substantive contractual obligations are satisfied over time or over the life of the contract, revenue may be deferred and recognized over the performance. The term over which upfront fees are recognized is revised if the period over which the Company maintains substantive contractual obligations changes.

Milestone payments are immediately recognized as licensing revenue when the condition is met, if the milestone is not a condition to future deliverables and collectability is reasonably assured. Otherwise, they are recognized over the remaining term of the agreement or the performance period.

Other Contract Revenue
Revenues from contracted services are generally recognized as the contracted services are performed, and the related expenditures are incurred pursuant to the terms of the agreement and provided collectability is reasonably assured.

Research and Development
Research costs, other than capital expenditures, are charged to operations as incurred. Expenditures on internally developed products are capitalized, if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Development expenses are charged to operations as incurred unless such costs meet the criteria for deferral and amortization. No development costs have been deferred to-date.

Government Assistance
Government assistance received under incentive programs are accounted for using the cost reduction method; whereby, the assistance is netted against the related expense or capital expenditure to which it relates when there is reasonable assurance that the credits will be realized.

Government assistance received under reimbursement or funding programs are accounted for using the cost reduction method; whereby, a receivable is set up as the costs are incurred based on the terms of reimbursement or funding program and the expected recoveries are netted against the related expense.

Net Income or Loss Per Common Share
Basic net income or loss per common share is calculated using the weighted average number of common shares outstanding during the year.

Diluted net income or loss per common share is calculated assuming the weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential shares had been issued. The dilutive effect of warrants, stock options and performance share units is determined using the treasury-stock method. The treasury-stock method assumes that the proceeds from the exercise of warrants and options are used to purchase common shares at the volume weighted average market price during the year. The dilutive effect of convertible securities is determined using the "if-converted" method. The "if-converted" method assumes that the convertible securities are converted into common shares at the beginning of the period and all income charges related to the convertible securities are added back to income.

Income Taxes

Income taxes on profit or loss include current and deferred taxes. Income taxes are recognized in profit or loss except to the extent that they relate to business combinations or items recognized directly in equity or in OCI. Current taxes are the expected income taxes payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income taxes payable in respect of previous years. The Company is subject to withholding taxes on certain forms of income earned under its in-licensing agreements from foreign jurisdictions.

Deferred tax is generally recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reversed, based on the tax laws that have been enacted or substantively enacted in the relevant jurisdiction by the reporting date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or a liability in the Consolidated Statements of Financial Position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries, branches and associates, and interests in joint ventures where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized.

Stock-based Compensation and Other Stock-based Payments

The Company has four stock-based compensation plans: the Share Option Plan, the Share Purchase Plan and the Share Bonus Plan, each a component of the Company's Share Incentive Plan and the Share Appreciation Rights (SARs) Plan. As part of the Arrangement, the Deferred Share Unit (DSU) Plan for non-employee directors and the DSU Plan for employees was terminated and settled in shares on March 1, 2016. All are described in Note 9, *Stock-based Compensation and Other Stock-based Payments*.

Share Incentive Plan

The Company measures and recognizes compensation expense for the Share Incentive Plan based on the fair value of the common shares or options issued.

Under the Share Option Plan, the Company issues either fixed awards or performance-based options. Options vest either immediately upon grant or over a period of one to four years or upon the achievement of certain performance-related measures or milestones. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to common shares.

Under the Share Purchase Plan, consideration paid by employees on the purchase of common shares is credited to common shares when the shares are issued. The fair value of the Company's matching contribution, determined

based upon the trading price of the common shares, is recorded as compensation expense. These expenses are included in stock-based compensation expense and credited to common shares.

Under the Share Bonus Plan, the fair value of the direct award of common shares, determined based upon the trading price of the common shares, is recorded as compensation expense. These expenses are included in stock-based compensation expense and credited to contributed surplus over the vesting period, until the common shares are issued and the value is transferred from contributed surplus to common shares.

Deferred Share Unit Plan
The DSU Plan consisted of two plans: one for non-employee directors and one for employees. Under the DSU Plan, non-employee directors could allot and elect to receive a portion of their annual retainers, and other Board-related compensation, in the form of DSUs and employees could elect to have a portion of their quarterly earnings issued in units of the DSU Plan. One DSU had a cash value equal to the market price of one of the Company's common shares. Upon issuance, the fair value of the DSUs was recorded as compensation expense and the DSU accrual was established. At all subsequent reporting dates, the DSU accrual was adjusted to the market value of the underlying shares and the adjustment was recorded as compensation cost.

Share Appreciation Rights Plan
SARs are issued to directors, officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. Under the SARs Plan, participants receive, upon vesting, a cash amount equal to the difference between the SARs' fair market value and the grant price value, also known as the intrinsic value. Fair market value is determined by the closing price of the Company's common share on the Toronto Stock Exchange (TSX) on the day preceding the exercise date. SARs vest in tranches prescribed at grant date, and each tranche is considered a separate award with its own vesting period and 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 a 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.

Issuance Costs of Equity Instruments
The Company records issuance costs of equity instruments against the equity instrument that was issued.

Accounting Standards Adopted
There were no new accounting standards adopted by the Company during 2016.

Significant Accounting Policies
The policies applied in these Consolidated Financial Statements are based on IFRS issued and outstanding as at December 31, 2016.

Accounting Standards Issued But Not Yet Applied
Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning on or after January 1, 2015. The standards impacted that may be applicable to the Company are as follows:

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

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

assessing its contracts and based on progress to-date, the Company expects to complete this assessment by the third quarter of 2017.

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

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

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

4. INVENTORIES

Inventories consist of the following as at:

	December 31, 2016	December 31, 2015
	$	$
Raw materials	**3,026**	1,205
Work in process	**75**	349
Finished goods	**716**	848
	3,817	2,402

During the year ended December 31, 2016, inventories in the amount of $9.6 million were recognized as cost of goods sold [December 31, 2015 - $8.8 million]. During the year ended December 31, 2016, there were no inventory write-downs [December 31, 2015 - $3] and no reversals of prior year write-downs during the years ended December 31, 2016 and 2015, included in the Company's continuing operations. There were no inventory write-downs included in the Company's discontinued operations during the year ended December 31, 2016. During the year ended December 31, 2015, the Company's discontinued operations included inventory write-downs of $135 (€94). There were no reversals of prior year write-downs included in the Company's discontinued operations during the years ended December 31, 2016 or 2015.

5. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	December 31, 2016	December 31, 2015
	$	$
Deposits[i], [ii]	**995**	728
Prepaid expenses	**276**	141
Other receivables	**229**	468
	1,500	1,337

[i] As at December 31, 2016, deposits included $932 for deposits on production equipment.
[ii] As at December 31, 2015, deposits included $588 related to taxes owed to the Canada Revenue Agency (CRA) for fiscal 2014. The Company received a full refund of this deposit from the CRA in January 2016.

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consists of:

	Land	Buildings	Leasehold Improvements	Furniture & Fixtures	Computer Equipment & Software	Production Laboratory & Other Equipment[i]	Total
Cost	$	$	$	$	$	$	$
Balance, December 31, 2014	42	2,059	114	270	1,039	3,685	7,209
Foreign exchange	-	61	-	4	4	23	92
Additions	-	242	-	-	22	68	332
Disposals	-	(28)	-	-	-	(4)	(32)
Balance, December 31, 2015	42	2,334	114	274	1,065	3,772	7,601
Additions	-	-	-	-	-	368	368
Disposals[ii]	-	-	-	-	-	(79)	(79)
Transferred to Crescita	-	(901)	(114)	(214)	(903)	(928)	(3,060)
Balance, December 31, 2016	**42**	**1,433**	**-**	**60**	**162**	**3,133**	**4,830**
Accumulated depreciation							
Balance, December 31, 2014	-	1,591	114	267	987	3,089	6,048
Foreign exchange	-	59	-	4	3	21	87
Depreciation expense	-	62	-	1	25	225	313
Disposals	-	(27)	-	-	-	-	(27)
Balance, December 31, 2015	-	1,685	114	272	1,015	3,335	6,421
Depreciation expense	-	68	-	-	6	159	233
Disposals[ii]	-	-	-	-	-	(79)	(79)
Transferred to Crescita	-	(901)	(114)	(213)	(861)	(880)	(2,969)
Balance, December 31, 2016	**-**	**852**	**-**	**59**	**160**	**2,535**	**3,606**
Net book value as at December 31, 2015	42	649	-	2	50	437	1,180
Net book value as at December 31, 2016	**42**	**581**	**-**	**1**	**2**	**598**	**1,224**

[i] Production, laboratory and other equipment as at December 31, 2016 included a cost of $35 [December 31, 2015 - $35] and accumulated depreciation of $27 [December 31, 2015 - $25] for assets under finance leases. Depreciation of PP&E was $2 for the year ended December 31, 2016 [December 31, 2015 - $1] related to assets under finance leases.
[ii] In the year ended December 31, 2016, the Company recognized a $25 gain due to a purchase credit received for fully depreciated manufacturing equipment. The Company has applied this credit to current capital expenditures.

7. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	December 31, 2016	December 31, 2015
	$	$
Finance lease obligations	**9**	10
Long-term consulting agreement from acquisition of non-controlling interest	**-**	225
	9	235
Less: amounts due within one year	**2**	192
Long-term balance	**7**	43

Finance lease obligations
The Company leases office equipment under a finance lease expiring in 2020. The minimum future lease payments are as follows for the years ending December 31:

	$
2017	3
2018	3
2019 and thereafter	6
Total minimum lease payments	12
Less: amount representing interest (approximately 15%)	3
Present value of minimum lease payments	9
Less: current portion	2
Long-term balance	**7**

For the year ended December 31, 2016, interest paid on finance lease obligations was $1 [December 31, 2015 - under $1].

Long-term Consulting Agreement from Acquisition of Non-controlling Interest
In December 2011, the Company increased its ownership in Nuvo Research AG to 100% by acquiring the 40% interest held by the minority owner. The consideration transferred to the non-controlling interest included a 5-year, US$150 per annum consulting agreement with the former minority shareholder, discounted at 15.5% and fair valued at US$519 ($528). On March 1, 2016, Nuvo Research AG and the related consulting agreement were transferred to Crescita as part of the Reorganization.

8. CAPITAL STOCK

Authorized

- Unlimited first and second preferred shares, non-voting, non-participating, issuable in series, number, designation, rights, privileges, restrictions and conditions are determinable by the Company's Board of Directors.

- Unlimited common shares, voting, without par value.

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

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

on the volume weighted average prices (VWAP) of the Crescita common shares and the Post-Arrangement Nuvo common shares during the five trading days during the period from March 7, 2016 to March 11, 2016.

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

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

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

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

The Private Placement Warrants were subject to an acceleration feature where the Company, at its option, could force the exercise of the Private Placement Warrants if the ten-day volume weighted share price for the Company's common shares was equal to, or exceeded, $3.50 on the TSX at any time during the warrant term. If the acceleration feature was used, any Private Placement Warrants that were not exercised during this period expired. The Company exercised its acceleration feature on November 30, 2015 and accelerated the expiry date of the outstanding warrants to January 15, 2016. During the year ended December 31, 2016, 4,200 Broker Warrants and 49,044 Private Placement Warrants, inclusive of 2,100 Private Placement Warrants that were issued on exercise of the Broker Warrants, were exercised for proceeds of $0.2 million and 12,252 Private Placement Warrants expired. During the year ended December 31, 2015, 239,672 of the Private Placement Warrants and 42,733 Broker Warrants were exercised and 21,367 Private Placement Warrants were issued upon exercise of the Broker Warrants.

All warrants were exercisable on issuance. Changes in the number of warrants outstanding were as follows:

	Number of Warrants	Weighted Average Exercise Price
	#	$
Balance, December 31, 2014	374,434	2.78
Issued	21,367	3.00
Exercised	(332,405)	2.95
Balance, December 31, 2015	63,396	2.97
Issued	2,100	3.00
Exercised	(53,244)	2.96
Expired	(12,252)	3.00
Balance, December 31, 2016	**-**	**-**

9. 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 SARs Plan. As part of the Arrangement, the DSU Plan for non-employee directors and the DSU Plan for employees were terminated and settled in shares on March 1, 2016.

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

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

As at December 31, 2016, the number of common shares available for issuance under the Share Incentive Plan was 877,244.

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

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

The exercise price of each Post-Arrangement stock option issued by Nuvo was determined by allocating the exercise price of the original Nuvo stock option between the Post-Arrangement stock option issued by Nuvo and the Post-Arrangement stock option issued by Crescita based on the relative fair market values of the Nuvo and Crescita common shares at the effective date of the Arrangement. The relative fair market values were determined using the Butterfly Allocation (See Note 8, *Capital Stock*).

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

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

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000s	$	$
Balance, December 31, 2014	887	1.96 - 24.05	6.93
Exercised	(24)	1.96	1.96
Expired	(112)	11.70 - 13.00	12.95
Balance, December 31, 2015	751	1.96 - 24.05	6.18
Cancelled on Reorganization	(751)	1.96 - 24.05	6.18
Issued on Reorganization	751	1.53 - 18.80	4.83
Granted	207	5.42	5.42
Exercised[(i)]	(53)	1.53 - 6.35	3.48
Forfeited	(46)	2.65 - 5.42	4.41
Expired	(10)	6.35 - 18.80	11.35
Balance, December 31, 2016	**849**	**1.53 - 12.70**	**5.01**

(i) The weighted average share price for options exercised in 2016 was $6.25.

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, 2015 - 7.0%], and the remaining model inputs for options granted during the year ended December 31, 2016 were:

Options (000s)	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor %	Fair Values $
207	March 23, 2016	5.42	5.42	0.49 - 0.53	2 - 5	71 - 75	2.11 - 3.27

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at December 31, 2016:

	Outstanding			Exercisable	
Exercise Price Range $	Number of Options (000s)	Remaining Contractual Life (years)	Weighted Average Exercise Price $	Vested Options (000s)	Weighted Average Exercise Price $
1.53 - 4.32	311	6.8	2.69	222	2.69
5.08 - 5.42	308	7.5	5.28	132	5.09
6.35 - 6.86	181	0.9	6.80	181	6.80
11.18 - 12.70	49	3.2	11.31	49	11.31
	849	**5.6**	**5.01**	**584**	**5.22**

(ii) Share Purchase Plan

Under the Share Purchase Plan, eligible officers, employees or consultants of the Company or its affiliates 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 2016, employees contributed $18 [December 31, 2015 - $49] to the plan and the Company matched these contributions by issuing 2,749 common shares [December 31, 2015 - 7,450] with a fair value of $18 [December 31, 2015 - $49] that was recorded as compensation expense. The total number of shares issued under this plan during the year ended December 31, 2016 was 5,498 [December 31, 2015 - 14,900].

Deferred Share Unit Plan

Directors

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

Upon execution of the Reorganization on March 1, 2016, all outstanding DSUs for directors were settled in shares of Nuvo net of the cash tax obligation that was payable by Nuvo. The DSU Plan for directors was terminated on March 1, 2016.

Employees

Under the employee DSU Plan, employees could elect to have a portion of their quarterly earnings issued in units of the DSU Plan. Consistent with non-employee directors, one DSU had a cash value equal to the market price of one of the Company's common shares. The number of units to be credited to an employee was calculated by dividing the elected portion of the compensation payable to the employee by the five-day VWAP of the Company's common shares immediately preceding the close of each quarter.

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

Upon execution of the Reorganization on March 1, 2016, all outstanding DSUs for employees were settled in shares of Nuvo net of the cash tax obligation that was paid by Nuvo. Nuvo settled the DSU Plan by issuing 288,226 common shares to settle 451,111 outstanding DSUs. The shares issued are restricted from trading for twelve months. The common shares were issued net of the cash tax obligation that was payable by the Company. The DSU Plan for employees was terminated March 1, 2016.

There was no DSU accrual as at December 31, 2016 [December 31, 2015 - $2,231].

Share Appreciation Rights Plan

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

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

The exercise price of each Post-Arrangement SAR issued by Nuvo was determined by allocating the exercise price of the original Nuvo SAR between the Post-Arrangement SAR issued by Nuvo and the Post-Arrangement SAR issued by Crescita based on the Butterfly Allocation. The vesting schedule and the term during which each Post-Arrangement SAR issued by Nuvo may be exercised remains the same as the original Nuvo SAR it was exchanged

for. The shareholders of Nuvo approved a resolution on February 18, 2016 to allow SARs to be equity settled. The terms of settlement are at Nuvo's discretion.

The fair values of each tranche issued and outstanding in the period were measured as at December 31, 2016 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 $
128	October 30, 2013	1.45	0.69	1	42	4.21
134	April 4, 2014	2.65	0.69	1 – 2	42	3.00 – 3.04
155	January 7, 2015	5.63	0.69	1 – 3	42 – 59	0.02 – 1.88

The following table summarizes the outstanding SARs and related accrual as at December 31, 2016:

	Number of SARs 000s	Fair Values $	Accrual $
Balance, December 31, 2014	924	3.61 – 5.38	2,876
Granted	246	0.59 – 1.92	30
Vested	(382)	3.61 – 5.15	(1,848)
Adjustment to market value	-	-	270
Balance, December 31, 2015	788	0.00 – 3.45	1,328
Vested	(293)	0.00 – 3.36	(654)
Adjustment to market value at Reorganization	-	-	255
Cancelled on Reorganization	(495)	0.72 – 4.48	(929)
Issued on Reorganization	495	0.56 – 3.50	726
Cancelled [(i)]	(20)	1.86 – 5.91	(73)
Termination [(i)]	(58)	1.73 – 5.91	(248)
Adjustment to market value	-	-	626
Balance, December 31, 2016[(ii)]	**417**	**0.02 – 4.21**	**1,031**

(i) During the year ended December 31, 2016, a SARs plan participant resigned from the Company. As a result, 58,000 SARs vested (Termination SARs) and 20,000 SARs were cancelled.

(ii) On January 1, 2017, 246,000 SARs vested and $738 was paid to SARs Plan participants.

Summary of Stock-based Compensation

Stock-based compensation from continuing operations is as follows:

	Year ended December 31, 2016 $	Year ended December 31, 2015 $
Stock option compensation expense under the Share Option Plan	**202**	68
Shares issued to employees under the Share Purchase Plan	**18**	37
DSUs – issued for settlement of directors' fees	**120**	196
DSUs – adjustment to market value	**384**	(554)
SARs compensation expense	**659**	112
Stock-based compensation expense[(i)]	**1,383**	(141)
Recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as follows:		
Cost of goods sold	**17**	29
Research and development expenses	**12**	1
General and administrative expenses	**1,354**	(171)
	1,383	(141)

(i) During the year ended December 31, 2016, the Company's discontinued operations included $288 of stock-based compensation [December 31, 2015 - $128].

10. NET EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per share is computed as follows:

(Canadian dollars in thousands, except per share and share figures)	**Year ended December 31, 2016** **$**	Year ended December 31, 2015 $
Basic earnings (loss) per share:		
Net income (loss)	**4,229**	(7,120)
Average number of shares outstanding during the year	**11,455**	10,926
Basic earnings (loss) per share	**0.37**	(0.65)
Basic earnings per share from continuing operations	**0.65**	0.76
Basic loss per share from discontinued operations	**(0.28)**	(1.41)
Net income (loss), assuming dilution	**4,194**	(7,120)
Net income from continuing operations, assuming dilution	**7,374**	8,328
Average number of shares outstanding during the year		
Dilutive effect of:	**11,455**	10,926
Stock options	**235**	158
Warrants	**1**	140
DSUs	**9**	-
SARs	**11**	-
Weighted average common shares outstanding, assuming dilution	**11,711**	11,224
Diluted earnings (loss) per share	**0.36**	(0.65)
Diluted earnings per share from continuing operations	**0.63**	0.74
Diluted loss per share from discontinued operations	**(0.28)**	(1.41)

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:

	December 31, 2016 **000s**	December 31, 2015 000s
Common shares issued and outstanding	**11,546**	11,145
Stock options outstanding (Note 9)	**849**	751
Warrants (Note 8)[(i)]	**-**	65
SARs outstanding (Note 9)	**417**	-
	12,812	11,961

[(i)] Balance as at December 31, 2015 includes 2,100 Private Placement Warrants that were issued on the exercise of Broker Warrants.

11. EXPENSES BY NATURE

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

(a) Employee costs from continuing operations:

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Short-term employee wages, bonuses and benefits	**5,320**	4,662
Share-based payments	**983**	36
Termination benefits	**-**	29
Total employee costs	**6,303**	4,727
Included in:		
Cost of goods sold	**3,710**	3,475
Research and development expenses	**25**	181
General and administrative expenses	**2,568**	1,071
Total employee costs	**6,303**	4,727

(b) Depreciation and amortization from continuing operations:

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Cost of goods sold	**197**	213
Research and development expenses	**28**	63
Total depreciation and amortization [(i)]	**225**	276

[(i)] During the year ended December 31, 2016, the Company's discontinued operations included $8 of depreciation expense [December 31, 2015 - $37].

12. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Accounts receivable	**2,775**	(2,065)
Inventories	**(1,847)**	(588)
Other current assets	**(213)**	(557)
Accounts payable and accrued liabilities	**(3,208)**	(131)
Net change in non-cash working capital	**(2,493)**	(3,341)

13. INCOME TAXES

Deferred Tax Assets and Liabilities

Deferred income taxes represent the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following represents deferred tax assets that have not been recognized in these Consolidated Financial Statements:

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Non-capital loss carryforwards	**-**	20,830
U.S. Federal and State research and development credits	**-**	1,612
Canadian Scientific Research and Experimental Development expenditure pool carryforward	**358**	455
Investment tax credits	**1,993**	1,809
Tax basis of property, plant and equipment and intangibles in excess of accounting value	**2,479**	2,649
Financing costs, deferred revenue and other	**19**	38
Deferred tax assets not recognized	**4,849**	27,393

A reconciliation between the Company's statutory and effective tax rates is presented below:

	Year ended December 31, 2016	Year ended December 31, 2015
	%	%
Statutory rate	**26.8**	26.8
Items not deducted for tax	**8.2**	9.6
Impact of foreign income tax rate differential	**-**	29.1
Revaluation of deferred taxes as a result of enacted tax rate changes and other	**0.6**	(0.6)
Utilization of previously unrecognized deferred tax assets	**(39.0)**	(64.9)
Other	**3.4**	-
	-	-

The Company has approximately $1.3 million [December 31, 2015 - $1.7 million] of Canadian Scientific Research and Experimental Development (SR&ED) expenditures for federal tax purposes that are available to reduce taxable income in future years and have an unlimited carryforward period, the benefit of which has not been reflected in these financial statements. SR&ED expenditures are subject to audit by the tax authorities and accordingly, these amounts may vary.

The Company has net capital losses of $35.5 million in Canada available to offset net taxable capital gains in future years which have not been recognized.

Government Assistance

A portion of the Company's R&D expenditures are eligible for Canadian federal investment tax credits that it may carry forward to offset any future Canadian federal income tax payable as follows:

Year of credit	Amount	Year of Expiry
	$	
December 31, 2005	181	2025
December 31, 2006	688	2026
December 31, 2007	335	2027
December 31, 2008	225	2028
December 31, 2009	142	2029
December 31, 2010	395	2030
December 31, 2011	208	2031
December 31, 2012	43	2032
December 31, 2015	494	2035
	2,711	

The benefits of these non-refundable Canadian federal investment tax credits have not been recognized in the financial statements.

14. DISCONTINUED OPERATIONS

On March 1, 2016, the Company completed the Reorganization of Nuvo into two separate publicly traded companies, Nuvo and Crescita, each initially 100% owned by Nuvo's shareholders. Prior to the fourth quarter of 2015, the business of Crescita represented the Company's TPT Group and Immunology Group operating segments. In the fourth quarter of 2015, the Company changed its operating segments and reported Crescita as a separate operating segment in light of the then proposed Reorganization. With the completion of the Reorganization on March 1, 2016, operating results have been restated to reflect Crescita as a discontinued operation. Accordingly, Crescita is no longer presented in Note 18, *Segmented Information*.

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

	Year ended December 31, 2016	Year ended December 31, 2015
(In thousands, except per share figures)	**$**	$
REVENUE		
Product sales	**45**	629
Royalties	**14**	228
Total revenue	**59**	857
OPERATING EXPENSES		
Cost of goods sold	**96**	501
Research and development	**648**	9,068
General and administrative	**2,498**	6,650
Interest expense	**5**	40
Total operating expenses	**3,247**	16,259
OTHER EXPENSE (INCOME)		
Foreign currency loss (gain)	**(8)**	46
NET LOSS FROM DISCONTINUED OPERATIONS	**(3,180)**	(15,448)
Net loss from discontinued operations per common share		
- basic and diluted	**(0.28)**	(1.41)
Average number of common shares outstanding		
- basic	**11,455**	10,926
- diluted	**11,711**	11,224

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

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Cash used in operating activities	**(5,203)**	(13,918)
Cash provided by (used in) investing activities	**4,801**	(23)
Cash provided by financing activities	**34,963**	13,941
Net cash inflow	**34,561**	-

15. COMMITMENTS

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

	Research & Other Service Contracts	Operating Leases	Purchase Commitments[(i)]	Total
	$	$	$	$
2017	482	138	1,929	2,549

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

For the year ended December 31, 2016, payments under operating leases totalled $46 [December 31, 2015 - $38].

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

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

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

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

Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, Nuvo and Crescita have agreed to provide each other, on a transitional basis, certain services including, among other things, information technology transition, use of facilities, sharing of human resources, accounting services and general consulting services (see Note 19, *Related Party Transactions*).

Guarantees

The Company periodically enters into service, licensing, distribution or supply agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third-party intellectual property claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions generally survive termination of the underlying agreements. The nature of the intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in these Consolidated Financial Statements with respect to these indemnification obligations.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year ended December 31, 2016.

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 following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2016:

	Total	**Using Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Using Significant Other Unobservable Inputs (Level 2)**	**Using Significant Unobservable Inputs (Level 3)**
	$	**$**	**$**	**$**
Assets:				
Short-term investments	**8,000**	**-**	**8,000**	**-**
Total assets	**8,000**	**-**	**8,000**	**-**
Liabilities:				
Share Appreciation Rights	**1,031**	**-**	**1,031**	**-**
Total liabilities	**1,031**	**-**	**1,031**	**-**

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2015:

	Total	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Using Significant Other Unobservable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)
	$	$	$	$
Liabilities:				
Deferred Share Units	2,231	2,231	-	-
Share Appreciation Rights	1,328	-	1,328	-
Total liabilities	3,559	2,231	1,328	-

Level 1 liabilities include obligations of the Company for the DSUs described in Note 9, *Stock-based Compensation and Other Stock-based Payments*. One DSU has a cash value equal to the market price of one of the Company's common shares. The Company revalues the DSU liability each reporting period using the market value of the underlying shares. There was no DSU accrual as at December 31, 2016 [December 31, 2015 - $2.2 million], as the DSU plans were terminated on March 1, 2016.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 9, *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 $1.0 million for SARs as at December 31, 2016 [December 31, 2015 - $1.3 million].

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

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

Liquidity Risk
While the Company had $9.6 million in cash and $8.0 million in short-term investments as at December 31, 2016, it is dependent on a single customer for substantially all of its revenue. During the year ended December 31, 2016, the Company earned 92% [December 31, 2015 – 82%] of its product revenue from a single customer, Horizon. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The loss of this customer would have a material adverse effect on the Company's revenue, operating results and cash flows. The Company continues to seek business opportunities to diversify its customer base in order to help mitigate this concentration risk.

The Company has contractual obligations related to accounts payable and accrued liabilities, purchase commitments and other obligations of $6.2 million that are due in less than a year and $9 of contractual obligations that are payable from 2018 to 2020.

Credit Risk
The Company's cash and short-term investments subject the Company to a concentration of credit risk. As at December 31, 2016, the Company had $9.6 million invested with two financial institutions in various bank accounts. These financial institutions are major Canadian banks, which the Company believes lessens the degree of credit risk. Additionally, the Company maintains $8.0 million in short-term investments with a creditworthy Canadian cooperative financial group and a Canadian insurance company.

The Company, in the normal course of business, is exposed to credit risk from its global customers, most of whom are in the pharmaceutical industry. The accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks prior to the signing of distribution or licensing agreements by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. In addition, a customer's creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement. As at December 31, 2016, the Company's largest customer represented 73% [December 31, 2015 - 70%] of accounts receivable.

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

	December 31, 2016	December 31, 2015
	$	$
Current	**2,159**	5,497
0 - 30 days past due	**11**	36
31 - 60 days past due	**216**	-
	2,386	5,533

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

Currency Risk

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

	Euros		U.S. Dollars	
	December 31, 2016 €	December 31, 2015 €	**December 31, 2016 $**	December 31, 2015 $
Cash	**242**	885	**3,929**	4,783
Accounts receivable	**-**	782	**1,636**	3,010
Other current assets	**-**	2	**-**	-
Accounts payable and accrued liabilities	**(305)**	(959)	**(289)**	(520)
Finance lease and other long-term obligations	**-**	-	**-**	(162)
	(63)	710	**5,276**	7,111

Based on the aforementioned net exposure as at December 31, 2016, 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 $0.7 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $9 on total comprehensive income (loss).

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

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

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

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

17. CAPITAL MANAGEMENT

The Company currently defines its capital to include its cash, short-term investments and shareholders' equity excluding AOCI.

The Company's objectives when managing capital are:

(a) to allow the Company to respond to changes in economic and marketplace conditions;

(b) to give shareholders sustained growth in shareholder value by increasing shareholder's equity; and

(c) to maintain a flexible capital structure that optimizes the cost of capital at acceptable levels of risk.

In the past, the Company has financed its operations primarily through its operations, the net proceeds received from the sale of common shares and warrants, issuance of secured debt and convertible debentures, finance lease obligations and investment income earned on cash balances and short-term investments. The Company continues to manage its capital structure and will maintain or adjust its capital structure to facilitate the execution of the Company's objectives or in light of changes in the economic environment.

As a result, to secure the capital necessary to pursue its objectives and fund ongoing operations, the Company may need to raise additional funds and make adjustments to its capital structure by raising capital through equity financings, utilizing leverage in the form of third-party debt, entering into distribution and licensing agreements or realizing proceeds from the disposition of its investments. There can be no assurance, especially considering the economic environment, that additional financing would be available on acceptable terms, or at all, when and if required. If adequate funds are not available when required, the Company may have to substantially reduce or eliminate planned expenditures.

18. SEGMENTED INFORMATION

Segments

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

Geographic Information

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

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
United States	**24,528**	16,038
Europe	**1,712**	3,748
Canada	**799**	709
	27,039	20,495

As at December 31, 2016, all of the Company's PP&E was located in Canada.

Significant Customers

For the year ended December 31, 2016, the Company's four largest customers generating product sales represented 98% [December 31, 2015 - 96%] of total product sales from continuing operations and the Company's largest customer represented 92% [December 31, 2015 - 82%] of total product sales from continuing operations.

19. RELATED PARTY TRANSACTIONS

Crescita Therapeutics Inc.

Subsequent to the Reorganization, Nuvo and Crescita were related parties due to shared key management personnel.

Effective March 1, 2016, Nuvo and Crescita entered into a reciprocal transitional services agreement with a term of 18 months. Under the transitional services agreement, (a) Nuvo provides Crescita corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provides Nuvo corporate-level employee services, research and development and legal support and facility and equipment rental.

Effective September 12, 2016, the Chief Financial Officer transition services agreement between Nuvo and Crescita was terminated.

The following is a summary of the transactions between Nuvo and Crescita for the period from April 1, 2016 to December 31, 2016:

	Year ended December 31, 2016
	$
Transactions under the transitional services agreement:	
Services provided to Crescita	**312**
Services received from Crescita	**359**

As at December 31, 2016, Nuvo recognized a $0.1 million payable to Crescita.

As a result of the restructuring of key management personnel, Nuvo and Crescita are no longer related parties as at December 31, 2016.

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors. Key management includes four executive officers and four non-employee directors. Compensation for the Company's key management personnel was as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
	$	$
Short-term wages, bonuses and benefits [(i)]	**1,772**	622
Share-based payments	**968**	(7)
Total key management compensation	**2,740**	615
Included in:		
Research and development expenses	**11**	1
General and administrative expenses	**2,729**	614
Total key management compensation	**2,740**	615

[(i)] For the year ended December 31, 2016, certain officers of the Company were assessed on the achievement of corporate objectives. The Company expects the achievement of these targets to be determined during the first quarter of 2017.

Corporate Information

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CORPORATE GOVERNANCE
A statement of the Company's current corporate governance practices is contained in the management information circular and proxy statement for the June 7, 2016 Annual Meeting of Shareholders. The Company's website www.nuvopharmaceuticals.com contains the Company's corporate governance documents including Code of Conduct and Business Ethics, Corporate Disclosure Policy, Insider Trading Policy and Audit Committee Charter.

Board of Directors and Executive Officers

Daniel N. Chicoine, BComm, CPA, CA
Chairman

John C. London, LLB, LLM
Director - Chief Executive Officer

Jesse F. Ledger, BBA
President

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

Tina K. Loucaides, MSc, LLB
Vice President, Secretary & General Counsel

David A. Copeland, BMath, CPA, CA
Lead Director

Anthony E. Dobranowski, BSc, MBA, CPA, CA
Director

Jacques Messier, DVM, MBA
Director - Chair of the Compensation, Corporate Governance & Nominating Committee

Samira Sakhia, MBA, CPA, CA
Director - Chair of the Audit Committee