



**Crescita Therapeutics Inc.**

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018  
(unaudited)

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

<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		<b>13,005</b>	8,589
Accounts receivable	18	<b>3,766</b>	5,087
Inventories	4	<b>4,218</b>	2,698
Other current assets	5, 12, 18	<b>491</b>	318
<b>Total current assets</b>		<b>21,480</b>	16,692
<b>Non-current</b>			
Contract assets	12, 18	<b>1,587</b>	-
Property, plant and equipment		<b>774</b>	708
Right-of-use-asset	6	<b>609</b>	-
Intangible assets		<b>7,873</b>	8,719
Deferred income tax assets		<b>214</b>	1,446
<b>Total assets</b>		<b>32,537</b>	27,565
<b>Liabilities and Equity</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	18	<b>5,525</b>	3,788
Current portion of long-term debt	8	-	1,556
Current portion of lease obligation	7	<b>342</b>	-
Current portion of other obligations	10	<b>50</b>	300
<b>Total current liabilities</b>		<b>5,917</b>	5,644
Long-term debt	8	<b>3,564</b>	1,990
Convertible debentures	9	<b>887</b>	863
Lease obligation	7	<b>381</b>	-
Other obligations	10	<b>169</b>	61
<b>Total liabilities</b>		<b>10,918</b>	8,558
<b>Equity</b>			
Common shares	11	<b>58,652</b>	59,220
Contributed surplus	14	<b>1,752</b>	1,120
Accumulated other comprehensive income (AOCI)		<b>1,139</b>	810
Deficit		<b>(39,924)</b>	(42,143)
<b>Total equity</b>		<b>21,619</b>	19,007
<b>Total liabilities and equity</b>		<b>32,537</b>	27,565

See accompanying Notes.

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

		Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>	<b>Notes</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	12	<b>4,906</b>	4,464	<b>18,517</b>	10,424
<b>Operating expenses</b>					
Cost of goods sold	4, 16	<b>1,463</b>	1,346	<b>4,113</b>	3,690
Research and development	14, 16	<b>462</b>	264	<b>1,338</b>	770
Selling, general and administrative	14, 16	<b>2,092</b>	2,061	<b>6,335</b>	6,489
Depreciation and amortization	16	<b>411</b>	285	<b>1,177</b>	864
<b>Operating Profit (Loss)</b>		<b>478</b>	508	<b>5,554</b>	(1,389)
<b>Other expenses (income)</b>					
Interest income		<b>(80)</b>	(26)	<b>(182)</b>	(71)
Interest expense		<b>149</b>	151	<b>460</b>	451
Other expenses (income)	13	-	(7)	<b>1,274</b>	(1,102)
Foreign exchange loss		<b>77</b>	21	<b>105</b>	24
<b>Total Other Expenses (Income)</b>		<b>146</b>	139	<b>1,657</b>	(698)
<b>Income (loss) from continuing operations before income taxes</b>		<b>332</b>	369	<b>3,897</b>	(691)
Deferred income tax expense		<b>244</b>	-	<b>1,559</b>	-
<b>Net Income (Loss) from Continuing Operations</b>		<b>88</b>	369	<b>2,338</b>	(691)
<b>Net (Loss) from Discontinued Operations</b>		-	-	-	(25)
<b>Net Income (Loss)</b>		<b>88</b>	369	<b>2,338</b>	(716)
<b>Other comprehensive income (loss) to be reclassified to net loss in subsequent periods</b>					
Unrealized gain (loss) on translation of foreign operations (net of income taxes)		<b>(9)</b>	(10)	<b>329</b>	(43)
<b>Total Comprehensive Income (Loss)</b>		<b>79</b>	359	<b>2,667</b>	(759)
<b>Net income (loss) per common share</b>	15				
- Basic		<b>\$ -</b>	\$0.02	<b>\$0.11</b>	\$(0.04)
- Diluted		<b>\$ -</b>	\$0.02	<b>\$0.11</b>	\$(0.04)
<b>Weighted average number of common shares outstanding</b>	15				
- Basic		<b>20,921,387</b>	21,016,059	<b>20,984,502</b>	19,265,230
- Diluted		<b>22,705,677</b>	21,016,059	<b>22,422,250</b>	19,265,230

See accompanying Notes.

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

	Common Shares		Contributed Surplus	Deficit	AOCI	Total
(In thousands of Canadian dollars, except for number of shares)	000's	\$	\$	\$	\$	\$
Notes	11, 14	11, 14	14		18	
Balance, December 31, 2017	14,003,206	55,694	778	(44,539)	1,174	13,107
Net loss	-	-	-	(716)	-	(716)
Rights offering, net	7,001,603	3,520	-	-	-	3,520
Share-based compensation expense	-	-	197	-	-	197
Share-based option exercise	11,250	6	-	-	-	6
Unrealized loss on translation of foreign operations	-	-	-	-	(43)	(43)
Balance, September 30, 2018	21,016,059	59,220	975	(45,255)	1,131	16,071
Net income	-	-	-	3,112	-	3,112
Share-based compensation expense	-	-	145	-	-	145
Unrealized loss on translation of foreign operations (net of deferred income taxes of (\$327))	-	-	-	-	(321)	(321)
Balance, December 31, 2018	21,016,059	59,220	1,120	(42,143)	810	19,007
First time adoption of IFRS 16 (note 3)	-	-	-	(119)	-	(119)
Net income	-	-	-	2,338	-	2,338
Shares purchased and cancelled (note 11)	(124,688)	(351)	238	-	-	(113)
Shares purchased and not cancelled (note 11)	-	(217)	147	-	-	(70)
Share-based compensation expense	-	-	247	-	-	247
Unrealized gain on translation of foreign operations (net of deferred income taxes of \$327)	-	-	-	-	329	329
<b>Balance, September 30, 2019</b>	<b>20,891,371</b>	<b>58,652</b>	<b>1,752</b>	<b>(39,924)</b>	<b>1,139</b>	<b>21,619</b>

See accompanying Notes.

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

		Three months ended		Nine months ended	
		September 30,		September 30,	
		2019	2018	2019	2018
<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	\$	\$	\$	\$
<b>Operating Activities</b>					
Net income (loss) from continuing operations		88	369	2,338	(691)
Net loss from discontinued operations		-	-	-	(25)
<b>Items not involving cash flows:</b>					
Depreciation and amortization	16	411	285	1,177	864
Equity-settled share-based compensation	14	50	53	247	197
Inventory write-down	4	62	-	154	85
Other income	13	-	(7)	-	(1,102)
Deferred income taxes		244	-	1,559	-
Contract assets	12	-	-	(1,738)	-
Other		14	(19)	(26)	28
		<b>869</b>	681	<b>3,711</b>	(644)
Net change in non-cash working capital	17	<b>763</b>	(1,468)	<b>1,543</b>	(1,451)
<b>Cash provided by (used in) operating activities</b>		<b>1,632</b>	(787)	<b>5,254</b>	(2,095)
<b>Investing Activities</b>					
Acquisition of property, plant and equipment		(55)	(92)	(169)	(115)
<b>Cash used in investing activities</b>		<b>(55)</b>	(92)	<b>(169)</b>	(115)
<b>Financing Activities</b>					
Repayment of lease obligation	7	(80)	-	(233)	-
Share issuances under Rights Offering, net	11	-	-	-	3,520
Shares purchased	11	(183)	-	(183)	-
Cash received on exercise of options	11	-	-	-	6
Payment under obligation related to Consideration Payable, Alyria	10	-	-	(250)	(100)
<b>Cash (used in) provided by financing activities</b>		<b>(263)</b>	-	<b>(666)</b>	3,426
Effect of exchange rate changes on cash		2	(2)	(3)	-
Net change in cash and cash equivalents during the period		<b>1,316</b>	(881)	<b>4,416</b>	1,216
Cash and cash equivalents, beginning of period		<b>11,689</b>	9,094	<b>8,589</b>	6,997
<b>Cash and cash equivalents, end of period</b>		<b>13,005</b>	8,213	<b>13,005</b>	8,213
<i>Interest paid <sup>(i)</sup></i>		<b>104</b>	105	<b>361</b>	313
<i>Interest received <sup>(i)</sup></i>		<b>113</b>	40	<b>159</b>	76

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

See accompanying Notes.

**CRESCITA THERAPEUTICS INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

All amounts shown are in thousands of Canadian dollars, unless noted otherwise.

## **1. CORPORATE INFORMATION**

Crescita Therapeutics Inc. (Crescita or the Company) is a Canadian commercial dermatology company with manufacturing capabilities and 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. The Company's corporate functions are carried out through its headquarters located at 2805, Place Louis-R-Renaud, Laval, Québec, H7V 0A3. In accordance with its articles of incorporation, Crescita maintains its registered office in Ontario at 6733 Mississauga Road, Suite 610, Mississauga, Ontario, L5N 6J5.

## **2. BASIS OF PREPARATION**

### **Statement of Compliance**

These Condensed Consolidated Interim Financial Statements (Interim Financial Statements) have been prepared by management in accordance with IAS 34 – *Interim Financial Reporting* (IAS 34), as issued by the International Accounting Standards Board (IASB). Accordingly, these Interim Financial Statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual Consolidated Financial Statements of the Company for the year ended December 31, 2018, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

These Interim Condensed Consolidated Financial Statements were issued and effective as at November 6, 2019, the date the Board of Directors approved these Interim Financial Statements.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The policies applied in these Interim Condensed Consolidated Financial Statements are based on International Financial Reporting Standards (IFRS). All significant accounting policies has been applied on a basis consistent with those followed in the most recent annual Consolidated Financial Statements for the year ended December 31, 2018, except for the adoption of new accounting standards effective January 1, 2019.

### **Accounting Standards Adopted**

#### **IFRS 16 - Leases**

On January 1, 2019, the Company adopted IFRS 16 - *Leases* (IFRS 16) which specifies how to recognize, measure, present and disclose leases. The standard provides a single on-balance sheet accounting model, requiring lessees to recognize assets, representing its right to use the underlying asset for the lease term, and a lease liability in relation to leases which had previously been classified as operating leases under IAS 17 *Leases*, representing its obligation to make lease payments.

The Company applied the modified retrospective approach, which required recognition of the cumulative effect on retained earnings of initially applying IFRS 16 on January 1, 2019. Currently, the Company has one operating lease for its manufacturing and office building, which qualifies as a lease under IFRS 16. The Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17. The Company recognized a right-of-use asset and a lease obligation for this lease previously classified as operating lease. The right-of-use asset was recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The lease liability was recognized based on the present value of the remaining lease payments, discounted using Crescita's incremental borrowing rate of 11% at the date of initial application.

This change in policy resulted in the recognition of a right-of-use asset and a lease liability amounting to \$837 and \$956 respectively, with \$119 recorded as an adjustment to opening deficit.

The lease liability as at January 1, 2019 can be reconciled to the operating lease commitment as of December 31, 2018 as follows:

	\$
Operating lease commitment as at January 1, 2019	1,113
Incremental borrowing rate	11%
Less:	
Discounting impact	157
<b>Lease liabilities as at January 1, 2019</b>	<b>956</b>

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

**(i) Right-of-use assets**

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**(ii) Lease Obligations**

At the commencement date of the lease, the Company recognizes lease obligations measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease obligations is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease obligations is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**IFRIC 23 - Uncertainty over Income Tax Treatment**

In June 2017, the IASB released IFRIC 23 *Uncertainty over income tax treatments* (IFRIC 23), which is effective on January 1, 2019. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The Company has concluded that IFRIC 23 has no material impact on its Interim Condensed Consolidated Financial Statements.

**Basis of Measurement**

The Interim Condensed 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 Interim Condensed Consolidated Financial Statements are presented in Canadian dollars, the Company's functional currency.

#### 4. INVENTORIES

Inventories consisted of the following as at:

	September 30, 2019	December 31, 2018
	\$	\$
Raw materials	2,215	1,416
Work-in-process	964	758
Finished goods	1,039	524
	<b>4,218</b>	<b>2,698</b>

During the three and nine months ended September 30, 2019, inventories in the amount of \$1.1 million and \$3.5 million were recognized in the cost of goods sold [\$1.2 million and \$3.2 million for the three and nine months ended September 30, 2018].

During the three and nine months ended September 30, 2019, net amounts of \$62 and \$154, respectively, of finished goods inventory were written down [\$nil and \$85 for the three and nine months ended September 30, 2018]. There were no reversals of prior write-downs during the three and nine months ended September 30, 2019 [\$nil for the three and nine months ended September 30, 2018].

#### 5. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	September 30, 2019	December 31, 2018
	\$	\$
Prepaid expenses	340	222
Deposits	61	51
Sales taxes receivable	31	45
Contract assets	59	-
	<b>491</b>	<b>318</b>

#### 6. RIGHT-OF-USE ASSET

The following table presents the right-of-use asset for the Company (refer to Note 3, *Summary of Significant Accounting Policies*):

	Total right-of-use asset
	\$
Balance, January 1, 2019	837
Less: depreciation	228
<b>Balance, September 30, 2019</b>	<b>609</b>

## 7. LEASE OBLIGATION

The following table presents the movements in the lease obligation (refer to Note 3, *Summary of Significant Accounting Policies*):

	Total lease obligation \$
Balance, January 1, 2019	956
Less: lease principal payments	233
<b>Balance, September 30, 2019</b>	<b>723</b>
Less: current portion	342
<b>Long-term balance</b>	<b>381</b>

Interest expense on the lease obligation for the three and nine months ended September 30, 2019, was \$21 and \$70, respectively.

## 8. LONG-TERM DEBT

Long-term debt consisted of the following as at:

	September 30, 2019	December 31, 2018
	\$	\$
Knight loan – principal	3,639	3,639
Knight loan – unamortized discount	(75)	(93)
	3,564	3,546
Less: current portion	-	1,556
<b>Long-term balance</b>	<b>3,564</b>	<b>1,990</b>

Effective March 29, 2019, the Company and Knight Therapeutics Inc. (Knight) entered into an amendment to the Second Amended and Restated Loan Agreement (the Third Amended Loan Agreement or the Loan). Under the terms of the Loan, the maturity date was deferred from January 22, 2022 to June 30, 2022 (the Loan Maturity Date). The payment terms relating to the capital portion of the Loan were also amended such that: (a) forty percent (40%) of the principal amount of the Loan outstanding as of March 31, 2019 will be paid in quarterly installments of \$146, commencing on March 31, 2020 and (b) a lump sum payment of \$2.2 million due on the Loan Maturity Date, representing sixty percent (60%) of the principal amount of the Loan outstanding as of March 31, 2019. Notwithstanding the foregoing, should the Company generate royalty or milestone revenue from Pliaglis<sup>®</sup>, its lead prescription product, equal to or in excess of \$3.0 million during the 2019 calendar year, the Company may choose to pay 40% of the principal, as described in (a) above, to Knight on June 30, 2022. As at September 30, 2019, the Company has already generated over \$3.0 million in royalty and milestone revenue related to Pliaglis for the 2019 calendar year, and as a result, the entire balance outstanding was classified as long-term.

The terms of the Loan also allow the Company to prepay all or any portion of the outstanding principal on the Loan at any time up to December 31, 2019, together with all accrued and unpaid interest, without penalty. Any prepayment thereafter would include a prepayment fee of 5% of the principal amount if made during the 2020 calendar year, 4% if made during the 2021 calendar year and 3% if made during the 2022 calendar year. The cash sweep clause included in the Second Amended and Restated Loan Agreement was also eliminated.

In addition, under the terms of the Loan, the Company and Knight agreed to enter into a license and supply agreement related to the Israeli rights for Pliaglis<sup>®</sup>, following the Company's reacquisition of the rest-of-world (ROW) rights for Pliaglis from Galderma S.A. (Galderma), Refer to Note 13<sup>(1)</sup>, *Other Income (Expenses)*.

## 9. CONVERTIBLE DEBENTURES

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

	Liability	Equity	Total
	\$	\$	\$
Balance, December 31, 2018	863	173	1,036
Accretion	24	-	24
<b>Balance, September 30, 2019</b>	<b>887</b>	<b>173</b>	<b>1,060</b>

The \$1.0 million of convertible debentures are convertible into 1,000,000 common shares at the option of the holder at a conversion price of \$1.00 per share.

## 10. OTHER OBLIGATIONS

Other obligations consisted of the following as at:

	September 30, 2019	December 31, 2018
	\$	\$
Consideration payable relating to the Alyria Acquisition	199	341
Contingent payments relating to the Alyria Acquisition	20	20
	<b>219</b>	<b>361</b>
Less: current portion	50	300
<b>Long-term balance</b>	<b>169</b>	<b>61</b>

## 11. SHARE CAPITAL

### Authorized

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

### Issued and Outstanding

The following table summarizes Crescita's outstanding common shares:

	Number 000s	Amount \$
Balance, December 31, 2017	14,003	55,694
Issued through Rights Offering, net <sup>(i)</sup>	7,002	3,520
Issued through employee plans <sup>(ii)</sup>	11	6
Balance, December 31, 2018	21,016	59,220
Shares purchased and cancelled <sup>(iii)</sup>	(125)	(351)
Shares purchased <sup>(iii)</sup>	-	(217)
<b>Balance, September 30, 2019</b>	<b>20,891</b>	<b>58,652</b>

<sup>(i)</sup> On March 9, 2018, the Company completed a Rights Offering upon which 7,001,603 Class A common shares were issued at a price of \$0.53 per share for gross proceeds of \$3.7 million, with issuance costs of \$0.2 million. Crescita obtained an irrevocable waiver from Knight of certain provisions of the Second Amended and Restated Loan Agreement, allowing Crescita to benefit from 100% of the net proceeds of the Rights Offering.

<sup>(ii)</sup> On June 15, 2018, 11,250 shares were issued from treasury following the exercise of stock options by an employee.

(iii) On June 26, 2019, the Company announced that the Toronto Stock Exchange (the "TSX") approved the Company's intention to make a normal course issuer bid (the "NCIB") for a portion of its common shares ("Common Shares") as appropriate opportunities arise from time to time. The NCIB enables the Company to purchase through the facilities of the TSX, up to 1,000,000 Common Shares for cancellation on the open market. The Common Shares may be purchased under the NCIB commencing June 28, 2019, and ending no later than June 27, 2020, or on such earlier date when the Company completes its purchases or elects to terminate the bid. The Company may terminate the NCIB provided that the insiders of the Company are not in a trading blackout and the Company is not otherwise in possession of any material undisclosed information about its business.

During the three and nine months ended September 30, 2019, the Company purchased for cancellation 201,517 Common Shares, with a carrying value of \$568, for a cash consideration of \$183. The excess of the carrying value over the purchase price in the amount of \$385 was recorded to contributed surplus. Of the Common Shares purchased, 76,829 Common Shares with a carrying value of \$217 and a purchase value of \$70 were held by the Company and cancelled subsequent to September 30, 2019.

## 12. DISAGGREGATED REVENUE INFORMATION

The following table presents revenues, net of sales taxes, disaggregated by revenue source and geographic areas (based on billing address of the customers):

	For the three months ended September 30,							
	Canada		U.S.		ROW		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Product Sales	1,379	1,413	597	563	370	100	2,346	2,076
Out-licensing Revenue	2,537	2,348	-	-	-	31	2,537	2,379
Service Revenue	23	9	-	-	-	-	23	9
<b>Balance, September 30, 2019</b>	<b>3,939</b>	<b>3,770</b>	<b>597</b>	<b>563</b>	<b>370</b>	<b>131</b>	<b>4,906</b>	<b>4,464</b>

	For the nine months ended September 30,							
	Canada		U.S.		ROW		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Product Sales	4,629	4,628	1,816	1,219	923	473	7,368	6,320
Out-licensing Revenue	5,266	3,972	-	-	5,774	105	11,040	4,077
Service Revenue	89	27	20	-	-	-	109	27
<b>Balance, September 30, 2019</b>	<b>9,984</b>	<b>8,627</b>	<b>1,836</b>	<b>1,219</b>	<b>6,697</b>	<b>578</b>	<b>18,517</b>	<b>10,424</b>

### Out-licensing Agreement with Cantabria Labs

On April 25, 2019, the Company announced that it entered into a commercialization license agreement (the "Agreement") with Cantabria Labs ("Cantabria") for an initial term of 15 years, granting Cantabria the exclusive rights to sell and distribute Pliaglis in Italy, Portugal, France and Spain (together the "Territories").

In consideration for the rights granted under the Agreement, the Company received upfront payments totalling \$3.7 million (€2.5 million), of which 50% was received upon signing the Agreement and the remaining 50% was received on July 2<sup>nd</sup>, 2019, following the first commercial sale of Pliaglis in Italy, by Cantabria, which occurred on June 10, 2019. These upfronts payments were recognized in out-licensing revenue for the nine months ended September 30, 2019. Furthermore, the Company is eligible to receive double digit royalties on the net sales of Pliaglis in the Territories, with guaranteed minimum royalties per year and milestones related to the launch and sales performance of Pliaglis in France, Spain and Portugal.

Under the Agreement, the guaranteed minimum royalties resulted in the recognition of a Contract Asset and the corresponding out-licensing revenue on the Company's Interim Consolidated Statement of Financial Position and Consolidated Statement of Income (Loss) and Comprehensive Income (Loss), respectively as at September 30, 2019 and for the nine months ended September 30, 2019.

Under IFRS 15, Revenue from Contracts with Customers, Contract Assets represent the present value of future guaranteed minimum sales-based royalties that are expected to be received over the life of the licensing agreements. Contract asset balances are reduced as the contractual minimums are realized throughout the life of the agreement. For the three and nine months ended September 30, 2019, the Company recognized \$nil and \$1.7 million (€1.2 million) in out-licensing revenue relating to contract assets, using a discount rate of 6.3%.

Unbilled receivables (contract assets) will be billed (and subsequently transferred to accounts receivable) in accordance with the agreed-upon contractual terms.

Changes in the contract assets current and long-term were as follows:

	\$
Balance, December 31, 2018	-
Initial recognition of contract assets	1,738
Amounts billed to customers and transferred to accounts receivable	(86)
Interest accretion during the period	46
Foreign exchange movement	(52)
<b>Balance, September 30, 2019</b>	<b>1,646</b>
Less: current portion	59
<b>Long-term balance</b>	<b>1,587</b>

### Major Customers

Under IFRS 8 *Operating Segments* (IFRS 8), major customers are those that account for greater than 10% of the Company's consolidated revenues. For the three and nine months ended September 30, 2019, the Company had two major customers that accounted for 63% and 58%, respectively, of the Company's total revenue (one major customer that accounted for 53% and 38% of revenues for the three and nine months ended September 30, 2018, respectively).

### 13. OTHER EXPENSES (INCOME)

Other expenses (income) consists of the following as at:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Termination fees and other costs <sup>(1)</sup>	-	-	1,274	-
Gain on settlement <sup>(2)</sup>	-	-	-	(650)
Other income <sup>(2)(3)</sup>	-	(7)	-	(452)
	-	(7)	1,274	(1,102)

<sup>(1)</sup> Effective April 1, 2019, the Company terminated its out-licensing agreement with Galderma. The termination fees include the costs incurred to re-acquire the Pliaglis ROW rights and other transaction related costs.

<sup>(2)</sup> The Company entered into an agreement relating to a \$1.0 million historical liability owing under a previous acquisition concluded in 2016. Pursuant to the terms of the agreement, in consideration for INTEGA releasing the counterparty from any potential future claims under the agreement and the counterparty releasing INTEGA from the payment of virtually all of the historical liability, the Company recognized (a) a gain on settlement of \$0.7 million and (b) other income of \$0.3 million relating to planned facility upgrades and reimbursement of costs incurred in connection with previous contract manufacturing services.

<sup>(3)</sup> Other income includes a gain of \$0.1 million related to the revaluation of the contingent consideration receivable in connection with the Alyria Acquisition.

## 14. SHARE-BASED COMPENSATION AND OTHER SHARE-BASED PAYMENTS

### Share Option Plan

The following is a summary of Crescita's outstanding options:

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000's	\$	\$
Balance, December 31, 2018	2,162	0.43 - 3.12	1.00
Granted	560	0.46 - 0.78	0.52
Forfeited	(46)	0.65 - 3.12	1.57
Expired	-	-	-
Exercised	-	-	-
<b>Balance, September 30, 2019</b>	<b>2,676</b>	<b>0.43 - 3.12</b>	<b>0.89</b>

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

Exercise Price Range	Outstanding			Exercisable	
	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested	Weighted
				Options	Average
\$	000's	years	\$	000's	\$
0.43 - 0.74	1,881	7.96	0.57	827	0.63
1.21 - 1.42	135	2.32	1.36	135	1.36
1.63 - 1.91	623	6.64	1.63	548	1.63
3.12	37	0.71	3.12	37	3.12
	<b>2,676</b>	<b>7.27</b>	<b>0.89</b>	<b>1,547</b>	<b>1.11</b>

### Summary of Share-based Compensation

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Stock option compensation expense	50	53	247	197
SARs compensation expense	-	(1)	-	(1)
<b>Share-based compensation expense</b>	<b>50</b>	<b>52</b>	<b>247</b>	<b>196</b>

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

	2019	2018	2019	2018
Research and development expenses	9	7	31	25
Selling, general and administrative expenses	41	45	216	171
<b>Share-based compensation expense</b>	<b>50</b>	<b>52</b>	<b>247</b>	<b>196</b>

## 15. NET INCOME (LOSS) PER COMMON SHARE

Basic and diluted earnings per share (EPS) were computed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income (loss) attributable to equity holders	88	369	2,338	(716)
Interest on convertible debentures, net of income taxes	23	-	68	-
<b>Dilutive net income (loss) attributable to common equity holders</b>	<b>111</b>	<b>369</b>	<b>2,406</b>	<b>(716)</b>
Weighted-average number of common shares outstanding	20,921,387	21,016,059	20,984,502	19,265,230
Net effect of stock options, warrants and convertible debentures	1,784,290	-	1,457,748	-
<b>Weighted-average number of diluted common shares</b>	<b>22,705,677</b>	<b>21,016,059</b>	<b>22,442,250</b>	<b>19,265,230</b>
<b>EPS</b>				
Basic	\$ -	\$0.02	\$0.11	\$(0.04)
Diluted	\$ -	\$0.02	\$0.11	\$(0.04)

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

	September 30, 2019	September 30, 2018
Common shares issued and outstanding (Note 11)	20,891,371	21,016,059
Stock options outstanding (Note 14)	2,676,002	2,162,060
Convertible debentures (Note 9)	1,000,000	1,000,000
SARs liability <sup>(i)</sup>	-	51,680
Warrants	660,823	660,823
<b>Fully Diluted Number of Shares Outstanding</b>	<b>25,228,196</b>	<b>24,890,622</b>

<sup>(i)</sup> The 51,860 units outstanding at December 31, 2018 expired at January 1, 2019 with a fair value of nil.

## 16. EXPENSES BY NATURE

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

(a) Employee costs:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Short-term employee wages, bonuses and benefits	1,651	1,672	4,984	4,940
Share-based payments (Note 14)	27	37	176	135
Termination benefits	-	8	-	26
<b>Total employee costs</b>	<b>1,678</b>	<b>1,717</b>	<b>5,160</b>	<b>5,101</b>
<b>Included in:</b>				
Cost of goods sold	339	287	964	841
Research and development expenses	252	229	733	649
Selling, general and administrative expenses	1,087	1,201	3,463	3,611
<b>Total employee costs</b>	<b>1,678</b>	<b>1,717</b>	<b>5,160</b>	<b>5,101</b>

(b) Depreciation and amortization by function is detailed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cost of goods sold	95	32	281	99
Selling, general and administrative expenses <sup>(i)</sup>	316	253	896	765
<b>Total depreciation and amortization</b>	<b>411</b>	<b>285</b>	<b>1,177</b>	<b>864</b>

<sup>(i)</sup> Includes \$301 and \$846 of amortization of intangible assets and \$15 and \$50 of depreciation of tangible assets for the three and nine months ended September 30, 2019 [\$245 and \$730 for intangible assets and \$8 and \$35 for tangible assets respectively for the three and nine months ended September 30, 2018].

## 17. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Accounts receivable	(39)	(2,054)	1,451	(1,936)
Inventories	(538)	110	(1,674)	160
Other current assets	175	(39)	(20)	95
Accounts payable and accrued liabilities	1,165	515	1,786	230
<b>Net change in non-cash working capital</b>	<b>763</b>	<b>(1,468)</b>	<b>1,543</b>	<b>(1,451)</b>

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

The following table provides the fair value measurement hierarchy of the financial instruments measured at fair value subsequent to initial recognition in the consolidated statements of financial position as at:

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Recurring fair value measurements</b>						
Contingent consideration – royalty earn-out ( <i>Note 10</i> )	-	-	(20)	-	-	(20)

## **Valuation Methods and Assumptions**

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and nine months ended September 30, 2019 and 2018.

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

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

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

The fair value of contract assets, which are presented at amortized cost using the effective interest method, has been determined by discounting the future cash flows using observable inputs, such as interest rate yield curves or credit spreads. The fair value of the contract asset approximates its carrying value as it is related to the license agreement signed with Cantabria in April 2019.

## **Risk Factors**

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

### **Liquidity Risk**

The Company anticipates that its current cash 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 2020 and beyond. Additional funding may be required for the development of new products and/or for future acquisitions.

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 (including contract assets) from global customers. The Company manages its exposure to credit risk by holding cash on deposit in major financial institutions. The accounts receivables are subject to normal industry risks in each geographic region in which the Company operates. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America due to potentially higher risks of enforceability and collectability.

As at September 30, 2019, 6% of accounts receivables related to customers outside North America and the E.U. [December 31, 2018 - 3%].

The contract assets in the amount of \$1,646 is related to Cantabria and is denominated in euros.

As at September 30, 2019, the Company had two customers that accounted for approximately 78% [December 31, 2018 two customers accounted for approximately 86%] of the total accounts receivable.

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

	<b>September 30, 2019</b>	December 31, 2018
	<b>\$</b>	<b>\$</b>
Current	<b>3,420</b>	4,775
0-30 days past due	<b>315</b>	197
31-60 days past due	<b>64</b>	137
61-90 days past due	<b>-</b>	29
Over 90 days past due	<b>16</b>	-
	<b>3,815</b>	5,138
Allowance for doubtful accounts	<b>(49)</b>	(51)
	<b>3,766</b>	5,087

### Interest Rate Risk

The Company is not exposed to interest rate variability as debt instruments bear interest at a fixed 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	
	<b>September 30, 2019</b>	December 31, 2018	<b>September 30, 2019</b>	December 31, 2018
	€	€	\$	\$
Cash and cash equivalents	<b>34</b>	51	<b>252</b>	194
Accounts receivable	<b>25</b>	-	<b>2,491</b>	3,334
Other current assets	<b>79</b>	38	<b>58</b>	30
Contract assets	<b>1,140</b>	-	-	-
Accounts payable and accrued liabilities	<b>(86)</b>	(93)	<b>(1,710)</b>	(843)
	<b>1,192</b>	(4)	<b>1,091</b>	2,715

Based on the aforementioned net exposure as at September 30, 2019, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$144 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$172 on total comprehensive income (loss).

In terms of the euro, the Company has four significant exposures: (i) its euro-denominated cash held in its Canadian operations; (ii) the cost of purchasing raw materials and packaging materials priced in euros or sourced from European suppliers that are needed for production at the Canadian manufacturing facility; (iii) royalties and milestones from licensing agreements regarding Pliaglis; and (iv) its net investment and net cash flows in its European operations. In terms of the U.S. dollar, the Company has five significant exposures: (i) its U.S. dollar-denominated cash held in its Canadian operations; (ii) the cost of purchasing raw materials and packaging materials priced in U.S. dollars or sourced from U.S. suppliers that are needed for production at the Canadian manufacturing facility (iii) royalties and milestones from licensing agreements regarding Pliaglis; (iv) its net investment and net cash flows in its U.S. operations and (v) revenue generated in U.S. dollars from its product sales to U.S. customers.

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.

## 19. RECLASSIFICATIONS

Certain comparative figures have been reclassified to conform to the current period's presentation.

## 20. SUBSEQUENT EVENTS

### **Development and Licensing Agreement with Sundial Growers Inc.**

On October 28, 2019, the Company announced that it entered into a development and license agreement with Sundial Growers Inc. ("Sundial"), a Canadian licensed producer of cannabis, granting Sundial worldwide rights to Crescita's proprietary transdermal delivery technologies, MMPE™ and DuraPeel™, for the development of topical products containing cannabis and/or hemp.

Sundial will fund the development and formulation costs and will have the worldwide marketing and distribution rights for the newly developed products. In addition, Sundial will support Crescita in applying for and obtaining the Health Canada Standard Processing License for Cannabis. Crescita will receive tiered royalties on the net worldwide sales for these products and retains the right to leverage its intellectual property for future product development under its own brands.

### **Development Milestone Related to Approval of the Enhanced Formulation of Pliaglis®**

On November 5, 2019, the Company announced that the U.S. Food and Drug Administration approved the enhanced formulation of Pliaglis® (the "Enhanced Formulation") following its statutory six-month review process and in line with the target action date under the Prescription Drug User Fee Act. While the U.S. patent covering the original formulation of Pliaglis® expired on September 28, 2019, the U.S. patent covering the Enhanced Formulation extends until 2031. The approval of the Enhanced Formulation triggers a US\$0.75 million milestone under the terms of the out-licensing agreement in place with Taro.