



Crescita Therapeutics™ Inc.

2017 Annual Report

Independent auditors' report

To the Shareholders of Crescita Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Crescita Therapeutics Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Crescita Therapeutics Inc. as at December 31, 2017 and 2016, and their financial performance and cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

March 27, 2018
Montréal, Canada

¹ CPA auditor, CA, public accountancy permit no. A127424

CRESCITA THERAPEUTICS™ INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(In thousands of Canadian dollars)</i>	Notes	As at December 31, 2017	As at December 31, 2016 Restated (Note 5)
		\$	\$
Assets			
Current			
Cash and cash equivalents		6,997	9,807
Restricted short-term investments	11, 21	-	8,551
Accounts receivable	21	1,463	1,679
Inventories	3 (iii), 7	3,165	2,982
Other current assets	8, 21	540	1,353
Total current assets		12,165	24,372
Non-current			
Property, plant and equipment	9	708	810
Intangible assets	3(ii), 4, 5, 10	9,692	9,839
Goodwill	3(ii), 5	-	5,219
Total assets		22,565	40,240
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities	15, 21	3,422	6,011
Current portion of long-term debt	5, 11, 21	1,139	723
Current portion of other obligations	4, 5, 13, 21	1,300	1,000
Total current liabilities		5,861	7,734
Long-term debt	5, 11, 21	2,341	7,441
Convertible debentures	12, 21	834	-
Other obligations	4, 13, 21	422	972
Total liabilities		9,458	16,147
Equity			
Common shares issued	14	55,694	55,646
Contributed surplus	15	778	359
Accumulated other comprehensive income (AOCI)		1,174	1,164
Deficit		(44,539)	(33,076)
Total equity		13,107	24,093
Total liabilities and equity		22,565	40,240

Commitments (Note 20)
See accompanying Notes.

CRESCITA THERAPEUTICS™ INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Year ended December 31, 2017	Year ended December 31, 2016 (Restated) (Note 5)
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>		
Notes	\$	\$
Revenue		
Product sales	22 8,134	3,012
Out-licensing revenue	22 3,582	132
Services revenue	22, 24 298	360
Total Revenue	12,014	3,504
Operating expenses		
Cost of goods sold	7, 17 4,846	2,335
Research and development	15, 17, 24 1,112	2,015
Selling, general and administrative	15, 17, 24 12,245	13,858
Interest expense	11, 12, 13 446	123
Interest income	(64)	(124)
Total Operating Expenses	18,585	18,207
Other (income) expenses		
Gain on debt renegotiations, net	11 (1,079)	-
Goodwill and intangible assets impairment	3(ii), 10 5,670	-
Foreign currency loss	96	230
Total Other Expenses	4,687	230
Loss from continuing operations before income taxes	(11,258)	(14,933)
Income tax recovery	19 -	(295)
Net loss from continuing operations	(11,258)	(14,638)
Net loss from discontinued operations	6 (205)	(2,246)
Net Loss	(11,463)	(16,884)
Other comprehensive income to be reclassified to net loss in subsequent periods		
Unrealized gain on translation of foreign operations	10	105
Total Comprehensive Loss	(11,453)	(16,779)
Net loss per common share from continuing operations		
- basic and diluted	16 \$(0.81)	\$(1.19)
Net loss per common share from discontinued operations		
- basic and diluted	6, 16 \$(0.01)	\$(0.18)
Weighted average number of common shares outstanding (in thousands)		
- basic and diluted	16 13,960	12,251

See accompanying Notes.

CRESCITA THERAPEUTICS™ INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares Restated (Note 5)		Contributed Surplus	Deficit Restated (Note 5)	Owner's Net Investment	AOCI	Total Restated (Note 5)
<i>(In thousands of Canadian dollars, except for number of shares)</i>	000's	\$	\$	\$	\$	\$	\$
Notes	1, 5, 14, 15	1, 5, 14, 15	5, 11, 12, 14, 15		1, 14		
Balance, December 31, 2015	-	-	-	-	(4,425)	1,059	(3,366)
Net loss	-	-	-	-	(3,180)	-	(3,180)
Net adjustments to owner's net investment	-	-	-	-	4,830	-	4,830
Cash transferred from Nuvo Research Inc. (Nuvo) in connection with the Arrangement	-	-	-	-	35,016	-	35,016
Issuance of common stock and reclassification of owner's net investment to deficit in connection with the Arrangement	11,487	51,613	-	(19,372)	(32,241)	-	-
Unrealized gain on translation of foreign operations	-	-	-	-	-	48	48
Balance, March 1, 2016	11,487	51,613	-	(19,372)	-	1,107	33,348
Net loss	-	-	-	(13,704)	-	-	(13,704)
Issuance of shares on acquisition	2,402	3,988	-	-	-	-	3,988
Shared-based option exercise	46	45	-	-	-	-	45
Issuance of warrants	-	-	211	-	-	-	211
Share-based compensation expense	-	-	148	-	-	-	148
Unrealized losses on translation of foreign operations	-	-	-	-	-	57	57
Balance, December 31, 2016	13,935	55,646	359	(33,076)	-	1,164	24,093
Net loss	-	-	-	(11,463)	-	-	(11,463)
Issuance of warrants	-	-	222	-	-	-	222
Cancellation of warrants	-	-	(164)	-	-	-	(164)
Option on convertible debenture	-	-	133	-	-	-	133
Employee share purchase plan	68	48	-	-	-	-	48
Share-based compensation expense	-	-	228	-	-	-	228
Unrealized loss on translation of foreign operations	-	-	-	-	-	10	10
Balance, December 31, 2017	14,003	55,694	778	(44,539)	-	1,174	13,107

See accompanying Notes.

CRESCITA THERAPEUTICS™ INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Canadian dollars in thousands)</i>	<i>Notes</i>	Year ended December 31, 2017	Year ended December 31, 2016 (Restated) (Note 5)
		\$	\$
OPERATING ACTIVITIES			
Net loss from continuing operations		(11,258)	(14,638)
Net loss from discontinued operations	6	(205)	(2,246)
Items not involving cash flows:			
Depreciation and amortization	9, 10, 17	1,161	418
Equity-settled share-based compensation	15	251	177
Inventory write-down	3(iii), 7	432	342
Accretion on fair value of inventory	6	371	741
Goodwill and intangible assets impairment	3(ii), 6, 11	5,670	-
Fair value adjustments from debt renegotiation	11	(1,229)	-
Other		(185)	20
		(4,992)	(15,186)
Net change in non-cash working capital	18	(2,410)	(3,391)
CASH USED IN OPERATING ACTIVITIES		(7,402)	(18,577)
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	4, 5	(700)	(2,744)
Acquisition of property, plant and equipment	9	(107)	(123)
Redemption (purchase) of short-term investments	11	8,551	(8,551)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		7,744	(11,418)
FINANCING ACTIVITIES			
Cash received from Convertible Debenture	12	1,000	-
Share issuances under share plans	15	25	45
Payments under other obligations related to previous acquisition by INTEGA	5, 13	(1,000)	-
Principal repayments on long-term debt	11	(3,184)	-
Additional net investment from Nuvo prior to the Arrangement	1	-	4,801
Cash transferred from Nuvo per the Arrangement	1	-	35,016
Payments under long-term consulting agreement	6	-	(280)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		(3,159)	39,582
Effect of exchange rate changes on cash		7	(258)
Net change in cash during the year		(2,810)	9,329
Cash and cash equivalents, beginning of year		9,807	478
CASH AND CASH EQUIVALENTS, END OF YEAR		6,997	9,807
<i>Interest paid ⁽ⁱ⁾</i>		535	158
<i>Interest received ⁽ⁱ⁾</i>		61	99

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

See accompanying Notes.

CRESCITA THERAPEUTICS™ INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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. On September 1, 2016, the Company acquired INTEGA and on July 11, 2016, discontinued the operations of the Immunology Group (see Note 6, *Discontinued Operations*). 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 our main facility at 2805, Place Louis-R-Renaud, Laval, Québec, H7V 0A3.

Reorganization

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

Prior to the Reorganization, Nuvo operated two distinct business units: Nuvo and Crescita. Nuvo was a commercial healthcare company with a portfolio of commercial products and pharmaceutical manufacturing capabilities. Crescita is a commercial dermatology business that operated two sub-groups: the Topical Products and Technology (TPT) Group and the Immunology Group. The Immunology Group had two commercial products and is presented as discontinued operations in the consolidated financial statements as at December 31, 2017 and 2016 and for the years then ended (Consolidated Financial Statements); therefore, the Company is now reporting the entire business as one segment.

These Consolidated Financial Statements present the financial position, results of operations, changes in equity and cash flows of Nuvo's drug development operations as if it had always operated as a stand-alone entity prior to March 1, 2016. The financial results for the periods prior to March 1, 2016 represent the financial position, results of operations and cash flows of Nuvo's drug development operations on a combined carve-out basis.

As the financial information prior to March 1, 2016 represents a portion of the business of Nuvo, which was not organized as a stand-alone entity, the net assets of Crescita prior to March 1, 2016 have been reflected as owner's net investment.

Management believes both the assumptions and the allocations underlying the financial information prior to March 1, 2016 are reasonable. However, as a result of the basis of presentation described above, the financial information prior to March 1, 2016 may not necessarily be indicative of the operating results and financial position that would have resulted had Crescita historically operated as a stand-alone entity.

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 27, 2018, 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 judgements, estimations or use of managerial assumptions are as follows:

(i) Going concern assessment

In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least, but not limited to, twelve months following the end of the reporting period by considering relevant available information about the future.

The Company is subject to a number of risks and uncertainty associated with its products and services, its dependence on the economy as well as customers, the supply chain, credit risk, currency risk as well as meeting its financing requirements for its operations. The attainment of profitable operations is dependent upon future events, including successful implementation of the Company's operation plan and obtaining adequate financing.

Management has applied significant judgement in preparing forecasts supporting the going concern assessment and has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

Management has considered many factors including its current cash balance, the proceeds from equity financing arrangements subsequent to year-end and the projected revenues it expects to generate from product sales, upfront and milestone payments related to out-licensing its products, in addition to royalty payments on the global net sales of Pliaglis®. Management has also estimated anticipated cash outflows such as operating and capital expenditures and debt repayment requirements, including the ability to delay uncommitted expenditures, and assessed that it will have sufficient cash flows to fund Crescita's operations as currently planned for fiscal 2018. These cash flow estimates are subject to uncertainties as to the achievement of certain key factors considered in the cash flow analysis.

(ii) Goodwill and intangible assets impairment

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 is tested for impairment annually at year end. The impairment test on a cash-generating unit (CGU) 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 its fair value, less costs to sell and its value in use. The recoverable amount has been determined by management using fair value less costs to sell model. 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 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.

The estimated future cash flows were based on the budget and strategic plan for the first 5 years and a growth rate of 2.5% (3.5% in 2016) was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate used to calculate the recoverable amount in 2017 and 2016 was 14%. Based on the Company's annual assessment, the recoverable amount of the INTEGA CGU using fair value less costs to sell did not exceed its carrying value. Therefore, the Company recorded a goodwill impairment charge of \$5.2 million as at December 31, 2017 to fully impair the carrying value of goodwill recorded on the INTEGA acquisition. The goodwill impairment was primarily driven by changes to the Company's forecasted performance which resulted in a lower fair value for the INTEGA business. Any adverse changes in assumptions would likely result in additional impairment.

During the year ended December 31, 2017, the Company decided against making any future investments related to non-performing brands and has written-off intangible assets of \$0.5 million related to these brands.

(iii) Inventory Valuation

The Company values its inventories on a first-in, first-out basis at the lower of cost and replacement cost for raw materials and packaging, and the lower of cost and net realizable value for finished goods. In determining net realizable value, the Company considers such factors as yield, turnover or aging, expected future demand and historic experience. A change in the underlying assumptions related to these factors could affect the valuation of inventory and have a corresponding effect on cost of sales.

Management reviews the carrying value of inventories at each reporting year. As part of the review, management is required to make certain assumptions when determining expected realizable values and estimates an allowance for obsolescence based on product life and historical sales. Any write downs in value may be reversed if the circumstances which caused them cease to exist.

During the year ended December 31, 2017, the Company decided against making any future investment related to non-performing brands and has taken a provision of \$0.3 million related to these brands.

(iv) 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 share-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. Details of the assumptions used are included in Note 15, *Share-based Compensation and Other Share-based Payments*.

(v) Purchase price allocation and intangibles

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 contingently payable purchase price obligations due over time. The Company uses valuation techniques, 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.

For the acquisition of INTEGA, the estimated future cash flows were based on the budget and strategic plan for the first 5 years and a growth rate of 3.5% was applied to derive a terminal value beyond the initial 5-year period. The discount rate used to calculate the fair value of the business was 13.6%.

For the acquisition of Alyria, the estimated future cash flows were based on the budget and strategic forecast for the first 10 years and a growth rate of 0% was applied to derive a terminal value beyond the initial 10-year period. The discount rate used to calculate the fair value of the brand was 14%. The fair value of the contingent receivable and payable purchase price consideration is based on a weighted average probability.

(vi) Allocations

Prior to March 1, 2016, Nuvo paid certain costs for the Company and performed certain activities on behalf of the Company. As a result, these Consolidated Financial Statements include allocations of certain balances and transactions reported in the accounts of Nuvo.

An entity included in these Consolidated Financial Statements paid certain costs for Nuvo and performed certain activities related to the heated lidocaine/tetracaine patch (HLT Patch) on behalf of Nuvo. Accordingly, an allocation of certain balances and transactions reported in the accounts of this entity have been excluded from these Consolidated Financial Statements.

Compensation-related costs have been allocated using methodologies primarily based on proportionate time spent on the Company's and Nuvo's respective activities. These cost allocations were determined on a basis considered by the Company and Nuvo to be a reasonable reflection of the utilization of services provided to the Company.

Basis of Consolidation

These Consolidated Financial Statements include the accounts of the Company's wholly owned Canadian, U.S. and European subsidiaries, as listed below. The financial information prior to March 1, 2016 has been adjusted to remove balances and transactions related to the HLT Patch.

	December 31, 2017	December 31, 2016
INTEGA Skin Sciences Inc.	100%	100%
Nuvo Research America, Inc. and its subsidiaries: Nuvo Research US, Inc., ZARS Pharma, Inc., and ZARS (UK) Limited	100%	100%
Dimethaid Immunology Inc.	100%	100%
Nuvo Research AG and its subsidiary: ⁽ⁱ⁾ Nuvo Research GmbH	100%	100%

⁽ⁱ⁾ On July 11, 2016, the Company sold its German manufacturing operation (see Note 6, *Discontinued Operations*).

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

Foreign Currency Translation

Entities included in these Consolidated Financial Statements each determine their functional currency based on the currency of the primary economic environment in which they operate. The functional currency of the Company's corporate operations is the Canadian dollar, while the functional currencies of the Company's foreign operations are either the U.S. dollar or euro.

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 gains and losses are included in each entity's net loss in the period in which they arise.

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 when the transaction occurs (as this is considered a reasonable approximation to actual rates). The resulting translation exchange gains and losses are included in other comprehensive income (OCI) with the cumulative gain or loss reported in accumulated other comprehensive income (AOCI).

When the Company disposes of its entire interest in a foreign operation or loses control or influence over a foreign operation, the foreign currency gains or losses in AOCI related to the foreign operation are recognized in income or loss.

Cash and Cash Equivalents

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

Restricted short-term Investments

Restricted short-term investments (guaranteed pledge to long-term debt) were held in highly liquid instruments such as guaranteed investment certificates or other securities, held primarily with Schedule 1 Canadian banks, with an original term to maturity of more than three months and remaining term to maturity of less than one year.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment (PP&E) is recorded at cost. The Company allocates the amount initially recognized in respect of an item of PP&E to its significant parts and amortizes separately each such part.

Depreciation of PP&E is provided for over the estimated useful lives from the date the assets become available for use as follows:

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

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

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 and for patented assets 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. The estimated useful lives are as follows:

Product brands and formulations	10 to 20 years	Straight line
Customer relationships	10 years	Straight line
License agreement	10 years	Straight line

Impairment of Financial Assets

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

Impairment of Non-Financial Assets

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are largely independent cash flows. CGU to which goodwill has been allocated is tested for impairment at year end. For all other individual assets or CGUs, the Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The 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.

With the exception of goodwill, a previously recognized impairment loss is reversed if there are indications that the impairment loss may no longer exist. 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.

Financial Instruments

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

The Company classifies its financial instruments as follows:

- Cash, short-term investments 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.
- Accounts payable and accrued liabilities, long-term debt, convertible debentures (debt component) and other long-term obligations are classified as other financial liabilities and are measured at amortized cost using the effective interest method. Interest expense is recorded in net income (loss), as applicable.

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

Convertible debentures

The convertible debentures are separated into their debt and equity components. The value of the debt component of the debentures is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures in equity, and the attributed amount is not subsequently reviewed. The attributed amount does not change over the term of the related convertible debentures.

The debt component presented in the consolidated statements of financial position increases over the term of the debenture to the full-face value of the outstanding debentures at maturity. The difference, that is, the accretion on convertible debentures, is presented as implicit interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the debentures. Upon conversion of the debentures into common shares by the holders, both of the above-mentioned components are transferred to share capital. If a conversion option is not exercised at the expiry of the convertible debentures, the equity component of the convertible debentures will remain in contributed surplus.

Comprehensive Income (Loss)

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

Revenue Recognition

The Company recognizes revenue from product sales, licensing and collaboration arrangements, royalties and service agreements.

Product Sales

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

Royalties

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

Services 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.

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 multiple element arrangements are analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. License fees are recognized as revenue when persuasive evidence of an arrangement exists, the fee is fixed or determinable, delivery or performance has been substantially completed and collection is reasonably assured. If there are no substantive performance obligations over the life of the contract, the up-front non-refundable payment is recognized when the underlying performance obligation is satisfied. If substantive contractual obligations are satisfied over time or over the life of the contract, revenue may be deferred and recognized over the performance. The term over which upfront fees are recognized is revised if the period over which the Company maintains substantive contractual obligations changes.

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

Research and Development

Research costs are charged to operations as incurred. Expenditures on internally developed products are capitalized if it can be demonstrated that:

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

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

Government Assistance

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

Net Income or Loss Per Common Share

Basic net income or loss per common share is calculated using the weighted average number of common shares outstanding during the year. The shareholders of Nuvo received one common share of Crescita for one common share of Nuvo. Accordingly, the weighted average number of shares used for the period prior to the Arrangement is the weighted average number of common shares of Nuvo for the respective year.

Diluted net income or loss per common share is calculated assuming the weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential shares had been issued. The dilutive effect of warrants, stock options and performance share units is determined using the treasury-stock method. The treasury-stock method assumes that the proceeds from the exercise of warrants and options are used to purchase common shares at the volume weighted average market price during the year. The dilutive effect of convertible securities is determined using the "if-converted" method. The "if-converted" method assumes that the convertible securities are converted into common shares at the beginning of the period and all income charges related to the convertible securities are added back to income. Diluted loss per share has not been presented separately as the outstanding warrants, stock options and performance share units are anti-dilutive for each year presented.

Income Taxes

For the period prior to the Reorganization (see Note 1, *Corporate Information*), current and deferred income taxes and income tax expense have been recorded in these Consolidated Financial Statements as though Crescita was a separate taxable entity, using a stand-alone taxpayer approach.

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

Deferred tax is generally recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the 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 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 liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries, branches and associates, and interests in joint ventures where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

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

Share-based Compensation and Other Share-based Payments

Prior to the effective date of the Arrangement, certain employees of Crescita participated in Nuvo's share-based compensation plans. During that period, share-based compensation expense had been allocated to Crescita, primarily based on proportionate time spent on Crescita's and Nuvo's respective activities.

Nuvo's share-based compensation plans included the Nuvo Share Incentive Plan, the Nuvo Share Appreciation Rights (SARs) Plan and the Nuvo Deferred Share Unit (DSU) Plan. Under Nuvo's Share Incentive Plan, there were three sub-plans: the Nuvo Share Purchase Plan, the Nuvo Share Option Plan and the Nuvo Share Bonus Plan. Pursuant to the Arrangement, Crescita established its own share-based compensation plans: the Share Incentive Plan and the SARs Plan. Under the Crescita Share Incentive Plan, there are three sub-plans: the Share Purchase Plan, the Share Option Plan and the Share Bonus Plan.

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.

Under the Share Purchase Plan, the fair value of the Company's matching contribution, determined based upon the volume weighted average price (VWAP) of the Company's common shares, is recorded as compensation expense and is included in share-based compensation expense.

Under the Share Bonus Plan, the fair value of the direct award of common shares, determined based upon the trading price of the Company's common shares, is recorded as compensation expense and is included in share-based compensation expense.

Share Appreciation Rights Plan

SARs are issued to officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. Under the SARs Plan, participants receive, upon vesting, a cash amount equal to the difference between the SARs' fair market value and the grant price value, also known as the intrinsic value. Fair market value is determined by the closing price of the Company's common shares on the Toronto Stock Exchange (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 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.

Nuvo Deferred Share Unit Plan

Under the Nuvo DSU Plan, Nuvo issued DSUs to employees based on their elected portion of quarterly earnings they wished to receive in units of the DSU Plan. DSUs were intended to be settled in cash. Upon issuance, the fair value of the DSUs was recorded as compensation expense and at all subsequent reporting dates, movements in fair value were charged or credited to compensation expense. Effective March 1, 2016, Crescita did not have a DSU Plan for directors or employees.

Net Investment

Nuvo's investment in the operations of Crescita is presented as Owner's Net Investment in these Consolidated Financial Statements. Owner's net investment represents capital invested, accumulated net earnings of the operations (less the accumulated net distributions to Nuvo).

Issuance Costs of Equity Instruments

The Company records issuance costs of equity instruments against the equity instrument that was issued.

Accounting Standards Adopted

There were no new accounting standards adopted by the Company during 2017.

Significant Accounting Policies

The policies applied in these Consolidated Financial Statements are based on IFRS issued and outstanding as at December 31, 2017.

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 standards have been issued but are not yet effective.

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 - *Financial Instruments* (IFRS 9), which will replace IAS 39 - *Financial Instruments*, and all previous versions of IFRS 9. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for annual periods beginning on or after January 1, 2018. The Company has completed its assessment and does not expect the adoption of IFRS 9 to have a significant impact on its Consolidated Financial Statements.

IFRS 15 - Revenue from Contracts with Customers

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

The Company has reviewed the impact of adopting IFRS 15 for the recognition and measurement of its product sales, royalties, licensing and collaborative arrangement and has concluded that there will be no significant difference versus the current revenue recognition practice. Furthermore, IFRS15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a change from current practice and will increase the volume of disclosures required in the Company's consolidated financial statements.

IFRS 16 - Leases

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

Amendments to IFRS 2 - *Share-based Payments*

In June 2016, the IASB issued amendments to IFRS 2 - *Share-based Payments* (IFRS 2), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has completed its assessment and does not expect these amendments to have a significant impact on its Consolidated Financial Statements.

4. ASSET PURCHASE – ALYRIA

On August 8, 2017, the Company announced that its wholly owned subsidiary, INTEGA acquired the Alyria skincare line of products (Alyria) from Sanofi Consumer Health Inc. (Sanofi). Alyria is a high-quality, non-prescription, line of medical skincare products sold into medical spas. The product is highly complementary to INTEGA's Pro-Derm™ product offering and will be sold through Crescita's existing sales force. The Company subsequently entered into an amendment (Amendment) to the original agreement which extended the payment terms related to certain future payments. The Company purchased Alyria for cash consideration of \$1.7 million (undiscounted), consisting of a combination of fixed cash installments, of which \$0.7 million was paid in 2017, with the remainder to be paid over time ending in 2027. In addition, the Company is committed to pay royalties based on a threshold of annual net sales of Alyria over a nine-year period starting in 2020. Management estimated the fair value of this total future consideration at \$0.8 million as at the acquisition date using an income approach with a discount rate of 14%.

In addition, INTEGA has an agreement with Sanofi with regards to inventory supply which has been provided to INTEGA on consignment under terms that confer a potential benefit related to achieving certain sales targets and levels of inventory consumption. This has been recorded as a contingent consideration receivable of \$0.1 million (see Note 8, *Other Current Assets*).

Under IFRS 3, this acquisition does not qualify as a business combination and has been accounted for as an asset acquisition of a group of assets. The estimated fair values of the assets acquired in accordance with the Amendment are:

	Fair value recognized on acquisition
	\$
ASSETS AND OTHER ASSETS	
Intangible assets	1,256
Contingent consideration receivable	126
PURCHASE CONSIDERATION TRANSFERRED	1,382
	\$
PURCHASE CONSIDERATION	
Cash paid on closing	600
Consideration payable	762
Contingent consideration – royalty earn-out	20
PURCHASE CONSIDERATION	1,382

5. ACQUISITION OF INTEGA

On September 1, 2016, the Company acquired 100% of the equity of INTEGA, a private company located in Laval, Québec that develops, manufactures, markets and sells science-based quality non-prescription skincare products. The Company's management and Board of Directors made the decision to pursue a strategy to transform Crescita into a dermatology company with an emphasis on commercially advanced non-prescription skincare markets and prescription drug products. This strategy would allow Crescita to leverage its skin penetration technology, as well as approved topical products and to mitigate risks by pursuing already approved products in the non-prescription skincare market.

The acquisition was accounted for in accordance with the acquisition method of accounting with the excess of purchase price over estimated fair values of assets acquired and liabilities assumed being recognized as goodwill at the acquisition date of September 1, 2016.

The aggregate original purchase price paid by the Company for 100% of INTEGA's equity consisted of the following:

- The issuance of 2,402,314 Crescita common shares on closing (Base Consideration).
- An estimated 469,473 Crescita common shares to be issued within 30 days following Crescita's annual shareholders meeting (AGM) held in June 2017. In lieu of issuing these shares, Crescita shareholders could elect to make a cash payment equal to 469,473 Crescita common shares multiplied by the greater of (i) \$2.4375, and (ii) the five trading-day volume-weighted average closing price of Crescita's common shares on the TSX ending on the last trading day prior to the date of Crescita's AGM.
- On closing, the issuance of 457,986 common share purchase warrants in exchange for INTEGA's outstanding warrants, each of which permits the holder thereof to acquire one Crescita common share at a price of \$2.44 per share.
- On closing, the repayment by the Company of \$3.1 million in bridge loans held by INTEGA.
- Up to an additional \$2.0 million in milestones if certain financial targets (Milestones) were achieved by INTEGA in 2016 and 2017. Each of the two \$1.0 million milestone payments was payable in cash or Crescita common shares at the option of the Company (Milestone Payments).

The fair value of Crescita common shares related to the Base Consideration was calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was \$1.66 per share.

The value of the warrants included in purchase consideration represents the fair value of the Crescita warrants, calculated at the acquisition date using the Black-Scholes model (see Note 15, *Share-based Compensation and Other Share-based Payments*).

Analysis of cash flows on September 1, 2016 (the date of the acquisition):

	\$
Repayment of bridge loans (included in cash flows from investing activities)	(3,060)
Transaction costs of the acquisition (included in cash flows from operating activities)	(875)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	316
NET CASH FLOW ON ACQUISITION	(3,619)

Transaction costs totalling \$1.8 million were expensed for the year and are included in selling, general and administrative (SG&A) expenses.

Contingent Consideration

The Milestone Payments under the purchase agreement represented contingent consideration. Additional payments of \$2.0 million to the previous owners of INTEGA would need to be made if the Company met certain Milestones from the date of acquisition through to December 31, 2017. As at the acquisition date, the fair value of the contingent consideration was estimated to be \$0.2 million based on management's best estimate of the probability of achieving the Milestones, using a discount rate of 15%.

As at December 31, 2016, management had determined that the conditions of the first milestone payment, based on 2016 financial performance were not met and the first potential \$1.0 million payment would not be paid. The fair value of the Milestone Payments decreased by \$0.1 million between September 1, 2016 and December 31, 2016 and the change was reflected in the results of operations for 2016.

Purchase Price Adjustment

Subsequent to the date of acquisition, the Company and all but one (0.3%) of the former shareholders of INTEGA entered into a Mutual Release agreement pursuant to which those parties have agreed with the Company that none of them will be entitled to any further payments from Crescita under the INTEGA purchase agreement. As a result, the consideration payable in the form of future issuances of shares and milestone payments was settled based on clauses within the original purchase and sale agreement. The Company finalized the purchase price allocation in August 2017 and has adjusted goodwill for the forfeiture of future share consideration previously recognized of \$0.8 million and the milestone payments of \$0.2 million. The fair value adjustment for the milestone payments of \$0.1 million that was recorded in SG&A for 2016 has been adjusted and the remaining \$0.1 million is reflected in the results of operations for the current period. The Company also renegotiated the debt assumed on acquisition (see Note 11, *Long-term debt*) and secured financing through the issuance of convertible debentures (see Note 12, *Convertible Debentures*) in tandem with the Mutual Release agreement.

Accordingly, the purchase price allocation has been retrospectively adjusted to reflect the changes to the consideration, assets acquired and liabilities assumed at the date of acquisition:

	As previously reported	Adjustments	Final
	\$	\$	\$
Assets			
Cash and cash equivalents	316	-	316
Accounts receivable	976	-	976
Inventory	3,499	-	3,499
Prepaid expenses	103	-	103
Property, plant and equipment	733	-	733
Intangible assets	10,140	-	10,140
Total assets	15,767	-	15,767
Liabilities			
Accounts payable and accrued liabilities	3,176	-	3,176
Long-term debt	8,303	-	8,303
Deferred income tax liabilities	295	-	295
Other liabilities	1,953	-	1,953
Total liabilities	13,727	-	13,727
Total identifiable net assets at fair value	2,040	-	2,040
Goodwill arising on acquisition	6,195	(976)	5,219
Revised Purchase Consideration	8,235	(976)	7,259
	\$	\$	\$
Purchase Consideration			
Base Consideration – Initial Payment	3,988	-	3,988
Base Consideration – Future Payment	779	(779)	-
Warrants	211	-	211
Bridge loan repayments	3,060	-	3,060
Milestone Payments	197	(197)	-
Revised Purchase Consideration	8,235	(976)	7,259

The effects of the adjustments to the 2016 Consolidated Financial Statements are presented below. The adjusted line items are as follows:

	As previously reported	Adjustments	Final
	\$	\$	\$
Assets			
Goodwill	6,195	(976)	5,219
Liabilities			
Other obligations	63	(63)	-
Equity			
Common shares issued	56,425	(779)	55,646
Deficit	(32,942)	(134)	(33,076)
Net loss from continuing operations			
Selling, general and administrative	13,724	134	13,858

6. DISCONTINUED OPERATIONS

The Company has historically reported two operating segments: TPT Group and Immunology Group. During the year ended December 31, 2016, the Company discontinued the operations of the Immunology Group.

On July 11, 2016, the Company sold its German manufacturing operation that produced the active ingredient in WF10™ and Oxoferin™ and the intellectual property related to WF10 to Dr. Kuehne, the inventor of WF10, for nominal proceeds. The net assets for the manufacturing plant as at the date of the sale were \$0.1 million. In addition, under the terms of the agreement, the balance of Dr. Kuehne's consulting fees was paid in full. During the second half of 2016, the Company commenced the wind-down of the Immunology Group operations and expects this process to be completed during 2018.

Operating results have been restated to reflect the Immunology Group as a discontinued operation. Accordingly, the Immunology Group is no longer presented in Note 22, *Segmented Information*.

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

	December 31, 2017	December 31, 2016
	\$	\$
Revenue		
Product sales	-	189
Services revenue	-	4
Total Revenue	-	193
Operating expenses		
Cost of goods sold	-	658
Research and development expenses	2	1,444
Selling, general and administrative expenses	213	200
Total Operating Expenses	215	2,302
Other expenses		
Foreign currency gain	(10)	(9)
Impairment of property, plant and equipment (Note 9)	-	27
Loss on disposal	-	119
Net loss from Discontinued Operations	(205)	(2,246)
Net loss per common share from discontinued operations		
- basic and diluted	\$(0.01)	\$(0.18)
Weighted average number of common shares outstanding (in thousands)		
- basic and diluted	13,960	12,251

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
	\$	\$
Cash used in operating activities	(174)	(2,747)
Cash used in investing activities	-	-
Cash used in financing activities	-	-
Net cash outflow	(174)	(2,747)

7. INVENTORIES

Inventories consist of the following as at:

	December 31, 2017	December 31, 2016
	\$	\$
Raw materials	1,599	1,332
Work-in-process	490	422
Finished goods	1,076	1,228
	3,165	2,982

During the year ended December 31, 2017, inventories related to continuing operations in the amount of \$3.8 million were recognized in cost of goods sold [\$1.2 million for the year ended December 31, 2016].

During the year ended December 31, 2017, \$0.4 million of finished goods related to continuing operations were written down [\$0.1 million for the year ended December 31, 2016] (see Note 3(iii) - *Inventory Valuation*).

There were \$24 of reversals of prior write-downs during the year ended December 31, 2017 [\$nil - December 31, 2016].

8. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	December 31, 2017	December 31, 2016
	\$	\$
Contingent consideration receivable (Note 4)	115	-
Prepaid expenses	253	389
Deposits	61	298
Sales taxes receivable	58	592
Research and development supplies	53	74
	540	1,353

9. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings	Leasehold Improvements	Furniture and Fixtures	Computer Equipment and Software	Production Laboratory and Other Equipment	Total
Cost	\$	\$	\$	\$	\$	\$
Balance, December 31, 2015	919	113	216	906	307	2,461
Foreign exchange movements	(18)	-	(1)	(1)	(5)	(25)
Net transfers from Nuvo ⁽ⁱ⁾	-	-	-	(3)	692	689
Acquired in INTEGA acquisition (Note 5)	-	333	28	276	96	733
Additions	-	33	-	89	1	123
Disposals ⁽ⁱⁱⁱ⁾	(901)	-	(59)	(62)	(337)	(1,359)
Balance, December 31, 2016	-	479	184	1,205	754	2,622
Additions	-	-	-	13	94	107
Balance, December 31, 2017	-	479	184	1,218	848	2,729

Accumulated depreciation

Balance, December 31, 2015	919	113	216	858	275	2,381
Foreign exchange movements	(18)	-	(1)	(1)	(5)	(25)
Net transfers from Nuvo ⁽ⁱ⁾	-	-	-	-	671	671
Depreciation expense	-	22	2	58	35	117
Impairment charge ⁽ⁱⁱ⁾	-	-	-	18	9	27
Disposals ⁽ⁱⁱⁱ⁾	(901)	-	(59)	(62)	(337)	(1,359)
Balance, December 31, 2016	-	135	158	871	648	1,812
Depreciation expense	-	63	5	109	32	209
Balance, December 31, 2017	-	198	163	980	680	2,021
Net book value as at December 31, 2016	-	344	26	334	106	810
Net book value as at December 31, 2017	-	281	21	238	168	708

- (i) Net transfers from Nuvo included assets attributable to Nuvo's drug development business transferred to Crescita as per the Arrangement.
- (ii) In the first quarter of 2016, following the decision to initiate a divestiture or orderly wind-down of the Immunology Group, the Company recognized an impairment charge of PP&E of the Immunology Group in the amount of \$27 (€18).
- (iii) Disposals included PP&E transferred as part of the sale of the German manufacturing operation that occurred on July 11, 2016, as well as assets disposed by way of the orderly wind-down of the Immunology Group.

10. INTANGIBLE ASSETS

Intangible assets consist of the following as at:

	Product Brands and Formulations	Customer Relationships	License Agreement	Total
Cost	\$	\$	\$	\$
Balance, December 31, 2015	-	-	-	-
Acquired in INTEGA acquisition (Note 5)	6,740	3,050	350	10,140
Balance, December 31, 2016	6,740	3,050	350	10,140
Additions – Alyria acquisition (Note 4)	1,256	-	-	1,256
Balance, December 31, 2017	7,996	3,050	350	11,396
Accumulated amortization				
Balance, December 31, 2015	-	-	-	-
Amortization expense	187	102	12	301
Balance, December 31, 2016	187	102	12	301
Amortization	612	305	35	952
Impairment (Note 3 (ii))	148	-	303	451
Balance, December 31, 2017	947	407	350	1,704
Net book value as at December 31, 2016	6,553	2,948	338	9,839
Net book value as at December 31, 2017	7,049	2,643	-	9,692

11. LONG-TERM DEBT

Long-term debt consists of the following as at:

	December 31, 2017	December 31, 2016
	\$	\$
Knight loan – principal	3,639	6,841
Knight loan – unamortized (discount) premium	(159)	1,323
	3,480	8,164
Less current portion	1,139	723
Long-term balance	2,341	7,441

On September 1, 2016, concurrent with the Company's acquisition of INTEGA, INTEGA entered into an amended and restated loan agreement (Knight Loan) with Knight Therapeutics Inc. (Knight) in which Crescita acted as the guarantor, supported by a letter of credit in the amount of \$8.6 million, providing an irrevocable right of payment to Knight in the event of default. In addition to the letter of credit, Crescita also entered into a cash collateral agreement for the amount of the letter of credit. These restricted funds were held as short-term investments redeemable within one year. The loan was recorded at fair value upon initial measurement and subsequently accounted for at amortized cost using the effective interest method.

On August 14, 2017, the Company renegotiated the terms of the Knight Loan (Amended Knight Loan). Under the terms of the Amended Knight Loan, Crescita repaid \$3.1 million of the loan (reducing the principal amount to \$3.6 million) and Knight agreed to release the letter of credit in exchange for a general security interest over all of Crescita's assets. The Amended Knight Loan continues to bear interest at 9% per annum and matures on January 22, 2022. The Amended Knight Loan can be repaid by the Company at any time prior to December 31, 2018 without penalty. The Company may be required to prepay the outstanding balance through a cash sweep of 50% of any net cash proceeds received through milestone and royalty payments from Taro, debt or equity financing, or through the sale of assets prior to December 31, 2018. Thereafter, the Company has the right to prepay the outstanding principal of the Amended Knight Loan and pay a prepayment fee equal to 5% of the principal amount prepaid. The Amended Knight Loan does not contain any financial covenants. Under the Amended Knight Loan, Crescita has agreed to make additional repayments such that the principal amount of the loan is reduced to \$2.5 million by December 31, 2018. The Amended Loan was recorded at fair value upon initial measurement and subsequently accounted for at amortized cost using the effective interest method. As part of the loan renegotiation, Knight surrendered and cancelled the 293,163 common share purchase warrants it previously held. The Company

issued 396,000 new warrants to Knight of which, 216,000 are exercisable at a price of \$0.75 per share and the other 180,000 are exercisable at a price of \$1.00 per share, in each case for a period of six years (see Note 15, *Share-Based Compensation and other Share-Based Payments*).

As the terms of the Amended Knight Loan were substantially different from the original loan, the renegotiation created a debt extinguishment for accounting purposes and the Knight Loan was derecognized with the Amended Knight Loan being recognized at fair value. The difference in the fair value of the Amended Knight Loan and the carrying value of the Knight Loan resulted in a gain of \$1.1 million, net of transaction costs.

12. CONVERTIBLE DEBENTURES

On August 28, 2017, the Company completed a \$1.0 million convertible debenture financing with Bloom Burton Funds. The debentures bear interest at 9% payable in cash on a quarterly basis, have a maturity date of June 30, 2022 and are convertible into common shares at the option of the holder at a conversion price of \$1.00 per share. Commencing after the second anniversary of the issue date, the Company has the option to force conversion if the closing price of its common shares exceeds 150% of the conversion price on 20 trading days in any 30-day period. The outstanding convertible debentures are secured by assets of the Company, ranking in priority behind Knight.

Management estimated the fair value of the debt using a discount rate of 14% and allocated \$0.8 million to the debenture, \$40 to the issuance of warrants and \$0.1 million to the conversion feature. The convertible debentures are being accreted to the face value of the debt plus interest to maturity. The Company also issued an additional 100,000 common share warrants to Bloom Burton Funds at an exercise price of \$0.75 per share for a period of six years (see Note 15, *Share-Based Compensation and other Share-Based Payments*).

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

	Liability	Equity	Total
	\$	\$	\$
Balance, December 31, 2016	-	-	-
Proceeds	827	173	1,000
Accretion	7	-	7
Balance, December 31, 2017	834	173	1,007

13. OTHER OBLIGATIONS

Other obligations consist of the following as at:

	December 31, 2017	December 31, 2016 Restated (Note 5)
	\$	\$
Payable relating to a previous acquisition by INTEGA ⁽ⁱ⁾	1,000	1,972
Consideration payable, including accrued interest – Alyria (Note 4)	702	-
Contingent payments relating to the Alyria acquisition (Note 4)	20	-
	1,722	1,972
Less current portion	1,300	1,000
Long-term balance	422	972

⁽ⁱ⁾ The amounts owing include the payments of \$1.0 million on each of January 22, 2017 and 2018. On the date of the acquisition of INTEGA, the fair value of these payments was determined to be \$2.0 million.

14. 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

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

The following table summarizes Crescita's outstanding common shares:

	Number 000s Restated (Note 5)	Amount \$ Restated (Note 5)
Balance, December 31, 2015	-	-
Issued pursuant to the Arrangement	11,487	51,613
Issued on acquisition – initial payment (Note 5)	2,402	3,988
Issued upon option exercise	46	45
Balance, December 31, 2016	13,935	55,646
Issued through employee plans	68	48
Balance, December 31, 2017	14,003	55,694

The amount of Nuvo's net investment in Crescita at the effective date of the Arrangement was reclassified to share capital and deficit. To determine Crescita's share capital amount, Nuvo's stated capital immediately prior to the Arrangement was split based on the Butterfly Proportion of the Nuvo and Crescita common shares at the effective date of the Arrangement. Crescita's share capital amount was deducted from Nuvo's net investment and the remaining \$19.4 million was recognized as deficit.

The Butterfly Proportion was determined to be 78.18% for Nuvo and 21.82% for Crescita. The Butterfly Proportion is based on the VWAP of the Crescita common shares and the Post-Arrangement Nuvo common shares during the five-trading days during the period from March 7 to March 11.

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

Prior to the effective date of the Arrangement, certain employees of Crescita participated in Nuvo's share-based compensation plans. During that period, share-based compensation expense had been allocated to Crescita primarily based on proportionate time spent on Crescita's and Nuvo's respective activities.

Nuvo's share-based compensation plans included the Nuvo Share Incentive Plan, the Nuvo Share Appreciation Rights Plan and the Nuvo DSU Plan. Under Nuvo's Share Incentive Plan, there were three sub-plans: the Nuvo Share Purchase Plan, the Nuvo Share Option Plan and the Nuvo Share Bonus Plan.

As part of the Arrangement, Crescita established its own share-based compensation plans: the Share Incentive Plan and the SARs Plan. Under the Crescita Share Incentive Plan, there are three sub-plans: the Share Purchase Plan, the Share Option Plan and the Share Bonus Plan.

The following is a summary of share-based compensation activity for the years ended December 31, 2017 and 2016:

Share Incentive Plan

Under the Company's Share Incentive Plan, there are three sub-plans: the Share Option Plan, the Share Purchase Plan and the Share Bonus Plan. The maximum number of common shares that may be issued under the Share Incentive Plan is 15% of the total number of outstanding common shares from time-to-time. The common shares that may be issued under the plan are allocated to the three sub-plans as 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 is 344,615).

As the Share Incentive Plan is a "rolling plan", the TSX requires that it, along with any unallocated options, rights or other entitlements, receive shareholder approval at the Company's annual shareholders meeting every three years. At the Special Meeting of Shareholders of Nuvo held on February 18, 2016, the common shareholders approved an ordinary resolution affirming, ratifying and approving the Crescita Share Incentive Plan and approving all of the unallocated common shares issuable pursuant to the Share Incentive Plan. As at December 31, 2017, the number of common shares available for issuance under the Share Incentive Plan was 250,394.

Share Option Plan

Under the Nuvo Share Option Plan, Nuvo granted options to purchase common shares to officers, directors, employees or consultants of Nuvo or its affiliates. Options issued under the Share Option Plan were 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 Nuvo's options outstanding immediately prior to the effective date of the Arrangement:

	Number of Options 000's	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, December 31, 2015	751	1.96 - 24.05	6.18
Balance, February 29, 2016	751	1.96 - 24.05	6.18

Pursuant to the Arrangement, each Nuvo stock option issued and outstanding at the effective date of the Arrangement was exchanged for one Post-Arrangement stock option issued by Nuvo and one Post-Arrangement stock option issued by Crescita. There was no incremental fair value associated with the replacement stock options.

The exercise price of each Post-Arrangement stock option issued by Crescita was determined by allocating the exercise price of the original Nuvo stock option between the Post-Arrangement stock option issued by Nuvo and the Post-Arrangement stock option issued by Crescita based on the relative fair market values of the Nuvo and Crescita common shares at the effective date of the Arrangement. The relative fair market value was determined using the Butterfly Proportion (see Note 14, *Share Capital*). The vesting schedule and the term that each Post-Arrangement stock option issued by Crescita may be exercised remains the same as the original Nuvo stock option it was exchanged for.

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, February 29, 2016	-	-	-
Issued on Reorganization	751	0.43 - 5.25	1.35
Granted	1,026	1.23 - 1.83	1.64
Forfeited	(352)	0.74 - 1.83	1.64
Expired	(26)	0.43 - 5.25	1.58
Exercised	(46)	0.43 - 1.42	0.97
Balance, December 31, 2016	1,353	0.43 - 3.55	1.51
Granted	673	0.58 - 0.65	0.65
Forfeited	(49)	1.23 - 1.83	1.58
Expired	(194)	1.21 - 3.55	1.88
Balance, December 31, 2017	1,783	0.43 - 3.55	1.14

The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Options are valued with a calculated forfeiture rate of 7.0% [December 31, 2016 - 7.0%], and the remaining model inputs for options granted during the year ended December 31, 2017 were:

Options 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
623	June 28, 2017	0.65	0.65	0.69 - 0.85	2 - 5	98 - 122	0.38 - 0.45
50	December 13, 2017	0.58	0.58	1.41 - 1.57	2 - 5	68 - 125	0.15 - 0.40

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at December 31, 2017:

Exercise Price Range \$	Number of Options 000's	Outstanding		Weighted Average Exercise Price \$	Exercisable	
		Remaining Contractual Life years			Vested Options 000's	Weighted Average Exercise Price \$
0.43 - 0.74	916	8.66	0.65	204	0.63	
1.21 - 1.42	181	3.89	1.36	180	1.36	
1.63 - 1.91	641	8.17	1.63	181	1.65	
3.12 - 3.55	45	2.46	3.12	45	3.12	
	1,783	7.84	1.14	610	1.33	

Share Purchase Plan

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

During 2017, Crescita's employees made contributions of \$25 [2016 - \$nil] to the Share Purchase Plan.

Share Appreciation Rights Plan

On October 30, 2013, Nuvo established the Nuvo SARs Plan for officers, employees or designated affiliates to provide incentive compensation based on the appreciation in value of Nuvo's common shares. Under the Nuvo SARs Plan, participants received, 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 Nuvo's common shares on the TSX on the day preceding the exercise date. SARs vested in tranches prescribed at the grant date and each tranche was considered a separate award with its own vesting period and grant date fair value. Until SARs vested, compensation expense was 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 was revalued at the end of each reporting date and adjusted at the settlement date, when the intrinsic value was realized.

The following is a schedule of Nuvo's SARs immediately prior to the effective date of the Arrangement:

	Number of SARs 000's	Fair Values \$	Accrual \$
Balance, December 31, 2015	788	0.00 – 3.45	1,328
Vested	(293)	0.00 – 3.36	(654)
Adjustment to market value	-	-	255
Balance, February 29, 2016	495	0.72 – 4.47	929

Pursuant to the Arrangement, each Nuvo SAR issued and outstanding at the effective date of the Arrangement was exchanged for one Post-Arrangement SAR issued by Nuvo and one Post-Arrangement SAR issued by Crescita. The exchange of these SARs has been accounted for as a modification. There is no incremental fair value associated with the replacement SARs. The liability existing at the effective date of the Arrangement was allocated between Nuvo and Crescita based on the Butterfly Proportion (see Note 14, *Share Capital*). In addition, to the extent the holder of a replacement Crescita SAR did not have a Post-Arrangement service requirement to Crescita, the portion of the compensation relating to the award that was unamortized at the effective date of the Arrangement was immediately recognized as a charge to income.

The exercise price of each Post-Arrangement SAR issued by Crescita was determined by allocating the exercise price of the original Nuvo SAR between the Post-Arrangement SAR issued by Nuvo and the Post-Arrangement SAR issued by Crescita based on the relative fair market values of the Nuvo and Crescita common shares at the effective date of the Arrangement, using the Butterfly Proportion (see Note 14, *Share Capital*). The vesting schedule and the term of each Post-Arrangement SAR issued by Crescita may be exercised remains the same as the original Nuvo SAR it was exchanged for. The shareholders of Nuvo approved a resolution on February 18, 2016 to allow SARs to be equity-settled.

The following is a schedule of Crescita's SARs as at December 31, 2017:

	Number of SARs 000's	Fair Values \$	Accrual \$
Balance, February 29, 2016	-	-	-
Issued on Reorganization	495	0.16 - 0.98	203
Cancelled	(20)	0.77 - 1.46	(25)
Settled	(58)	0.77 - 1.46	(57)
Adjustment to market value	-	-	108
Balance, December 31, 2016	417	0.00 - 0.81	229
Settled	(246)	0.40 - 0.74	(129)
Adjustment to market value	-	-	(99)
Balance, December 31, 2017	171	0.00 - 0.02	1

As at December 31, 2017, a SARs accrual of \$1 was included in Crescita's accounts payable and accrued liabilities [December 31, 2016 - \$0.2 million].

Fair values of each tranche issued and outstanding as at December 31, 2017 were measured using the Black-Scholes option pricing model with the following inputs:

SARs Outstanding 000's	Grant Date	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
67	April 4, 2014	0.74	1.41	1	70	0.00
104	January 7, 2015	1.58	1.41	1-2	69-70	0.00 – 0.02

Warrants

On September 1, 2016, as partial consideration for the acquisition of INTEGA, the Company issued 457,986 common share purchase warrants in exchange for INTEGA's outstanding warrants. Each warrant permits the holder thereof to acquire one Crescita common share at a price of \$2.44 per share at any time prior to its expiration date.

During 2017, the Company issued 496,000 common share purchase warrants in conjunction with the Mutual Release agreement. Of these, 396,000 were issued to Knight of which, 216,000 are exercisable at a price of \$0.75 per share and the other 180,000 are exercisable at a price of \$1.00 per share, in each case for a period of six years. Concurrent with the issuance of those warrants, Knight surrendered and cancelled the 293,163 common share purchase warrants it previously held. An additional 100,000 common share warrants were issued to Bloom Burton Funds at an exercise price of \$0.75 per share for a period of six years.

The following is a schedule of Crescita's warrants outstanding:

	Number of Warrants 000's	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, February 29, 2016	-	-	-
Granted	458	2.44	2.44
Balance, December 31, 2016	458	2.44	2.44
Issued	496	0.75 – 1.00	0.84
Cancelled	(293)	2.44	2.44
Balance, December 31, 2017	661	0.75 – 2.44	1.24

The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The model inputs for warrants outstanding as at ended December 31, 2017 were as follows:

Options 000s	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
165	September 1, 2016	1.66	2.44	0.76	2	42.5	0.28
216	August 14, 2017	0.79	0.75	1.50	6	66.0	0.48
180	August 14, 2017	0.79	1.00	1.50	6	66.0	0.43
100	August 28, 2017	0.69	0.75	1.50	6	66.1	0.40

Nuvo Deferred Share Unit Plan

Effective March 1, 2016, Crescita does not have a Deferred Share Unit (DSU) Plan for directors or employees.

Directors

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

Employees

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

Upon issuance, the fair value of the DSUs was recorded as compensation expense and the DSU accrual was established. At all subsequent reporting dates, the DSU accrual was adjusted to the market value of the underlying shares and the adjustment was recorded as compensation cost. Within a specified time after retirement or termination, employees would receive a cash payment equal to the market value of their DSUs.

Each DSU issued and outstanding at the effective date of the Arrangement was exchanged for a Nuvo common share. This exchange occurred immediately prior to the indirect exchange of each Nuvo common share for one Post-Arrangement Nuvo common share and one Crescita common share. All DSUs were fully vested at the effective date of the Arrangement.

Prior to the Arrangement, all costs related to the DSU Plans were allocations from Nuvo and the portion of Nuvo's liability related to Crescita was recorded in accounts payable and accrued liabilities.

Summary of Share-based Compensation

Prior to March 1, 2016, Nuvo's corporate costs allocated to the Company included an amount representing share-based compensation expense. These allocated amounts are included in the following summary of Crescita's share-based compensation expense:

	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$
Stock option compensation expense	228	177
Employee Share Purchase Plan	23	-
DSUs – adjustment to market value	-	111
SARs compensation expense	(99)	232
Share-based compensation expense	152	520

Recorded in the Consolidated Statements Loss and Comprehensive Loss as follows:

Research and development expenses	32	119
Selling, general and administrative expenses	120	401
Share-based compensation expense	152	520

Share-based compensation expense allocated from Nuvo totalled \$0.3 million for the period from January 1, 2016 to February 29, 2016.

16. NET 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:

	Year ended December 31, 2017	Year ended December 31, 2016
	000's	000's
Common shares issued and outstanding (Note 14)	14,003	13,935
Stock options outstanding (Note 15)	1,783	1,354
SARs liability ⁽ⁱ⁾ (Note 15)	171	417
Warrants (Note 15)	661	458
	16,618	16,164

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

Under the terms of the Arrangement (see Note 1, *Corporate Information*), Crescita issued 11.5 million common shares on March 1, 2016. Prior to the Arrangement, the Company used Nuvo's weighted average number of common shares outstanding to compute net loss per common share.

17. EXPENSES BY NATURE

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

(a) Employee costs from continuing operations:

	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$
Short-term employee wages, bonuses and benefits	6,611	4,820
Share-based payments (Note 15)	152	520
Post-employment benefits	24	25
Termination benefits	269	590
Total employee costs	7,056	5,955
Included in:		
Cost of goods sold	1,318	303
Research and development expenses	785	1,197
Selling, general and administrative expenses	4,953	4,455
Total employee costs	7,056	5,955

(b) Depreciation and amortization from continuing operations:

	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$
Selling, general and administrative expenses ⁽ⁱ⁾	1,161	382
Total depreciation and amortization	1,161	382

⁽ⁱ⁾ Selling, general and administrative expenses included \$1.0 million of amortization of intangible assets for the year ended December 31, 2017 [\$0.3 million ended December 31, 2016]

18. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Year ended December 31, 2017	Year ended December 31, 2016 (Restated)
	\$	\$
Accounts receivable	206	(508)
Inventories	(986)	(281)
Other current assets	939	(1,226)
Accounts payable and accrued liabilities	(2,569)	(1,376)
Net change in non-cash working capital	(2,410)	(3,391)

19. INCOME TAXES

Deferred Tax Assets and Liabilities

(a) Recognized deferred tax assets (liabilities)

	Year ended December 31, 2017	Year ended December 31, 2016 (Restated)
	\$	\$
Canadian non-capital loss carryforwards	1,582	1,716
Canadian property plant and equipment	(48)	(59)
Long-term debt	(42)	354
Share Issuance costs	144	134
Inventory	-	(99)
Intangible assets	(1,636)	(2,046)
Net deferred tax asset (liabilities)	-	-

(b) Unrecognized deductible temporary differences

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

	Year ended December 31, 2017	Year ended December 31, 2016 (Restated)
	\$	\$
U.S. non-capital loss carryforwards	40,094	41,476
U.S. federal and state research and development credits	4,300	4,602
Unrealized foreign exchange loss on account of capital	462	705
Canadian non-capital loss carryforwards	13,626	9,406
U.S. Tax basis of property, plant and equipment and intangible assets in excess of (less than) accounting value	2,146	2,871
Canadian tax basis of property, plant and equipment and intangible assets in excess of (less than) accounting value	1,193	66
Share issuance costs	72	148
Deductible temporary differences not recognized	61,893	59,274

The purchase price allocation on the INTEGA Acquisition (Note 5, *Acquisition of INTEGA*) resulted in intangible assets of \$10.1 million of which \$8.1 million are not deductible for income tax purposes. Intangible assets consist of customer relationships, product brands, formulations and a license agreement. A net deferred tax asset (liability) of \$nil has been recorded based on the fair values assigned to intangible assets, inventory, property, plant and equipment, share issuance costs and the Knight loan and the recognition of the benefit of unused tax losses of INTEGA.

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

	Year ended December 31, 2017	Year ended December 31, 2016 (Restated)
	%	%
Statutory rate	26.5	26.5
Items not deducted for tax	(0.1)	(3.0)
Impact of future tax rate differences	(1.6)	-
Goodwill impairment not deductible	(13.4)	-
Impact of foreign income tax rate differential	1.4	1.3
Losses and other deductible temporary differences not benefited	(12.8)	(22.8)
	-	2.0

Loss Carryforwards

The legal entities comprising Crescita have non-capital losses available for carryforward to reduce future years' taxable income. These losses by jurisdiction are as follows:

	Expiry Period	Non-capital losses (Restated)
		\$
United States	2025	26
United States ⁽ⁱ⁾	2023 to 2029	8,257
United States	2026 to 2037	31,811
Canada	2032 to 2037	19,595
		59,689

⁽ⁱ⁾ These U.S. losses carried forward relate to the unrestricted portion of the losses acquired upon the purchase of ZARS in 2011. The Company has US\$34.3 million of U.S. losses carried forward relating to the portion of the acquired losses that are restricted due to the change in control and therefore are not included in the table.

Losses arising in entities included in Discontinued Operations (Note 6, *Discontinued Operations*) have not been previously recognized by the Company and are not disclosed as these have no future benefits.

The non-capital losses and related deferred tax assets reported in the table above represent amounts reported for tax purposes by the legal entities comprising Crescita and, accordingly, both (a) exclude costs reported in these Consolidated Financial Statements that were reported for tax purposes by Nuvo, and (b) include costs reported for tax purposes by the legal entities comprising Crescita.

20. COMMITMENTS

The Company has minimum future rental payments under operating leases for the twelve months ending December 31 as follows:

	Operating Leases \$
2018	420
2019	397
2020	400
2021	401
2022	403
2023 and thereafter	303
	2,324

For the year ended December 31, 2017, payments under operating leases totaled \$0.6 million [December 31, 2016 - \$0.4 million]. The comparative period included a portion of Nuvo's corporate office lease during the carve-out period, which had been allocated to the Company prior to March 1, 2016. The Company had previously reported purchase commitments that are no longer applicable.

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.

21. 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:

	December 31, 2017			December 31, 2016 (Restated)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration receivable (Note 4)	-	-	115	-	-	-
Contingent consideration – royalty earn-out (Note 4)	-	-	(20)	-	-	-
SARs (Note 15)	-	(1)	-	-	(229)	-

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 during the years ended December 31, 2017 and 2016.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 15, *Share-based Compensation and Other Share-based Payments*. The fair values of each tranche of SARs issued and outstanding are revalued as at each reporting period using the Black-Scholes option pricing model.

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 (See Note 3(v) – *Purchase Price Allocation*).

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

Prior to the Reorganization, the Company was economically dependent on, and has historically relied on, Nuvo for funding to support its operations. Under the terms of the Arrangement, Nuvo transferred \$35.0 million of cash to the Company to provide working capital. The Company anticipates that its current cash, proceeds from equity financing and the revenue it expects to generate from product sales and upfront and milestone payments related to out-licensing its products, in addition to royalty payments on the global net sales of Pliaglis will fund Crescita's operations as currently planned for 2018. 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 \$1.9 million that is payable from 2018 to 2024.

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 the Company 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 December 31, 2017, 8% of accounts receivable related to customers outside North America and the E.U. [December 31, 2016 - 9%].

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

	December 31, 2017	December 31, 2016
	\$	\$
Current	696	476
0-30 days past due	495	783
31-60 days past due	92	235
61-90 days past due	180	143
Over 90 days past due	-	42
	1,463	1,679

As at December 31, 2017, the allowance for doubtful accounts receivable was \$0.1 million [December 31, 2016 - \$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	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	€	€	\$	\$
Cash and cash equivalents	54	50	573	1,680
Accounts receivable	-	-	305	66
Other current assets	18	126	47	90
Accounts payable and accrued liabilities	(86)	(51)	(357)	(522)
Other short-term obligations	-	(4)	-	(35)
	(14)	121	568	1,279

Based on the aforementioned net exposure as at December 31, 2017, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$0.1 million on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$2 on total comprehensive loss.

In terms of the euro, the Company had one significant exposure: its net investment and net cash flows in its European operations, which were discontinued on July 11, 2016 (see Note 6, *Discontinued Operations*). In terms of the U.S. dollar, the Company has four significant exposures: 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) regarding 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.

22. SEGMENTED INFORMATION

Prior to the acquisition of INTEGA, the TPT Group had one commercial product: Pliaglis, a topical local anesthetic cream that provides safe and effective local dermal anesthesia on intact skin prior to superficial dermatological procedures, such as dermal filler injections, pulsed-dye laser therapy, facial laser resurfacing and laser-assisted tattoo removal. The Company owns the commercial rights in Canada and Mexico and has licensed the U.S. rights to Taro and the rest of the world marketing rights to Galderma. Pliaglis is approved for sale and marketing in the U.S., Canada and Mexico, as well as multiple European, South American and Asian countries. Galderma launched the commercial sale and marketing of Pliaglis in the U.S. and multiple countries in the E.U. in 2013, South America in 2014 and Canada in 2015. In December 2015, the Company reacquired the Pliaglis development and marketing rights from Galderma for the U.S., Canada and Mexico. In April 2017, the Company granted Taro an exclusive license to the rights to sell and distribute Pliaglis in the U.S. and for a second-generation enhanced version of Pliaglis (Flexicaine). The TPT Group has a pipeline of products to treat a variety of therapeutic areas with a focus on dermatology and pain.

The acquisition of INTEGA provided the TPT Group a revenue-generating, fully integrated commercial skincare business and manufacturing facility. The Company owns the worldwide distribution rights to INTEGA's well-known and established skincare brands: Laboratoire Dr Renaud™, Pro-Derm™, Alyria®, Premiology® and the Canadian rights for the ISDIN® line.

As a result of discontinuing the operations of the Immunology Group (see Note 6, *Discontinued Operations*), the Company now operates in one segment.

Geographic Information

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

	December 31, 2017	December 31, 2016
	\$	\$
Canada ⁽ⁱ⁾	10,083	2,672
U.S.	953	8
Europe	131	576
Other foreign countries	847	248
	12,014	3,504

⁽ⁱ⁾ Revenue in Canada included US\$2.5 million (\$3.3 million) for upfront and milestone payments for the out-licensing of Pliaglis for the year ended December 31, 2017 [\$nil for the year ended December 31, 2016].

As at December 31, 2017, all the Company's Property, Plant & Equipment were located in Canada.

23. CAPITAL MANAGEMENT

The Company's managed capital is comprised of cash, debt instruments and shareholders' equity. The Company's objective when managing its capital structure is to safeguard its ability to continue as a going concern in order to provide returns for shareholders, finance strategic growth plans and fund financial obligations as they become due. In order to maintain or adjust the capital structure, the Company may issue new common shares from time to time. Historically, the Company relied on cash on hand and debt financing to finance growth initiatives.

24. RELATED PARTY TRANSACTIONS

Prior to the completion of the Arrangement on March 1, 2016, Nuvo was considered a related party due to its parent-subsidiary relationship with the Crescita entities.

Corporate Cost Allocation

Prior to March 1, 2016, these financial statements include corporate expenses allocated from Nuvo's corporate office. General corporate expense allocations represent costs related to corporate functions such as executive oversight, risk management, accounting, legal, investor relations, human resources, tax and other services. Expense allocations also include costs for certain compensation-related items such as share-based compensation that Nuvo provides to certain employees of the Company.

Corporate cost allocations that are reflected in SG&A expenses and R&D expenses totalled \$2.2 million and \$0.2 million for the period from January 1, 2016 to February 29, 2016.

The Company and Nuvo considered these general corporate expense allocations to be a reasonable reflection of the underlying nature of the operations of these entities and of the utilization of services provided. The allocations may not, however, reflect the expense the Company would have incurred as a stand-alone company. Actual costs which may have been incurred if the Company had been a stand-alone public company prior to March 1, 2016 would depend on a number of factors, including how the Company chose to organize itself, what if any, functions were outsourced or performed by the Company's employees and strategic decisions in areas such as infrastructure.

Transitional Services Agreement

Effective March 1, 2016, Crescita and Nuvo entered into a reciprocal transitional services agreement (TSA) with an initial term of 18 months. Under the agreement, Crescita was to provide Nuvo corporate-level employee services, R&D support, as well as facility and equipment rental. The initial agreement was extended twice during the year, the latest of which occurred during the fourth quarter, with a term ending June 30, 2018. The amendments thereto are primarily for specific legal counsel as well as general corporate-level services.

Effective September 12, 2016, the Chief Financial Officer transition services agreement between Nuvo and Crescita was terminated. As a result of the restructuring of key management personnel in 2017, Nuvo and Crescita are no longer related parties.

For the year ended December 31, 2016, fees for services provided to Nuvo were \$0.4 million and services received from Nuvo were \$0.3 million.

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

	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$
Short-term wages, bonuses and benefits	1,073	1,288
Share-based payments	49	481
Total key management compensation	1,122	1,769
<i>Included in:</i>		
Research and development expenses	-	100
General and administrative expenses	1,122	1,669
Total key management compensation	1,122	1,769

25. SUBSEQUENT EVENT

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 estimated issuance costs of approximately \$0.2 million. Crescita has obtained an irrevocable waiver from Knight of certain provisions of the Knight Loan, allowing Crescita to benefit from 100% of the net proceeds of the Offering. Following completion of the Rights Offering, Crescita has 21,004,809 common shares issued and outstanding.

Management's Discussion and Analysis (MD&A)

March 27, 2018

Basis of Presentation

This Management's Discussion and Analysis of the Financial Position and Results of Operations ("MD&A") is the responsibility of management and has been reviewed and approved by the Board of Directors. While the Board of Directors is ultimately responsible for approving the MD&A, it carries out this responsibility mainly through the oversight of its Audit Committee, which is appointed by the Board of Directors and is composed of independent and financially literate directors.

Throughout this document, Crescita Therapeutics™ Inc. is referred to as "Crescita", "we", "our" or "Company". The following information should be read in conjunction with Crescita's audited Consolidated Financial Statements and the notes thereto for the years ended December 31, 2017 and 2016 which have been filed on SEDAR. Crescita's accounting policies are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. All amounts in this MD&A are expressed in thousands of Canadian dollars, unless otherwise noted.

Materiality of Disclosures

This MD&A includes information we believe is material to investors. We consider something to be material if it results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares, or if it is likely that a reasonable investor would consider the information important in making an investment decision.

Forward-looking Statements

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the Company's current beliefs, expectations and assumptions regarding the future of its business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. Crescita's actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, readers should not rely on any of these forward-looking statements. Important factors that could cause Crescita's actual results and financial condition to differ materially from those indicated in the forward-looking statements include, the risk factors included in Crescita's most recent Annual Information Form dated March 27, 2018 under the heading "Risks Factors", and as described from time to time in the reports and disclosure documents filed by Crescita with Canadian securities regulatory agencies and commissions. These and other factors should be considered carefully, and readers should not place undue reliance on Crescita's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and none of Crescita or any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statement made by the Company in this MD&A is based only on information currently available to it and speaks only as of the date on which it is made. Except as required by applicable securities laws, Crescita undertakes no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Financial Highlights and Key Operational Developments for 2017

During the fiscal year and up-to the date of this MD&A, the Company:

- Successfully completed a Rights Offering on March 9th, 2018, raising approximately \$3.7 million in additional equity funding to support our growth – Please refer to *Subsequent Events*;
- Reported revenue¹ of \$12.0 million, up \$8.5 million versus the prior year;
- Received a total of US\$2.5 million (CAD \$3.3 million) in up-front and milestone payments from Taro Pharmaceuticals Inc. (Taro) upon the sale of the license for the exclusive U.S. rights to Pliaglis® and the issuance of the Flexicaine composition patent;
- Improved Adjusted EBITDA² loss by \$ 9.0 million versus the prior year;
- Improved net loss¹ per share from continuing operations to \$(0.81), compared to \$(1.19) reported in the prior year;
- Ended the year with \$7.0 million of cash after paying down long-term debt and other long-term obligations by \$4.2 million;
- Amended the Knight loan, freeing up \$8.6 million of previously restricted cash;
- Recorded a goodwill and intangible assets impairment of \$5.7 million related to the INTEGA Acquisition;
- Completed a convertible debenture financing with Bloom Burton Funds for proceeds of \$1.0 million;
- Completed the acquisition of Alyria® from Sanofi Consumer Health Inc. - a skincare line using scientific research;
- Received positive topline results from a Phase 2 clinical trial studying the efficacy of the MiCal 1 formulation in patients with plaque psoriasis.

¹ Fiscal 2017 results reflect the full year's impact of the acquisition of Intega Skin Sciences Inc. ("INTEGA"), versus only four months in fiscal 2016 due to the timing of the acquisition.

² Adjusted EBITDA is a non-IFRS measure. This term is defined as earnings (loss) from continuing operations before interest, income taxes (recovery), depreciation and amortization, gain on debt renegotiations, net, equity-settled stock-based compensation ("SBC"), goodwill and intangible assets impairment, accretion on the fair value of inventory, and foreign currency (gains) and losses. Please refer to the *Non-IFRS Financial Measures and Adjusted EBITDA Reconciliation* sections of this MD&A.

Corporate Overview

About Crescita

Crescita (**TSX:CTX**) is a publicly traded, Canadian commercial dermatology company with a portfolio of non-prescription skincare products and prescription drug products for the treatment and care of skin conditions, 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 March 1, 2016, Nuvo Research Inc. (“Nuvo”) completed a transaction (“the Reorganization”) pursuant to which Nuvo was reorganized into two separate publicly traded companies, Nuvo and Crescita. The Reorganization proceeded by way of arrangement under the *Canada Business Corporations Act* (the Arrangement). As part of the Reorganization, Nuvo Research Inc. changed its name to “Nuvo Pharmaceuticals Inc.”

Crescita has a 50,000 square-foot manufacturing facility located in Laval, Québec, which produces a significant proportion of its non-prescription skincare products, such as Laboratoire Dr Renaud™ and Pro-Derm™. While the Company currently has an adequate supply of the recently acquired Alyria line to meet commercial needs, it has begun planning for the technology transfer of production to its facility over the next 18-24 months. Formulations manufactured by or for Crescita include cosmetics, natural health products (“NHP”) and products with Drug Identifications Numbers (DIN) and are currently sold in the U.S., Canadian and Asian markets. The manufacturing facility is in compliance with current Canadian Good Manufacturing Practices (“GMP”) and is regularly inspected by Health Canada. Crescita specializes in the custom manufacturing of creams, liquids, gels ointments and serums.

During the year, Crescita consolidated its operations and corporate functions to its Laval facility in its ongoing efforts to rationalize its cost structure and synergize its operations and by January 2018 had vacated its Mississauga, Ontario premises upon expiry of the office lease. The Company’s registered office, however, remains in Ontario.

As of December 31, 2017, the Company and its subsidiaries employed a combined total of 62 full-time employees and contract professionals, including full-time consultants.

Product Portfolio

Non-Prescription Skincare Products

Laboratoire Dr Renaud

The Laboratoire Dr Renaud skincare line joins science and aesthetics to develop personalized solutions to address daily skin challenges – aging, acne, rosacea, pigmentation, dehydration and sensitivity. The product line was founded in France in 1947 by Dr. Louis Raymond Renaud and became a Canadian company, based in Montreal in 1963. The Laboratoire Dr Renaud skincare products are sold exclusively to aestheticians, in spas and aesthetic schools. Crescita owns the trademark rights for the skincare line in North America, certain South American countries and the Pacific Rim as well as the worldwide rights for the formulations.

Pro-Derm

Pro-Derm is a line of high-quality cosmeceutical products sold to physicians operating through medispas and medicalized clinics. Pro-Derm products are used in conjunction with anti-aging medical procedures both pre- and post-treatment, such as dermal filler injections for lines and wrinkles, facial peels, laser treatments, aesthetic surgery as well as to prevent the negative effects of skin aging. Developed by a Canadian team of chemists and a dermatologist, the products are designed to achieve and maintain beautiful skin and to optimize cosmetic procedures offered by physicians. By offering high levels of clinically proven effective ingredients,

Pro-Derm combines the benefits of both cosmetic and pharmaceutical products. Crescita owns the worldwide formulations and marketing rights for Pro-Derm.

Alyria

Alyria is a comprehensive and sophisticated skincare line using scientific research to target and treat major skincare concerns. The Alyria Skin Optimizing System offers a complete skincare solution for all patients, helping them to achieve healthier skin with visible results. Alyria products use effective concentrations of some of the world's most advanced ingredients in proven formulations and are targeted to physicians. Alyria's portfolio is complementary to the Company's existing Pro-Derm line and can be purchased throughout Canada in various medispas. Crescita owns the worldwide marketing rights for Alyria, as well as the rights to the product formulations, which are, in some cases, on a non-exclusive basis.

Premiology

Premiology is a high-end premium anti-aging skincare line targeted to consumers of 35 years of age and over. The formulations contain a high performing combination of HA4 Technology (4 types of hyaluronic acids) and unique active ingredients to deliver targeted actions and results. Crescita owns the worldwide formulations and marketing rights for Premiology. During the fourth quarter of 2017, management decided to discontinue any further investment in this brand and will sell through remaining inventory. Please refer to section *Update on Certain Commercial Activities* for further details about Premiology.

ISDIN

ISDIN is well established in Europe, Latin America and Asia with more than 14 brand families and a leading consumer market position in skin categories like hydration, sun care, atopic dermatitis, baby skin, acne and women's health and sun damage repair. Crescita was unsuccessful in its efforts to launch the ISDIN line of products in the Canadian retail market. Our evolved strategy with ISDIN is to gain market awareness for this line of products through the spa channel and to consider a potential re-introduction of the product line in the retail space in the future once broader brand awareness is achieved. Please refer to section *Update on Certain Commercial Activities* for further details about ISDIN.

Prescription Drug Products

Pliaglis

Pliaglis is a topical local anaesthetic cream that provides safe and effective local dermal analgesia on intact skin. This product consists of a formulation containing a eutectic mixture of lidocaine and tetracaine that utilizes the proprietary phase-changing topical cream Peel technology. The Peel technology consists of a drug-containing cream which, once applied to a patient's skin, dries to form a pliable layer that releases drug into the skin. Pliaglis should be applied to intact skin for 20 to 30 minutes prior to superficial dermatological procedures such as dermal filler injections, pulsed-dye laser therapy, non-ablative laser facial resurfacing and for 60 minutes prior to procedures such as laser-assisted tattoo removal. Following the application period, Pliaglis forms a pliable layer that is easily removed from the skin allowing the dermatological procedure to be performed with minimal to no pain.

In December 2015, the Company reacquired the development and marketing rights for Pliaglis for the U.S., Canada and Mexico from Galderma Pharma S.A. ("Galderma"), a global pharmaceutical company specialized in dermatology. In April 2017, when the Company entered into the Agreement with Taro granting them an exclusive license to sell and distribute Pliaglis and Flexicaine in the U.S., Crescita paid CHF 125,000 (CAD \$174,000) to Galderma for transferring the U.S. rights to Taro. In addition, the Company paid US\$107,000 (CAD \$139,000) to Galderma in connection with the product manufacturing agreement for Pliaglis.

Beginning in 2021, Crescita has the right to reacquire the Rest of World ("ROW") rights for Pliaglis on a country-by-country basis without additional compensation if Galderma does not achieve minimum sales targets. Crescita is currently receiving a fixed single-digit royalty on net sales in the territories where Galderma still owns the development and marketing rights. Galderma is responsible for manufacturing Pliaglis for all territories where it is approved. Taro will sell and distribute Pliaglis and Flexicaine in the U.S. market. The Company continues to explore alternatives for the preferred commercial distribution pathway for Pliaglis in

Canada and is seeking to secure partners for Mexico. See *Significant Transactions – Fiscal 2017 – Pliaglis and Flexicaine Out-licensing*.

Flexicaine

Flexicaine is a new proprietary anesthetic formulation of lidocaine and tetracaine (7%/7%) that is designed for the topical treatment of pain conditions. It is considered to be the second generation of Pliaglis. The formulation dries to form a film which can be easily peeled from the skin once active ingredients have been delivered to the site on the body, providing a long-lasting anesthetic effect. Flexicaine possesses improved application and removal properties compared to Pliaglis with extended patent protection to 2031 in multiple jurisdictions. In July 2017, the United States Patent and Trademark Office granted U.S. Patent No. 9,693,976, entitled “Solid-Forming Local Anesthetic Formulations for Pain Control” relating to the Flexicaine composition.

MiCal 1 and MiCal 2

In April 2014, Nuvo entered into a collaboration agreement with MiCal - a joint venture between Ferndale and a leading U.S. contract research company (“CRO”) (“Ferndale Collaboration”) - to develop two topical dermatology products based on the Company’s patented Multiplexed Molecular Penetration Enhancer (“MMPE”) technology. Under the terms of the collaboration agreement, the Company will utilize its proprietary MMPE technology to formulate two patented topical dermatology product candidates. Upon completion of the formulations, Ferndale, in collaboration with the CRO, will oversee and fund the formulations’ advancement through Phase 2 clinical studies. It is anticipated that the product candidates will then be made available for out-licensing.

The first MiCal product, MiCal 1, is a topical formulation utilizing a corticosteroid in combination with the Company’s patented MMPE technology to treat plaque psoriasis. A lead formulation was identified and successfully tested in a vasoconstrictor assay test. A Phase 2 clinical trial (“the Trial”) on MiCal 1 was initiated in early 2017 by the CRO. During the third quarter, Crescita received and reported positive topline results from the Trial. It is anticipated that the product candidate will be made available for out-licensing at or before the completion of clinical development. Licensing revenues would be shared between the parties, where Crescita’s share would reflect its contribution of the patented formulations.

The second MiCal product, MiCal 2, is a topical formulation also utilizing the Company’s patented MMPE technology to treat a dermatological skin condition. MiCal 2 is still under development and an Investigational New Drug (IND) application is expected to be filed in 2018 once a lead formulation has been identified. Once the IND is accepted by the FDA, it is anticipated that the partnership will initiate clinical studies.

MiCal 1 Phase 2 Clinical Trial

The multi-centre, randomized, vehicle-controlled, double-blind, parallel group Phase 2 trial was conducted to determine and compare the efficacy and safety of MiCal 1 in the treatment of moderate to severe plaque psoriasis. The Trial was conducted at multiple U.S. study sites and enrolled 89 patients. The patients were randomly assigned on a double-blind basis to receive active or vehicle (“the Control”) formulations to treat their psoriasis in the designated treatment area twice daily for up to 28 days.

Primary Endpoint

The primary efficacy endpoint of the Trial was the proportion of patients with Investigator's Global Assessment (IGA) "treatment success" at the end of study which was after 28 days of treatment. The IGA score is a static evaluation by the investigator of the overall assessment of the patient's disease status within the designated treatment area. Successful achievement of the primary endpoint was defined as achieving an IGA score of 0 or 1 and a two-point move from their baseline assessment. The successful outcome was achieved in 17/89 (37.8%) of subjects in the active group compared to 3/89 (6.8%) of subjects in the Control group. This outcome was statistically significant. In addition, no unanticipated safety signals were noted in this Trial.

Next Steps

An End-of-Phase 2 meeting was held with the FDA on January 24, 2018 to further discuss the development of the product regarding its advancement to Phase 3 as well as requirements for future FDA approval to market the product. Based on the feedback provided by the FDA, the clinical study protocol is being prepared for

submission to the FDA along with additional relevant information to support initiation of Phase 3 clinical development.

Pipeline Products

Non-Prescription Skincare Products

The non-prescription skincare business requires that the product lines be rejuvenated from time-to-time with new product offerings. Crescita has established a multi-disciplinary R&D Product Committee that screens and identifies new products to be developed. These new products are selected based on a number of criteria primarily driven by reviewing sales and marketing trends, but also include regulatory, manufacturing and cost considerations. The products under development are usually kept confidential for competitive reasons.

Prescription Products

Crescita has a portfolio of development stage products and proprietary platform technologies, which include MMPE™ and DuraPeel™.

The following table summarizes the Company’s key prescription product candidates.

Product	Therapeutic Area	Stage of Development	Intellectual Property ²
Flexicaine	Local anesthesia prior to cosmetic dermatology procedures	Phase 3	Patents granted in AU, CA, CN, EP, AT, BE, CH, DE, ES, FR, GB, GR, IT, LU, NL, PL, TR, HK, JP, MX, RU and the U.S. with latest expiring in 2031. Applications pending in 3 countries including the U.S. Latest anticipated expiry date is 2031.
MiCal 1 ¹	Psoriasis	Phase 2	Patents allowed and granted in the U.S. expiring in 2027. Patent pending through 2036.
MiCal 2 ¹	Dermatological skin treatment	Pre-clinical	Patents allowed and granted in the U.S. expiring in 2027. Patent pending through 2036.
Dermatology products utilizing MMPE ³	Prescription treatments of skin diseases	Pre-clinical	Patent granted in the U.S. expiring in 2027. Patent pending through 2027.

1. MiCal 1 and 2 are products being developed under the Ferndale Collaboration.
2. Region and country abbreviations defined as follows: Australia (AU), Canada (CA), China (CN), Europe (EP), Austria (AT), Belgium (BE), Switzerland (CH), Germany (DE), Spain (ES), France (FR), Great Britain (GB), Greece (GR), Italy (IT), Luxembourg (LU), Netherlands (NL), Poland (PL) Turkey (TR), Hong Kong (HK), Japan (JP), Mexico (MX), Russian Federation (RU), United States (U.S.).
3. Crescita has licensed the MMPE technology to a U.S.-based, major dermatological CRO. The Licensee, in this case, will oversee and fund the total cost of the development program.

Technology

Crescita has multiple drug delivery platforms that support the development of patented formulations that can deliver actives into or through the skin. The most significant platforms include:

DuraPeel

The DuraPeel technology is a self-occluding, film-forming cream/gel formulation that provides extended release delivery to the site of application. The cream/gel contains a drug applied to a patient’s skin forming a pliable layer that releases drug into the skin for up to 12 hours. The benefits of the DuraPeel technology include proven compatibility with a variety of active pharmaceutical ingredients (“APIs”). A self-occluding film reduces product transference risk, provides fast drying time, facilitates easy application and removal, and enables application to large and irregular skin surfaces. Patents have been issued in Australia, Canada, Japan and the U.S. with the latest expiry in 2027. The European patent application is still pending.

MMPE

The MMPE technology uses synergistic combinations of pharmaceutical excipients included on the FDA's Inactive Ingredient Guide for improved topical delivery of actives into or through the skin. The benefits of this technology include the potential for increased penetration of APIs with the possibility of improved efficacy, lower API concentration and/or reduced dosing. Issued U.S. patents provide intellectual property protection through March 6, 2027. U.S. and Patent Cooperation Treaty ("PCT") applications are pending with the latest expiry date in 2036.

Corporate Vision and Growth Strategy

Following the Reorganization in 2016, the Company's management and Board of Directors made the decision to pursue a strategy transforming Crescita from a research and development ("R&D") focused company into a dermatology company with an emphasis on commercially advanced non-prescription skincare and prescription drug products. This strategy would allow Crescita to leverage its skin penetration technology, as well as an approved prescription topical product, and to mitigate risks by pursuing already approved products in the non-prescription skincare market.

Crescita's vision is to become a leader in innovative, science-based skincare, providing improved outcomes for all our clients' skincare concerns. Supported by our in-house expertise in skin sciences, including over 250 formulations and two topical delivery technologies developed by our in-house R&D team, Crescita's management believes that it is well positioned to carry out its commercial growth plan for 2018.

Crescita's growth strategy is comprised of and executed through four distinct pillars, which we refer to as our "four-pillar growth strategy":

Pillar 1: Organic Growth

The first pillar involves growing our existing non-prescription portfolio and capitalizing on our prescription product in Canada. On the non-prescription side of the business, the Company's aim is to: 1) increase market share and sales of our well-established brands such as Laboratoire Dr Renaud, Alyria and Pro-Derm, and 2) expand our product offering through innovation and line extensions, leveraging Crescita's superior quality science-based formulations and topical delivery technologies. On the prescription side of the business, the Company will be exploring alternatives for the preferred commercial distribution pathway for Pliaglis in Canada, concurrent with this product's U.S. market launch by Taro. Management is also actively seeking commercial distribution partnerships with Canadian retailers and/or wholesalers for the sale and distribution of its branded skin care products.

Pillar 2: Strategic Acquisitions and/or In-licensing Agreements

The second pillar involves the potential acquisition of dermatology and/or skincare companies offering product portfolios which are complementary to our own within the non-prescription and/or prescription markets. Management remains open to acquiring assets or businesses that will be immediately accretive and are strategic in the context of the Company's growth plan. The Company is also actively seeking out-licensing agreements with commercial partners in local and international markets for its well-established brands as well as its prescription product and prescription product candidates in its pipeline. Such transactions would allow the Company to leverage its current infrastructure and to build a large, successful North American skincare company serving both the non-prescription and prescription markets.

Pillar 3: International Markets and/or Out-licensing Agreements

The third growth pillar consists of plans to expand our international presence through further global business development initiatives which involve new market penetration of our medical skin-care product lines and prescription products as well as product candidates such as MiCal 1 and MiCal 2 through collaborative strategic commercial partnerships. Management also plans to grow internationally by offering our technologies and portfolio of more than 250 product formulations for private label skincare products.

Pillar 4: Contract Manufacturing Services

The fourth growth pillar aims to maximize the utilization of the Company's manufacturing facility in Laval, Québec, as it has yet to operate at full capacity. As mentioned, Crescita specializes in the custom manufacturing of creams, liquids, gels ointments and serums. Crescita's management is actively seeking customers to forge lasting partnerships and to become a third-party contract manufacturing organization ("CMO") of choice by offering its customers high quality, cost-effective CMO services from our 50,000-square foot facility. Crescita delivers innovative turnkey manufacturing of skin care products which integrate production with in-house R&D, supply chain management, regulatory and quality assurance /quality control functions.

Competitive Conditions

Non-prescription Skincare Products

The skincare industry is mature. Longstanding and established companies command a significant share of the market, rendering competition intense. The highly competitive nature of our industry revolves around our ability to meet or surpass evolving consumer preferences and industry trends. Our ability to excel in this highly competitive landscape is highly dependent on the timely introduction of an innovative and on-trend product portfolio, as well as to build and foster strong relationships with the professional aestheticians and healthcare professional who use and sell our products, as they will ultimately be the ambassadors of our brands.

Consumer awareness of our brands, their perception of our value proposition, the effectiveness and reach of our marketing and promotional activities, amongst other factors, all have a direct impact on the Company's ability to be successful. The Company's competitors in the skincare industry may have greater resources and experience in marketing, manufacturing and selling their products. The Company believes its competitive strengths include:

- Expertise in skin-sciences, providing the ability to combine its in-house topical delivery technologies with existing formulations to introduce innovation into the market;
- Over 250 superior-quality, science-based product formulations, providing the agility to adapt to changing customer preferences;
- In-house manufacturing and R&D facilities for formulation development.

Prescription Drug Products

The pharmaceutical industry is characterized by evolving technology and intense competition. 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. Competition from pharmaceutical, chemical and biotechnology companies, as well as universities and research institutes, is intense and is expected to increase. Many of these organizations have substantially greater R&D, experience in manufacturing, marketing, financial and managerial resources and they represent significant competition. The Company's branded products may also face competition from generic versions. The Company's success depends upon maintaining its competitive position in the R&D and commercialization of its products.

Pliaglis faces competition in all markets from other topically applied local anesthetic drug products such as compounded anesthetic creams that are available from certain compounding pharmacies.

Update on Certain Commercial Activities

ISDIN

While ISDIN is well established in Europe, Latin America and Asia, it has proven to be very challenging to gain market acceptance for this brand in Canada. Initial efforts to launch this product line through the retail channel have proven unsuccessful to date as substantial upfront investments would have been required to successfully launch an unknown brand into the highly competitive Canadian retail market.

The Company's evolved strategy is to gain market awareness for our ISDIN line of products through the spa channel and to consider a potential re-introduction of the product line in the retail space in the future.

Given the brand's historical under-performance, management has recorded an impairment charge on the intangible assets related to ISDIN in the amount of \$0.3 million. In addition, as at December 31, 2017, the Company recorded a write-down for short-dated inventory of \$0.3 million.

For the fiscal year just ended, ISDIN represented 1.3% of product sales.

Premiology

The Premiology line has also experienced significant challenges in attaining viable sales targets since its launch. Management estimates that there would be a significant investment involved in rejuvenating the brand and re-introducing it into the market with no guarantee of success given the very competitive nature of our industry. See *Competitive Conditions*.

Considering the above factors and given the brand's historical under-performance, management has recorded an impairment charge for the intangible assets related to Premiology of \$0.1 million. The Company expects to sell through limited inventory on hand as at December 31, 2017. For the fiscal year just ended, Premiology sales represented 1.2% of product sales.

Subsequent Event

On March 9th, 2018 the Company completed its Rights Offering ("The Offering"), upon which 7,001,603 Class A common shares were issued for gross proceeds of \$3.7 million. In completing the Offering, the Company incurred estimated issuance costs of approximately \$0.2 million. Total subscriptions, including those exercised pursuant to the additional subscription privilege, represented 139% of the common shares available under the Offering. A total of 4,558,521 common shares were issued pursuant to the basic subscription privilege of the Offering, while a total of 2,443,082 Common Shares were issued pursuant to the additional subscription privilege. Following completion of the Offering, Crescita has 21,004,809 Common Shares issued and outstanding.

In connection with the Offering, Crescita obtained an irrevocable waiver from Knight Therapeutics Inc. ("Knight") of certain provisions of the Amended and Restated Loan Agreement, allowing Crescita to benefit from 100% of the net proceeds of the Offering.

Bloom Burton Securities Inc. was paid a commission equal to 1.0% of the gross subscription proceeds received by Crescita from the exercise of rights, other than those rights exercised by insiders of Crescita or in connection with certain backstop commitments, being \$26, as soliciting dealer in connection with the Rights Offering.

Significant Transactions

Fiscal 2017

Agreement with Former INTEGA Shareholders

During the third quarter of 2017, the Company and all but one (0.3%) of the former shareholders of INTEGA entered into a mutual release agreement (the “Mutual Release Agreement”) pursuant to which the former INTEGA shareholders forfeited their rights to any further payments from Crescita under the INTEGA purchase agreement and Crescita waived any claims it may have had against the former INTEGA shareholders under the agreement. As a result, the consideration payable in the form of future issuances of shares and milestone payments was forfeited based on clauses within the original purchase and sale agreement. The Company adjusted the purchase price allocation, including goodwill for the settlement reached and adjusted goodwill for the forfeiture of future share consideration and milestone payments previously recognized. The Company also renegotiated the debt assumed on acquisition and secured additional financing through the issuance of convertible debt in tandem with the Mutual Release Agreement.

Completion of \$1.0M Convertible Debenture Financing

On August 28, 2017, the Company completed a \$1.0 million convertible debenture financing with Bloom Burton Funds. The convertible debenture bears interest at 9% payable in cash and is convertible into common shares at the option of the holder at an initial conversion price of \$1.00 per share. The convertible debenture matures on June 30, 2022, unless converted earlier in accordance with its terms. Commencing after the second anniversary of the issue date, the Company has the option to force conversion if the closing price of its common shares exceeds 150% of the conversion price on 20 trading days in any 30-day period. The Company also issued to the Bloom Burton Funds, an aggregate of 100,000 common share purchase warrants which are exercisable at a price of \$0.75 per share.

Amended Terms to Knight Loan

On August 14, 2017, the Company renegotiated the terms of the original loan with Knight Therapeutics Inc. (“Knight”) The Company assumed approximately \$6.8 million, of which \$6.6 million was principal outstanding, of an INTEGA loan from Knight. Under the terms of the amended loan agreement, Crescita repaid \$3.1 million of the loan (reducing the principal amount to \$3.6 million) and Knight agreed to release the letter of credit in exchange for a general security interest over all of Crescita’s assets. The amended loan continues to bear interest at 9% per annum and matures on January 22, 2022. The amended loan can be repaid by the Company at any time prior to December 31, 2018 without penalty. The Company may be required to prepay the outstanding balance through a cash sweep of 50% of any net cash proceeds received through milestone and royalty payments from Taro, debt or equity financing, or through the sale of assets prior to December 31, 2018. Thereafter, the Company has the right to prepay the outstanding principal of the amended loan and pay a prepayment fee equal to 5% of the principal amount prepaid. The amended loan does not contain any financial covenants. Under the amended loan, Crescita has agreed to make additional repayments such that the principal amount of the loan is reduced to \$2.5 million by December 31, 2018. In connection with the recently completed Rights Offering, 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.

Acquisition of Alyria® Skincare Products

On August 8, 2017, the Company announced that its wholly owned subsidiary, INTEGA, acquired the Alyria skincare line of products from Sanofi Consumer Health Inc. (“Sanofi”). Alyria is a high-quality, non-prescription, line of medical skincare products sold into medical spas. The product is highly complementary to INTEGA’s Pro-Derm product offering and will be sold through its existing sales force. The Company purchased Alyria for undiscounted cash consideration of \$1.7 million, consisting of a combination of fixed cash installments, of which \$0.7 million was paid in 2017, with the remainder to be paid over time ending in 2027. In addition, the Company must make royalty payments based on a threshold of annual net sales of Alyria over a nine-year period starting in 2020. The Company subsequently entered into an Amendment to the original agreement which extended some of the payment terms. In addition, INTEGA has an agreement with Sanofi with regards to inventory supply which has been provided to INTEGA on consignment under terms that confer a potential

benefit related to achieving certain sales targets and levels of inventory consumption. This has been recorded as a contingent consideration receivable of \$0.1 million as part of the Alyria purchase price allocation.

Pliaglis® and Flexicaine Out-licensing

On April 25, 2017, the Company entered into a development and commercialization license agreement (“the Agreement”) with Taro. Under the terms of the Agreement, Crescita granted Taro an exclusive license to sell and distribute Pliaglis as well as a second-generation enhanced version of Pliaglis – Flexicaine - in the U.S. market. Crescita retained all rights to Pliaglis in Canada and Mexico. In consideration of the rights granted under the Agreement, Taro made an upfront payment of US\$2.0 million (CAD \$2.7 million) to Crescita in the second quarter of 2017. Furthermore, in July 2017, the United States Patent and Trademark Office granted U.S. Patent No. 9,693,976, entitled “Solid-Forming Local Anesthetic Formulations for Pain Control” relating to the Flexicaine composition. Under the terms of the Agreement, the grant of the Flexicaine U.S. patent entitled Crescita to a US\$0.5 million (CAD \$0.6 million) milestone payment.

The Company could further receive up to US\$5.25 million in non-dilutive development and sales milestone payments, in addition to tiered royalties on net sales of products licensed under the Agreement.

In addition, Crescita and Taro entered into a fee-for-service development agreement, whereby, the Company is providing services related to the further development of Pliaglis and Flexicaine and receives fees based on services performed. These services include assisting Taro in performing the following tasks:

- 1) Conducting a study to support the removal of the “Not for Home Use” Pliaglis label restriction;
- 2) Filing the application of the label change with the FDA;
- 3) Transferring the manufacturing process and analytical test methods for Pliaglis to the Taro manufacturing facility in Brampton, Ontario;
- 4) Preparing and filing an FDA application for the approval of a second-generation enhanced version of Pliaglis with extended patent protection (Flexicaine).

Taro recently completed the study to support the removal of the Pliaglis label restriction and anticipates filing the FDA submission with the proposed label change in fiscal 2018. While there is a mandated four-month FDA review period for such applications, there can be no assurance that the FDA will complete its review within that timeframe.

MMPE™ Technology

On March 21, 2017, the Company signed an exclusive license agreement with a U.S.-based, major dermatological contract research company (“the Licensee”) to develop a specific prescription formulation for the treatments of skin diseases utilizing Crescita's patented Multiplexed Molecular Penetration Enhancer (“MMPE”) technology. The Licensee will oversee and fund the cost of all development activities until commercialization partner(s) for the products are secured. Crescita is entitled to a share of royalties and other consideration received by the Licensee from such partners based on a formula that includes compensation to Crescita for granting the Licensee the exclusive license to the MMPE technology.

Fiscal 2016

Acquisition of INTEGA Skin Sciences Inc.

On September 1, 2016, the Company acquired 100% of the equity of INTEGA Skin Sciences Inc. (“INTEGA”), a private company located in Laval, Québec that develops, manufactures, sells and markets science-based quality non-prescription skincare products. The Company paid for a portion of the purchase through the issuance of 2,402,314 Crescita common shares at a price of \$1.66 per share (representing approximately 17.3% of Crescita's outstanding common shares post-issuance).

Corporate Reorganization

On March 1, 2016, Nuvo Research Inc. (Nuvo) completed a transaction (the Reorganization) pursuant to which Nuvo was reorganized into two separate publicly traded companies, Nuvo and Crescita. The Reorganization proceeded by way of arrangement under the *Canada Business Corporations Act* (the Arrangement). As part of the Reorganization, Nuvo Research Inc. changed its name to “Nuvo Pharmaceuticals Inc.” Detailed information regarding the Reorganization and its effects, including a description of certain risks and uncertainties in respect of the Reorganization and the operations of Nuvo and Crescita as separate publicly traded companies, are included in the Management Information Circular of Nuvo dated December 31, 2015 (Nuvo Reorganization Circular) available under Nuvo’s profile at www.sedar.com.

Discontinued Operations

On July 2016, the Company sold its German manufacturing operation that produced the active ingredient in WF10™ and Oxoferin™ and the intellectual property related to WF10 for nominal proceeds, after which the Company ceased to earn product revenue from the Immunology Group. During the second half of 2016, the Company commenced the wind-down of the Immunology Group operations and expects this process to be completed during fiscal 2018. The operating results have been restated to reflect the Immunology Group as a discontinued operation.

Update on Liquidity

As at December 31, 2017, Crescita had an accumulated deficit of \$44.5 million, including the net loss generated in the current fiscal year of \$11.5 million as well as negative cash flow from operations of \$7.4 million. As at December 31, 2017, the Company had cash and cash equivalents of \$7.0 million on its balance sheet. During the third quarter, \$8.6 million of Crescita’s short-term investments were transferred from restricted to unrestricted cash accounts as part of the Knight loan renegotiation. These investments were previously held as collateral for the Company’s Letter of Credit under the terms of the loan agreement with Knight in effect at that time. On March 9, 2018, the Company completed its Rights Offering and received gross proceeds of \$3.7 million.

Management has applied significant judgement in preparing forecasts supporting the going concern assessment and has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern for at least the next twelve months. Management has considered many factors including its current cash balance, the proceeds from its equity financing arrangements and the projected revenues it expects to generate from product sales, upfront and milestone payments related to out-licensing its products, in addition to royalty payments on the global net sales of Pliaglis®. Management has also estimated anticipated cash outflows such as operating and capital expenditures and debt repayment requirements, including the ability to delay uncommitted expenditures, and assessed that it will have sufficient cash flows to fund Crescita’s operations as currently planned for fiscal 2018. These cash flow estimates are subject to uncertainties as to the achievement of certain key factors considered in the cash flow analysis.

Reporting Segments

The Company had historically reported two operating segments: the Topical Products and Technology (“TPT”) Group and the Immunology Group. As a result of discontinuing the operations of the Immunology Group, the Company is now reporting the entire business as one segment.

Fluctuations in Operating Results

Crescita's results of operations have fluctuated significantly from period-to-period in the past and are likely to do so in the future. Crescita anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including the timing and amount of product sales, royalties and other payments received pursuant to current and future operations and collaborations and licensing arrangements and the progress and timing of expenditures related to integration and R&D efforts. Due to these fluctuations, Crescita believes that the period-to-period comparisons of its operating results are not necessarily a good indicator of future performance.

Restatement of 2016 Results

The Company restated its December 31, 2016 results to correct for deferred taxes recorded in accordance with the INTEGA acquisition as well as for future share consideration and milestone payments in conjunction with the Mutual Release Agreement.

Foreign Exchange Rates

Crescita operates globally and as such is exposed to changes in foreign currency rates. Accordingly, as prescribed by IFRS, we value assets, liabilities and transactions measured in foreign currencies using various exchange rates. We report all dollar amounts in Canadian dollars. Please refer to *Financial Instruments - Currency Risk* for a further discussion on the impact of foreign currency fluctuations on our results of operations.

	For the three months ended Dec. 30,			For the twelve months ended Dec. 30,		
	2017	2016	Change	2017	2016	Change
U.S. dollar	1.2715	1.3340	-4.7%	1.2980	1.3256	-2.1%
Euro	1.4976	1.4380	4.1%	1.4646	1.4663	-0.1%

As at December 31,	2017	2016	Change
U.S. dollar	1.2545	1.3427	-6.6%
Euro	1.5052	1.4169	6.2%

Non-IFRS Financial Measures

The Company reports its financial results in accordance with IFRS. However, we use certain non-IFRS financial measures to assess our Company's performance. We believe these to be useful to management, investors and other financial stakeholders in assessing Crescita's performance from both a financial and operational standpoint. The non-IFRS measures used in this MD&A do not have any standardized meaning prescribed by IFRS and are therefore not comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS.

Adjusted EBITDA is a non-IFRS measure. This term is defined as earnings (loss) from continuing operations before interest, income taxes (recovery), depreciation and amortization, gain on debt renegotiations, net, equity-settled stock-based compensation ("SBC"), goodwill and intangible assets impairment, accretion on the fair value of inventory, and foreign currency (gains) and losses. Management believes that Adjusted EBITDA

is an important measure of operating performance and cash flow and provides useful information to investors as it highlights trends in the underlying business that may not otherwise be apparent when relying solely on IFRS measures. A reconciliation of the adjusted EBITDA to its closest IFRS measure can be found under the *Adjusted EBITDA* section of the present document.

The Company previously used “Loss from Operations” (defined as revenue less total expenses) as its principal non-IFRS measure. Given the evolving nature of the Company’s operations and capital structure, several non-recurring charges and gains have been incurred over the last year. After reasonable review and analysis, management has concluded that Adjusted EBITDA is a more reflective measure of Crescita’s underlying operational performance.

Selected Financial Information

For the years ended December 31,	2017	2016 Restated	Change \$
Total revenue	12,014	3,504	8,510
Total operating expenses	18,585	18,207	378
Adjusted EBITDA ¹	(4,406)	(13,368)	8,962
Total other expenses	4,687	230	4,457
Loss from continuing operations before income taxes	(11,258)	(14,933)	3,675
Income tax recovery	-	(295)	295
Net loss from continuing operations	(11,258)	(14,638)	3,380
Net loss from discontinued operations	(205)	(2,246)	2,041
Net loss	(11,463)	(16,884)	5,421
Net loss per common share from continuing operations			
Basic and Diluted	(0.81)	(1.19)	0.38
Net loss per common share			
Basic and Diluted	(0.82)	(1.38)	0.56
Weighted average number of common shares outstanding			
Basic and Diluted	13,960	12,251	1,709

¹ Adjusted EBITDA is a non-IFRS measure. This term is defined as earnings (loss) from continuing operations before interest, income taxes (recovery), depreciation and amortization, gain on debt renegotiations, net, equity-settled stock-based compensation (“SBC”), goodwill and intangible assets impairment, accretion on the fair value of inventory, and foreign currency (gains) and losses. Please refer to the *Non-IFRS Financial Measures and Adjusted EBITDA Reconciliation* sections of this MD&A.

In thousands of CAD dollars	December 31, 2017	December 31, 2016 Restated
Cash and cash equivalents	6,997	9,807
Restricted short term investments	-	8,551
Total assets	22,565	40,240
Total non-current financial liabilities ¹	3,597	8,413
Total liabilities	9,458	16,147
Total equity	13,107	24,093

¹ Non-current financial liabilities are defined as the sum of the long-term portions of long-term debt, convertible debentures and other obligations.

Results of Operations

Revenue

For the years ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Product sales	8,134	3,012	5,122
Out-licensing revenue	3,582	132	3,450
Services revenue	298	360	(62)
Total revenue	12,014	3,504	8,510

For the year ended December 31, 2017, revenue was \$12.0 million, up \$8.5 million from the \$3.5 million reported in the prior year. The year-over-year increase was mainly a result of the full year's impact of product sales from the INTEGA Acquisition as well as revenue received from Taro in connection with our Pliaglis out-licensing agreement with them. The prior year figures only include product sales for the four months between the date of the INTEGA Acquisition - September 1st, 2016 – and year end. Similarly, on August 8, 2017, Crescita completed the acquisition of the Alyria product line from Sanofi. The fiscal 2017 results presented include revenue from Alyria only from the date of acquisition onward.

Product Sales

Product sales for the years ended December 31, 2017 and 2016 consist of our portfolio of non-prescription skincare branded products under our five brands: Laboratoire Dr Renaud, Pro-Derm, Premiology, ISDIN and Alyria, as well as CMO sales. We recognize revenue from the sale of products when the goods are shipped or received by the customers depending on the specific arrangement.

Product sales for the year ended December 31, 2017 were \$8.1 million compared to \$3.0 million in the prior year, representing an increase of \$5.1 million. As described above, this year-over-year increase was mainly driven by a full year's impact of product sales in fiscal 2017 versus only four months in the prior year due to the timing of the INTEGA Acquisition. Beginning August 8, 2017, the Company started recognizing a nominal amount of sales from Alyria, given the timing of the acquisition, but expects revenue to ramp up going forward.

Out-licensing Revenue

Out-licensing revenue includes upfront and milestones payments as well as royalties received from the Company's licensees. All royalty revenue to date relates to the global net sales of Pliaglis by Galderma and is determined using agreed upon formulas based on the definition of the licensee's net sales as described in the licensing agreement. Crescita recognizes royalty revenue based on the net sales of the licensee. The Company earns a fixed single-digit royalty on Galderma's net sales.

For the year ended December 31, 2017, out-licensing revenue was \$3.6 million compared to \$0.1 million in the prior fiscal year, representing an increase of \$3.5 million. The year-over-year increase was primarily driven by the upfront payment of US\$2.0 million (CAD \$2.7 million) received from Taro in the second quarter, pursuant to the Development and Commercialization License Agreement with Taro, as well as the receipt in the third quarter of a US\$0.5 million (CAD \$0.6 million) milestone payment following the issuance of a Patent by the United States Patent and Trademark Office in relation to the Flexicaine composition. Under the agreement, Taro has the exclusive rights to sell and distribute Pliaglis and Flexicaine in the U.S. Taro plans to launch the marketing and sales efforts for Pliaglis in the U.S. in the first half of fiscal 2018 and is now responsible for all matters related to Pliaglis in the U.S.

Services Revenue

Effective March 1, 2016, immediately following the Reorganization, Crescita and Nuvo entered into a reciprocal transitional services agreement ("TSA") with an initial term of 18 months. Under the terms of the agreement, Crescita was to provide Nuvo corporate-level employee services, R&D support, as well as facility and

equipment rental. The initial agreement was extended twice during the year, the latest of which occurred during the fourth quarter, with a term ending June 30, 2018. This agreement and the amendments thereto are primarily for specific legal counsel as well as general corporate-level services.

For the year ended December 31, 2017, Crescita earned \$0.2 million, for services provided to Nuvo under the terms of the transitional services agreement, compared to \$0.4 million in the prior year.

For the year ended December 31, 2017, the Company also recorded \$0.1 million for development services provided to Taro in accordance with the fee-for-service development agreement, whereby, the Company provides services related to the further development of Pliaglis and Flexicaine.

Operating Expenses

For the years ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Cost of goods sold	4,846	2,335	2,511
Research and development	1,112	2,015	(903)
Selling, general and administrative	12,245	13,858	(1,613)
Interest expense	446	123	323
Interest income	(64)	(124)	60
Total operating expenses	18,585	18,207	378

Total operating expenses for the year ended December 31, 2017 were \$18.6 million, compared to \$18.2 million in the prior year ended December 31, 2016. While overall operating expenses showed a modest increase of \$0.4 million or 2.1%, the level of SG&A and R&D expenses decreased by \$1.6 million and \$0.9 million, respectively, but were offset by the full year's cost of goods sold ("COGS") impact from INTEGA's commercial operations.

Cost of Goods Sold

COGS primarily include: the costs associated with manufacturing and packaging our products, depreciation of manufacturing facilities and equipment, provisions for inventory obsolescence, as well as the cost of products we purchase from third parties.

For the year just ended, COGS related to product sales were \$4.8 million, compared to \$2.3 million in fiscal 2016. The year-over-year increase in COGS of \$2.5 million was mainly a result of the full year's impact of INTEGA's commercial operations. Both the 2017 and 2016 figures included fair value adjustments resulting from the INTEGA acquisition, for \$0.4 million and \$0.7 million, respectively, which increased costs for these periods. Fiscal 2017 also included the following non-recurring inventory adjustments: 1) a \$0.3 million write-down for short-dated inventory in the ISDIN product line, and 2) other inventory adjustments in the amount of \$0.3 million.

Gross margin on product sales was \$3.3 million or 40% in the current fiscal year, compared to \$0.7 million or 22% for the fiscal year ended December 31, 2016. Excluding the fair value adjustment and other non-recurring inventory adjustments, as defined above in both years, the gross margin would have been \$4.3 million or 52% in 2017 and \$1.4 million or 47% in 2016. The improvement in gross margin year-over-year was mainly due to our product mix, as well as operational efficiencies gained through manufacturing and supply chain management. Management remains committed to improving margins over time

Research and Development

R&D expenses are mainly composed of: employee compensation costs, depreciation of R&D equipment, clinical trial costs, clinical manufacturing and scale-up costs and other third-party laboratory testing costs.

R&D expenditures vary depending on the stage of development of products and product candidates in Crescita's pipeline and management's allocation of Crescita's internal resources to these activities and to each product specifically. The significant proportion of clinical development costs relate to our prescription products and are covered by our development and/or commercial partners: Ferndale Laboratories in the case of MiCal 1 and MiCal 2 and Taro in the case of Flexicaine. Costs borne by Crescita are limited to pre-clinical testing costs as well as costs related to the formulations and developments of test batches.

For the year ended December 31, 2017, R&D expenses amounted to \$1.1 million, a decrease of \$0.9 million when compared to the \$2.0 million incurred for the year ended December 31, 2016. During fiscal 2017, Crescita's R&D function was transferred to our Laval facility, which contributed to certain cost savings which are expected to be further realized during fiscal 2018. R&D spend for fiscal 2017 was mainly driven by R&D activities related to the advancement of the MiCal product candidate formulations under the Ferndale Collaboration as well as for the rejuvenation of the Company's non-prescription skincare lines. Such product portfolio rejuvenation and innovation activities are ongoing and are a key success factor for Crescita, allowing the Company to remain competitive in its offering. The spend in the prior year was mainly composed of clinical and non-clinical costs related to the pain development program for Flexicaine.

Selling, General and Administrative

For the year ended December 31, 2017, SG&A expense was \$12.2 million, representing a \$1.6 million decrease when compared to the \$13.9 million reported a year ago. The year-over-year improvement in SG&A was mainly a result of non-recurring transaction and acquisition-related costs incurred in the prior year. In fiscal 2016, significant professional, consulting and legal fees were incurred in relation to the acquisition of INTEGA as well as transaction fees and severances related to the sale of the Immunology Group's manufacturing operations. This year-over-year reduction in costs was partly offset by the full year's impact of INTEGA's operating expenses.

During fiscal 2017, the Company relocated its corporate head office as well as its core SG&A functions to its Laval, Québec facility, in its ongoing efforts to rationalize its cost structure and synergize its operations. Management anticipates an overall reduction in SG&A costs going forward, mainly a result of its cost containment initiatives as well as the savings from the consolidation of its corporate functions to its Laval office.

Interest

Interest expense was \$0.4 million for the year ended December 31, 2017, up \$0.3 million when compared to the \$0.1 million reported a year ago. These amounts primarily related to the Knight Loan, net of amortization of the fair value adjustments. For the year ended December 31, 2016, interest expense included non-cash accretion charges on the five-year consulting agreement as part of the consideration paid for the 2011 acquisition of the non-controlling interest in Nuvo Research AG.

Other (Income) Expenses

For the years ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Foreign currency loss	96	230	(134)
Gain on debt renegotiations, net	(1,079)	-	(1,079)
Goodwill and intangible asset impairment	5,670	-	5,670
Total other expenses	4,687	230	4,457

Foreign Currency Loss

For the year ended December 31, 2017, the Company incurred a net foreign currency loss of \$0.1 million, compared to a loss of \$0.2 million for the year ended December 31, 2016, primarily driven primarily by the timing of payments and settlements of foreign currency denominated balances. The prior year included a loss of \$0.4 million the Company realized on U.S. dollar cash balances that were transferred from Nuvo to Crescita as part of the Reorganization, partly offset by foreign currency gains on cash balances.

Gain on Debt Renegotiations, net

During the third quarter, the Company renegotiated the terms of the original Knight loan. As the terms of the amended loan were substantially different from the original loan, the renegotiation created a debt extinguishment for accounting purposes and the original loan was derecognized with the amended loan being recognized at fair value. The difference in the fair value of the amended loan and the carrying value of the original loan resulted in the reported gain of \$1.1 million, net of transaction costs.

Goodwill and Intangible Assets Impairment

For the year ended December 31, 2017, the Company recorded a goodwill impairment charge of \$5.2 million to fully impair the carrying value of goodwill recorded on the INTEGA acquisition. The goodwill impairment was primarily driven by changes to the Company's forecasted performance which resulted in a lower fair value for the INTEGA business. In addition, as a result of its decision to discontinue any future investments in ISDIN and Premiology, the Company wrote-off intangible assets in the amount of \$0.5 million related to these non-performing product lines.

Net Loss

For the years ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Loss from continuing operations before income taxes	(11,258)	(14,933)	3,675
Income tax recovery	-	(295)	(295)
Net loss from continuing operations	(11,258)	(14,638)	3,380
Net loss from discontinued operations	(205)	(2,246)	2,041
Net loss	(11,463)	(16,884)	5,421

Loss from Continuing Operations before Income Taxes

Loss from continuing operations before income taxes for the year ended December 31, 2017 was \$11.3 million, compared to \$14.9 million in the comparative fiscal year. The year-over-year improvement of \$3.7 million was primarily driven by the positive impact of the aggregate of the up-front payment and milestone revenue received from Taro in the second and third quarters, the incremental gross margin on INTEGA's operations reflecting a full year of commercial operations in the current year, the reduction in SG&A and R&D costs, and to a lesser extent, the non-recurring non-cash gain on the renegotiation of the Knight loan. In the fourth quarter, following

its annual impairment assessment, the Company recognized a goodwill and intangible asset impairment related to the INTEGA Acquisition of \$5.7 million. Without the goodwill and intangible asset impairment of \$5.7 million, the loss from continuing operations before income taxes would have been \$5.6 million, representing a year-over-year improvement of \$9.3 million.

Income Tax Recovery

The Company recognized an income tax recovery in the amount of \$0.3 million in the prior year primarily related to the recognition of INTEGA's non-capital loss carry-forwards as a result of the deferred tax liability being recorded as part of the INTEGA Acquisition.

Net Loss from Discontinued Operations

Net loss from discontinued operations was \$0.2 million for the year ended December 31, 2017 compared to a net loss of \$2.2 million in the prior year. The Company incurred additional costs, mainly legal and accounting fees, in the current year to complete the requisite regulatory filings required as part of the wind-down process for the Immunology Group. The year-over-year improvement in net loss from discontinued operations resulted from the cancellation of the Immunology Group's R&D programs, as part of the orderly wind-down which commenced during the second half of 2016. In the comparative periods, net loss was attributable to the development of WF10 and the 2015 WF10 trial.

Net Loss

Net loss was \$11.5 million for the year ended December 31, 2017, an improvement of \$5.4 million when compared to the net loss of \$16.9 million reported for the year ended December 31, 2016. The year-over-year improvements in net loss were a result of the same factors as discussed above under the *Loss from Continuing Operations and Loss from discontinued Operations*.

Net Loss per Common Share

For the years ended December 31, <i>In CAD dollars except number of shares</i>	2017	2016 Restated	Change \$
Net loss per common share from continuing operations - basic and diluted	(0.81)	(1.19)	\$0.38
Net loss per common share - basic and diluted	(0.82)	(1.38)	0.56
Weight average number of common shares outstanding - basic and diluted	13,960	12,251	1,709

Net loss per share from continuing operations was \$0.81 for year ended December 31, 2017 an improvement of \$0.38 when compared to a net loss per share of \$1.19 in the prior year.

Net loss per share was \$0.82 for year ended December 31, 2017 an improvement of \$0.56 when compared to a net loss per share of \$1.38 in the prior year.

On March 1, 2016, as part of the Reorganization, the Company issued 11.5 million common shares and a further 2.4 million common shares in connection with the INTEGA Acquisition. The weighted average number of shares outstanding on a basic and diluted basis was 14.0 million for the year just ended compared to 12.3 million for the year ended December 31, 2016.

Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net loss from continuing operations, as reported in accordance with IFRS, and Adjusted EBITDA, a non-IFRS measure for the fiscal years ended December 31, 2017 and 2016.

For the years ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Net loss from continuing operations	(11,258)	(14,638)	3,380
Add:			
Depreciation and amortization	1,161	418	743
Interest expense	446	123	323
Goodwill and intangible asset impairment	5,670	-	5,670
Equity-settled stock-based compensation	251	177	74
Accretion on fair value of inventory	371	741	(370)
Foreign currency loss	96	230	(134)
Less:			
Gain on debt renegotiations, net	1,079	-	1,079
Interest income	64	124	(60)
Income tax recovery	-	295	(295)
Adjusted EBITDA	(4,406)	(13,368)	8,962

Adjusted EBITDA for the year ended December 31, 2017 was a loss of \$4.4 million, compared to a loss of \$13.4 million for the year ended December 31, 2016. The year-over-year improvement in the loss position of \$9.0 million was mainly driven by the same factors as identified under the *Loss from Continuing Operations* section.

Liquidity and Capital Resources

For the years ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Net loss from continuing operations	(11,258)	(14,638)	3,380
Net loss from discontinued operations	(205)	(2,246)	2,041
Items not involving cash flows	6,471	1,698	4,773
Cash used in operations	(4,992)	(15,186)	10,194
Net change in non-cash working capital	(2,410)	(3,391)	981
Cash used in operating activities	(7,402)	(18,577)	11,175
Cash provided by (used in) investing activities	7,744	(11,418)	19,162
Cash (used in) provided by financing activities	(3,159)	39,582	(42,741)
Effect of foreign exchange rates on cash and cash equivalents	7	(258)	265
Net change in cash and cash equivalents during the period	(2,810)	9,329	(12,139)
Cash and cash equivalents, beginning of the year	9,807	478	9,329
Cash and cash equivalents, end of the year	6,997	9,807	(2,810)

Cash and Cash Equivalents

Cash and cash equivalents were \$7.0 million as at December 31, 2017 compared to \$9.8 million at December 31, 2016. In the prior year, the Company had \$8.6 million of restricted short-term investments held as collateral for the Company's letter of credit. Including these restricted amounts, the Company's total cash balance would have been \$18.4 million on a comparable basis in the prior year. The restriction on these funds was lifted as part of the Knight Loan amendment. Our cash utilization was \$11.4 million during the fiscal year, of which \$7.4 million was used for operating activities and \$3.2 million was used for financing activities, mainly to pay down our debt, as explained below.

Operating Activities

For the year ended December 31, 2017, cash used in operating activities was \$7.4 million compared to \$18.6 million for the year ended December 31, 2016. The year-over-year improvement in cash used in operating activities of \$11.2 million was mainly a result of the improvement in Adjusted EBITDA of \$9.0 million. The Company's Adjusted EBITDA improved mainly due to: 1) the positive impact of the aggregate of the up-front payment and milestone revenue received from Taro in the second and third quarters; 2) the incremental gross margin on INTEGA's operations reflecting a full year of commercial activities; and 3) the reduction in SG&A and R&D costs. In addition, there was an improvement of \$2.0 million in the loss generated from discontinued operations year-over-year. Management believes that Adjusted EBITDA is an important measure of its capacity to generate cash flow from operations as it already excludes the effect of non-recurring non-cash items that do not reflect the Company's day-to-day operations.

For the current fiscal year, the investment in working capital was \$2.4 million and was primarily related to a decrease in accounts payables resulting from the settlement of certain liabilities incurred in connection to the INTEGA acquisition, an increase in inventory to meet planned demand, partly offset by a decrease in other current assets due to the collection of sales taxes receivable related to prior periods and the recovery of deposits made for the rental of the Company's previous office facility in Ontario. During the twelve months ended December 31, 2016, the \$3.4 million investment in working capital related primarily to an increase in supplier payments associated with the INTEGA Acquisition and an increase in other current assets related to sales tax receivable and prepayments for manufacturing materials.

Investing Activities

Cash provided by investing activities was \$7.7 million for the year ended December 31, 2017, compared to \$11.4 million used in investing activities in the prior year, representing an improvement of \$19.2 million. The current year reflects the redemption of \$8.6 million in short-term investments previously restricted and held as collateral for the Knight loan. This restriction was lifted in the third quarter and gave the Company access to the funds. This was partly offset by amounts paid in connection to the Alyria acquisition of \$0.7 million. The prior year reflected the Company's investment of the restricted funds of \$8.6 million, mentioned above, as well as the cash paid in connection with the INTEGA Acquisition in the amount of \$2.7 million. In both fiscal years, the Company made investments of \$0.1 million in property, plant and equipment as required to maintain and operate our production facility and to upgrade computer equipment.

Financing Activities

Net cash used in financing activities totaled \$3.2 million for the year ended December 31, 2017 compared to net cash provided by financing activities of \$39.6 million in the year ago period. Financing activities in the current fiscal year related primarily to the principal repayments of \$3.2 million against the Knight loan as well as to payments of \$1.0 million under other obligations related to a previous acquisition by INTEGA. These were partly offset by the proceeds from the convertible debenture financing completed with Bloom Burton Funds in the amount of \$1.0 million in the third quarter of 2017.

For the year ended December 31, 2016, Crescita received \$35.0 million from Nuvo to fund its operations in accordance with the terms of the Arrangement and funding provided by Nuvo (prior to the Reorganization) was partially offset by payments made towards the five-year consulting agreement recognized as part of the purchase of the non-controlling interest in 2011.

Selected Quarterly Financial Information

As at and for the three months ended,	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016 Restated	Sep. 30, 2016 Restated	Jun. 30, 2016	Mar. 30, 2016
<i>In thousands of CAD dollars unless otherwise noted</i>								
Growth								
Revenue	2,356	2,720	4,858	2,080	2,248	1,063	98	95
Profitability								
Total operating expenses	4,870	4,227	4,317	5,171	7,191	3,948	2,395	4,673
Adjusted EBITDA ¹	(1,999)	(969)	875	(2,313)	(4,031)	(2,465)	(2,303)	(4,551)
Net (loss) income from continuing operations	(8,209)	(457)	538	(3,130)	(4,638)	(2,707)	(2,340)	(4,953)
Net (loss) income	(8,257)	(513)	500	(3,193)	(4,697)	(3,050)	(3,079)	(6,058)
Share Information								
Net (loss) income per common share from continuing operations								
basic and diluted (<i>in dollars</i>)	(0.59)	(0.03)	0.04	(0.23)	(0.33)	(0.19)	(0.20)	(0.44)
Net (loss) income per common share								
basic and diluted (<i>in dollars</i>)	(0.59)	(0.04)	0.04	(0.23)	(0.34)	(0.22)	(0.27)	(0.54)
Weighted average number of common shares outstanding for the period								
basic and diluted	14,003	14,003	13,935	13,935	13,935	13,903	11,487	11,294
Financial Position								
Cash and cash equivalents and short-term investments ²	6,997	8,755	12,663	13,772	18,358	23,582	29,970	32,594
Total assets	22,565	31,219	35,555	37,000	40,240	50,199	30,899	34,140
Total non-current financial liabilities ³	3,597	4,862	6,843	7,144	8,413	8,846	-	-

¹ Adjusted EBITDA is a non-IFRS measure. This term is defined as earnings (loss) from continuing operations before interest, income taxes (recovery), depreciation and amortization, gain on debt renegotiations, net, equity-settled stock-based compensation (SBC), goodwill and intangible assets impairment, accretion on the fair value of inventory, and foreign currency (gains) and losses.

² During the third quarter of 2017, previously restricted short-term investments were transferred to unrestricted cash accounts as part of the Knight loan renegotiation.

³ Non-current financial liabilities are defined as the sum of the long-term portions of long-term debt, convertible debentures and other obligations.

Key Developments and Financial Highlights of the Fourth Quarter

During the quarter and prior to the release of our fourth quarter and fiscal year end results:

- Successfully completed the Rights Offering on March 9th, 2018, raising approximately \$3.7 million in additional equity funding to support our growth;
- Reported revenue for the quarter of \$2.3 million, essentially flat versus \$2.2 million in the fourth quarter of 2016;
- Reduced total operating expenses by \$2.3 million versus the same quarter of last year;
- Improved Adjusted EBITDA loss by \$2.0 million versus the same quarter of the prior year;
- Ended the quarter with \$7.0 million of cash;
- Recorded a goodwill and intangible asset impairment of \$5.7 million related to the INTEGA acquisition;
- Reported quarterly net loss per share from continuing operations of \$(0.59), compared to \$(0.33) in the comparative quarter of last year.

Fourth Quarter Results

<i>For the three months ended December 31,</i>	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Product Sales	2,168	2,088	80
Royalties	116	60	56
Services revenue	72	100	(28)
Total revenue	2,356	2,248	108
Cost of goods sold	1,765	1,768	(3)
Research and development	170	510	(340)
Selling, general and administrative	2,777	4,889	(2,112)
Interest expense	174	53	121
Interest income	(16)	(29)	13
Total operating expenses	4,870	7,191	(2,321)
Goodwill and intangible assets impairment	5,670	-	5,670
Foreign currency loss (gain)	25	(73)	98
Loss from continuing operations before income taxes	(8,209)	(4,870)	(3,339)
Income tax recovery	-	(232)	(232)
Net loss from continuing operations	(8,209)	(4,638)	(3,571)
Net loss from discontinued operations	(48)	(59)	11
Net loss	(8,257)	(4,697)	(3,560)
Net loss per common share from continuing operations			
Basic and Diluted	(0.59)	(0.33)	(0.25)
Net loss per common share			
Basic and Diluted	(0.59)	(0.34)	(0.25)
Weighted average number of common shares outstanding			
Basic and Diluted	14,003	13,935	68

Operating Results

Revenue

Total revenue for the three months ended December 31, 2017 was \$2.4 million compared to \$2.2 million for the three months ended December 31, 2016, remaining essentially flat year-over-year.

Operating Expenses

Total operating expenses for the three months ended December 31, 2017 were \$4.9 million compared to \$7.2 million for the three months ended December 31, 2016, representing a decrease of \$2.3 million. This decrease was mainly due to cost reductions in R&D and SG&A in the amounts of \$0.3 million and \$2.1 million, respectively. The prior year's SG&A level was higher than historical operating levels as a result of non-recurring transaction and acquisition-related costs incurred, mainly for significant professional, consulting and legal fees in relation to the acquisition of INTEGA.

Goodwill and Intangible Asset Impairment

For the quarter ended December 31, 2017, the Company recorded a goodwill impairment charge of \$5.2 million to fully impair the carrying value of goodwill recorded on the INTEGA acquisition. The goodwill impairment was primarily driven by changes to the Company's forecasted performance which resulted in a lower fair value for the INTEGA business. In addition, as a result of its decision to discontinue any future investments in ISDIN and Premiology, the Company wrote-off intangible assets in the amount of \$0.5 million related to these non-performing product lines.

Cost of Goods Sold

COGS for the three months ended December 31, 2017 was \$1.8 million, essentially unchanged from the comparable quarter of fiscal 2016. Gross margin and gross margin percentage for each of the fourth quarter 2017 and 2016 were \$0.4 million or 19% of product sales and \$0.3 million or 15% of product sales, respectively. Both periods included non-recurring charges - the current year's quarter included: 1) a \$0.3 million write-down for short-dated inventory in the ISDIN product line, and 2) other inventory adjustments for \$0.3 million, while the fourth quarter of 2016 included a fair value adjustment to inventory related to the INTEGA Acquisition for \$0.6 million. Excluding these non-recurring inventory adjustments, the gross margin for the current year's quarter would have been \$1.0 million or 47% of product sales, while the comparative year's quarter would have been \$0.9 million or 42% of product sales. The increase in gross margin year-over-year was mainly due to our product mix, as well as operational efficiencies gained through manufacturing and supply chain management. Management is committed to improving margins over time.

Research and Development

R&D expenses were to \$0.2 million for the quarter ended December 31, 2017 compared to \$0.5 million for the three months ended December 31, 2016. The year-over-year decrease of \$0.3 million was mainly driven by the reduction in MiCal development research versus the prior year's quarter and the realization of some cost benefits from the consolidation of the R&D function to our Laval office.

Selling, General and Administrative

SG&A expenses for the three months ended December 31, 2017 were \$2.8 million compared to \$4.9 million for the comparable period in 2016. The year-over-year improvement in SG&A of \$2.1 million was mainly a result of non-recurring transaction and acquisition-related costs dropping-off versus the prior year's quarter. These included professional fees related to audit and legal services in connection with the INTEGA Acquisition. In addition, in the prior year, following the acquisition of INTEGA, the Company restructured its operations to drive synergies and recorded severance costs of \$0.6 million. This compares to \$0.3 million of severance costs in the fourth quarter of 2017 as part of the Company's ongoing cost containment initiatives.

Interest

Interest expense was \$0.2 million for the current fiscal year's quarter related and related mainly to the Knight Loan net of amortization of the loan premium compared to \$53 in the comparative quarter in 2016.

Interest income was \$16 for the three months ended December 31, 2017, compared to \$29 for the three months ended December 31, 2016 and was composed of interest earned on cash balances.

Other expense (income)

Other expense of \$25 for the three months ended December 31, 2017 related to foreign exchange losses, compared to a gain of \$73 in the fourth quarter of 2016.

Net loss

Net loss for the three months ended December 31, 2017 was \$8.3 million, including the impairment of goodwill and intangible assets of \$5.7 million, compared to \$4.7 million for the three months ended December 31, 2016. Without this non-recurring impairment, net loss would have been \$2.6 million, representing an improvement of \$2.1 million over the fourth quarter of 2016.

Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net loss from continuing operations, as reported in accordance with IFRS, and Adjusted EBITDA, a non-IFRS measure for the fourth quarter of 2017 and 2016.

For the three months ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Net loss from continuing operations	(8,209)	(4,638)	(3,571)
Add:			
Depreciation and amortization	308	268	40
Interest expense	174	53	121
Goodwill and intangible asset impairment	5,670	-	5,670
Equity-settled stock-based compensation	49	62	(13)
Accretion on fair value of inventory	-	558	(558)
Foreign currency loss	25	-	25
Less:			
Interest income	16	29	(13)
Foreign currency gain	-	73	(73)
Income tax recovery	-	232	(232)
Adjusted EBITDA	(1,999)	(4,031)	2,032

Adjusted EBITDA for the quarter ended December 31, 2017 was a loss of \$2.0 million, compared to a loss of \$4.0 million for the quarter ended December 31, 2016. The year-over-year improvement in the loss position of \$2.0 million was mainly driven by the same factors as identified under the *Operating Results* section.

Liquidity

For the three months ended December 31,	2017	2016 Restated	Change \$
<i>In thousands of CAD dollars</i>			
Net loss from continuing operations	(8,209)	(4,638)	(3,571)
Net loss from discontinued operations	(48)	(59)	11
Items not involving cash flows	6,304	(221)	6,525
Cash used in operations	(1,953)	(4,918)	2,965
Net change in non-cash working capital	266	(321)	587
Cash used in operating activities	(1,687)	(5,239)	3,552
Cash used in investing activities	(100)	(78)	(22)
Cash (used in) provided by financing activities	-	-	-
Effect of foreign exchange rates on cash and cash equivalents	29	93	(64)
Net change in cash and cash equivalents during the period	(1,758)	(5,224)	3,466
Cash and cash equivalents, beginning of the period	8,755	15,031	(6,276)
Cash and cash equivalents, end of the period	6,997	9,807	(2,810)

Cash and cash equivalents as at December 31, 2017 were \$7.0 million, a decrease of \$1.8 million when compared to \$8.8 million September 30, 2017 and a decrease of \$2.8 million when compared to \$9.8 million as at December 31, 2016.

Cash used in operating activities was \$1.7 million for the three months ended December 31, 2017, compared \$5.2 million used in the three months ended December 31, 2016. The year-over-year improvement in cash used in operating activities of \$3.6 million was mainly a result of the improvement in Adjusted EBITDA of \$2.0 million, driven mainly by the reduction in SG&A and R&D costs.

In the fourth quarter of 2017, the Company had a recovery of \$0.3 million from non-cash working capital items, compared to an investment of \$0.3 million in the prior year's quarter. This investment in the prior year was primarily related to the settlement of outstanding liabilities incurred in connection with the INTEGA Acquisition. The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations.

Net cash used in investing activities totaled \$0.1 million for the three months ended December 31, 2017 while \$78 was used in the comparative three months of fiscal 2016. The \$0.1 million invested in the current year's quarter was the second payment related to the Alyria Acquisition, while the cash used in the prior year was primarily attributable to the acquisition of computer equipment and software and leasehold improvements.

Capability to Deliver Results

The Company will need to spend resources to research, develop and manufacture its products and technologies. Crescita may finance these activities through: existing cash, revenue generated by product sales to its customers, royalty and milestone payments, licensing and co-development agreements for other new drug candidates or of its existing products in territories where they are not currently licensed, by raising funds in the capital markets or by incurring debt.

Crescita is dependent on its sales force for the marketing and sale of its products to its Canadian customers. In certain foreign jurisdictions, Crescita relies on its commercial partners to market and sell its products.

Management believes that it has appropriate in-house personnel with the experience and expertise to market and sell its existing products and to develop its pipeline. To execute the current business plan, Crescita may selectively add key personnel and in the future, may need to hire additional staff as activities expand. In addition, market acceptance of the Company's products by consumers, physicians or patients will depend on distribution channels (i.e. spas and medical spas) accepting the product for sale.

Financial Instruments

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:

<i>In thousands of CAD dollars</i>	December 31, 2017			December 31, 2016 (Restated)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration receivable	-	-	115	-	-	-
Contingent consideration – royalty earn-out	-	-	(20)	-	-	-
SARs	-	(1)	-	-	(229)	-

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 during the years ended December 31, 2017 and 2016.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 16, *Share-based Compensation and Other Share-based Payments*. The fair values of each tranche of SARs issued and outstanding are revalued as at each reporting period using the Black-Scholes option pricing model.

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 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 and would be classified as Level 2.

Liquidity Risk

Prior to the Reorganization, the Company was economically dependent on, and has historically relied on, Nuvo for funding to support its operations. Under the terms of the Arrangement, Nuvo transferred \$35.0 million of cash to the Company to provide working capital. The Company anticipates that its current cash, proceeds from equity financing and the revenue it expects to generate from product sales and upfront and milestone payments related to out-licensing its products, in addition to royalty payments on the global net sales of Pliaglis will fund Crescita's operations as currently planned for 2018. 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 \$1.9 million that is payable from 2018 to 2024.

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 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 the Company 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 December 31, 2017, 8% of accounts receivable related to customers outside North America and the E.U. [December 31, 2016 - 9%].

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

<i>In thousands of CAD dollars</i>	December 31, 2017	December 31, 2016
Current	696	476
0-30 days past due	495	783
31-60 days past due	92	235
61-90 days past due	180	143
Over 90 days past due	-	42
Total Accounts receivable	1,463	1,679

As at December 31, 2017, the allowance for doubtful accounts receivable was \$0.1 million [December 31, 2016 - \$0.1 million].

Interest Rate Risk

The Company's long-term debt bears 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:

<i>In thousands of</i>	Euros (€)		U.S. Dollars	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cash and cash equivalents	54	50	573	1,680
Accounts receivable	-	-	305	66
Other current assets	18	126	47	90
Accounts payable and accrued liabilities	(86)	(51)	(357)	(522)
Other short-term obligations	-	(4)	-	(35)
	(14)	121	568	1,279

Based on the aforementioned net exposure as at December 31, 2017, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$0.1 million on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$2 on total comprehensive loss.

In terms of the euro, the Company had one significant exposure: its net investment and net cash flows in its European operations, which were discontinued on July 11, 2016. In terms of the U.S. dollar, the Company has four significant exposures: 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") regarding 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.

Commitments

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

<i>In thousands of CAD dollars</i>	Operating Leases
2018	420
2019	397
2020	400
2021	401
2022	403
2023 and thereafter	303
Total Commitments	2,324

For the year ended December 31, 2017, payments under operating leases totaled \$0.6 million [\$0.4 million for the year ended December 31, 2016]. The comparative year included a portion of Nuvo's corporate office lease during the carve-out period, which had been allocated to the Company prior to March 1, 2016. The Company had previously reported purchase commitments related to ISDIN which are no longer applicable.

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 the Condensed Consolidated Interim Financial Statements with respect to these indemnification obligations.

Off-Balance Sheet Arrangements

Crescita does not have any off-balance sheet arrangements.

Related Party Transactions

Transitional Services Agreement

Nuvo Pharmaceuticals Inc.

Prior to the completion of the Arrangement on March 1, 2016, Nuvo was considered a related party due to its parent-subsidary relationship with the Crescita entities.

Subsequent to the Reorganization, Nuvo and the Company were related parties due to shared key management personnel. Effective March 1, 2016, Nuvo and the Company entered into a reciprocal transitional services agreement with an initial term of 18 months. Under the transitional services agreement, (a) Nuvo provided Crescita corporate-level employee services, quality assurance support and facility rental, and (b) Crescita provided Nuvo corporate-level employee services, R&D support and facility and equipment rental. During the fourth quarter, the transitional service agreement was extended until June 30, 2018 and is primarily for specific legal counsel as well as general corporate-level services.

As a result of the restructuring of key management personnel in 2017, Nuvo and Crescita are no longer related parties.

For the year ended December 31, 2016, fees for services provided to Nuvo were \$0.4 million and services received from Nuvo were \$0.3

Corporate Cost Allocations

Prior to March 1, 2016, the financial statements include corporate expenses allocated from Nuvo's corporate office. General corporate expense allocations represent costs related to corporate functions such as executive oversight, risk management, accounting, legal, investor relations, human resources, tax and other services. Expense allocations also include Nuvo's drug development operations as if it had always operated as a stand-alone entity, as well as costs for certain compensation-related items such as share-based compensation that Nuvo provides to certain employees of the Company.

Corporate cost allocations that are reflected in SG&A expenses and R&D expenses totalled \$2.2 million and \$0.2 million, respectively for the period from January 1, 2016 to February 29, 2016.

The Company and Nuvo considered these general corporate expense allocations to be a reasonable reflection of the underlying nature of the operations of these entities and of the utilization of services provided. The

allocations may not, however, reflect the expense the Company would have incurred as a stand-alone company. Actual costs which may have been incurred if the Company had been a stand-alone public company prior to March 1, 2016 would depend on a number of factors, including how the Company chose to organize itself, what if any, functions were outsourced or performed by the Company's employees and strategic decisions in areas such as infrastructure.

Outstanding Share Data

The following table provides a summary of the capital stock, stock options and SAR's outstanding as at March 26, 2018:

	As at March 26, 2018
Common shares	21,004,809
Stock options ¹	1,782,518
Warrants	660,823
Share appreciation rights (SAR's) ²	170,635

¹ This amount includes 610,004 options which have vested.

² On February 18, 2016, the shareholders of Nuvo Research Inc. approved a resolution to allow SARs to be equity settled.

Upon the completion of the Rights Offering concluded March 9, 2018, 7,001,603 Class A common shares were issued from treasury, bringing the total number of shares issued and outstanding to 21,004,809 as at March 26, 2018.

Critical Accounting Policies and Estimates

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Management has identified the following accounting estimates that it believes are most critical to understanding the Consolidated Financial Statements and those that require the application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's actual results could differ from these estimates and such differences could be material. All significant accounting policies are disclosed in Note 3 – *Summary of Significant Accounting Policies* in the Company's Consolidated Financial Statements for the year ended December 31, 2017.

Critical Accounting Estimates

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

Going concern assessment

The judgment that the Company is a going concern is a fundamental judgment in the preparation of financial statements. Under the going concern judgment, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, unless the going concern judgement is inappropriate in the circumstances, assets and liabilities are recorded on the basis that the Company will be able to realize its assets, discharge its liabilities, and obtain refinancing (if necessary) in the normal course of business. Management assesses the Company's ability to continue as a going concern at each reporting date.

In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least, but not limited to, twelve months following the end of the reporting period by considering relevant available information about the future.

The Company is subject to a number of risks and uncertainty associated with its products and services, its dependence on the economy as well as customers, the supply chain, credit risk, currency risk as well as meeting its financing requirements for its operations. The attainment of profitable operations is dependent upon future events, including successful implementation of the Company's operation plan and obtaining adequate financing.

Management has applied significant judgement in preparing forecasts supporting the going concern assessment and has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

Management has considered many factors including its current cash balance, the proceeds from equity financing arrangements subsequent to year-end and the projected revenues it expects to generate from product sales, upfront and milestone payments related to out-licensing its products, in addition to royalty payments on the global net sales of Pliaglis®. Management has also estimated anticipated cash outflows such as operating and capital expenditures and debt repayment requirements, including the ability to delay uncommitted expenditures, and assessed that it will have sufficient cash flows to fund Crescita's operations as currently planned for fiscal 2018. These cash flow estimates are subject to uncertainties as to the achievement of certain key factors considered in the cash flow analysis.

Inventory Valuation

The Company values its inventories on a first-in, first-out basis at the lower of cost and replacement cost for raw materials and packaging, and the lower of cost and net realizable value for finished goods. In determining net realizable value, the Company considers such factors as yield, turnover or aging, expected future demand and historic experience. A change in the underlying assumptions related to these factors could affect the valuation of inventory and have a corresponding effect on cost of sales.

Management reviews the carrying value of inventories at each reporting year. As part of the review, management is required to make certain assumptions when determining expected realizable values and estimates an allowance for obsolescence based on product life and historical sales. Any write downs in value may be reversed if the circumstances which caused them cease to exist.

During the year ended December 31, 2017, the Company has taken a provision of \$0.3 million related to non-performing brands as the Company has decided against making any future investments in them.

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 share-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. Details of the assumptions used are included in Note 16, of the Consolidated Financial Statements *Share-based Compensation and Other Share-based Payments*.

Purchase price allocation and intangibles

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 contingently payable purchase price obligations due over time. The Company uses valuation techniques, 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.

For the acquisition of INTEGA, the estimated future cash flows were based on the budget and strategic plan for the first 5 years and a growth rate of 3.5% was applied to derive a terminal value beyond the initial 5-year period. The discount rate used to calculate the fair value of the business was 13.6%.

For the acquisition of Alyria, the estimated future cash flows were based on the budget and strategic forecast for the first 10 years and a growth rate of 0% was applied to derive a terminal value beyond the initial 10-year period. The discount rate used to calculate the fair value of the brand was 14%. The fair value of the contingently payable purchase price obligation is based on a weighted average probability of achieving the earn-out target.

Allocations

Prior to March 1, 2016, Nuvo paid certain costs for the Company and performed certain activities on behalf of the Company. As a result, these Consolidated Financial Statements include allocations of certain balances and transactions reported in the accounts of Nuvo.

An entity included in these Consolidated Financial Statements paid certain costs for Nuvo and performed certain activities related to the heated lidocaine/tetracaine patch (“HLT Patch”) on behalf of Nuvo. Accordingly, an allocation of certain balances and transactions reported in the accounts of this entity have been excluded from these Consolidated Financial Statements.

Compensation-related costs have been allocated using methodologies primarily based on proportionate time spent on the Company’s and Nuvo’s respective activities. These cost allocations have been determined on a basis considered by the Company and Nuvo to be a reasonable reflection of the utilization of services provided to the Company.

Accounting Standards Issued but Not Yet Adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee. The standards impacted that may be applicable to the Company are as follows:

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 - *Financial Instruments* (“IFRS 9”), which will replace IAS 39 - *Financial Instruments*, and all previous versions of IFRS 9. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This new standard is effective for annual periods beginning on or after January 1, 2018. The Company has completed its assessment does not expect the adoption of IFRS 9 to have a significant impact on its Consolidated Financial Statements.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* (“IFRS 15”), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach.

The Company has reviewed the impact of adopting IFRS 15 for the recognition and measurement of its product sales, royalties, licensing and collaborative arrangement and has concluded that there will be no significant difference versus the current revenue recognition practice. Furthermore, IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a change from current practice and will increase the volume of disclosures required in the Company's consolidated financial statements.

IFRS 16 - Leases

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

Amendments to IFRS 2 - Share-based Payments

In June 2016, the IASB issued amendments to IFRS 2 - *Share-based Payments* ("IFRS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has completed its assessment and does not expect these amendments to have a significant impact on its Consolidated Financial Statements.

Management's Responsibility for Financial Reporting

Disclosure Controls and Procedures and Internal Control Over 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, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), have designed, or caused to be designed, internal controls over financial reporting ("ICFR") 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.

The Company evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting, supervised by and with the participation of the CEO and the CFO as of December 31, 2017. The CEO and the CFO concluded that, based on this evaluation, the Company's disclosure controls and procedures and internal controls over financial reporting were adequate and effective, at a reasonable level of assurance.

Risk Factors

An investment in the securities of the Company is speculative and involves a high degree of risk. Below are selected risk factors that relate to the discussion in this MD&A. 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. 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.

Need for additional financing

At December 31, 2017, the Company had cash and short-term investments of \$7.0 million. During 2018, the Company expects to continue to incur expenditures as it executes its four-pillar growth strategy discussed above and pursues potential development programs to advance the products in its pipeline and to seek regulatory approvals. Additional funding may be required for the development of new products or for future potential acquisitions. Unexpected increases in Crescita's costs and expenses due to operational decisions by Crescita or factors beyond Crescita's control could cause its cash resources to be depleted and profitability will not be achieved. The Company has a history of generating operating losses since its inception and has an accumulated deficit of \$44.5 million for the year ended December 31, 2017. Even if the Company achieves profitability, it may not remain profitable. Crescita's inability to become and remain profitable could lower the market price of its shares or impair its ability to raise capital, expand its business, expand its product pipeline or continue its operations.

There can be no assurance that Crescita will have sufficient capital to fund its ongoing operations or develop or commercialize any further products or make product acquisitions without future financings. During the second quarter of 2017, Crescita filed its BAR with respect to the acquisition of INTEGA, allowing Crescita to issue securities qualified by a prospectus. In addition, Crescita may not be able to secure adequate debt or equity financing on desirable terms or at all. The credit ratings that Crescita might obtain in connection with any debt financing may make securing debt financing prohibitive. There can be no assurance that additional financing will be available on acceptable terms or at all.

If adequate funds are not available, Crescita may have to substantially reduce or eliminate planned expenditures, terminate or delay clinical trials for its product candidates, curtail product development programs designed to expand the product pipeline or discontinue certain operations, all of which would have a materially adverse effect on Crescita's financial position, results of operations and cash flows.

Inability to meet debt commitments

The Company is required to meet certain conditions, including covenants, pursuant to the terms of the Second Amended Loan Agreement with Knight. A failure to meet such conditions could result in our lender seeking to enforce their security under the Second Amended Loan Agreement. This could have a material adverse effect on Crescita's business, financial condition and results of operations.

The restrictions governing our other indebtedness may prevent the Company from taking actions that we believe would be in the best interest of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject the Company to additional restrictive covenants that could affect our financial and operational flexibility. We may be unable to refinance our indebtedness, at maturity or otherwise, on terms acceptable to us, or at all.

Our ability to comply with the covenants and restrictions contained in our debt agreement may be affected by economic, financial and industry conditions, beyond our control including credit or capital market disruptions. The breach of any of these covenants or restrictions could result in a default that would permit the lenders to

declare all amounts outstanding to be due and payable, together with accrued and unpaid interest. If the Company is unable to repay the indebtedness, the lenders could proceed against the collateral securing the indebtedness. This could have serious consequences to our financial position and results of operations and could cause us to become bankrupt or insolvent.

There is no assurance that we will be able to secure future additional financing to repay our current debt obligations should cash flows from operations be insufficient to repay these liabilities.

Ability to implement Crescita's growth strategy

Crescita's strategy is to increase sales through its four-pillar growth strategy. In order to successfully execute this strategy, Crescita must develop effective marketing campaigns for its products, pursue business development leads to land strategic acquisition and/or out-licensing agreements. Crescita's competitors with substantially greater financial, marketing, sales and other resources compete for market share. The Company may not be able to acquire rights to additional products on acceptable terms in furtherance of its four-pillar strategy. The inability to acquire additional products and expand its existing lines of business may limit the overall growth of Crescita's business. Furthermore, even if the Company can acquire rights in additional products, it may not generate sales sufficient to generate profit or avoid losses.

Acquisition and integration of complementary technologies or businesses

The Company plans to continue to pursue and evaluate product or business acquisitions that could complement or expand its business. However, it may not be able to identify appropriate acquisition candidates in the future. If an acquisition candidate is identified, the Company conducts business, legal and financial due diligence with the objective of identifying and evaluating material risks involved in any acquisition. Despite its efforts, Crescita may not detect and or evaluate all such risks. Further, the Company may not be able to successfully negotiate the terms of any such acquisition or finance such acquisition. Any such acquisition could result in unanticipated costs or liabilities, diversion of management's attention from the core business, the expenditure of resources and the potential loss of key employees, particularly those of the acquired organizations. In addition, the Company may not be able to successfully integrate any businesses, products, technologies or personnel that it might acquire in the future, which may harm its business.

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

Products may fail to achieve market acceptance

Any products recently launched or successfully developed by the Company may not achieve market acceptance and as a result may not generate significant revenues. Market acceptance of the Company's products by consumers, 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;
- distribution channels will accept the product for sale;
- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- the acceptance of competing products;
- pricing; and
- effectiveness of marketing and distribution partners' sales and marketing strategies.

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 consumer or 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.

Competition

Non-prescription skincare products

The skincare industry is highly competitive and can change rapidly due to consumer preferences and industry trends. Competition in the skincare industry is based on brand strength, pricing and assortment of products, point of sale presence and visibility, innovation, perceived value, product availability and order fulfillment, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce and mobile commerce initiatives and other activities. It is difficult to predict the timing and scale of the Company's competitors' actions in these areas. The Company's success depends on its products' appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change, and on our ability to anticipate and respond in a timely and cost-effective manner to market trends through product innovations, product line extensions and marketing and promotional activities. As product life cycles shorten, the Company must continually work to develop, produce, and market new products and maintain and enhance the recognition of our brands. Net revenues and margins on beauty products tend to decline as they advance in their life cycles, so net revenues and margins could suffer if the Company does not successfully and continuously develop new products. This issue is further compounded by the rapidly increasing use and proliferation of social and digital media by consumers, and the speed with which information and opinions are shared. Constant product innovation also can place a strain on our financial and personnel resources. The Company may incur expenses in connection with product innovation and development, marketing and advertising that are not subsequently supported by a sufficient level of sales. These factors, as well as new product risks, could have an adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Prescription drug products

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

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

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

Additionally, the Company competes to acquire the intellectual property assets that are required to continue to develop and broaden its product portfolio. In addition to in-house R&D efforts, 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. The Company's growth may be limited if it fails to compete successfully.

Sales, marketing and distribution of products

Non-prescription skincare products

In order to successfully commercialize its skincare products, the Company must devote sufficient resources to develop and maintain a capable sales, marketing and distribution infrastructure or enter into collaborations with partners to perform some or all of these services for the Company. The Company may be unable to devote the resources necessary to develop and maintain a suitable sales, marketing and distribution infrastructure. The Company distributes its skincare products primarily through a large network of aestheticians, spas, medispas, medical clinics that generally sell, distribute or provide its skincare products. The business would be harmed if any of its customers were unable or unwilling to distribute its skincare products on commercially favourable terms to the Company. It is possible that distribution partners could decide to change their policies or fees, or both, in the future. This could result in their refusal to distribute products, or cause higher product distribution costs, lower margins or the need to find alternative methods of distributing products. Such alternative methods may not exist or may not be economically viable.

Factors that may inhibit the Company's efforts to grow or maintain an internal sales, marketing and distribution infrastructure and its ability to successfully commercialize its skincare products include:

- a lack of sufficient financial resources;
- an inability to recruit and retain adequate number of effective sales and marketing personnel;
- an inability of sales personnel to obtain demand for its skincare products;
- a lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with maintaining and expanding a sales and marketing organization.

The Company may not be able to enter into collaborations on acceptable terms, if at all, and the Company may face competition in the search for partners with whom the Company may collaborate. If the Company is not able to maintain and expand an effective sales, marketing and distribution infrastructure, or collaborate with a partner to perform these functions, the Company may be unable to sell its skincare products, which would adversely affect the Company's financial condition and results of operations.

Prescription drug products

Crescita will rely on marketing arrangements, including joint ventures, licensing or other third-party arrangements, to distribute its products in jurisdictions where it lacks the resources or expertise. Crescita will face significant competition in seeking appropriate partners and distributors. Moreover, collaboration and distribution arrangements are complex, and time consuming to negotiate, document and implement. Therefore, there can be no assurance that Crescita will be able to find additional marketing and distribution partners in any jurisdiction or be able to enter into any marketing and distribution arrangements on acceptable terms, if at all. Moreover, there can be no assurance that Crescita's partners will dedicate the resources needed to successfully market and distribute Crescita's products and maximize sales. In addition, under these arrangements, disputes may arise with respect to payments that Crescita or its partners believe are due under such distribution or marketing arrangements, a partner or distributor may develop or distribute products that compete with Crescita's products or they may terminate the relationship.

The Company has minimal influence in the worldwide sales and marketing activities for Pliaglis, as these decisions are made by Galderma, except for North America. In December 2015, the Company reacquired the North American rights to Pliaglis. See "General Development of the Business". Although the Company has three seats on the Joint Steering Committee that was established to monitor the development and commercial activities related to Pliaglis in the Galderma territory, the Company has no direct control over the technical, regulatory and commercial activities for the product. In addition, Galderma is responsible for the commercialization of Pliaglis outside of North America and, as such, the Company will rely on Galderma to successfully execute a worldwide commercialization program. Delays in obtaining the appropriate regulatory approvals for Pliaglis in territories or an unsuccessful launch in any major territory may have an adverse effect on the Company's results of operations and cash flows.

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

Manufacturing and supply risks

The Company will purchase key raw materials necessary for the manufacture of its products and finished products from a limited number of suppliers around the world and in some cases will rely on its licensing partners to manufacture certain of its products.

Increases in the prices from suppliers of any component of the product, interruptions in supply of product or lapses in quality could adversely impact Crescita's margins, profitability and cash flows. Crescita will be reliant on its third-party CMOs and suppliers of raw materials and manufacturing components to maintain the facilities in compliance with various countries' regulatory authorities. If the CMO or suppliers fail to maintain compliance with regulatory authorities, they could be ordered to cease manufacturing, which would have a material adverse impact on Crescita's business, results of operations, financial condition and cash flows. In addition to FDA regulations, violation of standards enforced by the Environmental Protection Agency ("EPA") and the Occupational Safety and Health Administration ("OSHA"), and their counterpart agencies in other jurisdictions, could slow down or curtail operations of the CMO or any of its suppliers.

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

In December 2015, the Company reacquired Pliaglis development and marketing rights for the U.S., Canada and Mexico. Since Galderma is currently the only approved manufacturer for Pliaglis in all global territories, Crescita relies on Galderma to manufacture Pliaglis for these markets. Under the terms of the Manufacturing and Supply Agreement with Galderma, Crescita has the ability to have the product manufactured elsewhere but that will require a technology transfer of the manufacturing process and test methods prior to seeking regulatory approval for a new manufacturing site.

Under the terms of the Pliaglis license agreements, Galderma has a commitment to manufacturing Pliaglis through March 2021, however until such time as another manufacturing facility is approved to manufacture Pliaglis, Crescita will depend on Galderma as the only qualified supplier of the product for all global markets. Pliaglis also contains the active pharmaceutical ingredients (APIs) lidocaine and tetracaine and in the past the form of tetracaine used in the product has, at times, been difficult to procure. Crescita will be reliant on Galderma to maintain the facilities at which it manufactures Pliaglis in compliance with TPD, FDA, EMA, HC, state and local regulations and other regulatory agencies. If Galderma fails to maintain compliance with FDA, EMA or other critical regulations, they could be ordered to cease manufacturing, which would have a material adverse impact on Crescita's business, results of operations, financial condition and cash flows. In addition to FDA regulations, violation of standards enforced by the EPA, the OSHA and their counterpart agencies at the state level, could slow down or curtail operations of Galderma.

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 APIs or critical raw materials depending on the drug product, this means compliance to current GMPs for APIs and submission of all data related to the manufacture, control and testing of the API for quality, purity, identity and stability, as well as a complete description of the process, equipment, controls and standards used for the production of the API. This is usually submitted to the FDA in the form of a drug master file ("DMF") by the manufacturer and referenced by the sponsor of the NDA. The DMF information and data is reviewed by the FDA as a critical component of the approval 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,

Crescita will be at risk should a supplier violate GMPs, fail an FDA inspection, terminate access to its DMF, be unable to manufacture product, choose not to supply Crescita or decide to increase prices.

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

The Company's facility in Laval, Québec has yet to operate at full capacity. This exposes Crescita to the following risks, any of which could delay or prevent the commercialization of its products, result in higher costs or deprive it of potential product revenues:

- Crescita may encounter difficulties in achieving volume production, quality control and quality assurance, as well as relating to shortages of qualified personnel. Accordingly, Crescita might not be able to manufacture sufficient quantities to successfully commercialize its products;
- Crescita's manufacturing facilities will be required to undergo satisfactory current GMPs inspections prior to regulatory approval and are obliged to operate in accordance with Health Canada and other nationally mandated GMPs, 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 Crescita's products; and
- Changing manufacturing locations would be difficult and the number of potential manufacturers is limited. Changing manufacturers generally requires re-validation of the manufacturing processes and procedures in accordance with 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.

Crescita's manufacturing facilities will be subject to ongoing periodic unannounced inspection by Health Canada and other government 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. As a result of an audit in 2016, Health Canada recommended an upgrade to the INTEGA manufacturing facility to comply with certain regulations related to the manufacturing of DIN products. Management decided to use a CMO to produce its DIN products, rendering the Company immediately compliant while assessing the investments required to comply with Health Canada's audit recommendations. Failure by Crescita 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 products, delays, suspension or withdrawal of approvals, seizures or recalls of product, operating restrictions, facility closures and criminal prosecutions, any of which could materially adversely affect Crescita's business.

International operations

The Company does business outside of Canada, including the U.S., Europe and Asia, in order to research, develop, market, distribute or manufacture certain of its products and potential products. The Company may expand such operations further in the future. Participation in international markets requires resources and management's attention and subjects the Company to business risks, including the following:

- different regulatory requirements for approval of its product candidates;
- dependence on local distributors;
- longer payment cycles and problems in collecting accounts receivable;
- adverse changes in trade and tax regulations;

- absence or substantial lack of legal protection for intellectual property rights;
- difficulty in managing widespread operations;
- political and economic instability;
- increased costs and complexities associated with financial reporting; and
- currency risks.

The occurrence of any of these or other factors may cause the Company's international operations to be unsuccessful, could lower the prices at which it can sell its products or otherwise have an adverse effect on its 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 patents, trademarks or proprietary rights of others. If the Company's products infringe the patents or proprietary rights of others, the Company may be required to stop selling or making its products, may be required to modify or rename its products or may have to obtain licenses to continue using, making or selling them. There can be no assurance that the Company will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. The failure to do any of the foregoing could have a material adverse effect upon the Company. In addition, there can be no assurance that the Company will have sufficient financial or other resources to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if the Company's products infringe patents, trademarks or proprietary rights of others, the Company could, under certain circumstances, become liable for substantial damages which could also have a material adverse effect.

Regardless of the validity of the Company's patents, there can be no assurance that others will be unable to obtain patents or develop competitive non-infringing products or processes that permit such parties to compete with the Company. The Company may not be able to protect its intellectual property rights throughout the world as filing, prosecuting and defending patents and trademarks on all of the Company's product candidates, products and product names, when and if they exist, in every jurisdiction would be prohibitively expensive and can take several years. Competitors may manufacture, sell or use the Company's technologies and use its trademarks in jurisdictions where the Company or its partners have not obtained patent and trademark protection. These products may compete with the Company's products, when and if it has any, and may not be covered by any of its or its partners' patent claims or other intellectual property rights.

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

The discovery, trial and appeals process in patent litigation can take several years. The Company could commence a lawsuit against a third party for patent infringement or a lawsuit could commence 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 have a material adverse effect on its business, results of operations, financial condition and cash flows.

Personnel

The Company depends upon certain key members of its sales, marketing, manufacturing, scientific and management teams. The loss of any of these individuals could have a material adverse effect on the Company. The Company does not maintain key-man insurance on any employee.

The Company's success depends, in large part, on its ability to continue to attract and retain qualified sales, marketing, manufacturing, scientific and management teams. The Company faces intense competition for such personnel. It may not be able to attract and retain qualified sales, marketing, manufacturing, scientific and management personnel in the future. Also, it must provide training for its employee base due to the highly specialized nature of its products.

Litigation

From time-to-time, during the ordinary course of business, Crescita may be threatened with, or 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. Although the outcome of such matters is not predictable with assurance, the Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a material adverse effect on the Company's financial position, results of operations or the ability to carry on any of its business activities.

Additional Information

Additional information relating to the Company, including the Company's most recently filed AIF, can be found on SEDAR at www.sedar.com.

Corporate Information

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LEGAL COUNSEL

Goodmans LLP
Toronto, Canada

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Symbol: CTX

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CORPORATE GOVERNANCE

The Company's website www.crescitatherapeutics.com contains the Company's corporate governance documents including Code of Conduct and Business Ethics, Corporate Disclosure Policy, Insider Trading Policy and Audit Committee Charter.

Board of Directors and Executive Officers

Daniel N. Chicoine, BComm, CPA, CA
Executive Chairman and
Interim Chief Executive Officer

Serge Verreault, BA, MBA
President and General Manager

Jose DaRocha, CPA, CA
Chief Financial Officer

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

David A. Copeland, BMath, CPA, CA
Director

John C. London, LLB, LLM
Director

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

Thomas Schlader, BSc
Director