



Crescita Therapeutics™ Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017
(unaudited)

CRESCITA THERAPEUTICS INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	As at September 30, 2018	As at December 31, 2017
		\$	\$
Assets			
Current			
Cash and cash equivalents	17	8,213	6,997
Accounts receivable	17	3,374	1,463
Inventories	4	2,920	3,165
Other current assets	5, 17	621	540
Total current assets		15,128	12,165
Non-current			
Property, plant and equipment		690	708
Intangible assets		8,962	9,692
Total assets		24,780	22,565
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities	17	3,636	3,422
Current portion of long-term debt	6	1,306	1,139
Current portion of other obligations	8	450	1,300
Total current liabilities		5,392	5,861
Long-term debt	6	2,223	2,341
Convertible debentures	7	855	834
Other obligations	8	239	422
Total liabilities		8,709	9,458
Equity			
Common shares issued	9	59,220	55,694
Contributed surplus	12	975	778
Accumulated other comprehensive income (AOCI)		1,131	1,174
Deficit		(45,255)	(44,539)
Total equity		16,071	13,107
Total liabilities and equity		24,780	22,565

Commitments (Note 15)
See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Notes	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>					
Revenues	10	4,464	2,720	10,424	9,658
Operating expenses					
Cost of goods sold	4, 14	1,350	1,180	3,681	3,141
Research and development	12, 14	264	252	770	942
Selling, general and administrative	12, 14	2,342	2,647	7,362	9,426
Interest expense		151	148	451	254
Interest income		(26)	-	(71)	(48)
Total Operating Expenses		4,081	4,227	12,193	13,715
Other income (expenses)					
Foreign currency loss		(21)	(29)	(24)	(71)
Other income	11	7	1,079	1,102	1,079
Total Other (Expenses) Income		(14)	1,050	1,078	1,008
Net income (loss) from continuing operations		369	(457)	(691)	(3,049)
Net loss from discontinued operations		-	(56)	(25)	(157)
Net income (loss)		369	(513)	(716)	(3,206)
Other comprehensive income (loss) to be reclassified to net loss in subsequent periods					
Unrealized (loss) gain on translation of foreign operations		(10)	1	(43)	(18)
Total Comprehensive Income (Loss)		359	(512)	(759)	(3,224)
Net income (loss) per common share from continuing operations					
- basic and diluted	13	\$0.02	(\$0.03)	\$(0.04)	\$(0.22)
Net income (loss) per common share from discontinued operations					
- basic and diluted	13	-	-	-	\$(0.01)
Weighted average number of common shares outstanding (in thousands)					
- basic and diluted	13	21,016	14,003	19,265	13,958

See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Common Shares		Contributed Surplus	Deficit	AOCI	Total
<i>(In thousands of Canadian dollars, except for number of shares)</i>	000's	\$	\$	\$	\$	\$
<i>Notes</i>	9, 12	9, 12	12			
Balance, December 31, 2016	13,935	55,646	359	(33,076)	1,164	24,093
Net loss	-	-	-	(3,206)	-	(3,206)
Share-based compensation expense	-	-	179	-	-	179
Issuance of warrants	-	-	222	-	-	222
Cancellation of warrants	-	-	(164)	-	-	(164)
Option on convertible debenture	-	-	133	-	-	133
Employee share purchase plan	68	48	-	-	-	48
Unrealized loss on translation of foreign operations	-	-	-	-	(18)	(18)
Balance, September 30, 2017	14,003	55,694	729	(36,282)	1,146	21,287
Net loss	-	-	-	(8,257)	-	(8,257)
Share-based compensation expense	-	-	49	-	-	49
Unrealized gain on translation of foreign operations	-	-	-	-	28	28
Balance, December 31, 2017	14,003	55,694	778	(44,539)	1,174	13,107
Net loss	-	-	-	(1,085)	-	(1,085)
Rights offering, net	7,002	3,520	-	-	-	3,520
Share-based compensation expense	-	-	144	-	-	144
Share-based option exercise	11	6	-	-	-	6
Unrealized loss on translation of foreign operations	-	-	-	-	(33)	(33)
Balance, June 30, 2018	21,016	59,220	922	(45,624)	1,141	15,659
Net income	-	-	-	369	-	369
Share-based compensation expense	-	-	53	-	-	53
Unrealized loss on translation of foreign operations	-	-	-	-	(10)	(10)
Balance, September 30, 2018	21,016	59,220	975	(45,255)	1,131	16,071

See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

		Three months ended		Nine months ended	
		September 30		September 30	
		2018	2017	2018	2017
<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	\$	\$	\$	\$
Operating Activities					
Net income (loss) from continuing operations		369	(457)	(691)	(3,049)
Net loss from discontinued operations		-	(56)	(25)	(157)
Items not involving cash flows:					
Depreciation and amortization	14	285	297	864	853
Equity-settled share-based compensation	12	53	88	197	202
Inventory write-down	4	-	11	85	145
Other income	11	(7)	(1,079)	(1,102)	(1,079)
Accretion on fair value of inventory		-	-	-	371
Other		(19)	(80)	28	(325)
		681	(1,276)	(644)	(3,039)
Net change in non-cash working capital	15	(1,468)	39	(1,451)	(2,676)
Cash used in operating activities		(787)	(1,237)	(2,095)	(5,715)
Investing Activities					
Redemption of short-term investments		-	8,551	-	8,551
Acquisition of Alyria		-	(600)	-	(600)
Acquisition of property, plant and equipment		(92)	(36)	(115)	(107)
Cash (used in) provided by investing activities		(92)	7,915	(115)	7,844
Financing Activities					
Payments under other obligations related to previous acquisition by INTEGA	8	-	-	-	(1,000)
Principal repayments on long-term debt	6	-	(3,060)	-	(3,184)
Share issuances under Rights Offering, net	9	-	-	3,520	-
Cash received from Convertible Debenture		-	1,000	-	1,000
Shares issued through Share Purchase Plan		-	25	-	25
Cash received on exercise of options	9	-	-	6	-
Payment under obligation related to Consideration Payable, Alyria	8	-	-	(100)	-
Cash (used in) provided by financing activities		-	(2,035)	3,426	(3,159)
Effect of exchange rate changes on cash		(2)	-	-	(22)
Net change in cash during the period		(881)	4,643	1,216	(1,052)
Cash and cash equivalents, beginning of period		9,094	4,112	6,997	9,807
Cash and cash equivalents, end of period		8,213	8,755	8,213	8,755
<i>Interest paid</i> ⁽ⁱ⁾		105	89	313	394
<i>Interest received</i> ⁽ⁱ⁾		40	-	76	50

⁽ⁱ⁾ Amounts paid and received were reflected as operating cash flows in the Consolidated Interim Statements of Cash Flows. See accompanying Notes.

CRESCITA THERAPEUTICS™ INC.
NOTES TO THE (UNAUDITED) CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION

Crescita Therapeutics Inc. (Crescita or the Company) is a Canadian commercial dermatology company with a portfolio of non-prescription skincare products and prescription drug products for the treatment and care of skin conditions and diseases and their symptoms. Crescita owns multiple proprietary drug delivery platforms that support the development of patented formulations that can facilitate the delivery of active drugs into or through the skin. On August 8, 2017, the Company's wholly owned subsidiary INTEGA Skin Sciences Inc. (INTEGA) acquired the Alyria® skincare line of products. The Company's registered office is located at 6733 Mississauga Road, Suite 610, Mississauga, Ontario, L5N 6J5 and all other functions have been centralized to 2805, Place Louis-R-Renaud, Laval, Québec, H7V 0A3.

2. BASIS OF PREPARATION

Statement of Compliance

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

The Company's Interim Financial Statements for the three and nine months ended September 30, 2018 and 2017 were authorized for issue by the Board of Directors on November 8, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The policies applied in these Interim Financial Statements are based on International Financial Reporting Standards (IFRS). All significant accounting policies have been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements for the year ended December 31, 2017, except for the adoption of new accounting standards effective January 1, 2018. On January 1, 2018, the Company applied, for the first time, IFRS 15, *Revenues from contracts with customers* and IFRS 9, *Financial instruments*. As disclosed in the annual Consolidated Financial Statements for the year ended December 31, 2017, there was no impact resulting from the adoption of these two new standards.

IFRS 15 - Revenue from Contracts with Customers

On January 1, 2018, the Company adopted IFRS 15 - *Revenue from Contract with Customers* (IFRS 15) which introduces a 5-step approach to revenue recognition. The Company recognizes revenue from product sales, licensing and collaboration arrangements, royalties and service agreements. The Company elected to use the modified retrospective transition method. Under this transition method, the Company is not required to restate the amounts reported in prior periods. However, at the date of initial application, entities electing this method still have to calculate, either for all contracts or only for contracts that are not completed, the revenues they would have recognized as if they had applied IFRS 15 since contract inception. As disclosed in the annual Consolidated Financial Statements for the year ended December 31, 2017, the Company has determined that there was no impact resulting from the adoption of the new revenue recognition standard.

Product Sales

Revenue from product sales is recognized when the terms of a contract with a customer have been satisfied. This occurs when: the control over the product has been transferred to the customer; the product is received by the customer or transfer of title to the customer occurs upon shipment. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for selling the goods and bears the risks of obsolescence and loss in relation to the goods. Revenue from customer contracts is recognized based on the price specified in the contract, net of reserves for estimated sales discounts and

allowances, returns, rebates and chargebacks. A receivable is recognized by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Out-licensing revenues

Licensing and Collaboration Arrangements

The Company may enter into licensing and collaboration agreements for product development, licensing, supply and distribution for its commercial products and product pipeline. 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 contracts are analyzed to identify all performance obligations forming part of these contracts and the transaction price of the contract is determined. The transaction price is then allocated between all performance obligations on a relative stand-alone selling price basis. The stand-alone selling price per performance obligation is estimated based on the comparable market prices, expected cost plus margin and the Company's historical experience.

- Licenses are considered to be right-to-use licenses. As such, the Company recognizes the licenses revenues at a point in time, upon granting the licenses.
- Milestone payments are considered variable consideration. As such, the Company estimates variable consideration at the most likely amount to which it expects to be entitled. The estimated amounts are included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Royalties

Royalties are typically calculated as a percentage of net sales realized by the Company's licensees of its products (including their sub-licensees), as specifically defined in each agreement. The licensees' sales generally consist of revenues from product sales of the Company's prescription 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. For the recognition of revenue for sales-based or usage-based royalties on licenses of intellectual property, IFRS 15 requires that royalties received in exchange for licenses of intellectual property are recognized at the later of when:

- (a) The subsequent sale or usage occurs; and
- (b) The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (or partially satisfied).

Services Revenue

Revenues from contracted services are generally recognized as the performance obligations are satisfied over time, and the related expenditures are incurred pursuant to the terms of the agreement. Revenue is recognized for these services based on the stage of completion of the contract. The Company determines the stage of completion as the time expended as a proportion of the total time expected as at the end of the reporting period is an appropriate measure of progress towards the completion of these performance obligations under IFRS 15.

Where payment for services is not due from the customer until the services are complete, a contract asset would be recognized over the period in which the services are performed representing the Company's right to consideration for the services performed to date.

Refer to Note 10 – *Revenues* for disaggregation of revenues by source and geographic area.

IFRS 9 - Financial Instruments

On January 1, 2018, the Company adopted IFRS 9 - *Financial Instruments* (IFRS 9), which is replacing IAS 39 - *Financial Instruments*, and all previous versions of IFRS 9. IFRS 9 is a three-phase project and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. The

Company performed a detailed impact assessment of all three aspects of IFRS 9; however, as discussed below, they did not have a material impact on the Consolidated Financial Statements:

- Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value in other comprehensive income (FVOCI); or fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument, as a whole, is assessed for classification. The Company did not identify any changes to the measurement of the existing financial instruments upon applying IFRS 9.
- IFRS 9 requires the Company to record expected credit losses ("ECL") on the entire accounts receivable balance. The Company has applied the simplified approach and has calculated the lifetime ECLs based on an established provision matrix that considers the Company's historical credit loss experience, adjusted for forward-looking factors specific to the Company's customers and the economic environment. The adoption of the ECL requirements of IFRS 9 had no material impact on the Interim Financial Statements.

The Company does not use hedge accounting. As a result, the new requirements of IFRS 9 for hedging did not have an impact on the financial position and results of the Company.

Basis of Measurement

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

Accounting Standards Issued But Not Yet Adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee. The following standard has been issued but is not yet effective.

IFRS 16 - Leases

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

4. INVENTORIES

Inventories consist of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Raw materials	1,448	1,599
Work-in-process	588	490
Finished goods	884	1,076
	2,920	3,165

During the three and nine months ended September 30, 2018, inventories related to continuing operations in the amount of \$1.3 million and \$3.2 million were recognized in cost of goods sold [\$1.1 million and \$2.8 million for the three and nine months ended September 30, 2017].

During the three and nine months ended September 30, 2018, net amounts of \$nil and \$85, respectively, of finished goods related to continuing operations were written down [\$11 and \$0.1 million for the three and nine months ended

September 30, 2017]. There were no reversals of prior write-downs during the three and nine months ended September 30, 2018 [\$nil and \$24 for the three and nine months ended September 30, 2017].

5. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Prepaid expenses	311	286
Contingent consideration receivable ⁽ⁱ⁾	236	115
Sales taxes receivable	33	58
Deposits	41	61
Research and development supplies	-	20
	621	540

⁽ⁱ⁾ Inventory on consignment, from an acquisition concluded in 2017 under terms that confer a potential benefit related to achieving certain sales targets and levels of inventory consumption, has been recorded as contingent consideration receivable with the resultant change to Other income (see Note 11, Other Income).

6. LONG-TERM DEBT

Long-term debt consists of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Knight loan – principal	3,639	3,639
Knight loan – unamortized discount	(110)	(159)
	3,529	3,480
Less current portion	1,306	1,139
Long-term balance	2,223	2,341

7. CONVERTIBLE DEBENTURES

The following table reconciles the recorded value of the liability and the equity components of the convertible debenture:

	Liability	Equity	Total
	\$	\$	\$
Balance, December 31, 2017	834	173	1,007
Accretion	21	-	21
Balance, September 30, 2018	855	173	1,028

The \$1.0 million of convertible debentures are convertible into common shares at the option of the holder at a conversion price of \$1.00 per share.

8. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	September 30, 2018	December 31, 2017
	\$	\$
Payable relating to a previous acquisition by INTEGA (Note 11)	-	1,000
Consideration payable, including accrued interest – Alyria acquisition	669	702
Contingent payments relating to the Alyria acquisition	20	20
	689	1,722
Less current portion	450	1,300
Long-term balance	239	422

9. SHARE CAPITAL

Authorized

- Unlimited common shares, voting, without par value
- 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

Issued and Outstanding

The following table summarizes Crescita's outstanding common shares:

	Number 000s	Amount \$
Balance, December 31, 2016	13,935	55,646
Issued through employee plans	68	48
Balance, December 31, 2017	14,003	55,694
Rights Offering, net	7,002	3,520
Issued through employee plans	11	6
Balance, September 30, 2018	21,016	59,220

On March 9th, 2018, the Company completed its Rights Offering upon which 7,001,603 Class A Common Shares were issued at a price of \$0.53 per share for gross proceeds of \$3.7 million with issuance costs of \$0.2 million. Crescita has obtained an irrevocable waiver from Knight of certain provisions of the Amended and Restated Loan Agreement, allowing Crescita to benefit from 100% of the net proceeds of the Offering. On June 15th, 2018, 11,250 shares were issued from treasury following the exercise of stock options by an employee. Crescita has 21,016,059 Common Shares issued and outstanding as at September 30, 2018.

10. REVENUES

Disaggregation of revenues

The following table presents revenues, net of sales taxes, disaggregated by revenue source:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Product sales	2,076	1,966	6,320	5,966
Out-licensing revenues	2,379	675	4,077	3,466
Service agreements	9	79	27	226
	4,464	2,720	10,424	9,658

Geographic Information

The following table presents revenues disaggregated by geography, based on the customers billing addresses:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	3,770	2,089	8,627	8,268
U.S.	563	379	1,219	707
Other foreign countries	122	233	495	606
Europe	9	19	83	77
	4,464	2,720	10,424	9,658

11. OTHER INCOME

Other income consists of the following as at:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Gain on debt renegotiations, net	-	1,079	-	1,079
Gain on settlement ⁽ⁱ⁾	-	-	650	-
Other income ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	7	-	452	-
	7	1,079	1,102	1,079

⁽ⁱ⁾ The Company entered into an agreement relating to a \$1.0 million historical liability owing under a previous acquisition concluded in 2016. Pursuant to the terms of the agreement, in consideration for INTEGA releasing the counterparty from any potential future claims under the agreement, INTEGA will no longer have to pay a portion of that liability equal to \$0.7 million.

⁽ⁱⁱ⁾ Other income includes consideration relating to planned facility upgrades and reimbursement of costs related to previous contract manufacturing services.

⁽ⁱⁱⁱ⁾ Other income includes a gain related to a contingent consideration receivable from a previous acquisition, under the terms of which the Company is entitled to be compensated if certain sales targets and levels of inventory consumption are not achieved.

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

Share Option Plan

The following is a schedule of Crescita's options outstanding as at:

	Number of Options 000's	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, December 31, 2017	1,783	0.43 - 3.55	1.14
Granted	465	0.48 - 0.49	0.49
Forfeited	(40)	0.65	0.65
Exercised	(11)	0.43	0.43
Expired	(35)	1.21 - 1.77	1.54
Balance, June 30, 2018	2,162	0.43 - 3.55	1.00
Balance, September 30, 2018	2,162	0.43 - 3.55	1.00

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

Exercise Price Range \$	Number of Options 000's	Outstanding Remaining Contractual Life years	Weighted Average Exercise Price \$	Exercisable	
				Vested Options 000's	Weighted Average Exercise Price \$
0.43 - 0.74	1,330	8.47	0.59	395	0.66
1.21 - 1.42	163	3.34	1.37	163	1.37
1.61 - 1.91	624	7.64	1.63	321	1.63
3.12 - 3.55	45	1.71	3.12	45	3.12
	2,162	7.70	1.00	924	1.24

Summary of Share-based Compensation

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Stock option compensation expense	53	65	197	179
Employee Stock Purchase Plan	-	23	-	23
SARs compensation expense	(1)	(21)	(1)	(96)
Share-based compensation expense	52	67	196	106

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

Research and development expenses	7	7	25	25
Selling, general and administrative expenses	45	60	171	81
Share-based compensation expense	52	67	196	106

13. NET INCOME (LOSS) PER COMMON SHARE

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

	September 30, 2018	September 30, 2017
	000's	000's
Common shares issued and outstanding (Note 9)	21,016	14,003
Stock options outstanding (Note 12)	2,162	1,903
Convertible debentures (Note 7)	1,000	1,000
SARs liability ⁽ⁱ⁾	52	171
Warrants	661	661
	24,891	17,738

⁽ⁱ⁾ The shareholders of Nuvo approved a resolution on February 18, 2016 to allow SARs to be equity settled.

14. EXPENSES BY NATURE

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

(a) Employee costs from continuing operations:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Short-term employee wages, bonuses and benefits	1,672	1,663	4,940	5,072
Share-based payments (Note 12)	37	55	135	127
Post-employment benefits	-	4	-	10
Termination benefits	8	-	26	182
Total employee costs	1,717	1,722	5,101	5,391
Included in:				
Cost of goods sold	287	352	841	952
Research and development expenses	229	192	649	673
Selling, general and administrative expenses	1,201	1,178	3,611	3,766
Total employee costs	1,717	1,722	5,101	5,391

(b) Depreciation and amortization from continuing operations:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cost of goods sold	32	38	99	115
Selling, general and administrative expenses ⁽ⁱ⁾	253	259	765	738
Total depreciation and amortization	285	297	864	853

⁽ⁱ⁾ Selling, general and administrative expenses included \$0.2 million and \$0.7 million of amortization of intangible assets for the three and nine months ended September 30, 2018 [\$0.2 million and \$0.7 million for the three and nine months ended September 30, 2017].

15. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital consisted of the following:

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accounts receivable	(2,054)	(1)	(1,936)	583
Inventories	110	130	160	(1,598)
Other current assets	(39)	434	95	558
Accounts payable and accrued liabilities	515	(524)	230	(2,219)
Net change in non-cash working capital	(1,468)	39	(1,451)	(2,676)

16. COMMITMENTS

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

	Operating Leases \$
2019	399
2020	399
2021	401
2022 and thereafter	-
	1,199

For the three and nine months ended September 30, 2018, payments under operating leases totaled \$0.1 million and \$0.3 million [\$0.1 million and \$0.4 million for the three and nine months ended September 30, 2017].

Guarantees

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - determined by reference to quoted prices in active markets for identical assets and liabilities.

Level 2 - include those where valuations are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.

Level 3 - valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

The following table provides the fair value measurement hierarchy of the financial instruments measured at fair value subsequent to initial recognition in the Consolidated Statements of Financial Position as at:

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration receivable (Note 5)	-	-	236	-	-	115
Contingent consideration – royalty earn-out (Note 8)	-	-	(20)	-	-	(20)

Valuation Methods and Assumptions

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy for the three and nine months ended September 30, 2018 and 2017.

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

Level 3 liabilities include obligations of the Company for the contingent consideration receivable and the contingent consideration payable for the royalty earn-out relating to the acquisition of Alyria. The fair value of the contingent consideration receivable and payable is revalued at each reporting period based on management's best estimate using the discounted cash flow method.

The fair values of the Company's non-current obligations, which are presented at amortized cost using the effective interest method, have been estimated using rates currently available to the Company for obligations with similar terms and remaining maturities. The fair values of these instruments approximate their carrying values as these were recently issued and/or renegotiated and would be classified as Level 2.

Risk Factors

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

Liquidity Risk

The Company, taking into consideration its current cash position, projected cash inflows from the revenue it expects to generate from product sales, upfront and milestone payments related to out-licensing its products, and royalty payments on the global net sales of Pliaglis as well as estimated cash outflows related to operations, capital expenditures and debt repayments, anticipates that Crescita will be able to fund its operations as currently planned past 2019. Additional funding may be required for the development of new products and/or for future acquisitions.

The Company has minimum future rental payments under operating leases of \$0.4 million that are due in less than one year and \$0.8 million that are payable from 2019 to 2021.

The Company's exposure to liquidity risk is dependent on the sales growth and profitability of its operations which will be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk including the level of research and development (R&D) expenditures for product candidates, costs associated with maintaining regulatory approvals, the timing of payments received or made under licensing arrangements and the acquisition costs of licenses for new products or technologies.

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that may be subject to credit risk consist of cash and amounts receivable from global customers. The Company manages its exposure to credit risk by holding cash on deposit in major financial institutions. The accounts receivable are subject to normal industry risks in each geographic region

in which the Company operates. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America due to potentially higher risks of enforceability and collectability.

As at September 30, 2018, 2% of accounts receivable related to customers outside North America and the E.U. [December 31, 2017 - 8%].

Pursuant to their collective terms, accounts receivable, net of allowance for doubtful accounts, were aged as follows:

	September 30, 2018	December 31, 2017
	\$	\$
Current	3,186	696
0-30 days past due	44	495
31-60 days past due	144	92
61-90 days past due	-	180
Over 90 days past due	-	-
	3,374	1,463

As at September 30, 2018, the allowance for doubtful accounts receivable was \$0.1 million [December 31, 2017 - \$0.1 million].

Interest Rate Risk

The Company is not exposed to interest rate variability as debt instruments bear interest at a rate of 9% per year, compounded on a monthly basis.

Currency Risk

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

	Euros		U.S. Dollars	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	€	€	\$	\$
Cash and cash equivalents	51	54	19	573
Accounts receivable	-	-	1,838	305
Other current assets	21	18	12	47
Accounts payable and accrued liabilities	(114)	(86)	(695)	(357)
	(42)	(14)	1,174	568

Based on the aforementioned net exposure as at September 30, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$152 on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$6 on total comprehensive loss.

The Company has four significant exposures to the U.S. dollar: its net investment and net cash flows in its U.S. operations; its product sales to U.S. customers; royalties from licensing agreement with Galderma S.A. (Galderma) and Taro Pharmaceuticals Inc. (Taro) for Pliaglis; and, the cost of running trials and other studies at U.S. sites.

The Company does not actively hedge any of its foreign currency exposures given the relative risk of currency versus other risks the Company faces and the cost of establishing the necessary credit facilities and purchasing financial instruments to mitigate or hedge these exposures. As a result, the Company does not attempt to hedge its net investments in foreign subsidiaries.

18. RECLASSIFICATIONS

Certain comparative financial figures have been reclassified from those previously presented to conform to the presentation in these 2018 Interim Financial Statements.