Nuvo Pharmaceuticals Inc. Annual Report 2018

Dear Nuvo Shareholders

2018 was an exciting year culminating in Nuvo closing the previously announced transaction to acquire a portfolio of more than 20 revenue-generating products, global royalty streams and experienced personnel from Aralez Pharmaceuticals Inc. (the Aralez Transaction). This deal represents a transformational time in the history of this Company and significantly enhances our platform for growth and value creation moving forward.

In this tailor-made transaction, we carved out the best parts of the Aralez business, specifically targeting several exciting growth assets. These commercial products, which will fuel our growth in Canada moving forward, include:

Cambia® (diclofenac potassium for oral solution), a patent protected, first-line treatment for migraine headache. Cambia offers patients a rapid onset of action that provides pain relief as fast as 15 minutes after administration. Cambia was originally launched in late 2012 and has demonstrated consistent, year-over-year, mid-double-digit percentage increases in total prescriptions. As of December 31, 2018, Cambia commanded a 3.7% total prescription market share within the highly fragmented prescription migraine market.

Blexten® (bilastine tablets), a patent protected, new chemical entity, bilastine, is an innovative first-line treatment for allergic rhinitis (allergies) and chronic spontaneous urticaria (hives). Blexten has demonstrated proven efficacy in head-to-head clinical studies against the market leader Reactine (cetirizine) and provides the benefit of a placebo-like safety profile and no somnolence. To-date, Blexten has been commercialized in over 115 countries worldwide with over 82 million patients treated. Blexten was the first, truly new antihistamine approved in Canada since Reactine (cetirizine) was approved in 1994[1]. Originally launched in December 2016, Blexten has grown to command a 10.4% total prescription market share within the prescription antihistamine market as of December 31, 2018.

Suvexx™ (naproxen and sumatriptan tablets), a patent protected and innovative migraine treatment that combines a nonsteroidal anti-inflammatory drug (naproxen) and a triptan (sumatriptan), two complementary and commonly prescribed treatments for acute migraine headache, into one easy to administer tablet. We plan to file a New Drug Submission for Suvexx with Health Canada in the first half of 2019.

Blexten pediatric (bilastine oral syrup and bilastine orally dispersable tablets) consists of two separate Blexten line extensions to provide enhanced treatment optionality for physicians and healthcare providers within the pediatric population. The Blexten pediatric Supplemental New Drug Submission is expected to be submitted to Health Canada in H2-2019.

Blexten ophthalmic (bilastine sterile ophthalmic solution) is a line extension to provide enhanced treatment optionality for physicians and healthcare providers for treating allergic conjunctivitis (itchy

[1] Referring to new chemical entities, not isomers or metabolites of existing molecules such as desloratadine and fexofenadine.

and watery eyes caused by allergies). Nuvo anticipates filing the Blexten ophthalmic New Drug Submission with Health Canada in 2020.

It is important to note that both Cambia and Blexten are subject to seasonality and sales vary from month-to-month. Our quarterly revenues will reflect this seasonality going forward as Cambia and Blexten are the largest revenue contributors in our business.

Nuvo has now established a strong presence in the pain, dermatology and allergy therapeutic areas – our core therapeutic areas. Our commercial team is well respected by physicians and healthcare providers and we provide medicines that have a significant impact on improving the quality of life of patients across Canada. Going forward, we intend to continue our Canadian business development focus on bringing to market new and innovative therapeutics within our core therapeutic areas.

We continue to see strong demand for new and innovative treatment options, as well as large and growing patient populations within our core therapeutic areas. Migraine is one of the most common illnesses in the world with a global prevalence of 14.7%. Compare this to osteoarthritis of the knee at 3.6%, diabetes at 3.3%, asthma at 4.9% and lower back pain at 9.2%[2]. In Canada, approximately 3.6 million women and men experience a migraine[3] every year. Nuvo is continuing to develop an enhanced presence in the migraine space through our ongoing commercial activities with Cambia, the potential commercial launch of Suvexx and through additional near-term line extension opportunities.

Seasonal allergic rhinitis (allergies) affects anywhere from 10 to 25% of the global population[4] and 1 in 5 Canadians. Chronic spontaneous urticaria affects 0.5-1% of Canadians with the highest prevalence among women between 20 and 40 years of age[5]. Nuvo has a robust pipeline of Blexten line extensions, as well as the potential for a prescription to over-the-counter switch later in the product life cycle, all of which will enhance our presence in the allergy and urticaria treatment space.

Nuvo is now clearly positioned as one of the premier specialty pharmaceutical companies in Canada and has evolved into a fully integrated and full-service pharmaceutical company with diverse sources of revenue.

Our growing and profitable global business, which primarily operates from our Dublin, Ireland based subsidiary, Nuvo Pharmaceuticals (Ireland) DAC, will continue to be a major focus in 2019 and beyond. Anticipated global business milestones for 2019 include the following:

- Pennsaid 2% E.U. submission to the Austrian Agency for Health and Food Safety (AGES) - First half of 2019 our second European regulatory submission for Pennsaid 2% which will lead to subsequent regulatory reviews in Italy, Greece and Portugal.
- Pennsaid 2% review decision from the Drug Controller General of India - mid 2019
- Pennsaid 2% review decision from Swissmedic - late 2019
- Resultz commercial launch in Germany by Heumann Pharma GmbH & Co. Generica KG - H2- 2019

[2] Vos T et al., The Lancet. 2012;15;380(9859):2163-96.
[3] Becker et al., Can Fam Physician 2015;61:670-9.
[4] Strachan D, et al. Pediatr Allergy Immunol 1997;8:161-176.
[5] Hsieh et al., CMAJ January 16, 2017 189 (2) E77; DOI: https://doi.org/10.1503/cmaj.150951

- Resultz commercial launch in the Netherlands by Fagron Belgium NV - H2-2019
- Vimovo relaunch in select global markets by Grunenthal - throughout 2019

Out-licensing of Resultz in the U.S. and other global markets and Pennsaid 2% in the E.U. and ROW markets will continue to be a priority in 2019.

Finally, our 2018 year-end financial statements presented herein, and the previously disclosed Business Acquisition Report (BAR) filed on SEDAR (www.sedar.com) on March 15, 2019, present two new non-IFRS financial measures that Nuvo will use in our financial disclosures moving forward. We believe our shareholders and other readers of our financial statements will find such measures helpful in understanding Nuvo's financial performance and in interpreting the effect of the Aralez Transaction and the Deerfield Financing on the Company. The new measures are Adjusted Total Revenue and Adjusted EBITDA (redefined compared to previous usage of this measure).

We have adopted these new measures in response to the IFRS accounting treatment of some elements of our new business post-Aralez Transaction. Specifically:

- The US$7.5 million minimum royalty payment we will receive from Horizon Pharma on U.S. Vimovo sales each year until generic entry occurs is recognized as a Contract Asset on our balance sheet as opposed to License/Royalty Revenue on our income statement. This non-cash change artificially reduces our top-line revenue and correspondingly reduces bottom-line profitability.
- The fair value accounting of the inventory acquired from Aralez on closing increases (steps-up) the value of such inventory from the actual cost of goods (COGS) to the fair value of inventory which equals selling price less reasonable selling expenses. As this inventory is sold, the fair value step-up is released into COGS, thus increasing COGS and reducing our gross margin.

More information on these non-IFRS measures, and a reconciliation to our Financial Statement can be found in the March 15, 2019 investor presentation posted on our website (www.nuvopharmaceuticals.com).

Looking ahead, I expect 2019 to be an exciting year, as we continue to integrate the Aralez Canada and Nuvo businesses and begin to report financial results reflecting our new business.

I would also like to take this opportunity to express my sincere thanks to the collective employees of Nuvo Canada, Nuvo Ireland and Aralez Canada for their tremendous support in closing the Aralez Transaction and the incredible collaboration that is contributing to a smooth business integration.

Sincerely,

Jesse Ledger
President and CEO

Management's Discussion and Analysis (MD&A)

March 28, 2019 / The following information should be read in conjunction with Nuvo Pharmaceuticals™ Inc. (Nuvo or the Company) Consolidated Financial Statements for the year ended December 31, 2018 which were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 - Interim Financial Reporting. Additional information about the Company, including the Consolidated Financial Statements and Annual Information Form (AIF), can be found on SEDAR at www.sedar.com.

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

Forward-looking Statements

This MD&A contains "forward-looking information" as defined under Canadian securities laws (collectively, "forward-looking statements"). This document should be read in conjunction with material contained in the Company's consolidated financial statements for the period ended December 31, 2018 along with the Company's other publicly filed documents. Forward-looking statements appear in this MD&A and include, but are not limited to, statements which reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance, business prospects, opportunities and macroeconomic and industry trends.

The words "plans", "expects", "does not expect", "goals", "seek", "strategy", "future", "estimates", "intends", "anticipates", "does not anticipate", "projected", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "should", "might", "likely", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking statements. Forward-looking statements are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. Such forward-looking statements are qualified in their entirety by the inherent risks, uncertainties and changes in circumstances surrounding future expectations which are difficult to predict and many of which are beyond the control of the Company.

Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable by management of the Company as of the date of this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The Company's estimates, beliefs and assumptions, which may prove to be incorrect, include the various assumptions set forth herein, including, but not limited to, the Company's future growth potential, results of operations, future prospects and opportunities, industry trends, legislative or regulatory matters, future levels of indebtedness, availability of capital and current economic conditions.

When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ, possibly materially, from the results discussed in the forward-looking statements, including, but not limited to:

- the Company's ability to execute its growth strategies;
- the impact of changing conditions in the regulatory environment and drug development processes;
- increasing competition in the industries in which Nuvo operates;
- the Company's ability to meet its debt commitments;
- the impact of unexpected product liability matters;
- the impact of changes in relationships with customers and suppliers;
- the degree of intellectual property protection currently afforded to the Company's products;
- the degree of market acceptance of the Company's products;
- changes in prevailing economic conditions;
- developments and changes in applicable laws and regulations; and

- such other factors discussed under “Risk Factors” in the Company’s most recent annual information form dated March 28, 2019 (the AIF).

If any risks or uncertainties with respect to the above materialize, or if the opinions, estimates or assumptions underlying the forward-looking statements prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking statements. The opinions, estimates or assumptions referred to above and described in greater detail under “Risk Factors” in the AIF should be considered carefully by readers. Although management has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known that management believes are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements.

Certain statements included in this MD&A may be considered a “financial outlook” for purposes of applicable Canadian securities laws, and as such, the financial outlook may not be appropriate for purposes other than this document. All forward-looking statements are based only on information currently available to the Company and are made as of the date of this MD&A. Except as expressly required by applicable Canadian securities law, the Company assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this MD&A are qualified by these cautionary statements.

Overview

Nuvo is a publicly traded, Canadian focused, healthcare company with global reach and a diversified portfolio of commercial products. The Company targets several therapeutic areas, including pain, allergy and dermatology. The Company’s strategy is to in-license and acquire growth-oriented, complementary products for Canadian and international markets and to out-license select products in global markets. Nuvo’s head office is located in Mississauga, Ontario, Canada, the international operations are located in Dublin, Ireland and its manufacturing facility is located in Varennes, Québec, Canada. The Varennes manufacturing facility is approved by the U.S. Food and Drug Administration (FDA), Health Canada and the European Commission.

As at December 31, 2018, the Company employed a total of 97 full-time employees across its manufacturing facility in Varennes, Quebec, corporate offices in Mississauga, Ontario and international headquarters in Dublin, Ireland.

Growth Strategy

The Company intends to further expand its Canadian and international businesses through organic growth of existing products, targeted in-licensing and acquisition opportunities which leverage the Company’s in house commercial, scientific and manufacturing infrastructure and out-licensing of distribution rights for select products in global markets. The Company will continue to have a direct commercial presence in Canada and utilize a network of license and distribution partners for ex-Canadian markets.

Significant Transactions

2018

The Aralez Transaction

On September 19, 2018, the Company announced the signing of a definitive binding asset purchase agreement (the Asset Purchase Agreement) and a definitive binding share purchase agreement (the Share Purchase Agreement, and together with the Asset Purchase Agreement, the Purchase Agreements) with Aralez Pharmaceuticals Inc. (Aralez) to acquire a portfolio of more than 20 revenue-generating products, as well as the associated personnel and infrastructure to continue the products' management and growth (the Aralez Transaction).

On August 10, 2018, Aralez, along with its Canadian subsidiary, Aralez Pharmaceuticals Canada Inc. (Aralez Canada), commenced voluntary proceedings under Canada's *Companies' Creditors Arrangement Act* (the CCAA) in the Ontario Superior Court of Justice (the Ontario Court). In addition, certain other subsidiaries of Aralez

voluntarily filed petitions under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York (together with the Ontario Court, the Courts) (the Bankruptcy Proceedings).

As part of the Bankruptcy Proceedings, Aralez and its subsidiaries conducted a sale process in accordance with bidding procedures approved by the Courts to pursue a sale or sales of their respective assets in accordance with the bidding procedures. The Purchase Agreements served as "stalking horse" bids in the sale process and entitled Nuvo to a customary termination fee and expense reimbursement if it was not ultimately the successful bidder in the process. On November 29, 2018, Nuvo was informed by Aralez that its bids pursuant to the terms of the Purchase Agreements were determined to be the successful bids under the Court approved bidding procedures. The Courts approved the Aralez Transaction in December 2018.

On December 31, 2018, the Company announced the closing of the Aralez Transaction. The Aralez Transaction included the acquisition of Aralez Canada, a growing business that includes the products Cambia®, Blexten® and the Canadian distribution rights to Resultz®, and will create a platform for the Company to acquire and launch additional commercial products in Canada. The Company also acquired the worldwide rights and royalties from licensees for Vimovo®, Yosprala™ and global, ex-U.S. product rights to Suvexx™. In connection with the closing of the Aralez Transaction, the CCAA proceedings of Aralez Canada were terminated pursuant to an order of the Ontario Court.

The aggregate purchase price paid by the Company to Aralez at closing of the Aralez Transaction was US$105.1 million (inclusive of a US$4.4 million deposit previously paid and subject to certain working capital and indebtedness adjustments). The Company satisfied the purchase price through funding provided by certain funds managed by Deerfield Management Company, L.P. (Deerfield), a leading, global, healthcare-specialized investor.

In connection with the closing of the Aralez Transaction, the Company obtained representation and warranty insurance to cover any potential breach of the representations and warranties provided to the Company under the Purchase Agreements, as the Purchase Agreements did not include indemnification provisions given that the Aralez Transaction occurred in connection with the Bankruptcy Proceedings. The representation and warranties insurance policy (the RWI Policy) provides coverage of up to $10.0 million and a deductible of $1.1 million, which drops to $0.6 million after 12 months under certain circumstances, and is subject to certain exclusions.

The Deerfield Financing

On December 31, 2018, the Company and Nuvo Pharmaceuticals (Ireland) DAC (Nuvo Ireland), as borrowers, and Aralez Canada, as guarantor, entered into a facility agreement (the Deerfield Facility Agreement) with Deerfield Private Design Fund III, L.P., as agent (the Agent) and certain funds managed by Deerfield, as lenders (collectively, the Lenders) to fund the purchase price of the Aralez Transaction (the Deerfield Financing).

The Deerfield Financing consists of (i) a 6-year, amortizing loan made available to Nuvo Ireland in the principal amount of US$60 million with an interest rate of 3.5% per annum (the Amortization Loan), (ii) an 18-month bridge loan made available to the Company in the principal amount of US$6.0 million with an interest rate of 12.5% per annum (the Bridge Loan), (iii) a 6-year, convertible loan made available to the Company in the principal amount of US$52.5 million with an interest rate of 3.5% per annum, initially convertible into 19,444,444 Common Shares of the Company at a conversion price of US$2.70 (the Convertible Notes) (the Convertible Loan and, together with the Amortization Loan and the Bridge Loan, the Deerfield Loans), and (iv) approximately 25,555,556 million common share purchase warrants, each such warrant initially exercisable for one common share of the Company for a period of six years from the date of issuance at an exercise price of $3.53 per share (the Warrants).

The Amortization Loan proceeds were used by Nuvo Ireland to fund the purchase price under the Asset Purchase Agreement and the transaction expenses related thereto. Pursuant to the Deerfield Facility Agreement, the loan notes issued to the Lenders in relation to the Amortization Loan were admitted to listing on a recognized stock exchange and be quoted "Eurobonds" within the meaning of section 64(1) of the *Tax Consolidation Act 1997* (Ireland) in March 2019. The proceeds of the Convertible Loan and a portion of the proceeds from the issuance of the Warrants were used by the Company to fund the purchase price under the Share Purchase Agreement and the transaction expenses related thereto. The proceeds of the Bridge Loan and the balance of the proceeds from the issuance of the Warrants are available to fund the Company's working capital and general corporate purposes, including transactional expenses. In connection with the closing of the Deerfield Financing, the Company's existing undrawn operating facility with RBC was terminated.

The issuance of Common Shares of the Company upon the conversion of the Convertible Notes and the exercise of the Warrants was subject to Shareholder approval under the rules of the Toronto Stock Exchange (TSX). Pursuant to the rules of the TSX, the Company obtained written consents from shareholders holding, in the aggregate, more than 50% of the Company's issued and outstanding Common Shares approving the issuance of such Common Shares upon the conversion of the Convertible Notes and exercise of the Warrants.

The Deerfield Facility Agreement contains customary representations and warranties and affirmative and negative covenants, including, among other things, limitations on asset sales, mergers and acquisitions, indebtedness, liens and dividends. In addition, the Company is subject to an annual financial covenant based on minimum levels of net sales per fiscal year and a mandatory quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable so long as US$10.0 million in prepayments have been made over such four fiscal quarters. The mandatory quarterly prepayments are first applied to the Bridge Loan, which is at a higher interest rate than the Amortization Loan.

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

The Deerfield Facility Agreement contains customary events of default, including an event of default upon certain circumstances constituting a change of control of, or other fundamental transactions relating to the Company, subject to specific exceptions and as more specifically set out in the Deerfield Facility Agreement. Failure to comply with the terms of the Deerfield Facility Agreement would entitle the Agent and the Lenders to accelerate all amounts outstanding under the Deerfield Loans, and upon such acceleration, the Agent and the Lenders would be entitled to enforce on the security granted by each of the Company, Nuvo Ireland and Aralez Canada. The Lenders would then be repaid in full from the proceeds of all available assets prior to the repayment of claims of any unsecured creditors or equity holders.

In connection with the Deerfield Financing, the Company entered into a registration rights agreement with Deerfield (the Registration Rights Agreement), pursuant to which the Company has agreed to provide Deerfield with certain demand registration rights and piggy-back registration rights with respect to a sale of securities of the Company.

Acquisition of U.S. Rights to Resultz

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

2017

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

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

form of payments for achieving certain aggregate annual net sales-based milestones. As a result of the Aralez Transaction, Nuvo reacquired the Canadian distribution rights to Resultz on December 31, 2018.

Pennsaid 2% Out-licensing

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

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

Key Developments

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

- On October 24, 2018, the Company's licensee in Switzerland, Gebro Pharma AG (Gebro), submitted its marketing authorization application for Pennsaid 2% to Swissmedic, the overseeing Swiss regulatory authority. This submission is the first European market where Pennsaid 2% has been submitted for registration and marks another step in the Company's plans to expand the commercialization of Pennsaid 2% internationally;

- On December 20, 2018, the Company entered into a license and supply agreement with Heumann Pharma GmbH & Co. Generica KG for the exclusive right to distribute, market and sell Resultz® in Germany. Resultz is approved in Germany as a class one medical device for the human treatment of head lice infestation. Nuvo Ireland will receive upfront consideration, milestone payments, royalties on net sales of Resultz in Germany and will earn revenue from Heumann pursuant to an exclusive supply agreement;

- On December 31, 2018, the Company announced the closing of the previously announced acquisition of a portfolio of more than 20 revenue-generating products from Aralez Pharmaceuticals Inc.;

- On January 3, 2019, the Company announced the appointment of Rob Harris as its Executive Chairman. Mr. Harris joined Nuvo's board of directors in May 2017 and was previously the co-founder and Chief Executive Officer of Tribute Pharmaceuticals Inc. (Tribute), formerly a Toronto Stock Exchange listed company. Mr. Harris assumes the Executive Chairman role from John London who will become the Company's non-executive Vice-Chairman. Both Mr. Harris and Mr. London will continue as members of the Nuvo board; and

- On March 11, 2019, the Company announced that it had obtained consents from shareholders of the Company holding, in the aggregate, more than 50% of the Company's issued and outstanding Common Shares, approving the issuance by the Company of Common Shares pursuant to the conversion of convertible notes and the exercise of warrants, which were issued to certain funds managed by Deerfield Management Company, L.P. in connection with the previously announced closing of the Aralez Transaction.

Commercial Products

Products Out-licensed or Manufactured by Nuvo

Pennsaid 2%

Pennsaid 2% is a follow-on product to original Pennsaid (described below). Pennsaid 2% is a topical pain product that combines a dimethyl sulfoxide (DMSO) based transdermal carrier with 2% diclofenac sodium, a leading nonsteroidal anti-inflammatory drug (NSAID), compared to 1.5% for original Pennsaid. It is more viscous than

original Pennsaid, is supplied in a metered dose pump bottle and has been approved in the U.S. for twice daily dosing compared to four times a day for Pennsaid. This provides Pennsaid 2% with potential advantages over Pennsaid and other competitor products and with patent protection. Nuvo owns the worldwide rights to Pennsaid 2%, except with respect to the United States, which is owned by Horizon.

Pennsaid 2%

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

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

(1) Regulatory approval not yet received in territory.

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

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

Pennsaid 2% - United States

Pennsaid 2% was approved on January 16, 2014 in the U.S. and launched by Mallinckrodt Inc. (Mallinckrodt) in February 2014 for the treatment of 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 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, Pennsaid 2% was originally licensed to Mallinckrodt. In September 2014, the Company reached a settlement related to its litigation with Mallinckrodt. Under the terms of the settlement agreement, Mallinckrodt returned the U.S. sales and marketing rights to Pennsaid 2% to Nuvo. In October 2014, Nuvo sold the U.S. rights to Pennsaid 2% to Horizon for US$45.0 million. Under the terms of this agreement, the Company earns revenue from product sales of Pennsaid 2% to Horizon.

Nuvo records revenue from Horizon when it ships Pennsaid 2% commercial bottles and product samples to Horizon for the U.S. market. The Company earns product revenue from Horizon pursuant to a long-term, exclusive supply agreement, as well as contract service revenue. The timing of Nuvo shipments to Horizon does not necessarily align with when U.S. patients fill prescriptions written by their physicians. Horizon's orders from Nuvo are influenced by Horizon's management strategies and inventory levels, as well as U.S. market demand for commercial product.

Pennsaid 2% - Rest of World

Paladin has exclusive rights to market and sell Pennsaid 2% in Canada. In November 2014, the Company reacquired from Paladin the rights to market Pennsaid 2% in South America, Central America, South Africa and Israel. As consideration for these rights, Nuvo provided its authorization to Paladin to market, sell and distribute an authorized generic version of Pennsaid in Canada. Pennsaid 2% has not been approved or commercially launched in any of these territories.

NovaMedica has exclusive rights to sell and market Pennsaid 2% and Pennsaid in Russia and some of the Commonwealth of Independent States (CIS). 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. Pennsaid 2% has not yet been commercially launched in Russia.

Sayre Therapeutics has the exclusive rights to distribute, market and sell Pennsaid 2% in India, Sri Lanka, Bangladesh and Nepal. Sayre Therapeutics filed their application for regulatory approval with the Drug Controller General of India in December 2017. After some review delays with the Drug Controller General of India, it is anticipated that a review decision will be made in the second half of 2019. If regulatory approval is obtained as anticipated, the Company expects commercial launches of Pennsaid 2% will commence in the second half of 2019. Nuvo will supply Pennsaid 2% to Sayre Therapeutics on an exclusive basis from its manufacturing facility in Varennes, Québec.

Gebro Pharma has the exclusive rights to register, distribute, market and sell Pennsaid 2% in Switzerland and Liechtenstein. In October 2018, Gebro Pharma submitted its marketing authorization application for Pennsaid 2% to Swissmedic, the overseeing Swiss regulatory authority. The Company expects to receive feedback from Swissmedic in 2020. The Company is eligible to receive milestone payments and royalties on net sales of Pennsaid 2% in Switzerland and Liechtenstein and will earn product revenue from Gebro Pharma pursuant to an exclusive supply agreement.

Pennsaid 2% - Unlicensed Territories

The following table summarizes the intellectual property for unlicensed Pennsaid 2% territories:

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

The Company intends to pursue Pennsaid 2% registrations in select European territories that will accept the existing clinical and technical data package. The Company will submit a regulatory submission for Pennsaid 2% to the Austrian Agency for Health and Food Safety (AGES) during the first half of 2019.

Pennsaid

Pennsaid, the Company's first commercialized topical pain product, is used to treat the signs and symptoms of OA of the knee. Pennsaid is a combination of a DMSO-based transdermal carrier and 1.5% diclofenac sodium and delivers the active drug through the skin at the site of pain. While conventional oral NSAIDs expose patients to potentially serious systemic side effects such as gastrointestinal bleeding and cardiovascular risks, Nuvo's clinical trials suggest that some of these systemic side effects occur less frequently with topically applied Pennsaid.

Pennsaid Commercial Partners

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

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

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

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

United States
The Company acquired the U.S. product and intellectual property rights from Piedmont in January 2018. Resultz was cleared as a Class 1 medical device by the FDA in May 2017 and has not yet been commercially launched in the U.S. Nuvo has initiated discussions with potential licensees to commercialize Resultz in the U.S.

Rest of World
The Company acquired the global, ex-U.S. product and intellectual property rights from Piedmont in December 2017. Resultz is approved and marketed in France, Spain, Portugal, Belgium, Germany, Ireland, the United Kingdom, Canada, Russia, Australia and Israel, through a network of existing license agreements and global licensees which include Reckitt Benckiser, Fagron and Heumann. Resultz is also pending registration in Japan, where the local license is held by Sato Pharmaceutical Co. Ltd. Resultz is a CE marked, Class 1 Medical Device – non-prescription (excluding Canada where Resultz is a non-prescription drug).

Fagron has the exclusive rights to register, market, sell and distribute Resultz in Belgium, the Netherlands and Luxembourg (BeNeLux) as a class one medical device for the human treatment of head lice infestation. Resultz is already cleared for marketing in BeNeLux. Nuvo Ireland received upfront consideration, is eligible to receive royalties on net sales of Resultz in BeNeLux and will earn revenue from Fagron pursuant to an exclusive supply agreement. Fagron launched Resultz in BeNeLux in the second half of 2018. Resultz is currently manufactured by the Company's contract manufacturing partner in Belgium. Nuvo Ireland immediately began to earn royalty revenue under this agreement with Fagron.

Heumann has the exclusive rights to market, sell and distribute Resultz in Germany. Resultz is approved in Germany as a class one medical device for the human treatment of head lice infestation. Nuvo Ireland received upfront consideration, is eligible to receive milestone payments and royalties on net sales of Resultz in Germany and will earn revenue from Heumann pursuant to an exclusive supply agreement. Resultz is currently manufactured by the Company's contract manufacturing partner in Belgium.

As a result of the acquisition of Aralez Canada, the Company reacquired the exclusive rights to market, sell and distribute Resultz in Canada.

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

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Resultz	Treatment of Head Lice	Aralez Canada	Canada	Two patents granted in Canada expiring in 2023.
		Fagron Belgium NV	Belgium, Netherlands, Luxembourg	Two patents granted in Belgium expiring in 2023. One patent granted in each of the Netherlands and Luxembourg expiring in 2023.
		Heumann Pharma GmbH & Co. Generica KG	Germany	Two patents granted in Germany expiring in 2023
		Reckitt Benckiser (Brands) Limited	United Kingdom, Ireland, France, Spain, Russia, Belarus, Portugal, Australia	Two patents granted in each of the United Kingdom, Ireland, France, Spain, Portugal, and Australia expiring in 2023.
		Sato Pharmaceutical Co., Ltd.[(1)]	Japan	One patent granted in Japan expiring in 2023.

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

The following table summarizes the intellectual property for unlicensed Resultz territories:

Product	Therapeutic Area	Intellectual Property
Resultz	Treatment of Head Lice	Patents granted in China (2), Denmark, Greece, India, Italy (2), Monaco, Mexico, New Zealand, Philippines, Sweden and Switzerland expiring in 2023. Two issued US patents with the latest expiring in 2024. One Brazilian patent expiring 2028.

Heated Lidocaine/Tetracaine 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 CHADD unit generates gentle heating of the skin and in a well-controlled clinical trial has 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 for its currently approved indication is applied to the skin 20 to 30 minutes prior to painful medical procedures, such as venous access, blood draws, needle injections and minor dermatologic surgical procedures.

HLT Patch Commercial Partners:

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

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

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

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

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

Suvexx/Treximet

Suvexx/Treximet (sumatriptan/naproxen sodium) is a migraine medicine that was developed by Aralez's wholly owned subsidiary POZEN, Inc. (POZEN) in collaboration with Glaxo Group Limited, d/b/a GSK. The product is formulated with POZEN's patented technology (now owned by Nuvo) of combining a triptan, sumatriptan 85 mg, with an NSAID, naproxen sodium 500 mg and GSK's RT Technology in a single tablet. In 2008, the FDA approved Treximet (the U.S. brand name) for the acute treatment of migraine attacks, with or without aura, in adults. Treximet is currently available in the United States only.

The following table summarizes where Nuvo Ireland has partnered Suvexx/Treximet or are working to obtain regulatory approval:

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territories	Intellectual Property
Suvexx[(1)]	Migraine Headaches	Aralez Pharmaceuticals Canada Inc.	Canada[(2)]	One patent granted in Canada to 2023.
Treximet[(1)]		Pernix Ireland Ltd.	U.S.	One patent granted in U.S. to 2025.

(1) Suvexx and Treximet are the brand names in their respective jurisdiction.
(2) Anticipate NDS submission in the first half of 2019.

The following table summarizes the intellectual property for unlicensed Suvexx territories:

Product	Therapeutic Area	Intellectual Property
Treximet	Migraine Headaches	Patents granted in AU, AL, AT, BE, BG, CH, CY, CZ, DE, DK, EE, ES, FI, FR, GB, GR, HU, IE, IT, LT, LU, LV, MC, MK, NL, PT, RO, SE, SI, SK, TR, IL, JP, MX, and NO expiring 2023.

Vimovo

Vimovo (naproxen/esomeprazole magnesium) is the brand name for a proprietary fixed-dose combination of enteric-coated naproxen, a pain-relieving NSAID, and immediate-release esomeprazole magnesium, a proton pump inhibitor (PPI), in a single delayed-release tablet. POZEN developed Vimovo in collaboration with AstraZeneca. On April 30, 2010, the FDA approved Vimovo for the relief of the signs and symptoms of OA, rheumatoid arthritis, and ankylosing spondylitis and to decrease the risk of developing gastric ulcers in patients at risk of developing NSAID-associated gastric ulcers. Vimovo is currently commercialized in the U.S. by Horizon and by Grunenthal GmbH (Grunenthal) in various rest of world territories, including Canada, Europe and select additional countries.

Grunenthal will continue to have rights to commercialize Vimovo outside of the United States and Japan and pays the Company a 10% royalty on net sales. Grunenthal's royalty payment obligation with respect to Vimovo expires on a country-by country basis upon the later of (a) expiration of the last-to-expire of certain patent rights related to Vimovo in that country, and (b) ten years after the first commercial sale of Vimovo in such country. The royalty rate may be reduced to the mid-single digits in the event of a loss of market share as a result of certain competing products. As the result of an unfavourable outcome in certain patent litigation in Canada, Mylan's generic naproxen/esomeprazole magnesium tablets became available in Canada in May 2017 and this generic entry will reduce the Company's royalty rate in Canada in the future.

Under the terms of the license agreement with Horizon, the Company receives a 10% royalty on net sales of Vimovo sold in the United States, with guaranteed annual minimum royalty payments of US$7.5 million. The guaranteed annual minimum royalty payments are applicable for each calendar year that certain patents which cover Vimovo are in effect and certain types of competing products are not on the market in the United States. Horizon's royalty payment obligation with respect to Vimovo expires on the later of (a) the last to expire of certain patents covering Vimovo, and (b) ten years after the first commercial sale of Vimovo in the United States. The royalty rate may be

reduced to the mid-single digits in the event of a loss of market share as a result of certain competing products. In June 2017, the District Court upheld the validity of two patents owned by Nuvo Ireland and licensed to Horizon covering Vimovo in the United States. Subject to a successful appeal of the decision by the generic competitors party to the suit, this decision is expected to delay generic entry until the expiration of the applicable patents. There is ongoing litigation with respect to other patents covering Vimovo, which if the Company is successful (and subject to a provisional license granted to Actavis effective January 1, 2025), would further prevent generic entry by the remaining generic competitors until March 2031. In February 2018, the Company entered into an amendment to its license agreement with Horizon for Vimovo in the United States that allows Horizon to settle such litigation without the Company's consent in certain circumstances. The Company anticipates that the annual minimum royalty payments will continue to 2022 – the patent life of the product.

The following table summarizes where Nuvo Ireland's partners have commercialized Vimovo or are working to obtain regulatory approval:

Brand	Therapeutic Areas	Licensee or Distributor	Licensed Territories	Intellectual Property
Vimovo	Osteoarthritis/ Rheumatoid Arthritis Pain Relief	Horizon Pharma plc	U.S.	Ten granted U.S. patents listed in the FDA's Orange Book with latest expiry in 2031. Additional patents and pending applications through 2030.
		Grunenthal GmbH	Worldwide (except U.S. and Japan)	Three granted Canadian patents with latest expiry in 2030. European patents granted in AT, BE, CH, CY, DE, DK, ES, FI, FR, GB, GR, IE, IT, LU, MC, NL, PT, SE, TR, and NO expiring 2022. SPCs are pending or granted to 2025/26 in AT, BE, CH, DE, DK, ES, FI, GB, GR, IE, IT, LU, NL, PT, SE and NO. One patent granted in Eurasia[(1)] to 2022. One patent granted in Israel to 2022. One patent granted in Mexico to 2022. Three patents granted in Australia to 2022. Pending European and Brazilian applications through 2030.

(1) Eurasian patent validated in multiple states including Russia.

The following table summarizes the intellectual property for unlicensed Vimovo territories:

Product	Therapeutic Areas	Intellectual Property
Vimovo	Osteoarthritis/ Rheumatoid Arthritis Pain Relief	One patent granted in Japan to 2022.

Yosprala

Yosprala is currently the only prescription fixed-dose combination of aspirin (acetylsalicylic acid), an anti-platelet agent, and omeprazole, a proton-pump inhibitor (PPI), in the U.S. It is indicated for patients who require aspirin for secondary prevention of cardiovascular and cerebrovascular events and who are at risk of developing aspirin associated gastric ulcers. Yosprala is designed to support both cardio- and gastro-protection for at-risk patients through the proprietary Intelli-COAT system, which is formulated to sequentially deliver immediate-release omeprazole (40 mg) followed by a delayed-release, enteric-coated aspirin core in either 81 mg or 325 mg dose strengths. Yosprala received FDA approval for Yosprala in September 2016 and was commercially launched in the U.S. in October 2016. Yosprala is currently commercialized in the U.S. by Genus Lifesciences. The Company will receive a low single digit royalty on net sales by Genus in the U.S. until July 2023.

The following table summarizes where Nuvo Ireland's partners have commercialized Yosprala or are working to obtain regulatory approval:

Brand	Therapeutic Areas	Licensee or Distributor	Licensed Territories	Intellectual Property
Yosprala	Secondary prevention of cardiovascular and cerebrovascular events	Genus Lifesciences Inc.	U.S.	Three patents granted in U.S. latest expiring 2023.[(1)]
		Takeda Pharmaceutical Company Limited	Japan	One patent granted in Japan expiring 2022.

[(1)] Genus owns additional U.S. patents or patent applications covering Yosprala.

The following table summarizes the intellectual property for unlicensed Yosprala territories:

Product	Therapeutic Areas	Intellectual Property
Yosprala	Secondary prevention of cardiovascular and cerebrovascular events	Patents granted in AU, CA, EA*, AT, BE, CH, CY, DE, DK, ES, FI, FR, GB, GR, IE, IT, LU, MC, NL, PT, SE, TR, IL, MX, and NO expiring 2022. SPCs are pending or granted to 2025/26 in AT, BE, CH, DE, DK, ES, FI, GB, GR, IE, IT, LU, NL, PT, SE and NO. Patents granted in AU, EA*, NZ and ZA expiring 2030. Patents granted in EA* and UA expiring 2031. Applications pending in BR, AE, CA, EP ID (allowed) and MX latest expiring 2032.

* Validated in multiple states

Products Commercialized by Nuvo

Blexten

Blexten is a second generation antihistamine drug for the symptomatic relief of allergic rhinitis and chronic spontaneous urticaria. Blexten exerts its effect as a selective histamine H1 receptor antagonist and has an effectiveness comparable to cetirizine and desloratadine. In comparative studies Blexten demonstrated somnolence rates similar to placebo representing a potentially non-sedating effect at therapeutic doses. It was developed in Spain by Faes Farma, S.A. (Faes) Bilastine is approved in Canada and over 100 countries worldwide including Japan and most European countries. In 2014, Aralez Canada entered into an exclusive license and supply agreement with Faes, for the exclusive right to sell bilastine in Canada, which is now named Blexten in Canada. The exclusive license is inclusive of prescription and non-prescription rights for Blexten, as well as adult and pediatric presentations in Canada.

In April 2016, Health Canada approved bilastine with the brand name Blexten (bilastine 20 mg oral tablet) for the treatment of the symptoms of allergic rhinitis and chronic spontaneous urticaria (such as itchiness and hives). Blexten was commercially launched in Canada in December 2016. Aralez Canada will owe milestone payments of approximately $3.5 million to Faes if certain sales targets or other milestone events are achieved over the life of the license and supply agreement term.

The following table summarizes the intellectual property Nuvo has rights to under its license:

Brand	Therapeutic Areas	Licensee or Distributor	Licensed Territory	Intellectual Property
Blexten	Allergies/Urticaria	Aralez Pharmaceuticals Canada Inc.	Canada	One patent granted in Canada to 2022.[(1)]

[(1)] In-licensed Patent.

Cambia

Cambia (diclofenac potassium for oral solution) is an NSAID and is currently the only prescription NSAID approved in Canada for the acute treatment of migraine attacks with or without aura in adults 18 years of age or older. In 2010, Aralez Canada signed a license agreement with Nautilus Neurosciences, Inc. (Nautilus) for the exclusive

rights to develop, register, promote, manufacture, use, market, distribute and sell Cambia in Canada. In 2011, Aralez Canada and Nautilus executed the first amendment to the license agreement, in 2012 executed the second amendment to the license agreement and in 2019 executed a third amendment to the license agreement. The license was assigned by Nautilus to Depomed, Inc. (Depomed) in December 2013. Depomed has subsequently been renamed Assertio Therapeutics Inc. Up to $6.0 million in sales-based milestone payments may be payable over time. Royalty rates are tiered and payable at rates ranging from 22.5% to 27.5% of net sales.

Cambia was approved by Health Canada in March 2012 and was commercially launched to specialists in Canada in October 2012 and broadly to all primary care physicians in February 2013.

The following table summarizes the intellectual property Nuvo has rights to under its license:

Brand	Therapeutic Area	Licensee or Distributor	Licensed Territory	Intellectual Property
Cambia	Migraine Headaches	Aralez Pharmaceuticals Canada Inc.	Canada	Two patents granted in Canada to 2026.[1]

[1] In-licensed Patent.

Other Commercialized Products
Pursuant to the Aralez Transaction, the Company acquired an additional portfolio of products which target a variety of therapeutic areas. The brands are: Bezalip® SR, Durela®, NeoVisc®, Proferrin®, Fiorinal®, Fiorinal® C, Viskazide®, Visken®, Uracyst®, PurFem®, Collatamp® G, PegaLAX®, Mutaflor®, MoviPrep®, Normacol® and Soriatane™.

Product Pipeline

Suvexx
Pursuant to the Aralez Transaction, the Company acquired the global rights to Suvexx. Aralez Canada expects to file a New Drug Submission for Suvexx with Health Canada in the first half of 2019.

Blexten Pediatric
The Company's original license agreement for Blexten included Canadian rights for the pediatric form. Aralez Canada expects to file a Supplemental New Drug Submission for Blexten pediatric with Health Canada in the second half of 2019. Blexten pediatric consists of an oral syrup formulation (10mg/5ml) and an orally dispersible tablet formulation (10mg tablets).

Blexten Ophthalmic
In April 2018, Aralez executed an amendment to add an ophthalmic formulation of Blexten to the portfolio, which is currently under development. The ophthalmic version of Blexten provides physicians the ability to treat patients suffering from ocular symptoms such as itchy, watery or red eyes, related to seasonal allergies with a highly effective, non-drowsy and long-lasting formulation. The Company anticipates filing a New Drug Submission for Blexten ophthalmic with Health Canada in 2020.

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

Selected Financial Information

in thousands, except per share data	**Year ended December 31, 2018** **$**	Year ended December 31, 2017 $
Operations		
Product sales	**17,569**	16,338
License revenue	**2,262**	816
Contract revenue	**167**	369
Total revenue	**19,998**	17,523
Total operating expenses	**26,833**	15,649
Other expenses (income)	**(495)**	292
Income (loss) before income taxes	**(6,340)**	1,582
Income tax expense (recovery)	**(187)**	1
Net income (loss)	**(6,153)**	1,581
Other comprehensive income (loss)	**370**	(3)
Total comprehensive income (loss)	**(5,783)**	1,578
Share Information		
Net income (loss) per Common share		
- basic	**(0.54)**	0.14
- diluted	**(0.54)**	0.12
Average number of Common Shares outstanding		
- basic	**11,443**	11,550
- diluted	**11,443**	11,723
Financial Position		
Cash and cash equivalents	**28,074**	8,398
Short-term investments	**-**	2,000
Total assets	**201,588**	29,918
Accounts payable and accrued liabilities	**20,976**	3,134
Long-term debt, including current portion	**124,207**	-
Derivative financial liabilities	**33,646**	-
Other obligations, including current portion	**1,672**	1,633
Total liabilities	**180,882**	4,767
Total equity	**20,706**	25,151

Adoption of IFRS 15 - Revenue from Contracts with Customers

The Company has adopted IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15) with a date of initial application of January 1, 2018. The Company applied IFRS 15 using the modified retrospective approach, which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 - *Revenue*. The details of the significant changes and quantitative impact of the changes are outlined in Note 4, *"Changes in Accounting Policies"*, in the Company's Consolidated Financial Statements for the year ended December 31, 2018.

Non-IFRS Financial Measures

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

the sum of: cost of goods sold (COGS), research and development (R&D) expenses, general and administrative (G&A) expenses, amortization of intangibles and net interest income. EBITDA refers to net income (loss) from continuing operations determined in accordance with IFRS, before depreciation and amortization, net interest income and income tax expense (recovery). EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. The Company defines Adjusted EBITDA as net income from continuing operations before net interest expense, depreciation and amortization and income tax expense (EBITDA), plus amounts billed to customers for existing contract assets, inventory step-up expense, stock-based compensation expense, other expenses, less revenue recognized upon recognition of a contract asset and other income. 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, debt repayments, interest expense and income taxes. The Company defines Adjusted EBITDA per share as Adjusted EBITDA divided by the number of issued and outstanding Common Shares of the Company as of the date thereof. The Company defines Adjusted Total Revenue as total revenue, plus amounts billed to customers for existing contract assets, less revenue recognized upon recognition of a contract asset. Management believes Adjusted Total Revenue is a useful supplemental measure from which to determine the Company's ability to generate cash from its customer contracts that is used to fund its operations.

Fluctuations in Operating Results

The Company anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including: the level of product sales to the Company's customers, licensees and distributors, the timing and amount of royalties, milestones and other payments made or received pursuant to current and future licensing arrangements, interest costs associated with servicing the Deerfield debt and fluctuations in foreign exchange rates. During the year ended December 31, 2018, the Company earned 79% [December 31, 2017 - 87%] of its product revenue from a single customer, Horizon.

As a result of the Aralez Transaction, the Company's operations have significantly changed. The Company filed a Business Acquisition Report (BAR) on March 15, 2019 under Nuvo's profile on Sedar (www.sedar.com). The BAR provides an overview of the transaction and includes unaudited pro forma combined financial statements and notes thereto of the Company that give effect to the Aralez Transaction and the Deerfield Financing.

Results of Operations

Product Sales

	Year ended December 31, 2018	Year ended December 31, 2017
in thousands	**$**	$
Pennsaid 2%	**13,882**	14,242
Pennsaid	**3,260**	1,966
Resultz	**207**	-
HLT bulk	**220**	130
Total product sales	**17,569**	16,338

Product sales, which represent the Company's sales to licensees and distributors, were $17.6 million for the year ended December 31, 2018 compared to $16.3 million for the year ended December 31, 2017.

Pennsaid 2%

Under the terms of the October 2014 Pennsaid 2% U.S. Sale Agreement, the Company earns revenue from product sales of Pennsaid 2% to Horizon for the U.S. market. Pennsaid 2% product sales were $13.9 million for the year ended December 31, 2018 compared to $14.2 million for the year ended December 31, 2017. Product sales for the current year consisted of $11.1 million of the commercial format and $2.8 million of the physician sample format compared to $10.2 million of the commercial format and $4.0 million of the physician sample format in the comparative year.

Pennsaid
Product sales of Pennsaid were $3.3 million for the year ended December 31, 2018 compared to $2.0 million for the year ended December 31, 2017. Geographically for the years ended December 31, 2018 and 2017, all Pennsaid product sales were generated from the Company's partners in the E.U. and Canada.

Resultz
Product sales of Resultz were $0.2 million for the year ended December 31, 2018.

Significant Customers
During the years ended December 31, 2018 and 2017, the Company sold product in a limited number of markets through exclusive agreements, to a limited number of customers. Concentration of product sales are illustrated in the following table:

in thousands, except percentages	**Year ended December 31, 2018**	Year end December 31, 2017
Four largest customers	**$17,046**	$16,038
% of total product sales	**97%**	98%
Largest customer as % of total product sales	**79%**	87%

Other Revenue

	Year ended December 31, 2018	Year end December 31, 2017
in thousands	**$**	$
License revenue	**2,262**	816
Contract revenue	**167**	369
	2,429	1,185

License revenue totalled $2.3 million for the year ended December 31, 2018 compared to $0.8 million for the year ended December 31, 2017. The Company receives license revenue from Resultz, Pennsaid and the HLT Patch. The Company recognized $1.5 million for Resultz license revenue during the year ended December 31, 2018 compared to $nil for the comparative year.

License revenue has been impacted by the adoption of IFRS 15. See Note 4, *Changes in Accounting Policies,* in the Company's Consolidated Financial Statements for the year ended December 31, 2018, for details of the significant changes and quantitative impact of the changes.

Contract revenue is mainly derived from development services provided by the Company to its partners.

Operating Expenses

	Year ended December 31, 2018	Year end December 31, 2017
in thousands	**$**	$
Cost of goods sold	**8,638**	8,115
Research and development expenses	**-**	571
General and administrative expenses	**16,238**	7,120
Amortization of intangibles	**1,989**	-
Net interest income	**(32)**	(157)
Total operating expenses	**26,833**	15,649

Total operating expenses for the year ended December 31, 2018 were $26.8 million, an increase from $15.6 million for the year ended December 31, 2017.

Cost of Goods Sold
COGS for the year ended December 31, 2018 was $8.6 million compared to $8.1 million for the year ended December 31, 2017. Gross margin on product sales was $8.9 million or 51% for the year ended December 31, 2018 compared to a gross margin of $8.2 million or 50% for the year ended December 31, 2017.

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

Research and Development
The Company incurred $nil expenses for research and development in the year ended December 31, 2018. In the comparative period, the Company incurred costs related to the 2016 Pennsaid 2% Trial for acute pain.

General and Administrative
G&A expenses were $16.2 million for the year ended December 31, 2018 compared to $7.1 million for the year ended December 31, 2017.

The increase in the current year includes $7.7 million for one-time diligence, legal, termination and financing transaction costs related to the Aralez Transaction, $0.7 million of incremental costs related to the transition and establishment of the Resultz business, $0.5 million for scientific and regulatory costs associated with the advancement of the Company's Pennsaid 2% European regulatory strategy and an increase in compensation costs due to increased employee headcount resulting from the strengthening of the executive and senior management team to facilitate the Company's growth strategy.

Amortization of Intangibles
For the year ended December 31, 2018, the Company recognized non-cash costs of $2.0 million in amortization related to the Resultz patents [December 31, 2017 - $nil].

Other Expenses
The ex-U.S. Resultz acquisition included contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in the non-partnered markets. For the year ended December 31, 2018, the Company recognized a $0.5 million gain for the fair value remeasurement of the Company's contingent and variable consideration for changes in estimates, the passage of time and the impact of changes in foreign exchange. Upon close of the Aralez Transaction, the Company reacquired the Canadian distribution rights to Resultz, which resulted in the de-recognition of a contract asset, for which the Company recognized a $0.5 million loss on disposal.

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

	Year ended December 31, 2018	Year end December 31, 2017
in thousands	**$**	$
Net income (loss) before income taxes	**(6,340)**	1,582
Income tax expense (recovery)	**(187)**	1
Net income (loss)	**(6,153)**	1,581
Unrealized gain (loss) on translation of foreign operations	**370**	(3)
Total comprehensive income (loss)	**(5,783)**	1,578

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

Net Income (Loss)
Net loss for the year ended December 31, 2018 was $6.2 million compared to net income of $1.6 million for the year ended December 31, 2017. In the current year, the decrease was primarily attributable to a $9.1 million

increase in G&A expenditures, of which $7.7 million related to Aralez acquisition costs and are considered one-time expenses in nature, a $0.5 million gain on the fair value remeasurement and write-off of the Company's contingent and variable consideration, a $2.0 million increase in amortization related to the Resultz patents and a $0.5 million increase in the loss on disposal of contract assets, offset by an increase in gross margin of $0.7 million, a reduction in R&D expenditures of $0.6 million, an increase in income tax recovery of $0.1 million and an increase in foreign currency gain of $0.8 million.

Total Comprehensive Income (Loss)

Total comprehensive loss for the year ended December 31, 2018 was $5.8 million compared to total comprehensive income of $1.6 million for the year ended December 31, 2017. The current year included unrealized gains of $0.4 million on the translation of foreign operations compared to $3,000 of unrealized losses in the comparative year.

Net Income (Loss) Per Common Share

	Year ended December 31, 2018	Year end December 31, 2017
share figures in thousands	**$**	$
Net income (loss) from per Common Share		
- basic	**(0.54)**	0.14
- diluted	**(0.54)**	0.12
Average number of Common Shares outstanding (in thousands)		
- basic	**11,443**	11,550
- diluted	**11,443**	11,723

Net loss per common share was $0.54 for the year ended December 31, 2018 compared to net income per common share of $0.14 for the year ended December 31, 2017. On a diluted basis, net loss per common share was $0.54 for the year ended December 31, 2018 compared to net income per common share of $0.12 for the year ended December 31, 2017.

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

Operating Segments

IFRS 8 - *Operating Segments* requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. For the year ended December 31, 2018, the Company continued to operate as one industry segment: pharmaceutical and healthcare products. As a result of the Aralez Transaction, the Company is reassessing its operating segments.

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

	Year ended December 31, 2018	Year end December 31, 2017
in thousands	**$**	$
United States	**14,496**	15,084
International	**5,047**	1,888
Canada	**455**	551
	19,998	17,523

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

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

	Year ended December 31, 2018	Year end December 31, 2017
in thousands	**$**	$
Net income (loss)	**(6,153)**	1,581
Add back:		
Income tax expense (recovery)	**(187)**	1
Net interest income	**(32)**	(157)
Depreciation and amortization	**2,493**	258
EBITDA	**(3,879)**	1,683
Add back:		
Amounts billed to customers for existing contract assets	**514**	-
Stock-based compensation	**791**	486
Other Expenses (Income):		
Loss on disposal of contract assets	**452**	-
Change in fair value of contingent and variable consideration	**(518)**	-
Foreign currency loss (gain)	**(429)**	336
Other income	**-**	(44)
Adjusted EBITDA	**(3,069)**	2,461

Adjusted EBITDA decreased to $(3.1) million for the year ended December 31, 2018 compared to $2.5 million for the year ended December 31, 2017. The decrease in Adjusted EBITDA for the current year was primarily attributable to an increase in G&A expenditures, primarily related to $7.7 million of transaction costs related to the Aralez Transaction, partially offset by an increase in gross margin and other revenue.

Liquidity and Capital Resources

	Year ended December 31, 2018	Year end December 31, 2017
in thousands	**$**	$
Net income (loss)	**(6,153)**	1,581
Items not involving current cash flows	**(1,423)**	1,252
Cash provided by (used in) operations	**(7,576)**	2,833
Net change in non-cash working capital	**4,061**	1,658
Cash provided by (used in) operating activities	**(3,515)**	4,491
Cash used in investing activities	**(138,647)**	(5,403)
Cash used in financing activities	**161,031**	5
Effect of exchange rates on cash	**807**	(284)
Net change in cash during the year	**19,676**	(1,191)
Cash beginning of the year	**8,398**	9,589
Cash end of the year	**28,074**	8,398
Short-term investments	**-**	2,000
Cash and short-term investments	**28,074**	10,398

Cash and Short-term Investments
Cash and short-term investments were $28.1 million as at December 31, 2018 compared to $10.4 million as at December 31, 2017. The increase in cash and cash equivalents was primarily due to the $21.9 million (US$16.1 million) net of cash received from Deerfield upon the closing of the Aralez Transaction, offset by the $1.9 million (US$1.5 million) paid to Piedmont to acquire the U.S. product and IP rights to Resultz.

Operating Activities
Cash used in operations was $7.6 million for the year ended December 31, 2018 compared to cash provided by operations of $2.8 million for the year ended December 31, 2017.

Overall cash used in operating activities decreased to $3.5 million for the year ended December 31, 2018 compared to cash provided by operating activities of $4.5 million for the year ended December 31, 2017. In the current year, the $4.1 million provided by non-cash working capital changes was primarily attributable to a $6.1 million increase in accounts payable and accrued liabilities, partially offset by a $1.4 million increase in accounts receivable net of a $0.4 million decrease in contract assets, a $0.2 million increase in inventories and a $0.8 million increase in other current assets. In the comparative year, the $1.7 million recovery of non-cash working capital was primarily attributable to a $0.5 million decrease in accounts receivable, a $1.3 million decrease in inventories and a $1.1 million decrease in current assets, partially offset by a $1.2 million decrease in accounts payable and accrued liabilities.

Investing Activities
Net cash used in investing activities was $138.6 million for the year ended December 31, 2018 compared to net cash used in investing activities of $5.4 million for the year ended December 31, 2017. The increase in cash used in investing activities includes $138.5 million (US$105.1 million) of the funds paid on December 31, 2018 for the Aralez Transaction, as well as $2.0 million received from the disposal of short-term investments, partially offset by the $1.9 million (US$1.5 million) paid to Piedmont to acquire the U.S. product and IP rights to Resultz. In the current and comparative periods, cash used for investing activities included the acquisition of property, plant and equipment for the production and laboratory equipment acquired by the Company's manufacturing facility.

Financing Activities
Net cash provided by financing activities was $161.0 million for the year ended December 31, 2018 compared to net cash provided by financing activities of $5,000 for the year ended December 31, 2017. The increase in cash provided by financing activities was largely attributable to the $161.7 million (US$118.5 million) financing received from Deerfield for the Aralez Transaction, partially offset by the $0.7 million used to purchase 235,543 of the Company's outstanding Common Shares. All Common Shares acquired by Nuvo were cancelled.

Selected Quarterly Information

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

	Q1 2018	Q2 2018	Q3 2018	**Q4 2018**	Total 2018
in thousands, except per share data	$	$	$	**$**	$
Product sales	3,755	5,349	4,456	**4,009**	17,569
License revenue	640	472	592	**558**	2,262
Contract revenue	36	54	37	**40**	167
Cost of goods sold	1,922	2,330	2,185	**2,201**	8,638
Research and development expenses	1	-	-	**(1)**	-
General and administrative expense	2,434	1,877	4,517	**7,410**	16,238
Amortization of intangibles	513	497	491	**488**	1,989
Net interest expense (income)	(21)	(9)	(7)	**5**	(32)
Other expenses (income)	(75)	80	301	**(801)**	(495)
Net income (loss)	(169)	1,054	(2,407)	**(4,631)**	(6,153)
Net income (loss) per common share					
- basic	(0.01)	0.09	(0.21)	**(0.41)**	(0.54)
- diluted	(0.01)	0.09	(0.21)	**(0.41)**	(0.54)

	Q1 2017[(1)]	Q2 2017[(1)]	Q3 2017[(1)]	Q4 2017[(1)]	Total 2017[(1)]
	$	$	$	$	$
Product sales	6,653	2,786	2,700	4,199	16,338
License revenue	222	176	199	219	816
Contract revenue	107	138	57	67	369
Cost of goods sold	2,772	1,451	1,615	2,277	8,115
Research and development expenses	311	186	38	36	571
General and administrative expense	1,671	1,644	1,445	2,360	7,120
Net interest income	(38)	(34)	(46)	(39)	(157)
Other expenses (income)	70	56	129	37	292
Net income (loss)	2,196	(203)	(226)	(186)	1,581
Net income per common share (loss)					
- basic	0.19	(0.02)	(0.02)	(0.02)	0.14
- diluted	0.19	(0.02)	(0.02)	(0.02)	0.12

(1) Balances using previous accounting policy, IAS 18 - *Revenue*.

Fourth Quarter Results

	Three months ended December 31, 2018	Three months ended December 31, 2017
in thousands	**$**	$
Product sales	**4,009**	4,199
License revenue	**558**	219
Contract revenue	**40**	67
Total revenue	**4,607**	4,485
Cost of goods sold	**2,201**	2,277
Research and development	**(1)**	36
General and administrative expenses	**7,410**	2,360
Amortization of intangibles	**488**	-
Net interest expense (income)	**5**	(39)
Total operating expenses	**10,103**	4,634
Income tax expense (recovery)	**(64)**	-
Other expenses (income)	**(801)**	37
Net income (loss)	**(4,631)**	(186)
Other comprehensive income (loss)	**420**	(2)
Total comprehensive income (loss)	**(4,211)**	(188)

Operating Results

Total revenue for the three months ended December 31, 2018 was $4.6 million compared to $4.5 million for the three months ended December 31, 2017. The increase in revenue was primarily related to a $0.9 million increase in Pennsaid product sales, a $0.3 million increase in Resultz license revenue, a $0.1 million increase in Resultz product sales and a $0.1 million increase in HLT product sales, offset by a $1.2 million decrease in Pennsaid 2% product sales.

Total operating expenses for the three months ended December 31, 2018 increased to $10.1 million compared to $4.6 million for the three months ended December 31, 2017. The increase in operating expenses was primarily attributable to an increase in G&A and amortization of intangibles, partially offset by a decrease in COGS and R&D expenses.

COGS for the three months ended December 31, 2018 was $2.2 million compared to $2.3 million for the three months ended December 31, 2017. The decrease in COGS was primarily related to a decrease in Pennsaid 2% product sales. The decrease in product sales reduced the gross margin on product sales to $1.8 million or 45% for the three months ended December 31, 2018 compared to $1.9 million or 46% for the three months ended December 31, 2017.

R&D expenses decreased to $(1,000) for the three months ended December 31, 2018 compared to $36,000 for the three months ended December 31, 2017. The comparative quarter included costs associated with the 2016 Pennsaid 2% Trial for the treatment of acute ankle sprains.

G&A expenses increased to $7.4 million for the three months ended December 31, 2018 compared to $2.4 million for the three months ended December 31, 2017. The increase in the current quarter of $5.0 million was primarily related to an increase in one time transaction fees related to the Aralez Transaction.

Net interest expense was $5,000 for the three months ended December 31, 2018 compared to net interest income of $39,000 for the three months ended December 31, 2017.

Other expenses (income) primarily consists of net foreign currency gains or losses in both the current and comparative quarter which will vary based on fluctuations in foreign currency rates.

Net loss was $4.6 million for the three months ended December 31, 2018 compared to a net loss of $0.2 million for the three months ended December 31, 2017. The increase in net loss was primarily related to an increase in G&A expenses and amortization of intangibles.

Liquidity

	Three months ended December 31, 2018	Three months ended December 31, 2017
in thousands	**$**	$
Net income (loss)	**(4,631)**	(186)
Items not involving current cash flows	**(4,005)**	239
Cash provided by operations	**(8,636)**	53
Net change in non-cash working capital	**2,973**	3,015
Cash provided by (used in) operating activities	**(5,663)**	3,068
Cash used in investing activities	**(132,795)**	(10,432)
Cash (used in) provided by financing activities	**161,693**	(1)
	23,235	(7,365)
Effect of exchange rates on cash	**751**	34
Net change in cash	**23,986**	(7,331)
Cash, beginning of period	**4,088**	15,729
Cash, end of period	**28,074**	8,398
Short-term investments	**-**	2,000
Cash and short-term investments	**28,074**	10,398

Cash was $28.1 million as at December 31, 2018, an increase of $24.0 million compared to $4.1 million at September 30, 2018. The increase was primarily related to the $21.9 million (US$16.1 million) net cash acquired from Deerfield upon the closing of the Aralez Transaction.

Cash used in operating activities was $5.7 million for the three months ended December 31, 2018 compared to cash provided by operating activities of $3.1 million for the three months ended December 31, 2017. In the current quarter, an increase in cash used in operations was offset by a $1.7 million recovery in non-cash working capital.

In the current quarter, the $3.0 million recovery in non-cash working capital was primarily related to a $5.0 million increase in accounts payable and accrued liabilities, partially offset by a $1.3 million increase in accounts receivable, a $0.1 million increase in inventories and a $0.6 million increase in other current assets. In the comparative quarter, the $3.0 million recovery in non-cash working capital was primarily related to a $1.0 million decrease in accounts receivable due to lower product sales in the fourth quarter of 2017 and a $0.5 million decrease in inventories. Additionally, other current assets decreased by $0.8 million and accounts payable increased by $0.7 million.

Net cash used in investing activities was $132.8 million for the three months ended December 31, 2018 compared to net cash used in investing activities of $10.4 million for the three months ended December 31, 2017. The increase was primarily related to the $138.5 million of the funds paid for the Aralez Transaction. In the comparative quarter, Nuvo acquired the global, ex-U.S. product and intellectual property rights to Resultz from Piedmont. Under the terms of the agreement, Nuvo paid US$7.0 million ($8.8 million) on close to Piedmont from cash on hand.

Net cash provided by financing activities was $161.7 million for the three months ended December 31, 2018 compared to net cash used in financing activities of $1,000 for the three months ended December 31, 2017. The increase relates to funding received from Deerfield to finance the Aralez Transaction.

FINANCIAL INSTRUMENTS

IFRS 7 - *Financial Instruments: Disclosures* requires disclosure of a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. All assets and liabilities for which fair value is

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

- Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets
- Level 2 – Observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are note active; or other inputs that are observable or can be corroborated by observable market data
- Level 3 – Significant unobservable inputs that are supported by little or no market activity

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year ended December 31, 2018.

At December 31, 2018, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, long-term debt and derivative liabilities. The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

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

Level 2 Liabilities include obligations of the Company for the SARs Plan. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued $nil for SARs as at December 31, 2018 [December 31, 2017 - $0.1 million].

The fair values of the Company's Amortization Loan, Bridge Loan and host liability of the Convertible Loan in Note 12, are Level 3 measurements determined using a discounted cash flow model that considers the present value of the contractual cash flows using a risk-adjusted discount rate. The Company recognized $124.2 million for the Amortization Loan, Bridge Loan and host liability of the Convertible Loan as at December 31, 2018 [December 31, 2017 - $nil].

The fair value of the Company's Warrants are initially recognized and subsequently revalued at each reporting period using the Black-Scholes option pricing model. As at December 31, 2018, the Company recognize a $19.1 million derivative liability relating to outstanding Warrants [December 31, 2017 - $nil]. These Warrants are Level 3.

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz and the Aralez Transaction. The ex-U.S. Resultz acquisition included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. The Aralez Transaction included additional contingent consideration related to profits earned related to Yosprala. The Company recognized $1.7 million in contingent and variable consideration as at December 31, 2018 [December 31, 2017 - $1.3 million] which represents the present value of the Company's probability-weighted estimate of the cash outflow.

The conversion option that accompanies the Company's Convertible Loan is considered a Level 3 liability. The value is determined as the difference between the fair value of the hybrid Convertible Loan contract, determined using an income approach with a binomial lattice model; and the fair value of the host liability contract, determined using a discounted cash flow model. The Company recognized $14.5 million for the conversion option as at December 31, 2018 [December 31, 2017 - $nil].

The fair values of the prepayment option that allows the Company to make prepayments against the Bridge Loan or Amortization Loan at any time is considered a Level 3 Financial Instrument. At December 31, 2018, the Company recognized $45,000 [December 31, 2017 - $nil] for the value of the prepayment option and has offset this value

against the carrying value of the Amortization Loan. The fair value of this option was determined using a binomial lattice model.

FINANCIAL RISK MANAGEMENT

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

Financial Instruments at Amortized Cost

For the year ended December 31, 2018, the Company recognized $39 in interest from financial assets held at amortized cost.

Credit Risk

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

Pursuant to the Aralez Transaction, the Company expects its customer base to expand in fiscal 2019 beyond the pharmaceutical industry to include end-users of its products, including patients and OTC product consumers. Management does not expect the expanded customer base will have a significant impact on the Company's credit risk assessment.

As at December 31, 2018, the Company's largest customer represented 47% [December 31, 2017 - 76%] of accounts receivable, exclusive of the $2.1 million of accounts receivable acquired upon close of the Aralez Transaction. Pursuant to their collective terms, accounts receivable, net of allowance, were aged as follows:

	December 31, 2018	December 31, 2017
in thousands	**$**	$
Current	**4,052**	1,731
0 - 30 days past due	**571**	128
31 - 60 days past due	**84**	7
Over 60 days past due	**510**	9
	5,217	1,875

The loss allowance provision as at December 31, 2018 is determined as follows:

	Current	**Less than 181 days past due**	**181 to 270 days past due**	**271 to 365 days past due**	**More than 365 days past due**	**Total**
Expected loss rate	-	-	10%	25%	60%	
Gross carrying amount	4,052	943	114	67	171	**5,347**
Loss allowance provision	-	-	11	17	102	130

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

For contract assets within the scope of IFRS 15, the Company recognizes an asset to the extent contractual minimums established in certain customer licensing agreements are deemed fixed consideration. After analysis of historical default rates and forward-looking estimates, the Company's contract assets are considered to have low

credit risk and as a result, the Company has not recognized a loss allowance as at December 31, 2018 [December 31, 2017 - $nil].

The Company's cash, cash equivalents and short-term investments subject the Company to a concentration of credit risk. As at December 31, 2018, the Company had $28.1 million deposited with five financial institutions in various bank accounts. These financial institutions are major banks, including four in Canada and one in Ireland, which the Company believes lessens the degree of credit risk. All of these financial assets are considered to have low credit risk, and therefore, the provision recognized during the period was limited to 12 months of expected losses. The Company has not recognized a loss allowance as at December 31, 2018 [December 31, 2017 - $nil].

Liquidity Risk

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

As at December 31, 2018, the Company's financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

		Current	Non-current		
in thousands	**Total $**	**Within 12 Months $**	**1 to 2 Years $**	**2 to 5 Years $**	**> 5 years $**
Accounts payable and accrued liabilities	20,976	20,976	-	-	-
Other obligations	1,672	407	521	624	120
Senior secured Amortization Loan	81,852	-	15,688	40,926	25,238
Senior secured Bridge Loan	8,185	6,821	1,364	-	-
Senior secured Convertible Loans	71,621	-	-	-	71,621
	184,306	**28,204**	**17,573**	**41,550**	**96,979**

This compares to the maturity of the Company's non-derivative financial liabilities as at December 31, 2017 as follows:

		Current	Non-current		
in thousands	**Total $**	**Within 12 Months $**	**1 to 2 Years $**	**2 to 5 Years $**	**> 5 years $**
Accounts payable and accrued liabilities	3,134	3,134	-	-	-
Other obligations	1,633	332	656	482	163
	4,767	**3,466**	**656**	**482**	**163**

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

The Deerfield Facility Agreement contains customary representations and warranties and affirmative and negative covenants, including, among other things, an annual financial covenant based on minimum levels of net sales per fiscal year and a mandatory quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable so long as US$10.0 million in prepayments have been made over such four fiscal quarters.

The Company anticipates that its current cash of $28.1 million as at December 31, 2018, together with the cash flow that is generated from operations will be sufficient to execute its current business plan for 2019 and to meet its current debt obligations.

Interest Rate Risk

All finance lease obligations are at fixed interest rates.

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

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

Currency Risk

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

	Euros		U.S. Dollars	
in thousands	**December 31, 2018 €**	December 31, 2017 €	**December 31, 2018 $**	December 31, 2017 $
Cash	**755**	621	**15,051**	1,290
Accounts receivable	**581**	-	**1,332**	1,378
Contract assets	**-**	-	**19,170**	-
Loans and borrowings	**-**	-	**(93,869)**	-
Derivative financial liabilities	**-**	-	**(24,664)**	-
Accounts payable and accrued liabilities	**(405)**	(32)	**(6,063)**	(751)
Other obligations	**(244)**	-	**(942)**	-
	687	589	**(89,985)**	1,917

Based on the aforementioned net exposure as at December 31, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $12.3 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $0.1 million on total comprehensive income (loss).

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

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

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

Contractual Obligations

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

in thousands	2019 $	2020 $	2021 and thereafter $	**Total** $
Finance lease obligations	3	2	-	**5**
Deerfield Financing	6,821	17,052	137,784	**161,657**
Operating leases	762	786	2,967	**4,515**
Purchase commitments	3,379	2,239	11,868	**17,486**
Other obligations[(1)]	21,383	521	744	**22,648**
	32,348	**20,598**	**153,363**	**206,311**

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

The Deerfield Financing

On December 31, 2018, the Company and Nuvo Ireland, as borrowers, and Aralez Canada, as guarantor, entered into the Deerfield Financing. The Deerfield Facility Agreement contains a quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable so long as US$10.0 million in prepayments have been made over such four fiscal quarters. The mandatory quarterly prepayments are first applied to the Bridge Loan, which is at a higher interest rate than the Amortization Loan.

Litigation

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

Off-Balance Sheet Arrangements

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

Related Party Transactions

For the year ended December 31, 2018, there were no related party transactions.

Outstanding Share Data

The number of Common Shares outstanding as at December 31, 2018 was11.4 million, a decrease of 0.2 million from December 31, 2017 due to Common Shares acquired and cancelled by Nuvo pursuant to the Company's normal course issuer bid.

As at December 31, 2018, there were 1,188,763 options outstanding of which 720,495 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 accounting estimates that it believes are most critical to understanding the Consolidated Financial Statements and those that require the application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's actual results could differ from these estimates and such differences could be material. All significant accounting policies are disclosed in Note 2, *Basis of Preparation* of the Company's Consolidated Financial Statements for the year ended December 31, 2018.

Recent Accounting Pronouncements

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

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

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

Management's Responsibility for Financial Reporting

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

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

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

There were no material changes to the Company's ICFR that occurred during the year ended December 31, 2018.

Management has limited the scope on the design of disclosure controls and procedures and internal control over financial reporting of the Company to exclude the controls, policies and procedures of Aralez Canada. This limitation on scope is in accordance with Section 3.3 of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, which allows an issuer to limit its design of internal control over financial reporting and disclosure controls and procedures to exclude the controls, policies and procedures of a business acquired not more than 365 days before the end of the financial period to which the certificate relates. The Company intends to complete the design of disclosure controls and procedures and internal control over financial reporting of Aralez Canada by December 31, 2019.

Risk Factors

Prospects for companies in the biotechnology and pharmaceutical industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology and pharmaceutical companies should be regarded as speculative. An investor should carefully consider the risks and uncertainties described below, as well as other information contained in this MD&A, in addition to the 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.

Risks Related to the Business of the Company

Inability to Meet Debt Commitments

As of December 31, 2018, the Company had total liabilities of $179.9 million, including $161.7 million of principal debt outstanding under the Deerfield Facility Agreement.

Having a substantial amount of leverage may have important consequences, including:

- requiring a substantial portion of cash flow from operations to be dedicated to servicing the Company's indebtedness, thereby reducing the ability to use cash flow from its operations to fund operations, capital expenditures, and future business opportunities;
- the Deerfield Facility Agreement is secured by the assets of the Company and its subsidiaries;
- limiting the ability to obtain additional financing for working capital, capital expenditures, product and service development, debt service requirements, acquisitions, and general corporate or other purposes at reasonable rates, which is vital to the Company's business;
- increasing the risks of adverse consequences resulting from a breach of any indebtedness agreement, including, for example, a failure to make required payments of principal or interest due to failure of the Company's business to perform as expected;
- increasing vulnerability to general economic and industry conditions;
- restricting the ability to make strategic acquisitions or requiring non-strategic divestitures;
- subjecting the Company's operations to restrictive covenants that may limit operating flexibility; and
- placing the Company's operations at a competitive disadvantage compared to competitors that are less highly leveraged.

The Company's ability to satisfy its debt obligations will depend principally upon its future operating performance. As a result, prevailing economic conditions and financial, business and other factors, many of which are beyond the Company's control, may affect the Company's ability to make payments on its debt. If the Company does not generate sufficient cash flow to satisfy its debt service obligations, the Company may have to undertake alternative financing plans, such as refinancing or restructuring its debt, cost savings initiatives, proceeds-generating transactions, reducing or delaying capital investments or seeking to raise additional capital. The Company's ability to restructure or refinance its debt will depend on the capital markets and the Company's financial condition at such time. Any refinancing of the Company's debt could be at higher interest rates and may require it to comply with more onerous covenants, which could further restrict the Company's business operations. The Company's inability to generate sufficient cash flow to satisfy its debt service obligations or to refinance its obligations on commercially reasonable terms could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

The Deerfield Facility Agreement imposes various covenants that limit the Company's ability and/or its subsidiaries' ability to, among other things:

- consolidate or merge with or into another person;
- enter into certain transactions with affiliates;
- pay dividends or distributions;
- create, incur or suffer to exist liens;
- create, incur, assume, guarantee or be liable with respect to indebtedness;
- acquire assets or transfer products or material assets; and
- issue equity securities senior to its Common Shares or convertible or exercisable for equity securities senior to its Common Shares.

The covenants imposed by the Deerfield Facility Agreement and the Company's obligations to service its outstanding debt:

- limit the Company's ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;
- limit the Company's ability to use its cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- may require the Company to use a substantial portion of its cash flow from operations to make debt service payments;
- limit the Company's flexibility to plan for, or react to, changes in its business and industry;
- place the Company at a competitive disadvantage compared to its less leveraged competitors; and
- increase the Company's vulnerability to the impact of adverse economic and industry conditions.

If the Company is unable to successfully manage the limitations and decreased flexibility on its business due to its debt obligations, the Company may not be able to capitalize on strategic opportunities or grow its business to the extent the Company would be able to without these limitations. The Company's failure to comply with any of the covenants could result in a default under the Deerfield Facility Agreement, which could permit the lenders to declare all or part of any outstanding loans to be immediately due and payable. If the Company is unable to pay the outstanding loans when due, then Deerfield could realize on its security, which encompasses the assets of Company and its subsidiaries.

In addition, pursuant to the Deerfield Financing, if a Major Transaction (as defined in the Deerfield Facility Agreement) occurs, such as a change of control transaction involving the Company, Deerfield is entitled, subject to the terms of the Deerfield Financing, to convert or exercise its Convertible Notes or Warrants, as applicable, such that Deerfield ultimately receives the cash, securities or other assets, as applicable, in exchange for such Common Shares on the same terms as other holders of Common Shares. This could materially adversely impact the anticipated results, or deter the entering into, of such a Major Transaction. In addition, Deerfield, in relation to certain Major Transactions, is entitled to be issued additional Common Shares. See the Deerfield Facility Agreement and the forms of Convertible Notes and Warrants filed under the Company's profile on SEDAR www.sedar.com.

Unexpected Costs or Liabilities Related to the Aralez Transaction

Although the Company conducted due diligence in connection with the acquisition of Aralez Canada, an unavoidable level of risk remains regarding any undisclosed or unknown liabilities of, or issues concerning, Aralez Canada and its business. The Company may discover that it has acquired substantial undisclosed liabilities. In such circumstances, the Company will not be able to fully claim indemnification from the sellers of Aralez Canada, as the Purchase Agreements did not include indemnification provisions given that Aralez Canada and related assets were purchased pursuant to the Bankruptcy Proceedings. The Company did obtain the RWI Policy to cover any potential liability under the Purchase Agreements, with coverage of up to $10 million and a deductible of $1.1 million, which drops to $0.6 million after 12 months under certain circumstances. However, the RWI Policy is subject to certain exclusions. In addition, there may be circumstances for which the insurer may elect to limit such coverage or refuse to indemnify the Company or situations for which the coverage provided under the RWI Policy may not be sufficient or applicable. The existence of any undisclosed liabilities and the Company's inability to claim indemnification could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

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 operating or financial performance of the Company's customers or suppliers 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, could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

The Company has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its business nor does it have control over the possibility of political unrest and 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.

Potential Product Liability

The Company may be subject to product liability claims associated with the use of certain of its products either after their approval or during clinical trials and there can be no assurance that the Company's 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 the Company's reputation and the demand for its products. There can be no assurance that a product liability claim or series of claims brought against the Company would not materially adversely impact the Company's business, financial condition or operating results.

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, which could materially adversely impact the Company.

Limited Product Shelf Life

Each of the Company's products has a limited shelf life. Accordingly, any product which exceeds the appropriate age limits may not be sold, may result in product returns and must be destroyed, which would in turn have an adverse financial impact on the Company associated with the cost of writing-off obsolete inventory.

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 materially adversely impact the Company's business, financial condition or operating results.

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 patent, trademark or proprietary rights of others. If the Company's products infringe the patent, trademark or proprietary rights of others, the Company may be required to stop selling or making certain of its products, may be required to modify or rename certain of its products or may have to obtain licenses to continue using, making or selling such products. 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 materially adversely impact 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 materially adversely impact the Company.

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 could 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 Company's 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, whether or not the Company is successful, could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Reliance on Third Parties to Conduct Clinical and Preclinical Studies

The Company and its drug development partners rely on third parties such as contract research organizations, medical institutions and clinical investigators to enroll qualified patients, conduct, supervise and monitor its clinical trials, conduct preclinical studies and complete chemistry, manufacturing and controls (CMC) work. The reliance on these third parties for clinical development activities reduces the Company's control over these activities. Further, the reliance on these third parties 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 Good Clinical Practices (GCP) and that its preclinical studies are conducted in accordance with Good Laboratory Practices (GLP). 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 which could in turn could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Dependence on a Small Number of Customers

The Company sells certain of its products in Canada, the U.S. and E.U. to a limited number of distributors. Under this distribution model, the distributors generally take physical delivery of the product and generally sell the product directly to pharmacies or patients. In addition, certain of the Company's products may be highly dependent on a small number of customers. The Company expects this significant distributor/customer concentration to continue for the foreseeable future. The Company's ability to generate and grow sales of its products will depend, in part, on the extent to which its distributors are able to provide adequate distribution of its products on pricing terms that are favorable to it. Although the Company believes it can find additional or replacement distributors, if necessary,

the pricing terms of such arrangements may not be as favourable to the Company, its revenue during any period of disruption could suffer and the Company might incur additional costs. In addition, these distributors/customers are responsible for a significant portion of the Company's net trade accounts receivable balances. The loss of any large distributor/customer, a significant reduction in sales the Company make to them, any cancellation of orders they have made with the Company, or any failure to pay for the products the Company has shipped to them could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Dependence on Third-Party Partnerships for Sales, Marketing, Customer Service, Distribution, Warehousing, Logistics, Invoicing and Accounts Receivables and Regulatory Services

Regarding products commercialized by Nuvo, the Company relies on third-party arrangements, to provide customer service, distribution, warehousing, logistics, invoicing, accounts receivables and some regulatory services where it lacks the necessary resources or expertise. If the third parties cease to be able to provide the Company with these services or do not provide these services in a timely or professional manner, or in accordance with the applicable regulatory requirements or if contracts with such third parties are terminated for any reason, the Company may not be able to successfully manage the logistics associated with distributing and selling its products.

Regarding products out-licensed or manufactured by the Company, or products manufactured for third parties under contract, the Company relies on marketing arrangements, including licensing or other third-party arrangements, to provide sales, marketing, distribution, logistics, invoicing and regulatory services including warehousing of finished products, accounts receivable management, billing, collection, record keeping and processing of invoices (including with insurance companies) for its products in jurisdictions where it lacks the necessary resources or expertise. If the third parties cease to be able to provide the Company with these services or do not provide these services in a timely or professional manner, or in accordance with the applicable regulatory requirements or if contracts with such third parties are terminated for any reason, the Company may not be able to successfully manage the logistics associated with distributing and selling its products.

In either case, this could result in a delay or interruption in delivering products to customers and could impact product sales and revenues or the Company's ability to integrate new products into its business, any of which could materially adversely impact the Company's business, financial condition, operating results or royalties earned. In addition, under these arrangements, disputes may arise with respect to payments that the Company or its partners believe are due, a partner or distributor may develop or distribute products that compete with the Company's products or they may terminate the relationship. Further, disagreements with the Company's third-party partners could require or result in litigation or arbitration, which could be time consuming and expensive for the Company.

The Company has no influence in sales and marketing activities for products that are sold by third parties in the markets in which they are currently available. Decisions impacting sales and marketing efforts are made by the Company's partners in 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.

Loss of Licenses

The Company has licensed certain assets used in a substantial part of the Company's business, including certain intellectual property, marketing authorizations and related data, and commercial and technical medical information. The Company believes it is currently in material compliance with all requirements of such licenses. In certain cases, the Company does not control the filing, prosecution or maintenance of the patent rights underlying a license and may rely upon the Company's licensors to prosecute infringement of those rights. Such license agreements may be terminated by the licensor if the Company is in breach of its obligations thereunder and fails to cure that breach. If a license agreement is terminated, then the Company may lose its rights to utilize the intellectual property and other assets covered by such agreement in order to manufacture, market, promote, distribute and sell the licensed products, which may prevent the Company from continuing a substantial part of the Company's business. This could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Timing of Milestone and Royalty Payments

The Company is party to various agreements pursuant to which the Company is obligated to make milestone payments or pay royalties to third parties. The Company may become obligated to make a milestone or other payment at a time when the Company does not have sufficient funds to make such payment, or at a time that would otherwise require it to use funds needed to continue to operate its business, which could curtail its operations, necessitate a scaling back of its commercialization and marketing efforts or cause the Company to seek funds to meet these obligations on terms unfavorable to it.

Manufacturing, Warehousing and Supply Risks

The Company's current internal manufacturing capabilities are limited to its site in Varennes, Québec, which is the sole manufacturing site of Pennsaid 2%, Pennsaid and the bulk drug product for the HLT Patch for all markets. The Company has never achieved full capacity utilization in this facility. The Company is exposed to the following manufacturing and supply risks, any of which could delay or prevent the commercialization of certain 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, which may lead to insufficient quantities to commercialize certain of its customer needs;
- The Company's manufacturing facilities are required to undergo satisfactory current Good Manufacturing Practices (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 customer orders; 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 facility is 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 impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

The Company may encounter manufacturing or warehousing and logistical failures that could impede or delay commercial production of its products. Any failure in the Company's manufacturing or warehousing and logistical 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 and warehousing and logistical operations may encounter difficulties involving, among other things, production yields, regulatory compliance, quality control and quality assurance and shortages of qualified personnel.

With the exception of Pennsaid 2%, Pennsaid and the bulk drug product for the HLT Patch, the Company relies on several contract manufacturers for the supply of products. There are risks that could affect the ability of the Company's contract manufacturers to meet the Company's delivery time requirements or provide adequate amounts of material to meet the Company's needs. In addition to the manufacture of certain of the Company's products, the Company may have additional manufacturing requirements related to the technology required for any of the Company's products. In some cases, the delivery technology the Company utilizes is highly specialized or proprietary and for technical and legal reasons, the Company may have access to only one or a limited number of potential manufacturers for such delivery technology. Failure by these manufacturers to properly formulate the

Company's products or licensed products for delivery could also result in unusable product and cause delays in the Company's discovery and development process, as well as additional expense to the Company.

The manufacturing process for products where the Company uses a contract manufacturer are based on technologies that the Company or its partners may develop and are subject to regulatory approvals from regulatory authorities, including the FDA, Health Canada, the European Medicines Agency, state and local regulations and other regulatory agencies as well as compliance with ongoing regulatory requirements. Together with the Company's partners, the Company needs to contract with manufacturers who can meet all applicable regulatory guidelines and requirements. In addition, if the Company receives the necessary regulatory approval for any product candidate, it also expects to rely on third parties, including its commercial partners, to produce materials required for commercial supply. The Company may experience difficulty in obtaining adequate manufacturing capacity for its needs. If the Company is unable to obtain or maintain contract manufacturing for its product candidates, products or licensed products, or to do so on commercially reasonable terms, the Company may not be able to successfully develop and commercialize its products or licensed products. If a third-party manufacturer with whom the Company contracts fails to perform its obligations, the Company may be forced to manufacture the materials itself, which the Company may not have the necessary capabilities or resources for, or enter into an agreement with a different third-party manufacturer, which the Company may not be able to do on equally favourable terms, within acceptable timelines or that complies with quality standards and with all applicable regulations and guidelines.

In the case of many of the Company's products, there is a single supplier for raw materials used in such 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 Company's operations would be negatively impacted and the business would be harmed.

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 Pharmaceutical Ingredient (API) or critical raw materials depending on the drug product, this means compliance with 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 New Drug Application (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.

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 could in turn, affect the Company's margins, as well as the wholesale and retail prices of manufactured products.

Failure to Achieve Anticipated Benefits From Strategic Acquisitions

A significant part of the Company's business strategy includes acquiring and integrating complementary businesses, products, technologies or other assets, and forming strategic alliances and other business combinations, to help drive future growth. The Company may also in-license new products or compounds. Acquisitions or similar arrangements may be complex, time-consuming and expensive, and the process of negotiating the acquisition and integrating an acquired product, drug candidate, technology, business or company might result in operating difficulties and expenditures and might require significant management attention that would otherwise be available for ongoing development of the Company's business, whether or not any such transaction is ever completed. Moreover, the Company may never realize the anticipated benefits of any acquisition or forecasted sales may not materialize.

In addition, the Company may explore, pursue and/or negotiate transactions that are not ultimately completed and there are a number of risks, costs and uncertainties relating thereto. For example, the market price of the

Company's Common Shares may reflect a market assumption that such transactions will occur, and a failure to complete such transactions could result in a negative perception by the market of the Company generally and a decline in the price of its Common Shares. In addition, many costs relating to such transactions may be payable by the Company whether or not such transactions are completed.

If an acquisition is completed, the integration of the acquired business, product or other assets into the Company may also be complex and time-consuming and, if such businesses, products and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Potential difficulties that may be encountered in the integration process include the following:

- disruption of the Company's business and diversion of management's and employees' time and attention from operations;
- integrating personnel, operations, manufacturing technology and systems, while maintaining focus on selling and promoting existing and newly-acquired products;
- coordinating geographically dispersed organizations;
- motivating key employees of the acquired businesses;
- retaining existing customers and attracting new customers;
- maintaining the business relationships of the acquired company or that the company that previously owned such product has established, including with healthcare providers, third-party payers and distributors; and
- managing inefficiencies associated with integrating the operations of the Company.

The Company has incurred, and may incur in the future, restructuring and integration costs and a number of non-recurring transaction costs associated with these acquisitions. Non-recurring transaction costs include, but are not limited to, fees paid to legal, financial, regulatory, manufacturing and accounting advisors, filing fees, transfer and other transaction-related taxes and printing costs. Additional unanticipated costs may be incurred in the integration of the businesses of the Company and the acquired business. There can be no assurance that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the acquired business, will offset the incremental transaction-related costs over time. Therefore, any net benefit may not be achieved in the near term, the long term or at all.

Finally, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated or to achieve anticipated benefits and success, expose it to increased competition or challenges with respect to its products or geographic markets, and expose it to additional or unexpected liabilities associated with an acquired business, product, technology or other asset or arrangement. Any one of these challenges or risks could impair the Company's ability to realize any benefit from an acquisition or arrangement after the Company has expended resources on them.

Failure to Acquire, License, Develop and Market Additional Product Candidates or Approved Products

As part of its strategy, the Company may acquire, license or develop and market additional products and product candidates. The product candidates where the Company allocates its resources may not be successful. In addition, because its internal research capabilities are limited, the Company may depend upon pharmaceutical, biotechnology and other researchers to sell or license products or technology. The success of this strategy depends partly upon the Company's ability to identify, select, license and/or acquire promising pharmaceutical or other healthcare product candidates and approved products for Canada, the United States and the rest of the world. Failure of this strategy could impair the Company's ability to grow. The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with the Company for the license or acquisition of product candidates and approved products. The Company may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or the Company may fail to realize the anticipated benefits of such efforts. The Company may not be able to acquire the rights to additional product candidates or approved products on terms that the Company find acceptable, or at all.

Further, any unapproved product candidate that the Company acquires may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by applicable regulatory authorities. With all product candidates there are risks of failure typical of pharmaceutical product development, including the

possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by applicable regulatory authorities and thus will never make it to market. If such risks were to materialize, the could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Losses Due to Foreign Currency Fluctuations

The Company anticipates that a high percentage 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 materially adversely impact the Company's business, financial condition or operating results.

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. As noted below, 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 could materially adversely impact the Company's effective income tax rate.

The Company and its subsidiaries have operations in various countries that have differing tax laws and rates. The Company's and its subsidiaries' tax reporting is subject to current domestic tax laws in the countries in which the Company and its subsidiaries operate, including transfer pricing laws and regulations between many of these jurisdictions, and the application of tax treaties between the various countries in which the Company and its subsidiaries operate. The Company's and its subsidiaries' income tax reporting is subject to audit by domestic and foreign authorities. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change, with or without notice, due to economic, political, and other conditions.

The amount of income tax and withholding tax required to be paid by the Company and/or its subsidiaries will be affected by many factors, including the amount of net income earned in the relevant operating jurisdictions, the structure of its operations, the availability of benefits under tax treaties, and the rates of taxes payable in respect of that income. The Company must make estimates and judgments, as well as take tax filing positions, based on its knowledge and understanding of applicable tax laws and tax treaties, and the application of those tax laws and tax treaties to its business. The final outcome of any audits by taxation authorities may differ from the estimates, assumptions and filing positions used in determining the tax treatment by the Company and/or its subsidiaries, and such outcome could lead to additional taxes, penalties and interest.

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 interest.

International Scope of Operations

The Company's international operations and any future international operations may expose it to risks that could negatively impact its future results. The risks that the Company may be exposed to in these cases include, but are not limited to:

- tariffs and trade barriers;
- currency fluctuations, which could decrease the Company's revenues or increase its costs;
- regulations related to customs and import/export matters;
- tax issues, such as tax law changes, variations in tax laws, withholding tax obligations and claims by foreign tax authorities;
- limited access to qualified staff;
- inadequate infrastructure;
- cultural and language differences;
- inadequate banking systems;
- different and/or more stringent environmental laws and regulations;
- restrictions on the repatriation of profits or payment of dividends;
- crime, strikes, riots, civil disturbances, terrorist attacks or wars;
- nationalization or expropriation of property;
- law enforcement authorities and courts that are weak or inexperienced in commercial matters; and
- deterioration of political relations among countries.

Similarly, adverse economic conditions impacting the Company's customers in international countries or uncertainty about global economic conditions could cause purchases of its products to decline, which would adversely affect the Company's revenues and operating results. Any of these factors, or any other international factors, could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Risks Related to the Industry in which the Company Operates

Products May Fail to Achieve Market Acceptance

Any products successfully developed, acquired or licensed 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 benefits, 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.

Laws and Regulations

Pharmaceutical and biotechnology companies have faced lawsuits and investigations pertaining to violations of healthcare "fraud and abuse" laws, such as the federal *False Claims Act*, the federal *Anti-Kickback Statute*, the United States *Foreign Corrupt Practices Act* (the FCPA) and other federal, state, territorial and provincial laws and regulations. The Company also faces increasingly strict data privacy and security laws in the United States, Canada, the E.U. and other countries, the violation of which could result in fines and other sanctions. The United States Department of Health and Human Services Office of Inspector General recommends that pharmaceutical companies have comprehensive compliance programs and disclose certain payments made to healthcare providers or funds spent on the marketing and promotion of drug products. While the Company has developed a corporate compliance program, there can be no assurance it, or its employees or agents, are or will be in compliance with all

applicable federal, state, provincial, territorial or foreign regulations and laws. If the Company is in violation of any of these requirements or any such actions are instituted against it, and the Company is not successful in defending or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of significant fines, exclusion from federal healthcare programs or other sanctions.

The FCPA, the Canadian *Corruption of Foreign Public Officials Act* (the CFPOA) and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. Although the Company requires its employees to consult with its legal department prior to making any payment or gift thought to be exempt under applicable law, there is no assurance that such policies or procedures will work effectively all of the time or protect the Company against liability under the FCPA and/or the CFPOA for actions taken by its employees and other intermediaries with respect to the Company's business or any businesses that the Company may acquire. The Company may operate in parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices or may require the Company to interact with doctors and hospitals, some of which may be state controlled, in a manner that is different from the United States and Canada. The Company cannot assure that its internal control policies and procedures will protect it from reckless or criminal acts committed by its employees or agents. Violations of these laws, or allegations of such violations, could disrupt the Company's business and result in criminal or civil penalties or remedial measures, any of which could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

The Company is also subject to various privacy and security regulations. In the U.S., the Company is subject to the *Health Insurance Portability and Accountability Act of 1996*, as amended by the *Health Information Technology for Economic and Clinical Health Act of 2009* (as amended, HIPAA). HIPAA mandates, among other things, the adoption of uniform standards for the electronic exchange of information in common healthcare transactions (e.g., healthcare claims information and plan eligibility, referral certification and authorization, claims status, plan enrollment, coordination of benefits and related information), as well as standards relating to the privacy and security of individually identifiable health information, which require the adoption of administrative, physical and technical safeguards to protect such information. In addition, many states have enacted comparable laws addressing the privacy and security of health information, some of which are more stringent than HIPAA. Failure to comply with these laws can result in the imposition of significant civil and criminal penalties.

Numerous other countries have, or are developing, laws governing the collection, use and transmission of personal information as well. Canada has adopted the *Personal Information Protection and Electronic Documents Act* (PIPEDA) which governs how private sector organizations collect, use and disclose personal information in the course of commercial business and which imposes significant compliance obligations. The E.U. and other jurisdictions have adopted data protection laws and regulations which also impose significant compliance obligations, including the E.U. Data Protection Directive, as implemented into national laws by the E.U. member states, which imposes strict obligations and restrictions on the ability to collect, analyze, and transfer personal data, including health data from clinical trials and adverse event reporting. Data protection authorities from different E.U. member states have interpreted the privacy laws differently, which adds to the complexity of processing personal data in the E.U. and guidance on implementation and compliance practices are often updated or otherwise revised. Any failure to comply with applicable information privacy laws could lead to supervisory authority enforcement actions, reputational damage and significant penalties adversely impacting Company operating results.

The E.U. General Data Protection Regulation (GDPR), came into effect on May 25, 2018 to expand data protection obligations, including by imposing more stringent conditions for consent from data subjects, strengthening the rights of individuals, including the right to have personal data deleted upon request, continuing to restrict the trans-border flow of such data, requiring mandatory data breach reporting and notification, increasing penalties for non-compliance and increasing the enforcement powers of the national data protection authorities. The GDPR mandate harmonizes E.U. data protection laws and is intended to make it easier for multinational companies operating across the E.U. to comply with their data protection obligations. Therefore, GDPR increases the Company's responsibility and liability in relation to processing personal data internationally. Along with the Company's existing controls, it is in the process of putting in place additional mechanisms to ensure compliance with GDPR. The costs of compliance with these laws and the potential liability associated with the failure to comply with these laws could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

Legislative or Regulatory Reform of the Healthcare System

In the United States and certain state and foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could impact the ability of certain of the Company's products to be sold profitably. The *Patient Protection and Affordable Care Act* (the ACA) may affect the operational results of companies in the pharmaceutical industry, including the Company, and other healthcare-related industries by imposing additional costs and compliance burdens.

The Company is unable to predict the future course of federal or state healthcare legislation. A variety of federal and state agencies are in the process of implementing the ACA, including through the issuance of rules, regulations or guidance that materially affect the Company's business. The risk of the Company being found in violation of these rules and regulations is increased by the fact that many of them have not been fully interpreted by applicable regulatory authorities or the courts, and their provisions are open to a variety of interpretations. In addition, there is substantial uncertainty regarding the future of the ACA as there is continued interest to repeal and/or replace all or certain aspects of such laws. The outcome of such efforts could have a substantial impact on the Company's business. Further changes to healthcare laws or regulatory framework that reduce the Company's revenues or increase its compliance or other costs could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

In addition, pharmaceutical product pricing is subject to enhanced government and public scrutiny and calls for reform. Efforts by government officials or legislators to implement measures to regulate prices or payment for pharmaceutical products could adversely affect the Company's business if implemented.

In Canada, patented drug products are subjected to regulation by the Patented Medicine Prices Review Board (the PMPRB) pursuant to the *Patent Act* (Canada) and the Patented Medicines Regulations. The PMPRB does not approve prices for drug products in advance of their introduction to the market and therefore there may be risk involved in the determination of an allowable price selected by the Company for a patented drug product at the time of introduction to the market. If the PMPRB does not agree with the pricing assumptions chosen by the Company at any time during the patent life of a product, the price chosen could be challenged by the PMPRB, and if it is determined that the price charged is excessive, the price of the product may be reduced and a fine may be levied against the Company. Drug products that have no valid patents are not subject to the PMPRB's jurisdiction. Aralez Canada currently has three patent protected products in Canada (Blexten, Cambia and Durela) that could be affected by changes to PMPRB regulations. Further changes to PMPRB regulations could materially adversely impact the Company's business (Blexten, Cambia, Durela), financial condition or operating results and could cause the market value of its Common Shares to decline.

Formularies

Third-party payers try to negotiate the pricing of medical services and products to control their costs. Pharmacy benefit managers typically develop formularies to reduce their cost for medications. Due to their lower costs, generic products are often favoured. The breadth of the products covered by formularies varies considerably from one managed care organization to another, and many formularies include alternative and competitive products for treatment of particular medical conditions. Failure to be included on such formularies, failure to achieve favourable formulary status, restrictions on drugs included on formularies such as prior authorizations, step edits or other limitations, or delays in implementing changes to formulary status, may negatively impact the utilization of the Company's products. If the Company's products are not included within an adequate number of formularies or adequate reimbursement levels are not provided, or if those policies increasingly favour generic products, its market share which could materially adversely impact the Company's business, financial condition or operating results.

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 and the successful commercialization of its products. Competition from pharmaceutical 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, manufacturing, marketing, financial and managerial experience and resources. If the Company fails to compete successfully in any of these areas, this could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

The intensely competitive environment in which the Company operates 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 the Company's 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.

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.

Generic Drug Manufacturers and Litigation

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. Where available, generic versions may be required or encouraged in preference to branded version under third-party reimbursement programs or substituted by pharmacies for branded versions by law. The Company faces competition from manufacturers of generic drug versions of 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 and market share. Such competition could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

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% and Vimovo are protected by multiple patents listed in the FDA Orange Book. The approval or launch of generic versions of Pennsaid 2% or Vimovo in the U.S. market, or timely and expensive litigation costs associated with protecting the patents for these products, could materially adversely impact 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 Therapeutic Products Directorate (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 in the regulatory approval process.

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 and 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. There can also be no assurance that the Company's products will prove to be safe and effective in clinical trials.

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.

Failure to obtain or a delay in obtaining necessary regulatory approvals, the restriction, suspension or revocation of existing approvals or any other failure to comply with regulatory requirements, could materially adversely impact the Company's business, financial condition or operating results and could cause the market value of its Common Shares to decline.

<u>United States Regulation</u>

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.

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 certain of the Company's products, and civil or criminal sanctions.

Canadian Regulation

The TPD may deny issuance of a notice of compliance 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 against the Company.

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. 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.

Demand Fluctuations

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 certain of the Company's 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 the Company's 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 Company's results of operations could fluctuate accordingly.

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 market value 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, there could be a material adverse impact on the Company's business, financial condition or operating results and the market value of its Common Shares could decline.

Risks Related to the Ownership of Securities of the Company

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 announcements regarding 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 jurisdictions may have a significant impact on the market price of the Common Shares. To the extent that other companies within the Company's industry experience declines in their stock price, the share price of the Common Shares may decline as well. In addition, there can be no assurance that the Common Shares will continue to be listed on the TSX.

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.

Potential Dilution

As a result of the Deerfield Financing, Deerfield now holds the Warrants initially exercisable for 25,555,556 fully paid and non-assessable Common Shares, and the Convertible Notes, initially convertible into 19,444,444 fully paid and non-assessable Common Shares. The Common Shares underlying the Warrants and the Convertible Notes represent approximately 395.14% of the Company's 11,388,282 issued and outstanding Common Shares on a non-diluted basis as of December 31, 2018. If the Warrants and Convertible Notes were to be fully exercised, Deerfield would own approximately 79.8% of the issued and outstanding Common Shares. However, Deerfield does not have the right to convert or exercise such securities if doing so would result in Deerfield and its affiliates and joint actors beneficially owning more than 4.985% of the number of Common Shares (on a non-diluted basis) outstanding immediately after giving effect to such conversion or exercise (the 4.985% Cap). Accordingly, Deerfield is unable to exercise a sufficient number of Warrants or Convertible Notes to materially affect control of the Company.

Deerfield may seek to sell some of their Common Shares upon exercise or conversion of the Warrants and Convertible Notes pursuant to the Registration Rights Agreement. No prediction can be made as to the effect, if any, a future sale of Common Shares by Deerfield will have on the market value of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by Deerfield, or the perception that such sale could occur, could adversely affect the market value of the Common Shares.

The potential concentration of the Company's issued and outstanding Common Shares in the hands of one shareholder may discourage an unsolicited bid for the Common Shares, and this may adversely impact the value and trading price of the Common Shares.

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 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 and the OTCQX. There can be no assurance that an active trading market in the Company's Common Shares on the TSX and the OTCQX will be sustained.

Securities Industry Analyst Research Reports

The trading market for the Company's Common Shares 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 is one analyst who publishes research reports about the Company. The Company and its products have also been discussed in analyst research reports published about its partners and competitors.

Quarterly Fluctuations

The Company's quarterly and annual operating results are likely to fluctuate in the future. These fluctuations could cause the market value of the Company's Common Shares 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 the Company's Common Shares.

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, regulations 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 penalties or 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*. 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 materially adversely impact the Company's business, its financial statements and the market value of the 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
- Inability to Achieve Drug Development Goals within Expected Time Frames
- Uncertainty of Drug Research and Development
- Clinical Trials
- Hazardous materials and environmental
- Security and Cyber Security Breaches
- Accumulated deficit
- Personnel
- Information technology infrastructure
- Management of growth
- Rapid technological change
- Prolonged development time
- Natural Disasters or Other Events That Disrupt Business Operations
- Absence of dividends
- Public company requirements may strain resources

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.

/s/ *Jesse F. Ledger*

Jesse F. Ledger
President & Chief Executive Officer
March 28, 2019

/s/ *Mary-Jane E. Burkett*

Mary-Jane E. Burkett
Vice President & Chief Financial Officer
March 28, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nuvo Pharmaceuticals Inc.

Opinion

We have audited the consolidated financial statements of Nuvo Pharmaceuticals Inc. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Paula J. Smith.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

March 28, 2019
Toronto, Canada

NUVO PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars in thousands)	***Notes***	**As at December 31, 2018** **$**	As at December 31, 2017 $
ASSETS	12		
CURRENT			
Cash and cash equivalents	*23*	**28,074**	8,398
Short-term investments	*23*	**-**	2,000
Accounts receivable	*23*	**5,217**	1,875
Inventories	*5, 7*	**13,747**	2,502
Contract assets	*4, 5, 23, 24*	**8,642**	-
Other current assets	*8*	**3,007**	437
TOTAL CURRENT ASSETS		**58,687**	15,212
NON-CURRENT			
Contract assets	*4, 5, 23, 24*	**18,110**	-
Property, plant and equipment	*9*	**4,659**	4,283
Intangible assets	*5, 6, 10*	**95,234**	9,236
Goodwill	*5, 11*	**24,898**	1,187
TOTAL ASSETS		**201,588**	29,918
LIABILITIES AND EQUITY			
CURRENT			
Accounts payable and accrued liabilities	*5, 15, 17*	**20,976**	3,134
Current portion of long-term debt	*5, 12*	**6,821**	-
Current portion of other obligations	*5, 14*	**408**	332
Current income tax liabilities	*21*	**82**	-
TOTAL CURRENT LIABILITIES		**28,287**	3,466
Long-term debt	*12*	**117,386**	-
Derivative financial liabilities	*13*	**33,646**	-
Other obligations	*14*	**1,264**	1,301
Deferred income tax liabilities	*21*	**299**	-
TOTAL LIABILITIES		**180,882**	4,767
EQUITY			
Common shares	*16*	**184,764**	185,266
Contributed surplus	*16, 17*	**15,435**	14,763
Accumulated other comprehensive income (loss) (AOCI)		**369**	(1)
Deficit		**(179,862)**	(174,877)
TOTAL EQUITY		**20,706**	25,151
TOTAL LIABILITIES AND EQUITY		**201,588**	29,918

Note 22, *Commitments*
See accompanying Notes.

On behalf of the Nuvo Board of Directors:

/s/ Anthony E. Dobranowski

Anthony E. Dobranowski
Director

/s/ Daniel Chicoine

Daniel Chicoine
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, 2018** **$**	Year ended December 31, 2017 $
REVENUE			
Product sales	*24*	**17,569**	16,338
License revenue	*4, 24*	**2,262**	816
Contract revenue	*24*	**167**	369
Total revenue		**19,998**	17,523
OPERATING EXPENSES			
Cost of goods sold	*7, 17, 19*	**8,638**	8,115
Research and development expenses		**-**	571
General and administrative expenses	*5, 17, 19*	**16,238**	7,120
Amortization of intangibles	*19*	**1,989**	-
Net interest income		**(32)**	(157)
Total operating expenses		**26,833**	15,649
OTHER EXPENSES (INCOME)			
Loss on disposal of contract assets	*5, 24*	**452**	-
Change in fair value of contingent and variable consideration	*14*	**(518)**	-
Foreign currency loss (gain)		**(429)**	336
Other income		**-**	(44)
Net income (loss) before income taxes		**(6,340)**	1,582
Income tax expense (recovery)	*4, 21*	**(187)**	1
NET INCOME (LOSS)		**(6,153)**	1,581
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods			
Unrealized gain (loss) on translation of foreign operations		**370**	(3)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(5,783)**	1,578
Net income (loss) per common share			
- basic	*18*	**(0.54)**	0.14
- diluted	*18*	**(0.54)**	0.12
Average number of common shares outstanding (in thousands)			
- basic	*18*	**11,443**	11,550
- diluted	*18*	**11,443**	11,723

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	*16, 17*	*16, 17*	*16, 17*			
Balance, December 31, 2016	11,546	185,255	14,062	2	(176,458)	22,861
Stock option compensation expense	-	-	705	-	-	705
Unrealized loss on translation of foreign operations	-	-	-	(3)	-	(3)
Stock options exercised	5	11	(4)	-	-	7
Net income	-	-	-	-	1,581	1,581
Balance, December 31, 2017	11,551	185,266	14,763	(1)	(174,877)	25,151
Balance, January 1, 2018, as previously reported	11,551	185,266	14,763	(1)	(174,877)	25,151
Impact of change in accounting policy (see Note 4)	-	-	-	-	1,168	1,168
Adjusted balance, January 1, 2018	**11,551**	**185,266**	**14,763**	**(1)**	**(173,709)**	**26,319**
Employee contribution to Share Purchase Plan	36	123	-	-	-	123
Employer's portion of Share Purchase Plan	36	123	-	-	-	123
Stock option compensation expense	-	-	672	-	-	672
Unrealized gain on translation of foreign operations	-	-	-	370	-	370
Normal course issuer bid	(235)	(748)	-	-	-	(748)
Net loss	-	-	-	-	(6,153)	(6,153)
Balance, December 31, 2018	**11,388**	**184,764**	**15,435**	**369**	**(179,862)**	**20,706**

See accompanying Notes.

NUVO PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars in thousands)	***Notes***	**Year ended December 31, 2018** **$**	Year ended December 31, 2017 $
OPERATING ACTIVITIES			
Net income (loss)		**(6,153)**	1,581
Items not involving current cash flows:			
Depreciation and amortization	*19*	**2,493**	258
Capitalization of deferred financing fees	*12*	**(3,804)**	-
Disposal of development costs	*10*	**16**	-
Equity-settled stock-based compensation	*17*	**795**	705
Unrealized foreign exchange loss		**(663)**	274
Disposal of contract assets	*4, 5, 24*	**452**	-
Inventory write-down	*7*	**31**	15
Benefit for deferred income taxes	*4, 21*	**(225)**	-
Change in fair value of contingent and variable consideration	*14*	**(518)**	-
		(7,576)	2,833
Net change in non-cash working capital	*20*	**4,061**	1,658
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**(3,515)**	4,491
INVESTING ACTIVITIES			
Disposal of short-term investments		**2,000**	6,000
Acquisition of property, plant and equipment	*9*	**(300)**	(2,606)
Development of intangible assets		**-**	(16)
Aralez acquisition, net of cash acquired	*5*	**(138,471)**	-
Resultz acquisition	*5*	**-**	(8,781)
Resultz U.S. asset purchase	*6, 10*	**(1,876)**	-
CASH USED IN INVESTING ACTIVITIES		**(138,647)**	(5,403)
FINANCING ACTIVITIES			
Deerfield Financing	*12*	**161,657**	-
Normal course issuer bid	*16*	**(748)**	-
Issuance of common shares	*17*	**123**	-
Repayment of capital lease and other obligations	*14*	**(2)**	(2)
Exercise of stock options	*17*	**-**	7
CASH PROVIDED BY FINANCING ACTIVITIES		**161,031**	5
Effect of exchange rate changes on cash		**807**	(284)
Net change in cash during the year		**19,676**	(1,191)
Cash and cash equivalents, beginning of year		**8,398**	9,589
CASH AND CASH EQUIVALENTS, END OF YEAR		**28,074**	8,398

See accompanying Notes.

Supplemental Cash Flow Information

Interest received[1]	**87**	155
Interest paid	**5**	-
Income taxes paid	**37**	1

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

Total Cash and Short-term Investments

	December 31, 2018 **$**	December 31, 2017 $
Cash and cash equivalents	**28,074**	8,398
Short-term investments	**-**	2,000
	28,074	10,398

NUVO PHARMACEUTICALS™ INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF BUSINESS

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

The Aralez Transaction

On September 19, 2018, the Company announced the signing of a definitive binding asset purchase agreement (the Asset Purchase Agreement) and a definitive binding share purchase agreement (the Share Purchase Agreement, and together with the Asset Purchase Agreement, the Purchase Agreements) with Aralez Pharmaceuticals Inc. (Aralez) to acquire a portfolio of more than 20 revenue-generating products, as well as the associated personnel and infrastructure to continue the products' management and growth (the Aralez Transaction).

On August 10, 2018, Aralez, along with its Canadian subsidiary, Aralez Pharmaceuticals Canada Inc. (Aralez Canada), commenced voluntary proceedings under Canada's *Companies' Creditors Arrangement Act* (the CCAA) in the Ontario Superior Court of Justice (the Ontario Court). In addition, certain other subsidiaries of Aralez voluntarily filed petitions under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York (together with the Ontario Court, the Courts) (the Bankruptcy Proceedings).

As part of the Bankruptcy Proceedings, Aralez and its subsidiaries conducted a sale process in accordance with bidding procedures approved by the Courts to pursue a sale or sales of their respective assets in accordance with the bidding procedures. The Purchase Agreements served as "stalking horse" bids in the sale process and entitled Nuvo to a customary termination fee and expense reimbursement if it was not ultimately the successful bidder in the process. On November 29, 2018, Nuvo was informed by Aralez that its bids pursuant to the terms of the Purchase Agreements were determined to be the successful bids under the Court approved bidding procedures. The Courts approved the Aralez Transaction in December 2018.

On December 31, 2018, the Company announced the closing of the Aralez Transaction. The Aralez Transaction included the acquisition of Aralez Canada, a growing business that includes the products Cambia®, Blexten® and the Canadian distribution rights to Resultz®, and will create a platform for the Company to acquire and launch additional commercial products in Canada. The Company also acquired the worldwide rights and royalties from licensees for Vimovo®, Yosprala™ and global, ex-U.S. product rights to Treximet. In connection with the closing of the Aralez Transaction, the CCAA proceedings of Aralez Canada were terminated pursuant to an order of the Ontario Court.

The aggregate purchase price paid by the Company to Aralez at closing of the Aralez Transaction was US$110 million ($150.1 million) subject to certain working capital and indebtedness adjustments. The Company satisfied the purchase price through funding provided by certain funds managed by Deerfield Management Company, L.P. (Deerfield), a leading, global, healthcare-specialized investor.

In connection with the closing of the Aralez Transaction, the Company obtained representation and warranty insurance to cover any potential breach of the representations and warranties provided to the Company under the Purchase Agreements, as the Purchase Agreements did not include indemnification provisions given that the Aralez Transaction occurred in connection with the Bankruptcy Proceedings. The representation and warranties insurance policy (the RWI Policy) provides coverage of up to US$10.0 million and a deductible of US$1.1 million, which drops

to US$0.6 million after 12 months under certain circumstances, and is subject to certain exclusions. (See Note 5, *Business Combinations*).

The Deerfield Financing

On December 31, 2018, the Company and Nuvo Pharmaceuticals (Ireland) DAC (Nuvo Ireland), as borrowers, and Aralez Canada, as guarantor, entered into a facility agreement (the Deerfield Facility Agreement) with Deerfield Private Design Fund III, L.P., as agent (the Agent) and certain funds managed by Deerfield, as lenders (collectively, the Lenders) to fund the purchase price of the Aralez Transaction (the Deerfield Financing).

The Deerfield Financing consists of (i) a 6-year, amortizing loan made available to Nuvo Ireland in the principal amount of US$60 million with an interest rate of 3.5% per annum (the Amortization Loan), (ii) an 18-month bridge loan made available to the Company in the principal amount of US$6.0 million with an interest rate of 12.5% per annum (the Bridge Loan), (iii) a 6-year, convertible loan made available to the Company in the principal amount of US$52.5 million with an interest rate of 3.5% per annum, initially convertible into 19,444,444 common shares of the Company at a conversion price of US$2.70 (the Convertible Loan) (the Convertible Loan and, together with the Amortization Loan and the Bridge Loan, the Deerfield Loans), and (iv) approximately 25,555,556 million common share purchase warrants, each such warrant initially exercisable for one common share of the Company for a period of six years from the date of issuance at an exercise price of $3.53 per share (the Warrants). (See Note 12, *Loans and Borrowings* and Note 13, *Derivative Financial Liabilities).*

The Amortization Loan proceeds were used by Nuvo Ireland to fund the purchase price under the Asset Purchase Agreement and the transaction expenses related thereto. Pursuant to the Deerfield Facility Agreement, the loan notes issued to the Lenders in relation to the Amortization Loan were admitted to listing on a recognized stock exchange and be quoted "Eurobonds" within the meaning of section 64(1) of the *Tax Consolidation Act 1997* (Ireland) in March 2019. The proceeds of the Convertible Loan and a portion of the proceeds from the issuance of the Warrants were used by the Company to fund the purchase price under the Share Purchase Agreement and the transaction expenses related thereto. The proceeds of the Bridge Loan and the balance of the proceeds from the issuance of the Warrants are available to fund the Company's working capital and general corporate purposes, including transactional expenses. In connection with the closing of the Deerfield Financing, the Company's existing undrawn operating facility with RBC was terminated.

The issuance of common shares of the Company upon the conversion of the Convertible Notes and the exercise of the Warrants was subject to Shareholder approval under the rules of the Toronto Stock Exchange (TSX). Pursuant to the rules of the TSX, the Company obtained written consents from Shareholders holding, in the aggregate, more than 50% of the Company's issued and outstanding common shares approving the issuance of such common shares upon the conversion of the Convertible Loan and exercise of the Warrants.

The Deerfield Facility Agreement contains customary representations and warranties and affirmative and negative covenants, including, among other things, limitations on asset sales, mergers and acquisitions, indebtedness, liens and dividends. In addition, the Company is subject to an annual financial covenant based on minimum levels of net sales per fiscal year and a mandatory quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable so long as US$10.0 million in prepayments have been made over such four fiscal quarters. The mandatory quarterly prepayments are first applied to the Bridge Loan, which is at a higher interest rate than the Amortization Loan.

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

The Deerfield Facility Agreement contains customary events of default, including an event of default upon certain circumstances constituting a change of control of, or other fundamental transactions relating to the Company, subject to specific exceptions and as more specifically set out in the Deerfield Facility Agreement. Failure to comply with the terms of the Deerfield Facility Agreement would entitle the Agent and the Lenders to accelerate all amounts outstanding under the Deerfield Loans, and upon such acceleration, the Agent and the Lenders would be entitled to enforce on the security granted by each of the Company, Nuvo Ireland and Aralez Canada. The Lenders would

then be repaid in full from the proceeds of all available assets prior to the repayment of claims of any unsecured creditors or equity holders.

In connection with the Deerfield Financing, the Company entered into a registration rights agreement with Deerfield (the Registration Rights Agreement), pursuant to which the Company has agreed to provide Deerfield with certain demand registration rights and piggy-back registration rights with respect to a sale of securities of the Company.

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 28, 2019, 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 judgment and estimation or use of managerial assumptions are as follows:

(i) Purchase Price Allocation, Intangible Assets and Goodwill:
The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingent and variable consideration. The Company uses valuation techniques to determine fair values, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. See Note 5, *Business Combinations* for the year ended December 31, 2018 for the assumptions used by management and the discount rates applied. The Company's accounting policy relating to transactions or other events considered to be a business combination is described in Note 3, *Summary of Significant Accounting Policies - Business Combinations* of the Company's Consolidated Financial Statements for the year ended December 31, 2018. In applying this policy, judgment is used when determining whether such transactions should be treated as an asset acquisition or a business combination. During the year ended December 31, 2018, management concluded that the Aralez Transaction was a business combination within the scope of IFRS 3 as the acquired assets met the definition of a business. For the year ended December 31, 2017, management concluded that the acquisition of the ex-U.S. product and intellectual property rights to Resultz was a business combination in the scope of IFRS 3, Business Combinations, as the acquired assets met the definition of a business.

(ii) Determination of Fair Values for Debt and Derivative Liabilities:
The Company's Amortization Loan, Bridge Loan and host liability of the Convertible Loan are initially measured at fair value using a discounted cash flow model that considers the present value of the contractual cash flows using a risk-adjusted discount rate. The discounted cash flow model requires management to estimate the timing of debt repayments and the effective interest rate related to the debts. (See Note 12, *Loans and Borrowings).*

The fair value of the Company's Warrants are initially recognized and subsequently revalued at each reporting period using the Black-Scholes option pricing model. The conversion feature that accompanies the Company's Convertible Loan is valued by determining the difference between the fair value of the hybrid Convertible Loan contract, determined using an income approach with a binomial lattice model; and the fair value of the host liability contract, determined using a discounted cash flow model. The Warrants and conversion feature will be measured at fair value through profit and loss at each period end. (See Note 13, *Derivative Financial Liabilities).*

As at December 31, 2018, the Company recognized a $14.5 million derivative liability relating to the conversion feature on the Convertible Loan [December 31, 2017 -$nil].

As at December 31, 2018, the Company recognize a $19.1 million derivative liability relating to outstanding Warrants [December 31, 2017 - $nil].

(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, 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. However, goodwill and indefinite life intangible assets are tested for impairment annually at December 31st. 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. (See Note 10, *Intangible Assets* and Note 11, *Goodwill)*.

(v) Valuation of Inventory
The Company estimates future product sales when establishing appropriate provisions for inventory. In making these estimates, the Company considers the product life of inventory and the profitability of recent sales of inventory. In many cases, products sold by the Company turn quickly and inventory on-hand values are low, thus reducing the risk of inventory obsolescence. Management relies on expiry dates in the determination of realizable value of inventory. (See Note 7, *Inventories)*.

(vi) 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 share 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 share appreciation rights using the Black-Scholes option pricing model, including the expected life of the option, stock-price volatility and forfeiture rates. (See Note 17, *Stock-based Compensation and Other Stock-based Payments).*

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

	% Ownership
Aralez Pharmaceuticals Canada Inc.	**100%**
Nuvo Pharmaceuticals (Ireland) DAC	**100%**
Dimethaid (UK) Ltd.[(i)]	**100%**

[(i)] Dimethaid (UK) Ltd. Is a dormant company.

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

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.

(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 into 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 (loss) (OCI) with the cumulative gain or loss reported in accumulated other comprehensive income (loss) (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 includes cash on hand and current balances with banks and cash equivalents include money market mutual funds. These are readily convertible into known amounts of cash and have an insignificant risk of changes in value. The cost basis of cash approximates its fair value.

Short-term Investments
Short-term investments are held in highly liquid instruments such as guaranteed investment certificates, 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.

An inventory provision is estimated by management based on expected future sales and expiry dates and is recorded in cost of goods sold. Subsequent changes to provisions are recorded in cost of goods sold in the consolidated statements of income (loss) and comprehensive income (loss).

Contract Assets
Contract assets represent the present value of current and future guaranteed minimum sales-based royalties, upfront fees and milestone payments that are expected to be received over the life of the licensing agreements. Contract asset balances are reduced as the contractual minimums are realized throughout the life of the agreement.

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

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 - 25 years	Straight-line
Leasehold improvements	Term of lease	Straight-line
Furniture and fixtures	5 years	Straight-line
Computer equipment and software	1 - 3 years	Straight-line
Production, laboratory and other equipment	3 - 12 years	Straight-line

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

Intangible Assets
Intangible assets acquired in a business combination are recognized separately from goodwill at their fair value at the date of acquisition, which is considered to be cost. Following initial recognition, intangible assets are carried at cost, less any accumulated amortization and accumulated impairment losses. Amortization commences when the intangible asset is available for use. For patented assets, amortization is computed on a straight-line basis over the intangible asset's estimated useful life, which cannot exceed the lesser of the remaining patent life and 20 years. For license assets, amortization is computed on a straight-line basis over the intangibles asset's estimated useful life, which management estimates based on the license period and opportunity for license renewal. The estimated useful lives are as follows:

Brand	Indefinite life	-
Patents	5 - 20 years	Straight-line
Licenses	4 – 27 years	Straight-line

Goodwill and Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree.

When the Company acquires a business, it assesses the classification and designation of financial assets and liabilities assumed in accordance with the contractual terms, economic circumstances and conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. All contingent consideration (unless classified as equity) is subsequently re-measured to fair value at each reporting period end, with the changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognized at the acquisition date. If the reassessment still results in an

excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in net income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. See Note 3, *Summary of Significant Accounting Policies - Impairment of Non-financial Assets* for a description of impairment testing procedures.

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. CGUs to which goodwill and indefinite life intangible assets have been allocated are tested for impairment at least annually. 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. Goodwill is allocated to the CGU that is expected to benefit from synergies of a related business combination and represent the lowest level within the Company at which management monitors goodwill.

The Company has recognized goodwill from the Resultz acquisition as disclosed in Note 5. Goodwill associated with the acquisition is generated from the expected net cash inflows for the ex-U.S. Resultz product, which management considers to be the CGU for purposes of testing impairment. The Company is in the process of determining CGUs related to the Aralez Transaction.

For non-financial assets other than goodwill, 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
Effective January 1, 2019, the Company adopted IFRS 9 – *Financial Instruments* (IFRS 9) (See Note 4, *Changes in Accounting Policies*). The following are policies on financial instruments under IFRS 9.

There are three measurement categories in which the Company classifies its financial assets:

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

Financial liabilities are either classified as amortized cost or FVTPL. For financial liabilities held at amortized cost, when the Company revises its estimates of payments, it will adjust the gross carrying amount of the amortized cost of a financial liability to reflect actual and revised estimated contractual cash flows. The Company recalculates the gross carrying amount of the amortized cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate. The adjustment is recognized in income.

The Company classifies its financial instruments as follows:

- Cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities, long-term debt and other obligations are measured at amortized cost. Interest income and interest expense are recorded in net income (loss), as applicable.
- Embedded derivatives including the conversion feature of the Convertible Loan and the prepayment option on the Bridge Loan and Amortization Loan are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. The conversion feature, prepayment option and the warrants are initially measured at fair value and subsequently measured at FVTPL.

The following were the financial instrument policies prior to January 1, 2018 under IAS 39:

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 depend 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 FVTPL.
- Accounts payable and accrued liabilities, and other 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.

Impairment of Financial Assets

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

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

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

Revenue Recognition
The Company has adopted IFRS 15 with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition:

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.

Rights of return gives rise to variable consideration. The variable consideration is estimated at contract inception using the expected value method as this best predicts the amount of variable consideration to which the Company is entitled. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. For products that are expected to be returned, a refund liability is recognized as a reduction of revenue at the time control of the products is transferred to the customers.

The Company may provide discounts and rebates, to its customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. The Company applies the most likely amount method estimating discounts and rebates provided to customers using contracted rates. Consequently, revenues are recognized net of reserves for estimated sales discounts and rebates.

License Revenue
The Company has tied the sales-based royalties to the distinct performance obligation to which it relates - the license of IP rights to the Company's commercial products. With the application of the sales-based royalties exception, sales-based royalties and milestone payments contingent on sales-based thresholds are recognized when the subsequent sales occur. (See Note 4, *Changes in Accounting Policies).*

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

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.

The following were the revenue recognition policies prior to January 1, 2018 under IAS 18:

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, returns and rebates.

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. The Company only recognizes 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.

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 upfront 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 period. 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.

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.

Government Assistance
Government assistance received under incentive programs is 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 is 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 convertible debt 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 recoverable 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 income taxes are 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 are 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 it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed as at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized. Within the scope of IAS 12, *Income Taxes*, the Company recognizes its investment tax credits as a reduction against current income tax expense.

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. See Note 17, *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.

Share Appreciation Rights Plan
SARs were issued to directors, officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. The SARs Plan was discontinued as of March 1, 2016 with the last tranche vesting January 1, 2019 with zero fair value. 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 Debt Instruments
The Company records issuance costs of debt against the fair value of the debt and will amortize the debt issuance costs over the remaining term of the debt.

Issuance Costs of Equity Instruments
The Company records issuance costs of equity instruments against the equity instrument that was issued. For derivative instruments, costs of issuance is expensed immediately. For derivative debt instruments, the cost of issuance is expensed immediately.

Operating Segments
IFRS 8 - *Operating Segments* requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. For the year ended December 31, 2018, the Company continued to operate as one industry segment: pharmaceutical and healthcare products. As a result of the Aralez Transaction, the Company is reassessing its operating segments.

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

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

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

4. CHANGES IN ACCOUNTING POLICIES

IFRS 15 - *Revenue from Contracts with Customers*

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

The Company applied IFRS 15 using the modified retrospective approach, which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 - *Revenue* (IAS 18).

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

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

The details of the significant changes and quantitative impact of the changes are set out below.

Product Sales

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

License Revenue

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

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

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

Current and Deferred Income Taxes

The Company recognized $0.3 million in current and deferred income taxes attributable to the $1.5 million adjustment disclosed above under *License Revenue* for a net impact of $1.2 million to the Company's opening balance of equity as at January 1, 2018. Within the scope of IAS 12 - *Income Taxes*, the Company recognized its

investment tax credits as a reduction against current and deferred income taxes payable of $0.2 million as it is now probable that future taxable income will be available to offset this corresponding tax liability. The Company has offset its current and deferred income tax assets and liabilities as it has a legally enforceable right and the income taxes are levied by the same taxation authority.

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Impact of Changes in Accounting Policies

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

The following tables summarize the impact of adopting IFRS 15 on the Company's Consolidated Financial Statements for the year ended December 31, 2018.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Impact of Changes in Accounting Policies

	As at December 31, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18[(i)]
	$	$	$
ASSETS			
CURRENT			
Contract assets[(ii)]	**8,642**	**(8,642)**	**-**
TOTAL CURRENT ASSETS	**58,687**	**(8,642)**	**50,045**
NON-CURRENT			
Contract assets[(ii)]	**18,110**	**(18,110)**	**-**
Intangible assets[(ii)]	**95,234**	**26,752**	**121,386**
TOTAL ASSETS	**201,588**	**-**	**201,588**
LIABILITIES AND EQUITY			
CURRENT			
Current income tax liabilities	**82**	**-**	**82**
TOTAL CURRENT LIABILITIES	**28,287**	**-**	**28,287**
Deferred income tax liabilities	**299**	**-**	**299**
TOTAL LIABILITIES	**180,882**	**-**	**180,882**
EQUITY			
Accumulated other comprehensive income (loss)	**369**	**-**	**369**
Deficit	**(179,862)**	**-**	**(179,862)**
TOTAL EQUITY	**20,706**	**-**	**20,706**
TOTAL LIABILITIES AND EQUITY	**201,588**	**-**	**201,588**

(i) Balances using previous accounting policy applicable up to December 31, 2017.
(ii) The Contract Asset acquired on close of the Aralez Transaction would have been recognized as an Intangible Asset under IAS 18.

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
Impact of Changes in Accounting Policies

	Year ended December 31, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18[(i)]
	$	$	$
REVENUE			
License revenue	**2,262**	**514**	**2,776**
Total revenue	**19,998**	**514**	**20,512**
OTHER EXPENSES (INCOME)			
Loss on disposal of contract assets	**452**	**(452)**	**-**
Foreign currency loss	**(429)**	**62**	**(367)**
Net income (loss) before income taxes	**(6,340)**	**904**	**(5,436)**
Income tax expense (recovery)	**(187)**	**235**	**48**
NET INCOME (LOSS)	**(6,153)**	**669**	**(5,484)**
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods			
Unrealized gain (loss) on translation of foreign operations	**370**	**-**	**370**
TOTAL COMPREHENSIVE INCOME (LOSS)	**(5,783)**		**(5,114)**
Net income (loss) per common share			
- basic	**(0.54)**	**-**	**(0.45)**
- diluted	**(0.54)**	**-**	**(0.45)**
Average number of common shares outstanding (in thousands)			
- basic	**11,443**	**-**	**11,443**
- diluted	**11,443**	**-**	**11,443**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Impact of Changes in Accounting Policies

	Year ended December 31, 2018		
	As Reported under IFRS 15	Adjustments	Balances under IAS 18[(i)]
	$	$	$
OPERATING ACTIVITIES			
Net income (loss)	**(6,153)**	**669**	**(5,484)**
Items not involving current cash flows:			
Depreciation and amortization	**2,493**	**-**	**2,493**
Capitalization of deferred financing fees	**(3,804)**	**-**	**(3,804)**
Disposal of development costs	**16**	**-**	**16**
Equity-settled stock-based compensation	**795**	**-**	**795**
Unrealized foreign exchange loss (gain)	**(663)**	**-**	**(663)**
Disposal of contract assets	**452**	**(452)**	**-**
Inventory write-down	**31**	**-**	**31**
Benefit for deferred income taxes	**(225)**	**235**	**10**
Change in fair value of contingent and variable consideration	**(518)**	**-**	**(518)**
	(7,576)	**452**	**(7,124)**
Net change in non-cash working capital	**4,061**	**(452)**	**3,609**
CASH PROVIDED BY OPERATING ACTIVITIES	**(3,515)**	**-**	**(3,515)**

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

IFRS 9 - *Financial Instruments*

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

The Company has elected to not restate comparative periods in the year of initial application of IFRS 9 relating to the transition for classification, measurement and impairment and, accordingly, has not restated comparative periods in the year of initial application. As a result, the comparative information provided continues to be accounted for on a basis consistent with IAS 39 as described in Note 3, *Summary of Significant Accounting Policies*.

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

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

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

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

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

There was no impact to the Company's opening balance of equity as at January 1, 2018, as a result of the change in impairment methodology (See Note 23, *Financial Instruments and Risk Management*).

5. BUSINESS COMBINATIONS

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

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

Fair value of consideration	
	$
Amount settled in cash (US$105,100)	143,379
Fair value of contingent and variable consideration (Note 14)	475
Plus: amounts due for cash, working capital and indebtedness adjustments	1,443
Total consideration transferred[(i)]	145,297

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

Recognized amounts of identifiable net assets	
Cash	4,908
Inventory	11,051
Contract asset	26,152
Property, plant and equipment	580
Patents	33,141
License agreements	51,055
Brands	1,578
Deferred tax asset	7,608
Total identifiable net assets	136,073
Other net working capital	(400)
Less liabilities assumed	(6,148)
Deferred tax liability	(7,907)
Goodwill on acquisition	**23,679**

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

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

The purchase agreement included contingent consideration in the form of 50% of the lifetime net earnings from monetization of the Yosprala product. The fair value of contingent consideration initially recognized represents the present value of the Company's probability-weighted estimate of cash outflows discounted at 12%. (See Note 14, *Other Obligations)*.

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

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

The contract asset acquired relates to a minimum royalty the Company is entitled to from Horizon, as per its license agreement for Vimovo in the US. The fair value of the contact asset initially recognized represents the present value of the Company's future estimated minimum royalty payments discounted at a rate of 11%.

Reacquired Rights to Resultz
The Company reacquired the Canadian distribution rights to Resultz which were previously owned by Aralez Pharmaceuticals Inc. Management has determined the fair value of these rights to be $2.5 million and are included in the Identified net assets, License agreements acquired. The Company recognized a loss on disposal of Contract Assets of $452 upon reacquisition of the Canadian distribution rights to Resultz. (See Note 5, *Business Combinations* and Note 24, *Revenue).*

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

Acquisition costs charged to general and administrative expenses
Acquisition related costs amounting to $6.7 million are recognized as part of G&A expenses for the year ended December 31, 2018 and are not included as part of the consideration transferred. Those acquisition related costs include $0.4 million of termination costs related to Aralez Canada.

Global Ex-U.S. Resultz Product and Intellectual Property Rights
On December 29, 2017, the Company acquired control of the global ex-U.S. product and intellectual property rights to Resultz, a topical solution lice and egg removal kit. The transaction included all existing royalty streams in France, Spain, Portugal, Belgium, Ireland and the United Kingdom, Canada, Russia, Australia, and Israel which are generated from a network of existing global licensees and license agreements that were assumed by Nuvo. The transaction also included rights to Resultz in the ex-U.S. non-partnered markets. The transaction has been accounted for as a business combination in the scope of IFRS 3, *Business Combinations*, as the acquired assets met the definition of a business.

The consideration for the acquisition and final purchase price allocation, in accordance with IFRS 3, *Business Combinations*, are estimated as follows:

Fair value of consideration transferred	**$**
Amount settled in cash	8,781
Fair value of contingent and variable consideration	1,626
Total consideration transferred	**10,407**
Recognized amounts of identifiable net assets	
Patents	8,430
Brand	790
Total identifiable net assets	**9,220**
Goodwill on acquisition	**1,187**

The Company has finalized the purchase price allocation, including goodwill. The fair value of the contingent and variable consideration is revalued at each reporting period with changes recognized in the statement of profit and loss.

Consideration Transferred
The acquisition of the global ex-U.S. rights to Resultz was settled in US$7.0 million ($8.8 million) from cash on hand. The purchase agreement included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in the non-partnered markets. The royalty consideration will be paid annually from the acquisition date until 2028. The $1.6 million fair value of the contingent and variable consideration initially recognized represents the present value of the Company's probability-weighted estimate of the cash outflow. The contingent consideration reflects management's estimate that certain targets will be achieved and the variable consideration is based on managements projected royalty income in non-partnered markets. The discount rates used range from

20% - 30% based on the risk of achieving the forecasted sales in the partnered and non-partnered markets (Note 14).

Acquisition-related costs amounting to $69 are recognized as part of G&A expenses for the year ended December 31, 2017 and are not included as part of consideration transferred.

Identifiable Net Assets
The identifiable net assets were valued using an income approach and discounted using rates of 22% and 25%. The relief from royalty method was chosen as the most appropriate valuation methodology and was determined by estimating the after-tax royalty fee avoided by the Company through ownership of the patent and brand.

Goodwill
Goodwill of $1.2 million is primarily related to growth expectations, particularly within the non-partnered markets and expected future profitability from royalty streams in both the partnered and non-partnered markets.

6. RESULTZ U.S. ASSET PURCHASE

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

7. INVENTORIES

Inventories consist of the following as at:

	December 31, 2018[(i)]	December 31, 2017
	$	$
Raw materials	**2,759**	2,162
Work in process	**833**	24
Finished goods, net of provision	**10,155**	316
	13,747	2,502

[(i)] The Company acquired inventory with a fair value of $11.1 million upon the close of the Aralez Transaction.

During the year ended December 31, 2018, inventories in the amount of $6.9 million were recognized as cost of goods sold (COGS) [December 31, 2017 - $6.7 million]. During the year ended December 31, 2018, inventories in the amount of $31 were written down [December 31, 2017 - $15] and there were no reversals of prior year write-downs during the years ended December 31, 2018 and 2017.

8. OTHER CURRENT ASSETS

Other current assets consist of the following as at:

	December 31, 2018[(i)]	December 31, 2017
	$	$
Deposits	**522**	117
Prepaid expenses	**1,756**	234
Other receivables	**729**	86
	3,007	437

[(i)] The Company acquired $1.7 million of other current assets upon close of the Aralez Transaction.

9. PROPERTY, PLANT AND EQUIPMENT

PP&E consists of the following as at:

	Land	Buildings	Leasehold Improvements	Furniture & Fixtures	Computer Equipment & Software	Production, Laboratory & Other Equipment[(ii)]	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2016	42	1,433	-	60	162	3,133	4,830
Additions/disposals	-	58	194	72	49	2,919	3,292
Balance, December 31, 2017	42	1,491	194	132	211	6,052	8,122
Acquired in Aralez acquisition (Note 5)[(iii)]	-	-	343	60	27	150	580
Additions/disposals	-	139	73	36	24	15	287
Balance, December 31, 2018	**42**	**1,630**	**610**	**228**	**262**	**6,217**	**8,989**
Accumulated depreciation							
Balance, December 31, 2016	-	852	-	59	160	2,535	3,606
Depreciation expense net of disposals	-	65	3	-	6	159	233
Balance, December 31, 2017	-	917	3	59	166	2,694	3,839
Depreciation expense net of disposals	-	70	39	19	10	353	491
Balance, December 31, 2018	**-**	**987**	**42**	**78**	**176**	**3,047**	**4,330**
Net book value as at December 31, 2017	42	574	191	73	45	3,358	4,283
Net book value as at December 31, 2018[(i)]	**42**	**643**	**568**	**150**	**86**	**3,170**	**4,659**

[(i)] As at December 31, 2018, all of the Company's PP&E was located in Canada.
[(ii)] Production, laboratory and other equipment as at December 31, 2018 included a cost of $11 [December 31, 2017 - $11] and accumulated depreciation of $8 [December 31, 2017 - $5] for assets under finance leases.
[(iii)] The Company acquired $0.6 million of PP&E upon close of the Aralez Transaction.

10. INTANGIBLE ASSETS

Intangible assets consist of the following as at:

Cost	Patents $	Brand $	Licenses $	Development Costs $	Total $
Balance, December 31, 2016	-	-	-	-	-
Acquired in Resultz acquisition (Note 5)	8,430	790	-	-	9,220
Additions	-	-	-	16	16
Balance, December 31, 2017	8,430	790	-	16	9,236
Acquired in Aralez acquisition (Note 5)	33,141	1,578	51,055	-	85,774
Acquired in Resultz U.S. asset purchase (Note 6)	1,876	-	-	-	1,876
Disposal	-	-	-	(16)	(16)
Foreign exchange movements	350	29	-	-	379
Balance, December 31, 2018	**43,797**	**2,397**	**51,055**	**-**	**97,249**
Accumulated amortization					
Balance, December 31, 2016	-	-	-	-	-
Amortization expense	-	-	-	-	-
Balance, December 31, 2017	-	-	-	-	-
Amortization expense	1,989	-	-	-	1,989
Foreign exchange movements	26	-	-	-	26
Balance, December 31, 2018	**2,015**	**-**	**-**	**-**	**2,015**
Net book value as at December 31, 2017	8,430	790	-	16	9,236
Net book value as at December 31, 2018	**41,782**	**2,397**	**51,055**	**-**	**95,234**

The Company reviewed the recoverable amount of the Ex-US Resultz CGU including the carrying values of its intangible assets of $7.9 million (See Note 5, *Business Combinations*) and goodwill of $1.2 million (Note 11, *Goodwill*) are allocated to the ex-U.S. Resultz Acquisition and the Resultz U.S. Asset Purchase (See Note 6, *Resultz U.S. Asset Purchase*) of $1.6 million for potential impairment at December 31, 2018. Under the impairment test, the recoverable amount of an asset is determined at the higher of its value in use, based on a discounted cash flow model or fair value less costs to sell. The Company's value in use calculation considers forecasted cash flows for the next 10 years based on the current commercialization plans of the business and existing patent life. Cash from product sales, royalties and milestone, net of expenses, were included and a discount rate of 22% was applied which approximates the Company's current weighted average cost of capital. A 3% change in the discount rate would result in carrying value exceeding the recoverable amount for the ex-U.S. Resultz CGU. As at December 31, 2018, the recoverable amount of the CGU was greater than the carrying amount; therefore, no impairment of intangible assets or goodwill existed.

The Company acquired intangible assets with a fair value of $85.8 million upon the close of the Aralez Transaction. (See Note 5, *Business Combinations)*.

11. GOODWILL

Cost	December 31, 2018 $	December 31, 2017 $
Ex-U.S. Resultz acquisition (Note 5)	**1,187**	1,187
Aralez acquisition (Note 5)	**23,679**	-
Foreign exchange movements	**32**	-
Balance	**24,898**	1,187

Goodwill is recognized on the acquisition date when total consideration exceeds the net identifiable assets acquired. Refer to Note 10, *Intangible Assets* for the Company's annual impairment test performed at the Ex-US Resultz CGU level.

12. LOANS AND BORROWINGS

The Company financed the acquisition of Aralez, as described in Note 1, *Nature of Business – The Deerfield Financing*, through funding provided by Deerfield Management Company, L.P. on December 31, 2018. The Company received total proceeds of $161.7 million (US $118.5 million) from Deerfield in exchange for issuing the Amortization Loan, the Bridge Loan, the Convertible Loan and Warrants. In addition to these freestanding instruments, there were two embedded derivatives requiring bifurcation: the conversion option in the Convertible Loan (See Note 13, *Derivative Financial Liabilities*), and the prepayment option in the Amortization Loan.

The total proceeds have been attributed to the various components as follows:

	December 31, 2018 $
Amortization Loan – debt host	**68,052**
Bridge Loan	**8,230**
Convertible Loan – debt host	**51,774**
Conversion feature	**14,534**
Warrants	**19,112**
Prepayment option	**(45)**
	161,657
Less:	
Derivative financial liabilities (Note 13)	**33,646**
Transaction costs	**3,804**
Long-term debt	**124,207**

The conversion feature and Warrants are classified as derivative liabilities. (See Note 13**,** *Derivative Financial Liabilities)*.

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

	December 31, 2018 $	December 31, 2017 $
CURRENT		
Bridge Loan	**6,821**	-
	6,821	-
NON-CURRENT		
Bridge Loan	**1,165**	-
Amortization Loan	**65,985**	-
Convertible Loan – debt host	**50,236**	
	117,386	-

The Company's exposure to interest rate, foreign currency and liquidity risk is disclosed in Note 23, *Financial Instruments and Risk Management*.

Terms and Repayment Schedule
The terms and conditions of the outstanding loans at December 31, 2018 are as follows:

	Base currency	Stated interest rate %	Effective interest rate %	Stated Maturity	Face value $	Proceeds received $	Transaction Costs $	Prepayment Option $	Carrying amount $
Bridge Loan	USD	12.5	11.09	June 30, 2020	8,185	8,230	(244)	-	7,986
Amortization Loan	USD	3.5	10.20	Dec. 31, 2024	81,851	68,052	(2,022)	(45)	65,985
Convertible Loan	USD	3.5	10.22	Dec. 31, 2024	71,621	51,774	(1,538)	-	50,236
					161,657	**128,056**	**(3,804)**	**(45)**	**124,207**

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

Transaction costs of $4.8 million are allocated to the components of the Facility Agreement based on relative fair value. Transaction costs related to the Amortization Loan, the Bridge Loan and the debt host component of the Convertible Loan, in the aggregate amount of $3.8 million, reduce the carrying value of the respective liability and are reflected in the calculation of interest expense under the effective interest rate method. Transaction costs related to the Warrants, the prepayment option component of the Bridge Loan and the conversion feature component of the Convertible Loan have been expensed immediately, in the aggregate amount of $1.0 million, in G&A expenses in the consolidated statements of income (loss) and comprehensive income (loss).

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

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

The Company has the right to prepay the loans at any time. The fair value of the prepayment option bifurcated from the term loan was a derivative asset of $45 as at December 31, 2018, and is presented net of the non-current portion of the long-term debt. The prepayment option on the Bridge Loan was deemed to be clearly and closely related to the host and no bifurcation was required.

If the Company does not have sufficient cash flows to make the minimum payments during the first four quarters from the issuance date of these loans, it may delay the payments for those first four quarters so long as a minimum of US$10 million in aggregate has been paid by the payment date of the fourth quarter. As a result of the Waterfall Provisions, the first US$6.0 million paid by the Company will be applied to the Bridge Loan. The remaining US$4.0 million is required to be paid by April 2020 and applied to the Amortization Loan. Thereafter, quarterly principal payments will commence on the Amortization Loan until December 31, 2024.

Convertible Loan
The Convertible Loan was issued on December 31, 2018 in the principal amount of $71.6 million (US$52.5 million), convertible at any time at the option of the holder into 19,444,444 common shares of the Company at a conversion price of US$2.70 per share. Interest is payable on a quarterly basis, and any debenture not converted will be repaid on December 31, 2024. The conversion feature has been classified as a derivative financial liability, as described in Note 13, *Derivative Financial Liabilities*, with a fair value of $14.5 million on December 31, 2018.

13. DERIVATIVE FINANCIAL LIABILITIES

The Company's derivative financial liabilities are measured at FVTPL and are summarized below:

	December 31, 2018	December 31, 2017
	$	$
Conversion feature on Convertible Loan	**14,534**	-
Warrants	**19,112**	-
	33,646	-

Conversion feature
The conversion feature is embedded in the Convertible Loan described in Note 12, *Loans and Borrowings* and allows the holder to convert the outstanding principal amount of the debentures into common shares of the Company at any time at a conversion price of US$2.70 per share, subject to a restriction that the holder shall not ultimately hold more than 4.985% of the total number of common shares of the Company.

The Convertible Loans are denominated in U.S. dollars, which precludes the conversion option from being classified as equity because the principal amount that would be converted into common shares is not fixed when translated into the Company's functional currency of Canadian dollars. As such, the conversion option has been classified as a derivative financial liability.

Financing fees of $432 associated with the issuance of the conversion option were expensed on December 31, 2018.

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

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

There are three methods of warrant settlement, all at the option of the holder. The first method of settlement requires the holder to remit the exercise price of $3.53 per warrant and the Company will issue a common share of the Company. The second method results in the $3.53 per warrant strike price being applied as a payment against the principle balance of the Amortization Loan outstanding. The third method of exercise applies to those warrants classified as Flexible Exercise Shares (FES). Warrants considered FES can be exercised without upfront renumeration to the Company. Instead, the Company issues fractional shares equal to the difference between the current share price and the $3.53 exercise price of the warrant. At December 31, 2018 3,333,334 of the 25,555,556 warrants outstanding were classified as FES.

Following a Major Transaction (as defined in the Deerfield Facility Agreement), subject to certain conditions, the warrants will become exercisable for an additional number of common shares determined in accordance with the terms of the warrants, subject to continued application of the 4.985% Cap, except that in the case of certain Major Transactions involving the conversion of the Common Shares into the right to receive cash, securities or other assets (either under the Major Transaction or a subsequent liquidation of the Company), a holder of warrants is permitted to exercise the warrants (without the application of the 4.985% Cap) for the additional number of common shares described above immediately prior to and conditional upon completion of the Major Transaction, such that the holder ultimately receives the cash, securities or other assets, as applicable, in exchange for such Common Shares on the same terms as other holders of Common Shares. See the Deerfield Facility Agreement and the forms of Convertible Notes and Warrants filed under the Company's profile on SEDAR www.sedar.com.

Financing fees of $568 associated with the issuance of the conversion feature were expensed on December 31, 2018.

Inputs to fair value models
Key assumptions used in determining the fair values of the Company's derivative financial liabilities at initial recognition and as at December 31, 2018 are summarized below:

	Conversion feature	Warrants
Issue date	December 31, 2018	December 31, 2018
Valuation date	December 31, 2018	December 31, 2018
Share price	$2.10	$2.10
Risk-free interest rate	2.55%	1.90%
Dividend yield	0%	0%
Volatility factor	53.9%	53.9%
Expected life	6 years	6 years

14. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	December 31, 2018	December 31, 2017
	$	$
Contingent and variable consideration related to the ex-U.S. acquisition of Resultz[(i)]	**1,192**	1,626
Contingent and variable consideration related to the acquisition of Aralez[(ii)]	**475**	-
Finance lease obligations	**5**	7
Less amounts due within one year	**(408)**	(332)
Long-term balance	**1,264**	1,301

(i) As at December 31, 2018, the Company recognized $1.2 million [December 31, 2017 - $1.6 million] in contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz. The ex-U.S. Resultz acquisition included contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. For the year ended December 31, 2018, the remeasurement of the fair value of the contingent and variable consideration recognized the passage of time and the impact of changes in foreign exchange rates, resulting in a recovery of $0.5 million reflected in the results of operations.

(ii) As at December 31, 2018, the Company recognized $0.5 million [December 31, 2017 - $nil] in contingent and variable consideration related to the acquisition of the Yosprala rights in the Aralez Transaction.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the year ended December 31, 2018 includes $1.9 million of accrued royalties, rebates and returns [December 31, 2017 - $0.3 million].

Accounts payable and accrued liabilities for the year ended December 31, 2018 includes $6.1 million of indebtedness acquired through the Aralez Transaction [December 31, 2017 - $nil]. The acquired indebtedness includes royalties payable to one of the Company's licensors.

16. CAPITAL STOCK

Authorized

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

Normal Course Issuer Bid

During the year ended December 31, 2018, pursuant to the Company's notice of intention to make a normal course issuer bid for a portion of its outstanding common shares, the Company purchased 235,543 common shares with

available cash on hand for a total cost of $748 or $3.18 per share. The common shares acquired by Nuvo were cancelled.

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

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

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

The maximum number of common shares that will be reserved for issuance under the Share Incentive Plan shall be 15% of the total number of common shares outstanding from time-to-time. The allocation of such maximum percentage among the three sub plans comprising the Share Incentive Plan shall be determined by the Board of Directors (or a committee thereof) from time-to-time (provided that the maximum number of common shares that may be issued under the Share Bonus Plan shall not exceed a fixed number of common shares equal to 3% of the number of common shares outstanding immediately following the arrangement, which was 341,648).

As at December 31, 2018, the number of common shares available for issuance under the Share Incentive Plan was 362,342.

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

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

	Options 000s	Range of Exercise Price $	Weighted Average Exercise Price $
Balance, December 31, 2016	849	1.53 - 12.70	5.01
Granted	369	3.80 - 5.75	5.50
Exercised	(5)	1.53	1.53
Forfeited	(18)	4.32 - 6.35	5.18
Expired	(166)	6.86 - 12.70	7.01
Balance, December 31, 2017	1,029	1.53 – 12.70	4.88
Granted	204	2.88 – 3.55	3.54
Forfeited	(10)	3.55	3.55
Expired	(34)	4.32 – 6.35	5.52
Balance, December 31, 2018	**1,189**	**1.53 – 12.70**	**4.64**

The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Options are valued with a calculated forfeiture rate of 7% [December 31, 2017 - 7%] and the remaining model inputs for options granted during the year ended December 31, 2018 were as follows:

Options 000s	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life (years)	Volatility Factor	Fair Values $
195	March 28, 2018	3.55	3.55	1.74 - 2.14	1 - 7	34 - 66	0.63 - 2.02
9	October 3, 2018	2.88	2.88	2.39	1 – 4	58 – 64	1.50 – 1.80

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

	Outstanding			Exercisable	
Exercise Price Range $	Options 000s	Remaining Contractual Life years	Weighted Average Exercise Price $	Vested Options 000s	Weighted Average Exercise Price $
1.53 - 4.45	539	6.58	3.09	366	2.79
5.08 - 5.75	604	6.93	5.52	309	5.38
11.18	46	1.46	11.18	46	11.18
	1,189	**6.56**	**4.64**	**721**	**4.43**

Share Purchase Plan

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

During the year ended December 31, 2018, employees contributed $123 [December 31, 2017 - $nil] to the plan and the Company matched these contributions by issuing 36,464 common shares [December 31, 2017 - nil] with a fair value of $123 [December 31, 2017 - $nil] that was recorded as compensation expense. The total number of shares issued under this plan during the year ended December 31, 2018 was 72,928 [December 31, 2017 - nil].

Share Appreciation Rights Plan

On October 30, 2013, the Company established the SARs Plan for directors, officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. The SARs Plan was discontinued as of March 1, 2016 with the last tranche vesting January 1, 2019 with zero fair value. Under the SARs Plan, participants receive, upon vesting, a cash amount equal to the difference between the SARs fair market value and the grant price value, also known as the intrinsic value. Fair market value is determined by the closing price of the Company's common shares on the TSX on the day preceding the exercise date. SARs vest in tranches prescribed at the grant date and each tranche is considered a separate award with its own vesting period and grant date fair value. Until SARs vest, compensation expense is measured based on the fair value of the SARs at the end of each reporting period using the Black-Scholes option pricing model. The fair value of the liability is remeasured at the end of each reporting date and adjusted at the settlement date when the intrinsic value is realized. The SARs accrual is included in accounts payable and accrued liabilities.

The fair values of each tranche issued and outstanding in the period were measured as at December 31, 2018 using the Black-Scholes option pricing model with the following inputs:

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

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

	SARs 000s	Fair Values $	Accrual $
Balance, December 31, 2016	417	0.02 - 4.21	1,031
Vested	(246)	0.00 - 4.21	(738)
Adjustment to market value	-	-	(219)
Balance, December 31, 2017	171	0.00 - 4.21	74
Vested	(119)	0.00 - 1.05	(70)
Adjustment to market value	**-**	**-**	(4)
Balance, December 31, 2018	**52**	**-**	**-**

Summary of Stock-based Compensation

Stock-based compensation is as follows:

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
Stock option compensation expense under the Share Option Plan	**672**	705
Shares issued to employees under the Share Purchase Plan	**123**	-
SARs compensation expense	**(4)**	(219)
Stock-based compensation expense	**791**	486
Recorded in the Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) as follows:		
Cost of goods sold	**73**	29
General and administrative expenses	**718**	457
Stock-based compensation expense	**791**	486

18. NET INCOME (LOSS) PER COMMON SHARE

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

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
Basic income (loss) per share:		
Net income (loss)	**(6,153)**	1,581
Average number of shares outstanding during the year	**11,443**	11,550
Basic income (loss) per share	**(0.54)**	0.14
Net income (loss), assuming dilution	**(6,153)**	1,455
Average number of shares outstanding during the year	**11,443**	11,550
Dilutive effect of:		
Stock options	**-**	143
Share appreciation rights	**-**	30
Weighted average common shares outstanding, assuming dilution	**11,443**	11,723
Diluted income (loss) per share	**(0.54)**	0.12

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, 2018	December 31, 2017
	000s	000s
Common shares issued and outstanding	11,388	11,551
Stock options outstanding (Note 17)	1,189	1,029
Share appreciation rights outstanding (Note 17)	52	171
Convertible Loan (Note 12)	19,444	-
Warrants (Note 13)	25,556	-
	57,629	12,751

19. EXPENSES BY NATURE

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

(a) Employee costs:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Short-term wages, bonuses and benefits	**6,222**	5,667
Share-based payments	**702**	396
Termination benefits	**384**	-
Total employee costs	**7,308**	6,063
Included in:		
Cost of goods sold	**2,859**	2,831
General and administrative expenses	**4,449**	3,232
Total employee costs	**7,308**	6,063

(b) Depreciation and amortization:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Amortization of intangibles	**1,989**	-
Cost of goods sold	**429**	251
General and administrative expenses	**75**	7
Total depreciation and amortization	**2,493**	258

20. NET CHANGE IN NON-CASH WORKING CAPITAL

Net change in non-cash working capital excludes working capital acquired as part of the Aralez Transaction and consists of:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Accounts receivable	**(1,393)**	514
Inventories	**(224)**	1,300
Contract assets	**419**	-
Other current assets	**(826)**	1,063
Accounts payable and accrued liabilities	**6,085**	(1,219)
Net change in non-cash working capital	**4,061**	1,658

21. 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. A significant component of deferred tax assets (liabilities) is the accounting value of indefinite lived intangible assets in excess of tax basis for the year ended December 31, 2018 of $(0.3) million [December 31, 2017 - $nil].

A deferred income tax asset has not been recognized for certain temporary differences that may be available to reduce income subject to tax in a taxation period subsequent to the period covered by these financial statements. The tax effected amounts of such temporary differences that have not been recognized in these Consolidated Statements of Financial Position or Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Investment tax credits	**1,371**	1,573
Accounting value of PP&E and intangibles in excess of tax basis	**(3,898)**	2,275
Financing costs, deferred revenues and other	**343**	9
Capital losses	**12,740**	12,740
Non-capital and operating losses	**9,024**	-
Inventory	**(1,703)**	-
Other	**511**	-
	18,388	16,597

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

	Year ended December 31, 2018	Year ended December 31, 2017
	%	%
Statutory rate	**26.64**	26.70
Items not deducted for tax	**(25.30)**	8.60
Utilization of previously unrecognized deferred tax assets	**5.93**	(35.30)
Foreign rate differences	**(4.09)**	-
Other	**(0.18)**	-
	3.00	-

The Company has net capital losses of $48.1 million in Canada available to offset net taxable capital gains in future years which have not been recognized [December 31, 2017 - $48.1].

Government Assistance

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

Year of Credit	Amount $	Year of Expiry
2004	149	2024
2005	130	2025
2006	45	2026
2007	45	2027
2008	237	2028
2009	142	2029
2010	395	2030
2011	208	2031
2012	43	2032
2014	80	2034
2015	494	2035
2016	27	2036
	1,995	

The benefits of these non-refundable Canadian federal investment tax credits have not been recognized in these Consolidated Financial Statements.

Non-capital Losses

Year of Credit	Amount $	Year of Expiry
2009	424	2029
2010	2,382	2030
2011	2,488	2031
2012	4,141	2032
2013	3,419	2033
2014	1,601	2034
2015	11,414	2035
2016	7,523	2036
2017	978	2037
2018	1,669	Indefinite
	36,039	

The Company has not recognized the benefits of provincial and foreign non-capital losses of $2.1 million and $1.7 million, respectively.

22. COMMITMENTS

The Company has minimum future payments under operating leases, purchase commitments, minimum royalties, and anticipated milestones for the twelve months ending December 31 as follows:

	$
2019	4,141
2020	3,025
2021 and thereafter	14,835
	22,001

For the year ended December 31, 2018, payments under operating leases totaled $0.2 million [December 31, 2017 - $0.2 million].

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

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

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

Under certain licensing agreements, the Company is required to make royalty payments to two companies for a combined 2.5% of annual net sales of the HLT Patch. The Company is also required to make royalty payments on the net sales of Cambia and Durela, each to a single company, and ranging from 22.5% to 30%.

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

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments at Amortized Cost

For the year ended December 31, 2018, the Company recognized $39 in interest from financial assets held at amortized cost.

Credit Risk

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

creditworthiness may change subsequent to becoming a licensee or distributor and the terms and conditions in the agreement may prevent the Company from seeking new licensees or distributors in these territories during the term of the agreement.

Pursuant to the Aralez Transaction, the Company expects its customer base to expand in fiscal 2019 beyond the pharmaceutical industry to include end-users of its products, including patients and OTC product consumers. Management does not expect the expanded customer base will have a significant impact on the Company's credit risk assessment.

As at December 31, 2018, the Company's largest customer represented 47% [December 31, 2017 - 76%] of accounts receivable, exclusive of the $2.1 million of accounts receivable acquired upon close of the Aralez Transaction. Pursuant to their collective terms, accounts receivable, net of allowance, were aged as follows:

	December 31, 2018	December 31, 2017
	$	$
Current	**4,052**	1,731
0 - 30 days past due	**571**	128
31 - 60 days past due	**84**	7
Over 60 days past due	**510**	9
	5,217	1,875

The loss allowance provision as at December 31, 2018 is determined as follows:

	Current	**Less than 181 days past due**	**181 to 270 days past due**	**271 to 365 days past due**	**More than 365 days past due**	**Total**
Expected loss rate	-	-	10%	25%	60%	
Gross carrying amount	4,052	943	114	67	171	**5,347**
Loss allowance provision	-	-	11	17	102	130

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

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

The Company's cash, cash equivalents and short-term investments subject the Company to a concentration of credit risk. As at December 31, 2018, the Company had $28.1 million deposited with five financial institutions in various bank accounts. These financial institutions are major banks, including four in Canada and one in Ireland, which the Company believes lessens the degree of credit risk. All of these financial assets are considered to have low credit risk, and therefore, the provision recognized during the period was limited to 12 months of expected losses. The Company has not recognized a loss allowance as at December 31, 2018 [December 31, 2017 - $nil].

Financial Instruments

IFRS 7 - *Financial Instruments: Disclosures* requires disclosure of a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets

- Level 2 – Observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are note active; or other inputs that are observable or can be corroborated by observable market data
- Level 3 – Significant unobservable inputs that are supported by little or no market activity

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year ended December 31, 2018.

At December 31, 2018, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, long-term debt and derivative liabilities. The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

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

Level 2 Liabilities include obligations of the Company for the SARs Plan described in Note 17, *Stock-based Compensation and Other Stock-based Payments*. The fair values of each tranche of SARs issued and outstanding are revalued at each reporting period using the Black-Scholes option pricing model. The Company accrued $nil for SARs as at December 31, 2018 [December 31, 2017 - $0.1 million].

The fair values of the Company's Amortization Loan, Bridge Loan and host liability of the Convertible Loan in Note 12, are Level 3 measurements determined using a discounted cash flow model that considers the present value of the contractual cash flows using a risk-adjusted discount rate. The Company recognized $124.2 million for the Amortization Loan, Bridge Loan and host liability of the Convertible Loan as at December 31, 2018 [December 31, 2017 - $nil].

The fair value of the Company's Warrants are initially recognized and subsequently revalued at each reporting period using the Black-Scholes option pricing model. As at December 31, 2018, the Company recognize a $19.1 million derivative liability relating to outstanding Warrants [December 31, 2017 - $nil]. These Warrants are Level 3.

Level 3 liabilities include the fair value of contingent and variable consideration related to the acquisition of the ex-U.S. rights to Resultz and the Aralez Transaction. The ex-U.S. Resultz acquisition included additional contingent consideration related to meeting certain milestones in partnered markets, payable only if those targets are achieved, as well as variable consideration based on annual royalties earned in non-partnered markets. The Aralez Transaction included additional contingent consideration related to profits earned related to Yosprala. The Company recognized $1.7 million in contingent and variable consideration as at December 31, 2018 [December 31, 2017 - $1.3 million] which represents the present value of the Company's probability-weighted estimate of the cash outflow (See Note 14, *Other Obligations*).

The conversion option that accompanies the Company's Convertible Loan is considered a Level 3 liability. The value is determined as the difference between the fair value of the hybrid Convertible Loan contract, determined using an income approach with a binomial lattice model; and the fair value of the host liability contract, determined using a discounted cash flow model as described in Note 13, *Derivative Financial Liabilities*. The Company recognized $14.5 million for the conversion option as at December 31, 2018 [December 31, 2017 - $nil].

The fair values of the prepayment option that allows the Company to make prepayments against the Bridge Loan or Amortization Loan at any time is considered a Level 3 Financial Instrument. At December 31, 2018, the Company recognized $45 [December 31, 2017 - $nil] for the value of the prepayment option and has offset this value against the carrying value of the Amortization Loan (Note 12, *Loans and Borrowings*). The fair value of this option was determined using a binomial lattice model.

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

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

As at December 31, 2018, the Company's financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

		Current	Non-current		
	Total $	Within 12 Months $	1 to 2 Years $	2 to 5 Years $	> 5 years $
Accounts payable and accrued liabilities	20,976	20,976	-	-	-
Other obligations	1,672	407	521	624	120
Senior secured Amortization Loan	81,852	-	15,688	40,926	25,238
Senior secured Bridge Loan	8,185	6,821	1,364	-	-
Senior secured Convertible Loans	71,621	-	-	-	71,621
	184,306	**28,204**	**17,573**	**41,550**	**96,979**

This compares to the maturity of the Company's non-derivative financial liabilities as at December 31, 2017 as follows:

		Current	Non-current		
	Total $	Within 12 Months $	1 to 2 Years $	2 to 5 Years $	> 5 years $
Accounts payable and accrued liabilities	3,134	3,134	-	-	-
Other obligations	1,633	332	656	482	163
	4,767	**3,466**	**656**	**482**	**163**

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

The Deerfield Facility Agreement contains customary representations and warranties and affirmative and negative covenants, including, among other things, an annual financial covenant based on minimum levels of net sales per fiscal year and a mandatory quarterly repayment requirement under the Amortization Loan and the Bridge Loan equal to the greater of (i) 50% of excess cash flow (as defined in the Deerfield Facility Agreement) for such quarter, and (ii) US$2.5 million, commencing with the quarter ended March 31, 2019, provided that, solely with respect to the first four fiscal quarters after the closing date, the US$2.5 million quarterly minimum is not applicable so long as US$10.0 million in prepayments have been made over such four fiscal quarters.

The Company anticipates that its current cash of $28.1 million as at December 31, 2018, together with the cash flow that is generated from operations will be sufficient to execute its current business plan for 2019 and to meet its current debt obligations.

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

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

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

Currency Risk

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

	Euros		U.S. Dollars	
	December 31, 2018 €	December 31, 2017 €	**December 31, 2018 $**	December 31, 2017 $
Cash	**755**	621	**15,051**	1,290
Accounts receivable	**581**	-	**1,332**	1,378
Contract assets	**-**	-	**19,170**	-
Loans and borrowings	**-**	-	**(93,869)**	-
Derivative financial liabilities	**-**	-	**(24,664)**	-
Accounts payable and accrued liabilities	**(405)**	(32)	**(6,063)**	(751)
Other obligations	**(244)**	-	**(942)**	-
	687	589	**(89,985)**	1,917

Based on the aforementioned net exposure as at December 31, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $12.3 million on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $0.1 million on total comprehensive income (loss).

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

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

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

24. REVENUE

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

	Year ended December 31							
	2018	2017[(i)]	**2018**	2017[(i)]	**2018**	2017[(i)]	**2018**	2017[(i)]
	$	$	**$**	$	**$**	$	**$**	$
	United States		International		Canada		Total	
Primary categories of revenue								
Product sales	**14,010**	14,372	**3,324**	1,753	**235**	213	**17,569**	16,338
License revenue	**408**	471	**1,646**	122	**208**	223	**2,262**	816
Contract revenue	**78**	241	**77**	13	**12**	115	**167**	369
	14,496	15,084	**5,047**	1,888	**455**	551	**19,998**	17,523
Timing of revenue recognition								
Transferred over time	**-**	-	**-**	-	**12**	115	**12**	115
Transferred at a point in time	**14,496**	15,084	**5,047**	1,888	**443**	436	**19,986**	17,408
	14,496	15,084	**5,047**	1,888	**455**	551	**19,998**	17,523

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

Accounts Receivable and Contract Assets

	December 31, 2018	January 1, 2018
	$	$
Accounts receivable	**5,217**	1,875
Contract assets	**26,752**	1,475

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

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

	$
Balance, January 1, 2018	1,475
Contract asset related to Aralez acquisition	26,152
Transfers to accounts receivable	(514)
Disposal of contract asset (Note 5)	(452)
Foreign exchange movements	91
Balance, December 31, 2018	**26,752**

Significant Customers

For the year ended December 31, 2018, the Company's four largest customers generating product sales represented 97% [December 31, 2017 - 98%] of total product sales and the Company's largest customer represented 79% [December 31, 2017 - 87%] of total product sales.

In fiscal 2019 the Company expects to see a reduction in the concentration of revenue earned from its four largest customers as the Company will have an expanded customer base and increased product offerings in light of the Aralez Transaction.

25. 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 five executive officers and five non-employee directors. Compensation for the Company's key management personnel was as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Short-term wages, bonuses and benefits	**2,360**	2,133
Share-based payments	**670**	457
Total key management compensation	**3,030**	2,590
Included in:		
Research and development expenses	**-**	-
General and administrative expenses	**3,030**	2,590
Total key management compensation	**3,030**	2,590

Corporate Information

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Licensed Public Accountants
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LEGAL COUNSEL
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Symbol: NRIFF

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CORPORATE GOVERNANCE
The Company's website www.nuvopharmaceuticals.com contains the Company's corporate governance documents including Articles and By-laws, Committee Charters and Key Position Descriptions and Corporate Policies and Practices.

Board of Directors and Executive Officers

Robert Harris
Executive Chairman

David A. Copeland, BMath, CPA, CA
Lead Director
Chair of the Audit Committee

Daniel N. Chicoine, BComm, CPA, CA
Director

Jesse F. Ledger, BBA
President & Chief Executive Officer

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

John C. London, LLB, LLM
Vice Chairman

Anthony E. Dobranowski, BSc, MBA, CPA, CA
Director
Chair of the Compensation, Corporate Governance & Nominating Committee

Jacques Messier, DVM, MBA
Director

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