



Crescita Therapeutics Inc.

2018 Annual Report

Management's Discussion and Analysis (MD&A)

March 20, 2019

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. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. 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 has been appointed by the Board of Directors and is composed entirely of independent and financially literate directors.

Throughout this document, Crescita Therapeutics Inc. is referred to as "Crescita", "we", "our" or "Company". This MD&A provides information management believes is relevant to an assessment and understanding of the consolidated results of operations, cash flows and financial condition of the Company. The following information should be read in conjunction with Crescita's Consolidated Audited Financial Statements and the notes thereto for the years ended December 31, 2018 and 2017 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 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.

Non-IFRS and Key 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. The following are the non-IFRS and key financial measures used by Management to assess the underlying financial performance of the Company alongside their respective definitions:

Profitability	<ul style="list-style-type: none"> • EBITDA (non-IFRS) – is defined as earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization. A reconciliation of EBITDA to its closest IFRS measure can be found under the <i>EBITDA and Adjusted EBITDA</i> section of this MD&A on pages 24 and 32. • Adjusted EBITDA (non-IFRS) – is defined as earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization, gain on settlement, other income, equity-settled stock-based compensation (“SBC”), gain on debt renegotiations, goodwill and intangible asset impairment, accretion on the fair value of inventory and foreign currency gains (losses), as applicable. 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 <i>EBITDA and Adjusted EBITDA</i> section of the present document on pages 24 and 32. • Net income (loss) from continuing operations – is a measure of income or loss generated by the Company during the period, prior to the impact of any discontinued operations.
Liquidity	<ul style="list-style-type: none"> • Cash provided by (used in) operating activities – is a measure of cash generated from or (used in) managing our day-to-day business operations. We believe that operating cash flow is indicative of financial flexibility, allowing us to execute our four-pillar growth strategy.

During fiscal 2018, Management expanded the calculation of Adjusted EBITDA to exclude the gain on settlement and other income, which are non-recurring in nature. In addition, the EBITDA measure was added to our non-IFRS measures.

Reclassifications and Presentation

For the fiscal year ended December 31, 2018, the Company has reclassified interest expense and interest income to Other Income (Expense) as these are not directly related to the Company's core business and are considered non-operating costs; and has added an Operating Profit (Loss) sub-total in order to better align with IAS 1 – Presentation of Financial Statements. In addition, certain comparative financial figures have been reclassified from those previously presented to conform to the presentation in the 2018 Consolidated Audited Financial Statements.

Reporting Segments

The Company 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 on July 11, 2016, the Company has since reported the entire business as one segment.

MD&A Contents

In this document, we aim to provide a narrative explanation of the Consolidated Audited Financial Statements through the eyes of management and provide context within which these financial statements should be analyzed by giving disclosure about the dynamics of the Company's business.

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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.

Supported by a skilled sales force covering all of Canada, and executing its Business to Business to Consumer (B2B2C) marketing approach, Crescita sells its products through two primary domestic distribution channels:

- 1) **Spas:** our lead aesthetic product line, Laboratoire Dr Renaud (“LDR”), is sold to professional aestheticians in spas providing high performance active ingredient product formulations to enhance skincare treatments. Specializing in anti-aging, hydration, acne, rosacea, as well as overall skin beauty, the spa environment provides non-invasive skincare solutions to clients. LDR is also sold and used for training in aesthetic schools across Canada.
- 2) **Medispas and Medical Clinics:** our medical aesthetic brands, Pro-Derm™ and Alyria®, are sold in medispas and medical clinics which require at least one medical doctor to be on staff, or affiliated to the establishment, and may be either a general practitioner, a dermatologist or a plastic surgeon. Such establishments offer both non-invasive and invasive procedures for anti-aging, acne and other skin ailments. Medical aestheticians and the affiliated doctor(s) perform advanced skincare treatments such as chemical peels, advanced retinol facials, microdermabrasion, neurotoxin injections, and various laser and device treatments.

In addition, our brands and formulations are currently sold in the U.S. and Asian markets through international distributors.

Crescita also provides contract manufacturing and development services to several local and North American partners. Our contract development and manufacturing organization (“CDMO”) infrastructure allows Crescita to provide its clients with the support activities required to bring their products to market. Crescita specializes in manufacturing creams, liquids, gels ointments and serums, as well as in the development of product innovations, leveraging our patented transdermal delivery technologies. The Company operates out of a 50,000 square-foot manufacturing facility located in Québec, Canada which produces a significant part of its non-prescription skincare products, such as LDR and Pro-Derm. Formulations manufactured by or for Crescita include cosmetics, natural health products (“NHP”) and products with Drug Identifications Numbers (“DIN”). The manufacturing facility is compliant with current Canadian Good Manufacturing Practices (“cGMP”) and is regularly inspected by Health Canada.

At the beginning of the 2018 fiscal year, the Company vacated its Ontario office in order to consolidate its operations and corporate functions to its Laval, Québec facility as part of its ongoing efforts to rationalize its cost structure and synergize its operations. As required by its bylaws, the Company’s registered office remains in Ontario and is located at 6733 Mississauga Road, Mississauga, Ontario.

Reorganization

On December 14, 2015, Nuvo Research Inc. (“Nuvo Research”), 2487002 Ontario Limited and 2487001 Ontario Limited, each a predecessor company of Crescita, entered into an arrangement agreement (the “Arrangement Agreement”) in respect of the reorganization of Nuvo Research into two separate publicly traded companies (the “Reorganization”), Nuvo Pharmaceuticals Inc. (“Nuvo Pharma”) and Crescita, each of which would be owned 100% by Nuvo Research’s shareholders. The Reorganization was completed on March 1, 2016 and Crescita Therapeutics Inc. was formed under the laws of the Province of Ontario and the Ontario Business Corporation’s Act. For further information about the Reorganization, please refer to our 2017 AIF filed on Sedar and our corporate website at www.crescitatherapeutics.com.

Vision and Growth Strategy

Crescita's vision is to become a leader in innovative, science-based skincare solutions, providing improved outcomes for all our clients' skincare concerns. With three established non-prescription skincare brands, over 250 formulations available for commercial sale, a lead prescription product, and supported by our in-house capability in developing and manufacturing skincare products, Crescita's management believes that it is well positioned to carry out its commercial growth plan for 2019 and beyond.

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
- Pillar 2: Strategic Acquisitions and/or In-licensing Agreements
- Pillar 3: Strategic Out-licensing of Assets
- Pillar 4: CDMO Services

While the Company continues to pursue organic growth pathways as a means to bolster its core non-prescription skincare business, the potential of such growth remains modest given the mature state of our industry and the intense competitive landscape in which we operate. During fiscal 2018, management reviewed the Corporation's growth strategy and enacted certain adjustments to further align the Company's assets and capabilities with market tendencies as well as to accelerate Crescita's growth trajectory. The most significant outcome of this review was to allocate more time and resources to the identification and follow-up of business development leads as well as the pursuit of strategic business development priorities set by management and the Board of Directors. Business development is the overarching driver through all of our pillars and executing accretive business development deals and entering into collaborative arrangements is a critical component of our business growth strategy which aims to increase shareholder value over time.

Our four pillars can be described as follows:

Pillar 1: Organic Growth

The first pillar involves generating revenue growth from our non-prescription portfolio, through: (i) the introduction of product innovations and line extensions within our well-established brands such as LDR, Alyria and Pro-Derm; and (ii) the expansion of our distribution channels both in domestic and international markets, leveraging our science-based formulations and topical delivery technologies. On the prescription side of the business, the Company is planning to launch Pliaglis® in the Canadian market in the second half of 2019. Refer to Prescription Product Portfolio – Pliaglis.

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

The second pillar involves the potential acquisition of dermatology and/or skincare companies or assets offering products which are complementary to our own within the non-prescription and/or prescription markets. Potential acquisition targets pursued by the Company may include injectable neurotoxins, fillers, chemical skin peels, microneedling devices and mesotherapy. Management remains open to acquiring assets or businesses that will be accretive and are strategic in the context of the Company's growth plan. Such transactions would allow the Company to leverage its current infrastructure and to build a large, successful skincare company serving both the non-prescription and prescription markets.

Pillar 3: Strategic Out-licensing of Assets

The third growth pillar consists of expanding our domestic and international presence through further strategic business development initiatives involving the out-licensing of our skincare product lines and prescription product. Out-licensing our patented technologies, MMPE™ and DuraPeel™ is also a critical component of this pillar. These technologies have already been tested with several active ingredients, including cannabidiol ("CBD"), the non psychoactive component of cannabis, and have demonstrated significantly increased skin permeation versus the control vehicle. Management believes that these technologies could be exploited with many other molecules and could be used to increase the efficacy of many topical products currently sold. Management also plans to grow by offering our portfolio of more than 250 non-prescription product

formulations for private label skincare products and is also actively seeking commercial partners in international markets for its well-established skincare brands.

Pillar 4: CDMO Services

The fourth growth pillar aims to maximize the utilization of the Company's manufacturing facility, which is currently operating at less than its full capacity. Our fully integrated CDMO infrastructure allows Crescita to provide its clients with the support activities required to bring their products to market rapidly and efficiently. Crescita's management is actively seeking customers to forge lasting partnerships and to become a third-party CDMO of choice by offering its customers high quality, cost-effective services from our 50,000-square foot facility. Crescita delivers innovative turnkey manufacturing of skin care products which integrate production with in-house research & development ("R&D"), supply chain management, regulatory and quality assurance and 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 science-based product formulations, providing the agility to adapt to changing customer preferences;
- In-house manufacturing and R&D facilities for rapid formulation development and commercialization;
- A fully integrated sales and marketing infrastructure focused on rapid go-to-market.

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.

Pliglis 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, EMLA cream (lidocaine 2.5% and prilocaine 2.5%) and L.M.X 4 and L.M.X 5, anorectal creams that are available over the counter.

Non-Prescription Product Portfolio

Laboratoire Dr Renaud

The Laboratoire Dr Renaud skincare line is inspired by nature and joins science and aesthetics to develop personalized solutions to address daily skin challenges such as: aging, acne, rosacea, pigmentation, dehydration and sensitivity. The product line was founded in France in 1947 by Dr. Louis Raymond Renaud, a renowned French dermatologist, and became a Canadian company based in Montreal in 1963. With science and innovation at the heart of the brand since its inception, products are designed according to the principles of biomimicry which imitate natural processes, making them extremely compatible with the skin. Crescita owns the trademark rights for the skincare line in North America, certain South American countries and the Pacific Rim and the worldwide rights for the formulations. Virtually all of the LDR products are manufactured at the Company's Laval manufacturing facility.

Pro-Derm

Pro-Derm is a line of high-quality cosmeceutical products sold to physicians operating through medispas and medical 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 undesired effects of aging. Developed by a Canadian team of chemists and a dermatologist, the products are designed to achieve and maintain healthy-looking 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. Our formulas are free from parabens, dyes, perfumes, alcohol, mineral oils and other harsh chemicals, as well as from ingredients of animal origin. Crescita owns the worldwide formulations and marketing rights for Pro-Derm. Virtually all of the Pro-Derm products are manufactured at the Company's Laval manufacturing facility.

Alyria

Alyria is a comprehensive and sophisticated skincare line using scientific research to target major skincare concerns. Alyria offers a complete skincare solution for all patients, helping them to achieve healthier-looking skin with visible results. Alyria products target physicians and use effective concentrations of some of the world's most advanced ingredients in proven formulations, delivered through advanced skin optimizing systems. 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. The Company has commenced the technology transfer of the manufacturing of the Alyria line of products to its facility and anticipates completion of the transfer by fiscal 2020.

Discontinuation of Certain Brands

Given their historical under-performance, management discontinued the Canadian commercialization of the Premiology and ISDIN brands during the year ended December 31, 2017 and sold through the remaining inventory in fiscal 2018. ISDIN and Premiology represented 1.3% and 1.2%, respectively, of product sales for the year then ended. Premiology does, however, remain available for international and private label business development opportunities.

Prescription Product Portfolio

Pliaglis

Pliaglis is a topical local anaesthetic cream that provides safe and effective local dermal analgesia on intact skin prior to superficial dermatological procedures. 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 injection, non-ablative laser facial resurfacing, or pulsed-dye laser therapy 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.

Enhanced Formulation of Pliaglis

Flexicaine, an enhanced version of Pliaglis, is made of lidocaine and tetracaine (7%/7%) and is designed for the topical treatment of pain conditions. 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. The Company also developed alternate enhanced versions of Pliaglis and filed additional patent applications that may provide supplemental protection for the enhanced formulations of Pliaglis.

Historical Agreement with Galderma S.A.

In December 2015, the Company reacquired the Pliaglis development and marketing rights for the U.S., Canada and Mexico (“North America”) from Galderma Pharma S.A. (“Galderma”), a global pharmaceutical company specialized in dermatology. 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 in the ROW with the exception of North America. Please refer to Out-licensing Agreement with Taro Pharmaceuticals Inc. – Manufacturing and Supply.

Out-licensing Agreement with Taro Pharmaceuticals Inc.

On April 25, 2017, the Company entered into a Development and Commercialization License Agreement (“the Taro Agreement”) with Taro Pharmaceuticals Inc. (“Taro”). Under the terms of the Agreement, Crescita granted Taro an exclusive license to sell and distribute Pliaglis and its enhanced formulation, Flexicaine, in the U.S. market. Crescita retained all rights to Pliaglis in Canada and Mexico.

In consideration for the rights granted under the Agreement, Taro made an upfront payment of \$2,700 (US\$2,000) to Crescita. Furthermore, in the third quarter of 2017, Crescita recognized a \$647 (US\$500) development milestone related to obtaining the U.S. Flexicaine composition patent, as explained above. During the first quarter of 2018, the Company announced that Taro had launched Pliaglis in the U.S.

In addition, the Company and Taro entered into a fee-for-service development agreement, whereby, the Crescita provided services related to the further development of Pliaglis and Flexicaine and received 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 U.S Food Drug Administration (“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 Flexicaine, the second-generation enhanced version of Pliaglis with extended patent protection.

Removal of “Not for Home Use” Label Restriction

In 2017, Taro completed the study to support the removal of the Pliaglis “Not for Home Use” label restriction and filed the FDA submission with the proposed label change on June 8, 2018. On December 11, 2018, Crescita announced that the FDA had approved the Prior Approval Supplement (“PAS”) for Pliaglis, allowing for the restriction to be removed following its mandated six-month review process. The approval of this submission triggered a milestone of \$661 (US\$500) which was recognized in Q4-2018.

Manufacturing & Supply

In 2018, Taro successfully completed the transfer of the manufacturing process and analytical test methods for Pliaglis to its manufacturing facility in Brampton, Ontario. A Manufacturing Site Change Supplement seeking approval for Taro's facility to manufacture Pliaglis was submitted to the FDA on July 6, 2018. The FDA approved the site addition on September 4, 2018. Taro has successfully completed their process validation batches and began to supply commercial batches of Pliaglis for the U.S. market in Q4-2018.

Canadian Launch of Pliaglis

The Company plans to launch Pliaglis in the second half of fiscal 2019. To this end, certain key milestones have been achieved - the DIN was obtained from Health Canada, and an amendment to INTEGA's Drug Establishment License ("DEL") was submitted to Health Canada on November 7th, 2018. The amendment was subsequently approved on March 14, 2019, allowing the Company to import Pliaglis into the country. All commercial activities are progressing for an expected launch in Q4-2019.

Status of Pliaglis in Mexico

Crescita continues to explore alternatives for the preferred commercial distribution pathway for Pliaglis in Mexico and is seeking to secure partners.

As at the date of this MD&A, the Company could further receive up to US\$2,750 in development and sales milestone payments, in addition to double digit tiered royalties on net sales of products licensed under the Agreement.

MiCal Collaboration

Terms of Original Agreement

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

MiCal 1

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 ("VCA") test. A Phase 2 clinical trial on MiCal 1 was initiated in early 2017 by the CRO and during the third quarter of 2017, Crescita received and reported positive topline results from the Phase 2 clinical trial (the "Trial").

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 protocols for the two pivotal Phase 3 studies were prepared and submitted to the FDA along with additional relevant information to support the initiation of Phase 3 clinical development. The Phase 3 clinical studies were successfully initiated in Q4-2018.

While reasonable efforts were deployed to out-license the programs, the partnership decided to move forward with the Phase 3 study. Licensing revenues would be shared between the parties, where Crescita's share would reflect its contribution of the patented formulations. Crescita is currently evaluating whether or not to participate in the funding of the Phase 3 clinical development, which may have an impact on Crescita's share of licensing proceeds.

MiCal 2

MiCal 2, is a topical formulation also utilizing the Company's patented MMPE technology to treat an undisclosed dermatological skin condition. Initial formulation development efforts for MiCal 2 were completed in the second quarter 2018 and an Investigational New Drug ("IND") application updated was filed on June 25, 2018 including details on the formulations to be evaluated in the first planned Phase 1 VCA study. The IND update was accepted by the FDA and the initial Phase 1 VCA study designed to evaluate the relative potency of several formulations being evaluated for further development, was initiated early in the Q4-2018.

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 product development committee that screens and identifies new products to be developed or existing products to be upgraded. These new products are selected based on sales and marketing trends, but also include regulatory, manufacturing and cost considerations. The products under development are usually kept confidential for competitive reasons.

Prescription Drug Products

Crescita has a portfolio of development stage products and proprietary platform technologies, which include MMPE and DuraPeel. See "Technology". The following table summarizes the Company's key prescription drug product candidates.

Product	Therapeutic Area	Stage of Development	Intellectual Property ²
Pliaglis	Local anesthesia prior to cosmetic dermatology procedures	Commercial	Patents granted in the U.S. until 2019 and until 2020 in ROW. Patent pending in the U.S. through 2031.
Flexicaine (Enhanced Formulation of Pliaglis)	Local anesthesia prior to cosmetic dermatology procedures	Phase 3	Patents granted in AU, CA, CN, 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 incl. the U.S. Latest expected expiry is 2031.
MiCal 1 ¹	Plaque Psoriasis	Phase 3	Patents granted in the U.S. expiring in 2027 and a PCT application filed October 21, 2016.
MiCal 2 ¹	Dermatological skin treatment	Phase 1	Patents granted in the U.S. expiring in 2027 and a PCT application filed October 16, 2016.
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. Country abbreviations defined as follows: Australia (AU), Canada (CA), China (CN), 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.), Patent Cooperation Treaty (PCT).

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:

Peel and DuraPeel™

The Peel and DuraPeel technologies are self-occluding, film-forming cream/gel formulations that provide extended release delivery to the site of application. The cream/gel contains a drug, that when applied to a patient's skin, forms a pliable layer that releases the active ingredient into the skin for up to 12 hours. The benefits of the Peel and DuraPeel technologies 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. While the Peel technology typically involves a single solvent that dries to form a pliable film, the DuraPeel technology involves a two-solvent system which includes: 1) a volatile solvent component that dries to form a self-occluding film and 2) a non-volatile solvent component that remains in the formulation to facilitate prolonged release of the active from the formulation into the skin. Peel technology patents have been issued in 21 countries including the US, with the latest expiring in 2031. Patent applications are pending in 3 countries. DuraPeel patents have been issued in Australia, Canada, Japan and the U.S. with the latest expiry in 2027. The European patent application is 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 Treaty Cooperation ("PCT") applications are pending with the latest expiry date in 2036.

Skin Permeation Study Using MMPE and DuraPeel

On October 15, 2018 the Company announced that its patented transdermal delivery technologies, MMPE and DuraPeel, demonstrated enhanced permeation of CBD, the non-psychoactive component of cannabis, in an in-vitro skin permeation study performed in Franz Diffusion Cells.

The study, performed by an independent Southern California-based laboratory specializing in the transdermal delivery of actives, showed that both MMPE and DuraPeel significantly increased the transdermal permeation of CBD over the control formulation by up to 14 and 6-fold, respectively. CBD has been associated with antiseizure, antioxidant, neuroprotective, anxiolytic, anti-inflammatory, antidepressant, and antipsychotic effects. These proprietary technologies have already been successfully utilized in a number of topical products to enhance the delivery of different active ingredients. The Company has expertise in developing and manufacturing topical and transdermal skincare products for a wide variety of conditions and is interested in engaging with partners to develop and commercialize cannabinoid-containing products. Crescita's management has entered into exploratory discussions with a number of potential partners. However, notwithstanding the Company's best efforts, there can be no certainty that we will secure commercial/development partners.

Key Developments and Performance Measures

Significant Transactions

Fiscal 2019 to MD&A Filing Date

Irrevocable Waiver of Cash Sweep Provision from Knight

On February 15, 2019, Crescita obtained an irrevocable waiver from Knight Therapeutics Inc. ("Knight") of certain provisions of the Second Amended Loan Agreement, allowing Crescita to retain 100% of the net cash proceeds received through milestone and royalty payments from Taro for the year ended December 31, 2018 and up to and until February 15, 2019.

The "Second Amended Loan Agreement", entered into on August 14, 2017, further amended and restated the loan agreement with Knight dated September 1, 2016 (the "First Amended Loan Agreement"). The First Amended Loan Agreement amends and restates the original loan agreement dated as of January 21, 2016 (the "Original Loan Agreement").

Development Collaboration Agreement with Tetra Natural Health

On February 4, 2019, the Company entered into an agreement with Tetra Natural Health ("Tetra"), a subsidiary of Tetra Bio-Pharma, a leader in cannabinoid-derived drug discovery and development, to develop an enhanced version of Tetra's dermatology portfolio using Crescita's patented transdermal delivery technologies: MMPE and DuraPeel. The primary active ingredient contained in the product portfolio to be reformulated is beta-caryophyllene ("Beta-C"), which is known to work on CBD 2 receptors. The testing methodology and the clinical development made possible by the collaboration is intended to help optimize the delivery of Beta-C and several other active ingredients into the skin and local tissues.

Fiscal 2018

Deferral of Principal Payments on Knight Loan

Under the terms of the Second Amended Loan Agreement, Crescita had agreed to make additional repayments such that the principal amount of the loan would be reduced to \$2,500 by December 31, 2018. During the fourth quarter of 2018, the Company initiated discussions with Knight to further renegotiate the terms currently in effect. Accordingly, the parties executed certain amendments to the Second Amended Loan Agreement on December 7, 2018 and then again on January 31, 2019, extending the repayment date without penalty from December 31, 2018 to January 31, 2019 and then to March 31, 2019. These amendments allowed the Company to defer the due date of the principal payment from December 31, 2018 to March 31, 2019. As such, no repayments on principal were made in 2018. The Company is currently negotiating certain terms of the Second Amended Loan Agreement.

Development Milestone Related to Removal of "Not for Home Use" Label Restriction

On December 17, 2018, the Company announced that the FDA approved the PAS for Pliaglis allowing the removal of the "Not for Home Use" label restriction on the product in the U.S. The approval of this submission triggered a milestone of \$661 (US\$500) for Crescita. In 2017, Taro, completed a study to support the removal of the Pliaglis "Not for Home Use" label restriction and filed the FDA submission with the proposed label change on June 8, 2018.

Recognition of Other Income

On June 29, 2018 the Company entered into an agreement relating to a \$1,000 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 \$650 and (b) other income of \$275 related to planned facility upgrades and reimbursement of costs incurred in connection with previously rendered contract manufacturing services. Other income also included a gain of \$180 related to the revaluation of the contingent consideration receivable in connection with the Alyria Acquisition. See Significant Transactions – Fiscal 2017 – Acquisition of Alyria Skincare Products.

Completion of Rights Offering Raising \$3.5 million

On March 9, 2018 the Company completed a rights offering (the “Offering”), upon which 7,001,603 Class A common shares were issued for net proceeds of \$3,520. 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. In connection with the Offering, Crescita obtained an irrevocable waiver from Knight of certain provisions of the Second Amended Loan Agreement, allowing Crescita to benefit from 100% of the net proceeds of the Offering.

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 \$1,000 convertible debenture financing with the Bloom Burton Healthcare Lending Trust and the Bloom Burton Healthcare Lending Trust II (the “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 its loan with Knight and entered into a second amended and restated loan agreement (the “Second Amended Loan Agreement”). Crescita immediately repaid \$3.2 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 loan continues to bear interest at 9% per annum with a maturity date of January 22, 2022 and does not contain any financial covenants. 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. The loan can be repaid by the Company at any time prior to December 31, 2018 without penalty. 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. Under the Second Amended Loan Agreement, Crescita agreed to make additional repayments such that the principal amount of the loan would be reduced to \$2,500 by December 31, 2018. Please refer to Significant Transactions – 2018 - Deferral of Principal Payments on Knight Loan and Significant Transactions – 2019 – Irrevocable Waiver on Cash Sweep Provision from Knight.

Acquisition of Alyria Skincare Products

On August 8, 2017, the Company announced that its wholly owned subsidiary, INTEGA Skin Sciences Inc. (“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, through Crescita’s 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 (the “Amended Alyria Agreement”), which extended the payment terms related to certain future payments. Under the terms of the Amended Alyria Agreement, the Company was entitled to receive consideration related to achieving certain sales targets and levels of inventory consumption. This benefit was recorded as a contingent consideration receivable of \$126. At December 31, 2018, the contingent consideration receivable was revalued to \$306 and was reclassified against accounts payable and accrued liabilities in the amount of \$156 and against other obligations in the amount of \$150. Refer to Significant Transactions – 2018 - Recognition of Other Income.

Development Milestone Related to the Flexicaine Patent

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. This grant entitled Crescita to a \$647 (US\$500) development milestone under the Taro Agreement, defined below.

Out-licensing of Pliaglis® and Flexicaine to Taro Pharmaceuticals Inc.

On April 25, 2017, the Company entered into a development and commercialization license 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 \$2,700 (US\$2,000) to Crescita in the second quarter of 2017. Please refer to Prescription Product Portfolio – Pliaglis.

Licensing Agreement Utilizing its 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 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. Please refer to Prescription Product Portfolio – MiCal Collaboration.

Fiscal 2018 Highlights

- Record revenue of \$16,628, including \$4,069 in royalty revenue on the U.S. net sales of Pliaglis and \$3,285 (US\$2,500) in development and sales milestones, an increase of \$4,614 or 38.4% vs FY2017;
- Operating expenses of \$16,665, down \$1,563 or 8.6% versus FY-2017;
- Adjusted EBITDA¹ of \$1,451, an improvement of \$5,882 versus FY-2017;
- Generated \$1,592 in cash during the year, resulting in an ending cash and cash equivalents balance of \$8,589 as at December 31, 2018, compared to \$6,997 at the end of FY-2017;
- Announced the launch of Pliaglis in the U.S by Taro;
- Announced the U.S. FDA's approval to remove the "Not for Home Use" label restriction for Pliaglis, triggering a \$661 (\$US500) milestone;
- Successfully completed a Rights Offering, raising \$3,520 in net equity funding to support our growth;
- Reported favourable results from a skin permeation study using our patented technologies, MMPE and DuraPeel, demonstrating significantly increased transdermal permeation of CBD over the control formulation by up to 14- and 6-fold, respectively;
- Launched five product innovations in our non-Rx business, leveraging our patented MMPE technology and Ecobiotys^{®2}.

¹ Adjusted EBITDA is a non-IFRS measure. Please refer to the *Non-IFRS and Key Financial Measures* and the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A.

² Ecobiotys[®] by Silab is an innovative biomimetic ingredient developed to address skin complexion improvement. Ecobiotys[®] won the gold award of the innovation zone best active ingredient at the in-cosmetics Asia show as well as the best active ingredient bronze award at in-cosmetics global 2018. to find out more, please visit https://www.silab.fr/produit-105-ecobiotys_usa.html.

Selected Yearly Financial Information

For the years ended December 31,	2018	2017	2016 Restated ⁴	Change 2018 / 2017	Change 2017 / 2016
<i>In thousands of CAD dollars except per share amounts and number of shares</i>					
Operations					
Revenues	16,628	12,014	3,504	4,614	8,510
Total operating expenses	16,665	18,228	18,208	(1,563)	20
Operating loss	(37)	(6,214)	(14,704)	6,177	8,490
Total other income (expenses)	686	(5,044)	(229)	5,730	(4,815)
Income (loss) from continuing operations before income taxes	649	(11,258)	(14,933)	11,907	3,675
Income tax recovery	(1,773)	-	(295)	(1,773)	295
Net income (loss) from continuing operations	2,422	(11,258)	(14,638)	13,680	3,380
Net loss from discontinued operations	(26)	(205)	(2,246)	179	2,041
Net income (loss)	2,396	(11,463)	(16,884)	13,859	5,421
Adjusted EBITDA ¹	1,451	(4,431)	(13,386)	5,882	8,955
Net income (loss) from continuing operations per common share					
Basic and Diluted	\$ 0.12	\$ (0.81)	\$ (1.19)	\$ 0.93	\$ 0.39
Net income (loss) per common share					
Basic and Diluted	\$ 0.12	\$ (0.81)	\$ (1.38)	\$ 0.93	\$ 0.57
Weighted average number of common shares outstanding					
Basic and Diluted	19,706,535	13,959,518	12,251,464	5,747,017	1,708,054
Balance Sheet					
Cash and cash equivalents ²	8,589	6,997	18,358	1,592	(11,361)
Total assets	27,565	22,565	40,240	5,000	(17,675)
Total non-current financial liabilities ³	2,914	3,597	8,413	(683)	(4,816)
Total liabilities	8,558	9,458	16,147	(900)	(6,689)
Total equity	19,007	13,107	24,093	5,900	(10,986)

¹ Adjusted EBITDA is a non-IFRS measure. Please refer to the *Non-IFRS Financial Measures*.

² Non-current financial liabilities are the sum of the long-term portions of long-term debt, convertible debentures and other obligations.

³ In Q3-2017, previously restricted short-term investments were transferred to unrestricted cash accounts as part of the Knight loan renegotiation.

⁴ The Company restated its 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. 2016 results reflect only four months of INTEGA operations.

Outstanding Share Data

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

	As at March 18, 2019
Common shares	21,016,059
Stock options ¹	2,612,060
Convertible debentures ²	1,000,000
Warrants	660,823
Share Appreciation rights (SARs) ³	51,860

¹ This amount includes 924,685 options which have vested.

² The convertible debentures are convertible into common shares at the option of the holder at a conversion price of \$1.00 per share.

³ On February 18, 2016, the shareholders of Nuvo Research Inc. approved a resolution to allow SARs to be equity settled.

On March 9, 2018, 7,001,603 Class A common shares were issued from treasury, upon the completion of the Offering, while on June 15, 2018, 11,250 shares were issued following the exercise of stock options by an employee. Crescita had 21,016,059 shares issued and outstanding as at March 18, 2019.

Update on Liquidity

Our objectives when managing our liquidity and capital structure are to maintain sufficient cash to fund our operations and organic growth to enable us to continue as a going concern, and to meet contractual obligations as they become due. As at December 31, 2018, Crescita had working capital (defined as current assets minus current liabilities), of \$11,048 [\$6,304 at December 31, 2017], an accumulated deficit of \$(42,143) and generated \$1,592 in cash during the year. Our ability to reach profitability is dependent on the successful implementation of our growth strategy. On March 9, 2018, the Company completed the Offering and received \$3,520 in net proceeds, which strengthened our ability to carry out our corporate growth strategy for fiscal 2018 and beyond. While management is confident in the future success of the business, there can be no assurance that our products will gain adequate market penetration or acceptance or generate sufficient revenue to reach profitability.

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 2019. These cash flow estimates are subject to uncertainties as to the achievement of certain key factors considered in the cash flow analysis.

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 product development 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.

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. 31,			For the twelve months ended Dec. 31,		
	2018	2017	Change	2018	2017	Change
U.S. dollar	1.3214	1.2715	3.9%	1.2961	1.2980	-0.1%
Euro	1.5080	1.4976	0.7%	1.5306	1.4646	4.5%

As at December 31,	2018	2017	Change
U.S. dollar	1.3642	1.2545	8.7%
Euro	1.5613	1.5052	3.7%

Results of Operations

Revenue

For the years ended December 31,	2018	2017	Change
			\$
<i>In thousands of CAD dollars</i>			
Product sales	9,082	8,134	948
Out-licensing	7,518	3,582	3,936
Services	28	298	(270)
Total revenue	16,628	12,014	4,614

For the year ended December 31, 2018, total revenues were \$16,628 compared to \$12,014 in the prior year, representing an increase of \$4,614 or 38.4% year-over-year. The increase came primarily from our out-licensing business and was almost exclusively from milestones and royalties related to Pliaglis in the U.S under the Taro Agreement, as well as, to a lesser extent, from our product sales, mainly driven by our CDMO business and medical aesthetic brands.

Product Sales

Product sales consist of sales from branded products in our non-prescription skincare portfolio: LDR, Pro-Derm, and Alyria. Product sales also include export sales from LDR, which is currently sold in South Korea and Malaysia through distributors, as well as CDMO sales. The Company recognizes 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, 2018 were \$9,082 compared to \$8,134 in the prior year, representing an increase of \$948 or 11.7%. The increase was mainly driven by 1) the full year's impact of Alyria in 2018 due to the timing of the acquisition in the prior year; 2) significant growth in CDMO revenue, mainly as a result of higher work volumes related to supporting the retail product launch for an important customer; partly offset by 3) lower sales for LDR in both domestic and international markets.

During the second half of 2018, the Company completed the launch of five product innovations within the LDR line, one of which leverages our in-house proprietary MMPE technology and our superior anti-ageing formulations in order to bolster sales. The aesthetic spa business into which we sell our lead brand, LDR, is extremely competitive and renders gaining market share challenging. Consumer awareness of our brands, their perception of our value proposition, and the effectiveness and reach of our marketing and promotional activities, all have a direct impact on our ability to be successful and generate growth.

Out-licensing Revenue

Out-licensing revenue includes upfront and milestones payments as well as royalties based on the net sales recognized by the Company's licensees. During the first quarter of 2018, the Company announced the U.S. launch of Pliaglis by Taro. Under the agreement, Taro has the exclusive rights to sell and distribute Pliaglis and its enhanced formulation, Flexicaine, in the U.S. Taro is responsible for all sales and marketing efforts as well as for all matters related to Pliaglis in this market. The Company earns tiered double-digit royalty on Taro's net sales.

All other royalty revenue was related to the global net sales of Pliaglis by Galderma. The amount of the royalty is determined using agreed upon formulas based on the definition of the licensee's net sales as described in the licensing agreement. The Company earns a fixed single-digit royalty on Galderma's net sales.

During the year ended December 31, 2018 revenue from out-licensing was \$7,518, compared to \$3,582 for the year ended December 31, 2017, representing an increase of \$3,936 or 109.9%. During the year, the Company recognized \$4,233 in royalties on the global net sales of Pliaglis and \$3,285 (US\$2,500) in sales and development milestones: 1) \$2,624 (US\$2,000) for Taro reaching two out of the four contractual cumulative sales targets, and 2) \$661 (\$US500) for obtaining FDA approval to remove the "Not for Home Use"

label restriction on Pliaglis in the U.S. The 2017 fiscal year included an up-front payment of \$2,700 (US\$2,000) related to the out-licensing of Pliaglis in the U.S, and the milestone payment of \$647 (US\$500) related to the issuance of the Flexicaine composition patent, both of which did not repeat in fiscal 2018.

Services Revenue

Immediately following the Reorganization on March 1, 2016, Crescita and Nuvo had entered a reciprocal Transitional Service Agreement (“TSA”) which was primarily for specific legal counsel as well as general corporate-level services. The TSA was terminated on June 30, 2018. For the year ended December 31, 2018, Crescita earned \$nil for services provided to Nuvo under the terms of the TSA, compared to \$61 for the year ended December 31, 2017.

For development services provided to Taro, the Company earned \$28 during the twelve months ended December 31, 2018, compared to \$237 for the twelve months ended December 31, 2017. These amounts were in accordance with the fee-for-service development agreement with Taro whereby the Company provided services related to the further development of Pliaglis and Flexicaine.

Client Concentration

Under IFRS 8 *Operating Segments* (“IFRS 8”), major customers are those that account for greater than 10% of the Company’s consolidated revenues. The Company’s out-licensing revenue is almost exclusively generated from royalties earned on the net sales of Pliaglis in the U.S and milestones from Taro. Revenue for fiscal 2018 from Taro represented \$7,355 million or 44.2% of the Company’s total revenue and \$3,347 or 27.9% of total revenue for fiscal 2017.

Operating Expenses

For the years ended December 31,	2018	2017	Change \$
<i>In thousands of CAD dollars</i>			
Cost of goods sold	5,539	4,940	599
Research and development	1,063	1,112	(49)
Selling, general and administrative	10,063	12,176	(2,113)
Total operating expenses	16,665	18,228	(1,563)

Total operating expenses for the twelve months ended December 31, 2018 were \$16,665, compared to \$18,228 for the twelve months ended December 31, 2017, representing a year-over-year decrease of \$1,563 or 8.6%. The decrease was primarily driven by lower selling, general and administrative (“SG&A”) expenses incurred versus the prior year, partly offset by higher COGS as a result of incremental sales over fiscal 2017.

Cost of Goods Sold

The cost of goods sold (“COGS”) primarily includes: the cost associated with manufacturing and packaging our products, depreciation of manufacturing facilities and equipment, provisions for inventory obsolescence, the cost of products purchased from third parties, as well as the cost related to earning out-licensing revenue.

For the year ended December 31, 2018, total COGS were \$5,539, compared to \$4,940 for the year ended December 31, 2017. Included in total COGS for the 2018 fiscal year was \$4,866 for product sales and \$673 related to out-licensing revenue, compared to \$4,846 for product sales and \$94 related to out-licensing revenue in fiscal 2017. The year-over-year increase in total COGS was mainly a result of the incremental out-licensing revenue from Pliaglis versus the prior year. In addition, fiscal 2017 COGS included the following non-recurring adjustments: 1) a fair value adjustment resulting from the INTEGA acquisition of \$371; and 2) \$287 write-down for short-dated inventory in the ISDIN product line, which the Company discontinued at the end of fiscal 2017, both of which increased COGS for this period. When removing these adjustments from the fiscal 2017 COGS

from product sales, COGS from product sales would have been \$4,188, representing a year-over-year increase of \$678 versus fiscal 2018. This increase was mainly a result of the increase in our CDMO business.

Gross margin on product sales, as reported, for the current fiscal year was \$4,216 or 46.4%, compared to \$3,288 or 40.4% for the prior year. Excluding the fair value adjustment and other non-recurring inventory adjustment defined above, the 2017 gross margin would have been \$3,946 or 48.5%. The decrease in gross margin of 2.1% year-over-year on a comparable basis, was mainly due to our revenue mix for the year which included significantly higher CDMO revenues, which yield lower margins.

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.

In the normal course of its business, the Company allocates a significantly part of its R&D resources to the rejuvenation of its non-prescription skincare lines for product development and product reformulations, as well as to support its CDMO business. 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. To a lesser extent, the Company also incurs clinical development costs related to our prescription products which are, in large part, reimbursed 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. 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. Costs borne by Crescita are limited to pre-clinical testing costs as well as costs related to the formulations and developments of test batches.

R&D expenses for the twelve months ended December 31, 2018 were \$1,063 compared to \$1,112 for the comparable twelve months of 2017, essentially flat year-over-year.

Selling, General and Administrative

For the twelve months ended December 31, 2018, SG&A expenses amounted to \$10,063, down \$2,113 or 17.4% from the \$12,176 incurred in the twelve months ended December 31, 2017. The year-over-year decrease was mainly driven by savings in headcount-related costs as a result of the reorganization of various corporate functions and the centralization of the Company's operations to its Laval facility; a reduction in professional and consulting fees in connection with regulatory matters as well as a reduction in logistics costs following the renegotiation of terms with our third-party provider.

Other Income (Expenses)

For the years ended December 31, <i>In thousands of CAD dollars</i>	2018	2017	Change \$
Gain on settlement	650	-	650
Other income	455	-	455
Interest expense	(603)	(421)	(182)
Interest income	110	64	46
Foreign currency gain (loss)	74	(96)	170
Gain on debt renegotiations, net	-	1,079	(1,079)
Goodwill and intangible asset impairment	-	(5,670)	5,670
Total other income (expenses)	686	(5,044)	5,730

Gain on Settlement

During the second quarter of 2018, the Company entered into an agreement relating to a \$1,000 historical liability owing under a previous acquisition concluded in 2016. Pursuant to the terms of the agreement, in consideration for INTEGA releasing the counterparty from any potential future claims under the agreement,

INTEGA no longer had to pay a portion of that liability equal to \$650. The resulting benefit was recorded as a Gain on Settlement included in Other Income on the Consolidated Financial Statement of Income (Loss).

Other Income

For the twelve months ended December 31, 2018, the Company recorded \$455 in Other Income, which was mainly composed of the following: 1) \$275 as consideration received relating to planned facility upgrades pursuant to deficiency claims under the aforementioned previous acquisition and a reimbursement with respect to previously rendered contract manufacturing services, and 2) a gain of \$180 related to the revaluation, at December 31, 2018, of a contingent consideration receivable in connection with the Alyria Acquisition, whereby the Company was entitled to be compensated for achieving certain sales targets and levels of inventory consumption.

Foreign Currency Gains (Losses)

For the twelve months ended December 31, 2018, the Company incurred a net foreign currency gain of \$74, compared to a net foreign currency loss of \$96 for the twelve months ended December 31, 2017. The variance from period to period was primarily driven by the timing of payments and settlements of foreign currency denominated balances.

Interest

Interest expense was \$603 for the twelve months ended December 31, 2018, compared to \$421 for the twelve months ended December 31, 2017. These amounts primarily related to the Knight Loan, net of amortization of the fair value adjustments, as well as the interest accretion on other obligations related to the acquisition of Alyria and on the convertible debentures. Interest income was \$110 for fiscal 2018, compared to \$64 for the prior year. The Company earns interest on its cash balances and short-term investments.

Gain on Debt Renegotiations, net

During the third quarter of 2017, the Company renegotiated the terms of the First Amended Loan Agreement with Knight. As the terms of the Second Amended Loan Agreement were substantially different from the First Amended Loan Agreement, the renegotiation created a debt extinguishment for accounting purposes and the First Amended Loan Agreement was derecognized with the Second Amended Loan Agreement being recognized at fair value. The difference in the fair value and the carrying value of between the loans resulted in the reported gain of \$1,079, net of transaction costs in that period.

Goodwill and Intangible Assets Impairment

For the year ended December 31, 2017, the Company recorded a goodwill impairment charge of \$5,219 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 Premiogy, the Company wrote-off intangible assets in the amount of \$451 related to these non-performing product lines.

Net Income (Loss) and Net Income (Loss) per Common Share

For the years ended December 31,	2018	2017	Change
			\$
<i>In thousands of CAD dollars except number of shares and per share amounts</i>			
Net Income (loss) from continuing operations before income taxes	649	(11,258)	11,907
Income tax (recovery)	(1,773)	-	(1,773)
Net income (loss) from continuing operations	2,422	(11,258)	13,680
Net loss from discontinued operations	(26)	(205)	179
Net income (loss)	2,396	(11,463)	13,859
Weighted average number of common shares outstanding			
- basic and diluted	19,706,535	13,959,518	5,747,017
Net income (loss) per common share from continuing operations			
- basic and diluted	\$ 0.12	\$ (0.81)	\$ 0.93
Net income (loss) per common share			
- basic and diluted	\$ 0.12	\$ (0.81)	\$ 0.93

Net Income (Loss) from Continuing Operations before Income Taxes

Net income from continuing operations before income taxes was \$649 for the twelve months ended December 31, 2018, compared to a net loss of \$(11,258), reported for the twelve months ended December 31, 2017. The year-over-year improvement of \$11,907 was mainly attributable to: 1) the incremental gross margin on out-licensing revenue of \$3,357; 2) the incremental gross margin on product sales of \$927; 3) the benefit of the gain on settlement and Other Income of \$1,105 recognized during the current year; 4) the benefit of the reduction in SG&A of \$2,113 versus the prior year; as well as the 5) the non-cash goodwill and intangible asset impairment charge of \$5,670 incurred at the end of fiscal 2017, which did not repeat in the current year, partly offset by; 6) the gain on debt renegotiations of \$1,079 in the prior year.

Income Tax Recovery

The Company recognized an income tax asset of \$1,773 primarily in respect of Canadian non-capital loss carry-forwards and deductible temporary differences between the asset carrying amounts used for accounting purposes and the amounts used for tax purposes. The recognition of the income tax recovery was supported by a high probability, based on management's best estimate, that future taxable income against which to deduct the loss carry-forwards and temporary differences will be available.

Net Loss from Discontinued Operations

Net loss from discontinued operations was \$(26) for the twelve months ended December 31, 2018, compared to \$(205) in the prior year. Amounts incurred in both years, were related to completing the requisite regulatory filings required as part of the wind-down process for the Immunology Group.

Net Income (Loss)

Net income was \$2,396 for the year ended December 31, 2018, an improvement of \$13,680 when compared to the net loss position of \$(11,463) reported a year ago. The year-over-year variance was mainly driven by the same factors as identified above under *Net Income (Loss) from Continuing Operations before Income Taxes*, *Net Loss from Discontinued Operations* and the \$1,773 income tax recovery recognized in fiscal 2018, described above.

Net Income (Loss) per Common Share and Weighted Average Number of Shares Outstanding

Net income per share was \$0.12 for the year ended December 31, 2018, an improvement of \$0.93 when compared to the net loss per share of \$(0.81) reported for the year ended December 31, 2017. The weighted average number of shares outstanding on a basic and diluted basis was 19,706,535 for the year just ended, an increase of 5,747,017 Class A shares as a result of shares issues following the successful completion of the Rights Offering in March 2018 and the exercise of stock options by an employee.

EBITDA and Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net income (loss) from continuing operations, as reported in accordance with IFRS, and EBITDA and Adjusted EBITDA, for the fiscal years ended December 31, 2018 and 2017.

For the years ended December 31, <i>In thousands of CAD dollars</i>	2018	2017	Change \$
Net income (loss) from continuing operations	2,422	(11,258)	13,680
Add:			
Depreciation and amortization	1,146	1,161	(15)
Interest expense, net	493	357	136
EBITDA	4,061	(9,740)	13,801
Add:			
Equity-settled stock-based compensation	342	251	91
Goodwill and intangible asset impairment	-	5,670	(5,670)
Accretion on fair value of inventory	-	371	(371)
Foreign currency loss	-	96	(96)
Less:			
Other income	1,105	1,079	26
Income tax recovery	1,773	-	1,773
Foreign currency gain	74	-	74
Adjusted EBITDA	1,451	(4,431)	5,882

Adjusted EBITDA for the twelve months ended December 31, 2018 was \$1,451, compared to an EBITDA loss of \$(4,431) for the twelve months ended December 31, 2017, representing a year-over-year improvement of \$5,882. Please refer to the section entitled Net Income (Loss) from Continuing Operations before Income Taxes and Other Income – Goodwill and Intangible Asset Impairment for further details.

Liquidity and Capital Resources

Consolidated Statement of Cash Flows

For the years ended December 31,	2018	2017	Change \$
<i>In thousands of CAD dollars</i>			
Net income (loss) from continuing operations	2,422	(11,258)	13,680
Net loss from discontinued operations	(26)	(205)	179
Items not involving cash flows	(920)	6,471	(7,391)
Cash from operations	1,476	(4,992)	6,468
Net change in non-cash working capital	(2,954)	(2,410)	(544)
Cash (used in) operating activities	(1,478)	(7,402)	5,924
Cash (used in) provided by investing activities	(144)	7,844	(7,988)
Cash provided by (used in) financing activities	3,186	(3,259)	6,445
Effect of foreign exchange rates on cash and cash equivalents	28	7	21
Net change in cash and cash equivalents during the year	1,592	(2,810)	4,402
Cash and cash equivalents, beginning of the year	6,997	9,807	(2,810)
Cash and cash equivalents, end of the year	8,589	6,997	1,592

Cash and Cash Equivalents

Cash and cash equivalents were \$8,589 as at December 31, 2018 compared to \$6,997 as at December 31, 2017. During the year, we generated \$1,592 in cash, including the proceeds from the Company's Rights Offering concluded in March of 2018.

Operating Activities

Total cash used in operating activities for the twelve months ended December 31, 2018 was \$1,478, an improvement of \$5,924 versus the \$7,402 used in the twelve months ended December 31, 2017. The improvement was mainly driven by the cash generated from operations of \$1,476, compared to cash used in operations of \$4,992 in the prior fiscal year, representing an increase of \$6,468, partly offset by the unfavourable movement in non-cash working capital items of \$544. The improvement in cash used in operating activities was mainly a result of the same drivers as those behind the improvement in our Adjusted EBITDA. Refer to *Income from Continuing Operations before Income Taxes* for further details on these drivers.

The net change in non-cash working capital of \$(2,954) for the year just ended was mainly driven by the timing of the receivable related to Pliaglis royalty and milestone revenue. For the 2017 fiscal year, the investment in working capital was \$(2,410) and was mostly 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. The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations.

Investing Activities

For the twelve months ended December 31, 2018, the Company invested \$144, primarily related to plant equipment and facility upgrades, and to a lesser extent, to leasehold improvements, compared to \$7,844 provided by investing activities for the twelve months ended December 31, 2017. The prior year reflected the redemption of \$8,551 in short-term investments previously restricted and held as collateral for the Knight loan, giving the Company access to the funds, partly offset by amounts paid in connection to the Alyria Acquisition of \$600, and purchases for property, plant and equipment required to maintain and operate our production facility and to upgrade computer equipment.

Financing Activities

For the year ended December 31, 2018, net cash provided by financing activities totaled \$3,186, compared to net cash used in financing activities of \$3,259 a year ago. In the first quarter of 2018, the Company received \$3,520 in net proceeds upon the completion of its Offering. These proceeds were partly offset by a payment of \$300 made in connection with the obligation payable related to the Alyria Acquisition. For the year ended December 31, 2017, financing activities related primarily to: 1) the principal repayments of \$3,184 against the Knight Loan; 2) a payment of \$1,000 made relating to a previous acquisition by INTEGA; 3) a payment made in connection with the obligation payable related to the Alyria Acquisition of \$100; partly offset by the proceeds from the convertible debenture financing completed with Bloom Burton Funds in the amount of \$1,000.

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
2019	405
2020	405
2021	303
Total Commitments	1,113

For the year ended December 31, 2018, payments under operating leases totaled \$425 [\$598 for the year ended December 31, 2017].

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:

<i>In thousands of CAD dollars</i>	December 31, 2018			December 31, 2017		
	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)	-	-	(20)
SARs	-	-	-	-	(1)	-

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, 2018 and 2017.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 17 to the Consolidated Audited Financial Statements, *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 Alyria Acquisition. The fair value of the contingent consideration receivable and payable is revalued at each reporting period based on management's best estimate using the discounted cash flow method.

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

Risk Factors

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

Liquidity Risk

The Company 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 2019 and beyond. 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 \$425 that are due in less than one year and \$1,113 that is payable from 2019 to 2021.

The Company's exposure to liquidity risk is dependent on the sales growth and profitability of its operations which will be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk including the level of 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 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 December 31, 2018, 3% of accounts receivables related to customers outside North America and the E.U. [December 31, 2017 - 8%].

As at 31 December 2018, the Company had two customers that accounted for approximately 86% [December 31, 2017 - 28%] of the total accounts receivables.

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

<i>In thousands of CAD dollars</i>	December 31,	
	2018	2017
Current	4,775	696
0-30 days past due	197	512
31-60 days past due	137	112
61-90 days past due	38	196
Over 90 days past due	(9)	26
	5,138	1,542
Allowance for doubtful accounts	(51)	(79)
Total accounts receivable	5,087	1,463

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:

<i>In thousands of</i>	Euros (€)		U.S. Dollars	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash and cash equivalents	51	54	194	573
Accounts receivable	-	-	3,334	305
Other current assets	38	18	30	47
Accounts payable and accrued liabilities	(93)	(86)	(843)	(357)
	(4)	(14)	2,715	568

Based on the aforementioned net exposure as at December 31, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$370 on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$1 on total comprehensive loss.

In terms of the euro, the Company has three significant exposures: its euro-denominated cash held in its Canadian operations, 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 and its net investment and net cash flows in its European 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 U.S. dollar-denominated cash held in its Canadian operations, royalties and milestones from licensing agreements with Galderma S.A. (Galderma) and Taro regarding Pliaglis and 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 and 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.

Off-Balance Sheet Arrangements

Crescita does not have any off-balance sheet arrangements.

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.

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.

Fourth Quarter Results

For the three months ended December 31,	2018	2017	Change \$
<i>In thousands of CAD dollars, except number of shares and per share amounts</i>			
Products	2,762	2,168	594
Out-licensing	3,441	116	3,325
Services	1	72	(71)
Total revenue	6,204	2,356	3,848
Cost of goods sold	1,858	1,799	59
Research and development	293	170	123
Selling, general and administrative	2,701	2,750	(49)
Total operating expenses	4,852	4,719	133
Operating Profit (loss)	1,352	(2,363)	3,715
Other Income	(3)	-	(3)
Interest expense	152	167	(15)
Interest income	(39)	(16)	(23)
Foreign currency loss (gain)	(98)	25	(123)
Goodwill and intangible assets impairment	-	5,670	(5,670)
Income (loss) from continuing operations before income taxes	1,340	(8,209)	9,549
Income tax recovery	(1,773)	-	1,773
Net income (loss) from continuing operations	3,113	(8,209)	11,322
Net loss from discontinued operations	(1)	(48)	47
Net income (loss)	3,112	(8,257)	11,369
Net income (loss) per common share from continuing operations			
Basic and Diluted	\$ 0.15	\$ (0.59)	\$ 0.74
Net income (loss) per common share			
Basic and Diluted	\$ 0.15	\$ (0.59)	\$ 0.74
Weighted average number of common shares outstanding			
Basic and Diluted	21,016,059	14,003,206	7,012,853

Q4-2018 Highlights

- Reported record revenue for the quarter of \$6,204, up \$3,848 or 163.3% from Q4-2017;
- Recognized two significant milestones totaling \$1,982, included in revenue above: 1) \$1,321 for the second sales milestone related to cumulative sales targets for Pliaglis U.S. by Taro, and 2) \$661 (US\$500) for Taro obtaining FDA approval to remove the “Not for Home Use” label restriction on Pliaglis;
- Reported record Adjusted EBITDA of \$1,779, up \$3,785 from the loss position of \$(2,006) reported in Q4-2017;
- Ended the quarter with \$8,589 of cash and cash equivalents, \$1,592 higher than the year ago balance.

Results of Operations

Revenue

Total revenue for the three months ended December 31, 2018 was \$6,204, compared to \$2,356 for the three months ended December 31, 2017. The year-over-year increase of \$3,848 or 163.3% was primarily due to the incremental out-licensing revenue and product sales earned over the prior year of \$3,325 and \$594, respectively. During the quarter, the Company recognized two significant milestones totaling \$1,982, in addition to \$1,343 in incremental royalties on the global net sales of Pliaglis. Milestones recognized during the quarter were: 1) \$1,321 for the second of four sales milestones related to the achievement of cumulative U.S. sales targets by Taro; and 2) a \$661 (\$US500) development milestone related to Taro obtaining FDA approval to remove the “Not for Home Use” label restriction on Pliaglis in the U.S.

Product sales also grew, posting an increase of 27.4% year-over-year. The increase was mainly driven by higher CDMO revenue in Q4, reflecting higher work volumes related to supporting the retail product launch for an important customer, and to a lesser extent, growth across our key skincare brands, partly offset by the timing of export revenue.

Cost of Goods Sold

COGS for the three months ended December 31, 2018 was \$1,858, an increase of \$59 when compared to the \$1,799 incurred in the fourth quarter of 2017. Included in total COGS for the fourth quarter of 2018 was \$1,634 related to product sales and \$224 related to generating out-licensing revenue, compared to COGS of \$1,765 and \$34, respectively for product sales and out-licensing revenue for the fourth quarter of 2017. The year-over-year increase in COGS related to earning out-licensing revenue was mainly a result of the significantly higher net sales of Pliaglis in the current year. The prior year’s quarter also included the following non-recurring inventory adjustments: 1) \$287 to write-down short-dated inventory in the ISDIN product line following the decision to discontinue the brand, and; 2) other inventory adjustments of \$319. When adjusting the Q4-17 COGS from product sales for these items, COGS from product sales would have been \$1,159, an increase of \$475 versus Q4-18. This increase was mainly a result of the increase in our CDMO business which is a lower margin business.

Gross margin on product sales for the three months ended December 31, 2018 was \$1,128 or 40.8%, compared to \$403 or 18.6% for the prior year’s quarter. Excluding the non-recurring inventory adjustment just described, the gross margin on product sales in Q4-2017 would have been \$1,009 or 46.5%. The decrease in margin year-over-year was mainly due to our revenue mix resulting from higher work volumes from our CDMO business.

Research and Development

R&D expenses were \$293 for the quarter ended December 31, 2018 compared to \$170 for the quarter ended December 31, 2017. The year-over-year increase of \$123 was mainly driven by incremental headcount-related costs incurred in connection with a higher number of product and formulation development projects, as well as additional outside laboratory testing costs in Q4-18.

Selling, General and Administrative

SG&A expenses for the three months ended December 31, 2018 were \$2,701 compared to \$2,750 for the comparable three months of 2017, essentially flat year-over-year.

Interest

Interest expense for the three months ended December 31, 2018 and 2017 was \$152 and \$167, respectively and related mainly to the Knight Loan, net of amortization of the fair value adjustments, as well as the interest accretion on other obligations related to the acquisition of Alyria and on the convertible debentures.

Goodwill and Intangible Assets Impairment

For the quarter ended December 31, 2017, the Company recorded a goodwill impairment charge of \$5,219 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 \$451 related to these non-performing product lines.

Income Tax Recovery

The Company recognized an income tax asset of \$1,773 primarily in respect of Canadian non-capital loss carry-forwards and deductible temporary differences between the asset carrying amounts used for accounting purposes and the amounts used for tax purposes. The recognition of the income tax recovery was supported by a high probability, based on management's best estimate, that future taxable income against which to deduct the loss carry-forwards and temporary differences will be available.

Net Income (Loss)

Net income for the three months ended December 31, 2018 was \$3,112, compared to a net loss of \$(8,257) incurred for the three months ended December 31, 2017. The year-over-year improvement of \$11,369 was mainly attributable to: 1) the incremental gross margin on out-licensing revenue of \$3,135; 2) the income tax recovery of \$1,773 recognized in the quarter; 3) the non-cash goodwill and intangible asset impairment charge of \$5,670 incurred at the end of fiscal 2017, which did not repeat in the current year, and to a lesser extent; 4) the incremental gross margin on product sales of \$725.

EBITDA and Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net income (loss) from continuing operations, as reported in accordance with IFRS, and EBITDA and Adjusted EBITDA, for the three months ended December 31, 2018 and 2017.

For the three months ended December 31, In thousands of CAD dollars	2018	2017	Change \$
Net income (loss) from continuing operations	3,113	(8,209)	11,322
Add:			
Depreciation and amortization	282	308	(26)
Interest expense, net	113	151	(38)
EBITDA	3,508	(7,750)	11,258
Add:			
Equity-settled stock-based compensation	145	49	96
Goodwill and intangible asset impairment	-	5,670	(5,670)
Foreign currency loss	-	25	(25)
Less:			
Other income	3	-	3
Foreign currency gain	98	-	98
Income tax recovery	1,773	-	1,773
Adjusted EBITDA	1,779	(2,006)	3,785

Adjusted EBITDA for the quarter ended December 31, 2018 was \$1,779, compared to a loss of \$(2,006) for the quarter ended December 31, 2017. The year-over-year improvement of \$3,785 was mainly driven by the same factors as identified under the *Results of Operations* section.

Consolidated Statement of Cash Flows

For the three months ended December 31,	2018	2017	Change \$
<i>In thousands of CAD dollars</i>			
Net income (loss) from continuing operations	3,113	(8,209)	11,322
Net loss from discontinued operations	(1)	(48)	47
Items not involving cash flows	(992)	6,304	(7,296)
Cash from operations	2,120	(1,953)	4,073
Net change in non-cash working capital	(1,503)	266	(1,769)
Cash provided by (used in) operating activities	617	(1,687)	2,304
Cash (used in) investing activities	(29)	-	(29)
Cash (used in) financing activities	(240)	(100)	(140)
Effect of foreign exchange rates on cash and cash equivalents	28	29	(1)
Net change in cash and cash equivalents during the period	376	(1,758)	2,134
Cash and cash equivalents, beginning of the period	8,213	8,755	(542)
Cash and cash equivalents, end of the period	8,589	6,997	1,592

Cash and cash equivalents as at December 31, 2018 were \$8,589, an increase of \$1,592 when compared to the \$6,997 held at December 31, 2017.

Cash provided by operating activities was \$617 for the three months ended December 31, 2018, compared \$1,687 used during the three months ended December 31, 2017. The year-over-year improvement of \$2,304 was mainly a result of the improvement in Adjusted EBITDA of \$3,785, partly offset by the unfavourable movement in non-cash working capital items year-over year. During the fourth quarter of 2018, the Company made investments of \$1,503 in non-cash working capital items, compared to a recovery of \$266 in the prior year's quarter. The net change in working capital for Q4-2018 was primarily driven by the timing of the receivable from Taro related to Pliaglis. Our working capital inflows and outflows will always have an impact on the cash flow from operations.

Cash used in investing activities totaled \$29 for the three months ended December 31, 2018, compared to \$nil invested for the three months ended December 31, 2017. The invested amount was mainly to upgrade certain equipment in our plant.

For the three months ended December 31, 2018, the Company used \$240 in financing activities, compared to \$100 used for the three months ended December 31, 2017. Both amounts were for payments owing under the Amended Alyria Agreement.

Eight Quarter Summary - Selected Financial Information

As at and for the three months ended,	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
<i>In thousands of CAD dollars except number of shares and per share amounts</i>								
Growth								
Revenue	6,204	4,464	2,311	3,649	2,356	2,720	4,858	2,080
Profitability								
Total operating expenses	4,852	3,956	3,919	3,938	4,719	4,079	4,302	5,129
Net income (loss) from continuing operations	3,113	369	(636)	(424)	(8,209)	(457)	538	(3,130)
Net income (loss)	3,112	369	(661)	(424)	(8,257)	(513)	500	(3,193)
Adjusted EBITDA ¹	1,779	846	(1,257)	83	(2,006)	(974)	868	(2,320)
Share Information								
Net income (loss) from continuing operations per common share								
basic and diluted	\$ 0.15	\$ 0.02	\$ (0.03)	\$ (0.03)	\$ (0.59)	\$ (0.03)	\$ 0.04	\$ (0.23)
Net income (loss) per common share								
basic and diluted	\$ 0.15	\$ 0.02	\$ (0.03)	\$ (0.03)	\$ (0.59)	\$ (0.03)	\$ 0.04	\$ (0.23)
Weighted average number of common shares outstanding for the period								
basic and diluted	21,016	21,016	21,007	15,715	14,003	14,003	13,935	13,935
Financial Position								
Cash and cash equivalents and short-term investments ²	8,589	8,213	9,094	9,455	6,997	8,755	12,663	13,772
Total assets	27,565	24,780	23,858	26,078	22,565	31,219	35,555	37,000
Total non-current financial liabilities ³	2,914	3,317	3,439	3,644	3,597	4,862	6,843	7,144

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

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.

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, 2018.

Key areas of judgements, estimations or use of managerial assumptions are as follows:

Impairment of Non-Financial Assets

The Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test on a 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% (2.5% in 2017) 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 2018 and 2017 was 14%. Based on the Company's annual assessment, the recoverable amount of the INTEGA CGU using fair value less costs to sell exceeded its carrying value and accordingly, the Company did not recognize any impairment.

A 50-basis point increase in the post-tax discount rate would have resulted in an impairment charge of \$0.6 million in 2018.

A 5% decrease evenly distributed over the future periods, in the expected future net cash inflows would have resulted in an impairment charge of \$0.6 million in 2018.

During 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, during the year ended December 31, 2017, the Company decided against making any future investments related to non-performing brands and, as a result, wrote-off intangible assets in the amount of \$0.5 million. No further adjustments were made in 2018 relating to these brands.

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, shelf life and expiry of finished goods, 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 to cease to exist.

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.

Valuation of Deferred Income Tax Assets

Management uses estimates when determining income tax provisions and deferred income tax assets. Significant judgment is required to determine the probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget process by jurisdiction on an undiscounted basis. Management also exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of prudent tax planning strategies. Changes in market conditions, changes in tax legislation, patent challenges and other factors could adversely affect the probable future taxable profits. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

Accounting Standards Issued but Not Yet Adopted

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

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - *Leases* (IFRS 16), its new leases standard that requires lessees to recognize assets, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Lessor accounting is substantially unchanged. This standard is applicable to annual reporting periods beginning on or after January 1, 2019. For leases where the Company is the lessee, the transition to IFRS 16 can be done using a full retrospective approach or a modified retrospective approach. The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective method, in which the cumulative effects of initial application are recorded in opening retained earnings as at December 31, 2018 with no restatement of the comparative period. For the period beginning January 1, 2019, the implementation of IFRS 16 is expected to increase total assets by approximately \$837, increase total liabilities by approximately \$956, and increase opening deficit by approximately \$119.

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, 2018. 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

Below are the risk factors that may affect our business. An investment in the securities of the Company is speculative and involves a high degree of risk. An investor should carefully consider the risks and uncertainties described below, as well as other information contained in this MD&A. 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 these risk factors as well as those included in the AIF and other public documents.

Need for Additional Financing

At December 31, 2018, the Company had cash and cash equivalents of \$8.6 million. During 2019, 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 its product 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 management or factors beyond Crescita's control could cause its cash resources to be depleted and profitability may not be achieved. The Company has a history of generating operating losses since its inception and has an accumulated deficit of \$42.1 million as at December 31, 2018. 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. 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. 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, 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 and aggressively 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 existing 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 expected or forecasted revenues. Market acceptance of the Company's products by consumers, physicians or patients will depend on several 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 product innovations 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 product development and formulation as well as its speed in commercializing 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 product development, 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 product development 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.

Ability to Protect Know-How and Trade Secrets

The ability of the Company to maintain the confidentiality of its expertise and trade secrets is essential to its success. Disclosure and use of the Company's expertise and trade secrets, not otherwise protected by patents, are generally controlled under agreements with the parties involved. There can be no assurance however, that all confidentiality agreements are legally enforceable or will be honoured, that others will not independently develop equivalent or competing technology, that disputes will not arise over the ownership of intellectual property or that disclosure of the Company's trade secrets will not occur. To the extent that consultants or other research collaborators use intellectual property owned by others while working with the Company, disputes may also arise over the rights to related or resulting expertise or inventions.

Ability to Manage Inventory

The competitive nature of the skincare industry and rapidly changing consumer preferences require constant product innovation and have led to the shortening of product life cycles. As a result, the Company monitors inventories based on forecasted demand, the estimated market value and shelf life of inventory and historic experience. If the Company misjudges consumer preferences or demands or future sales do not reach forecasted levels, the Company could have excess inventory that may not be needed, may need to be held for a long period-of-time, written down, sold at prices lower than expected or discarded. If the Company is not successful in managing inventory, the business, results of operations, financial condition or cash flows could be adversely affected.

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, and 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 on the worldwide sales and marketing activities for Pliaglis, as these decisions are made by Galderma, except for Canada, the U.S. and Mexico, together "North America". In December 2015, the Company reacquired the North American development and marketing rights to Pliaglis. 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.

Non-prescription Skincare Products Adversely Affected by Factors Impacting our Customers' Businesses

Factors that adversely impact our customers' businesses may also have an adverse effect on our business, prospects, results of operations, financial condition or cash flows. These factors may include:

- Any reduction in consumer traffic and demand at our customers as a result of economic downturns like domestic and international recessions or changes in consumer preferences;
- Any credit risks associated with the financial condition of our customers;
- The effect of consolidation or weakness in the retail industry or at certain retail customers, including the closure of customer doors and the resulting uncertainty;
- The changing purchasing habits from spas and retail purchasing to online and social media; and
- Inventory reduction initiatives and other factors affecting customer buying patterns, including any reduction in retail space committed to skincare products and retailer practices used to control inventory shrinkage.

Reimbursement and Product Pricing for Prescription Drug Products

There can be no assurance that Pliaglis will receive reimbursement coverage in any jurisdiction. In the U.S., Canada and other countries, sales of Pliaglis may depend in part upon the availability of reimbursement from third-party payers, which include government health authorities, managed care organizations and other private health insurers. Third-party payers are increasingly challenging the price and examining the cost effectiveness of medical products and services. Increasingly, government and other third-party payers are attempting to

contain expenditures for new therapeutic products by limiting or refusing coverage, limiting reimbursement levels, imposing high co-pays, requiring prior authorizations and implementing other measures. Inadequate coverage or reimbursement could adversely affect market acceptance of the Company's products. Moreover, the trend toward managed healthcare in the U.S., the growth of organizations such as health maintenance organizations and reforms to healthcare and government insurance programs, could significantly influence the purchase of healthcare services and products, resulting in lower prices and reduced demand for the Company's products. Furthermore, even after approval for reimbursement for the Company's products is obtained from private health coverage insurers or government health authorities, it may be removed at any time.

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

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

Quality, Efficacy and Safety of the Company's Products

The Company's success depends, in part, on the quality, efficacy and safety of its products. If products are found or alleged to be defective or unsafe, or if they fail to meet customer or consumer standards, the relationships with customers or consumers could suffer, the appeal of one or more of the Company's brands could be diminished, and the Company could lose sales and/or become subject to liability claims, any of which could have a material adverse effect on the business, prospects, results of operations, financial condition or cash flows.

Potential Product Liability

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

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

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

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 contract manufacturing organizations (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.

Since 2012, Galderma was the only approved manufacturer for Pliaglis in all global territories and Crescita relied solely on Galderma to manufacture the product 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. In coordination with Crescita's U.S. marketing partner for Pliaglis, Taro Pharmaceuticals Inc., a technology transfer was performed to Taro's manufacturing facility located in Brampton, Ontario. The FDA approved the Taro facility to manufacture Pliaglis for the U.S. market in September 2018. As a result, Taro has now become the primary manufacturer for Pliaglis in the U.S. and Galderma is viewed as a secondary supplier for the U.S. market should additional production capacity be required. The Taro facility is currently only approved to manufacture Pliaglis for the U.S. market.

Under the terms of the Pliaglis license agreements, Galderma has a commitment to manufacture 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 Mexico and Canada. 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 and Taro to maintain the facilities at which they manufacture Pliaglis in compliance with TPD, FDA, EMA, 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 and Taro.

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 to produce 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 had decided to use a CMO to produce certain DIN products, rendering the Company immediately compliant, while assessing the investments required to comply with Health Canada's audit recommendations. Following the settlement announced in 2018, INTEGA has been upgrading the facility to comply with 2016 observations as well as the new 2018 regulations. Management believes that the plant will be ready to manufacture DIN products at its Laval facility in the second half of 2019. 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.

Compliance with Current GMP Requirements

The Corporation's manufacturing facility produces a significant portion of its cosmetic and NHP products, as well as all the products for its CDMO business. We have a GMP manufacturing facility including quality control, quality assurance and supply chain to ensure commercial demands are met. If we or a regulatory agency discovers unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions relative to that product or the manufacturing facility, including requiring recall or withdrawal of the product from the market or suspension of its manufacturing license. If we fail to comply with applicable regulatory requirements or fail to correct any identified deficiencies, the Company may suffer material adverse effects on its business, results of operations and cash flows.

Reliance on Third Parties for Warehousing, Distribution and Logistics Services

The Company relies on third parties to provide distribution and logistics services, including the warehousing of finished goods. If the third parties cease to be able to provide the Company with these services or do not provide these services in a timely or professional manner, or in accordance with the applicable regulatory requirements, or if contracts with such third parties are terminated for any reason, the Company may not be able to successfully manage the logistics associated with distributing and selling its products which could result in a delay or interruption in delivering products to its customers and could impact product sales and revenues or the Company's ability to integrate new products into its business, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. Such third parties' failure to comply with the applicable regulatory requirements could also subject us to regulatory action.

In addition, the supply of the Company's products to its customers (or, in some cases, supply from the Company's contract manufacturers to the Company) is subject to and dependent upon the use of transportation services and third-party distribution facilities. Such supply chain logistics result in the Company not being in control of its products at all times, while maintaining liability for such products. Moreover, transportation services or third-party distribution facilities may be disrupted (including as a result of weather conditions or due to technical, labour or other difficulties or conditions), any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

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.

Changes in Government Regulation

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

Inability to Achieve Drug Development Goals

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

The Company has several product candidates that are at different stages of development and for which additional preclinical and clinical testing are underway or anticipated in the near future. There can be no assurance that preclinical or clinical testing of the Company's product candidates will yield sufficiently positive results to enable progress toward commercialization and any such trials will take significant time to complete. Unsatisfactory results may prompt the Company to reduce or abandon future testing or commercialization of particular product candidates and this may have a material adverse effect on the Company.

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

Obtaining Government and Regulatory Approval

Non-Prescription Skincare Products

There are numerous categories of non-prescription skincare products in the U.S., Canada and in other regions around the world and the classification and regulatory requirements vary by territory. Some categories of products require a license and others can be sold without prior authorization. There are risks that the regulatory authorities may not agree with the Company's classification of a given product nor allow it to be marketed based on the regulatory status, product labeling or marketing claims. Regulatory authorities also have the ability to inspect the related manufacturing facilities and can restrict product supply if the facility is deemed to not comply with relevant regulations. Any delay or failure to obtain regulatory approvals or to ensure compliance with relevant regulations for marketed products could adversely affect the Company's business, financial condition and operational results. Non-prescription skincare companies may also be subject to additional regulations covering occupational safety, manufacturing and laboratory practices, environmental protection and hazardous substance control. They may also be subject to existing and future local, provincial, state, federal and foreign regulation.

United States

Cosmetic products (most non-prescription skincare products) and ingredients typically do not require FDA approval before they are marketed, but the FDA monitors the safety and marketing claims of marketed cosmetic products. The FDA can inspect manufacturing facilities to determine if proper controls and practices are being followed and they also work with U.S. Customs and Border Protection to examine imported cosmetics. If the FDA believes that a cosmetic product may not comply with the regulations, they can ask a federal court to issue an injunction, request that U.S. marshals seize the products, initiate criminal action, refuse entry of an imported cosmetic, or request that a company recall a product. Failure to comply with regulatory requirements could have a material adverse effect on the Company's business, financial condition and operational results.

Canada

All cosmetics sold in Canada must contain appropriate ingredients, be safe to use, and must not pose any untoward health risk. They must also meet the requirements of the Food and Drugs Act and the Cosmetic Regulations which require that cosmetics sold in Canada be manufactured, prepared, preserved, packed and stored under sanitary conditions. It is the manufacturer's responsibility to ensure that the products meet the requirements for cosmetics under the Food and Drugs Act and the Cosmetic Regulations. The manufacturer and importer must notify Health Canada that it is selling the product and provide a list of the product's ingredients.

Health Canada assesses all-natural health products NHPs before allowing them to be sold in Canada. They also check that NHPs are properly manufactured (without contamination or incorrect ingredients) and perform post-market monitoring to make sure that NHP Regulations are being followed. If the product is found to be unacceptable for sale in Canada, Health Canada will take appropriate compliance and enforcement actions as deemed appropriate and the product may be referred to the Health Products and Food Branch (HPFB) Inspectorate. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions including product seizures, injunction actions and criminal prosecutions.

Additional Regulatory Considerations

Additional local, provincial, state, federal and foreign regulations may apply in various territories around the world. Any delays in obtaining, or failure to obtain regulatory approvals or to maintain proper compliance with relevant regulations in Canada, the U.S., the E.U. or other foreign countries, may significantly delay the development and commercialization of the Company's products and the receipt of revenues from the sale of its products.

Prescription Drug Products

The research, testing, manufacturing, packaging, labeling, approval, storage, selling, marketing and distribution of prescription drug products are subject to extensive regulation in the U.S. by the FDA, in Canada by the TPD and by similar regulatory authorities in the E.U. and elsewhere. Despite the time and expense exerted by the Company, failure can occur at any stage. The drug development process is time-consuming, may involve significant delays despite the Company's best efforts and can require substantial cash resources. Even after initial approval has been obtained, further research, including post-marketing studies and surveillance programs may be required. Moreover, regulations are subject to change and the Company cannot predict its ability to meet new or changing regulations. There is also a risk that the Company's products may be subject to recalls if there are product manufacturing or quality issues or be withdrawn from the market due to non-compliance with regulatory requirements.

There can be no assurance that the Company's products will prove to be safe and effective in clinical trials or receive the requisite regulatory approval in any market. Any delay or failure to obtain regulatory approvals could adversely affect the Company's business, financial condition and operational results. Pharmaceutical companies are also subject to additional regulations covering occupational safety, manufacturing and laboratory practices, environmental protection and hazardous substance control. They may also be subject to existing and future local, provincial, state, federal and foreign regulation. Failure to obtain necessary regulatory approvals, the restriction, suspension or revocation of existing approvals or any other failure to comply with regulatory requirements, could have a material adverse effect on the Company's business, financial condition and operational results.

United States

The FDA has substantial discretion in the drug approval process. The FDA may delay, limit or deny approval of a drug candidate for many reasons. The process of receiving FDA approval has become more difficult with the requirement to submit a Risk Evaluation and Mitigation Strategy (REMS) for certain drug products. Even once drug candidates are approved, these approvals may be withdrawn if compliance with regulatory standards is not maintained. In addition, the FDA has the authority to regulate the claims the Company's partners make in marketing its prescription drug products to ensure that such claims are true, not misleading, supported by scientific evidence and consistent with the product's approved labelling. Failure to comply with applicable requirements can result in fines, suspensions or withdrawal of approvals, product seizures and injunctions against the manufacture, holding, distribution, marketing and sale of a product, and both civil and criminal sanctions.

Canada

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

Risk Related to Clinical Trials

The Company and its drug development partners must demonstrate, through preclinical studies and clinical trials, that the product being developed is safe and efficacious before obtaining regulatory approval for the commercial sale of such product. The results of preclinical studies and previous clinical trials are not necessarily predictive of future results and the Company's current product candidates may not have favourable results in later testing or trials. Preclinical tests and Phase 1 and Phase 2 clinical trials are primarily designed to test safety, to study pharmacokinetics and pharmacodynamics and to understand the side effects of products at various doses and schedules. Success in preclinical or animal studies and early clinical trials does not ensure that later large-scale efficacy trials will be successful and such success is not necessarily predictive of final results. Favourable results in early trials may not be repeated in later trials and positive interim results do not ensure success in final results. Even after the completion of Phase 3 clinical trials, the FDA, TPD, EMA or other regulatory authorities may disagree with the clinical trial design and interpretation of data and may require additional clinical trials to demonstrate the efficacy of product candidates.

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

The Company's future prospects could also suffer if it, or any of its drug development partners, fails to develop and maintain sufficient levels of patient enrolment in its current or future clinical trials. Delays in planned patient enrolment may result in increased costs, delays or termination of clinical trials, which could materially harm the Company's future prospects.

Reliance on Third Parties to Conduct Clinical and Preclinical Studies

The Company and its drug development partners rely on third parties such as CROs, medical institutions and clinical investigators to enroll qualified patients, conduct, supervise and monitor its clinical trials, conduct preclinical studies and complete CMC work. The reliance on these third parties for clinical development activities reduces its control over these activities. The reliance on these third parties; however, does not relieve the Company or its drug development partners of their regulatory responsibilities, including ensuring that its clinical trials are conducted in accordance with Good Clinical Practices (GCPs) and that its preclinical studies are conducted in accordance with Good Laboratory Practices (GLPs). Furthermore, these third parties may have relationships with other entities, some of which may be competitors. In addition, they may not complete activities on schedule or may not conduct preclinical studies or clinical trials in accordance with regulatory

requirements or the Company's trial design. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Company's ability to obtain regulatory approvals for product candidates may be delayed or prevented.

Hazardous Materials and Environmental Laws

The Company's products involve the use of potentially hazardous materials, and as a result, it is exposed to potential liability claims and costs associated with complying with laws regulating hazardous waste. Product development and manufacturing activities involve the use of hazardous materials, including chemicals, and are subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous materials and waste products. However, accidental injury or contamination from these materials may occur. In the event of an accident, the Company could be held liable for any damages, which could exceed its available financial resources. In addition, the Company may be required to incur significant costs to comply with environmental laws and regulations in the future.

Impact of Natural Disasters or Other Events that Disrupt our Business Operations

Natural disasters or similar events, such as blizzards, fires or explosions or large-scale accidents or power outages, could disrupt operations or have a material adverse effect on our business, results of operations, financial condition and prospects. If a disaster, power outage or similar event occurred that prevented us from using all or a significant portion of this facility, that damaged our infrastructure or that otherwise disrupted operations, it may impede our business or operations for a substantial period-of-time.

Security and Cyber Security Breaches

The Company has implemented security protocols and systems with the intent of maintaining the physical and electronic security of its operations and protecting its confidential information and information related to identifiable individuals against unauthorized access. Despite the implementation of security measures, the Company's information systems and those of our contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Unauthorized physical access to one of the Company's facilities or electronic access to its information systems could result in, among other things, unfavorable publicity, litigation by affected parties, damage to sources of competitive advantage, disruptions to its operations, loss of proprietary information, customer information and customers, financial obligations for damages related to the theft or misuse of such information and costs to remediate such security vulnerabilities, any of which could have a substantial impact on the Company's results of operations, financial condition or cash flows.

Economic Environment

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

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

Quarterly Fluctuations

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

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.

Further, the Company expects that its growth and potential expansion into specific areas and activities requiring new or additional expertise will place additional requirements on management, operational and financial resources. The failure to attract and retain such personnel, or to develop such expertise, could materially adversely affect prospects for its success. In addition, to attract qualified personnel, the Company may be required to establish offices in different locations. Failure of personnel in different locations to work effectively together could materially adversely affect the Company's success.

Given these potential challenges, current personnel may be unable to adapt or may not have the appropriate skills and the Company may fail to assimilate and train new employees. Highly skilled employees with the education and training required are in high demand. Once trained, the Company's employees may be hired by its competitors.

Litigation and Regulation

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

A significant judgment against the Company or the imposition of a significant fine or penalty or a finding that the Company has failed to comply with laws or regulations or a failure to settle any dispute on satisfactory terms, could have a significant adverse impact on the Company's ability to continue operations. Additionally, lawsuits and investigations can be expensive to defend, whether or not the lawsuit or investigation has merit, and the defense of these actions may divert the attention of the Company's management and other resources that would otherwise be engaged in running the Company's business.

Losses due to Foreign Currency Fluctuations

Foreign exchange risk exists when the Company receives or makes payments in foreign currencies, such as in U.S. dollar and in Euros. To the extent we do, fluctuations in the exchange rate of the Canadian dollar relative to other currencies could result in the Company realizing a lower than anticipated profit margin on sales of its products and product candidates than at the time of entering into such commercial agreements. The Company currently does not enter into foreign exchange hedging contracts and fluctuations in the value of the Canadian dollar against these foreign currencies can lead to adverse material effects on the Company's financial condition and results of operations and cash flows. Revenue pursuant to the Taro Agreement is received in U.S. currency.

Customer Concentration - Taro

Virtually all of the Company's out-licensing revenue is derived from royalties earned on the net sales of Pliaglis in the U.S., and sales and development milestones under the Taro Agreement. The Company received \$7.4 million in out-licensing revenue from Taro during fiscal 2018, representing 44.2% of the Company's consolidated revenues. There can be no assurance that Taro's sales and marketing efforts will be successful, or that Taro will continue to allocate the same level of resources to promote the product and that pharmacies and medical clinics will continue to purchase the product for resale to their own customers. A decrease in Taro's sales and marketing efforts could have a materially negative impact on the business conditions and results of Operations of Crescita.

International Operations

The Company does business outside of Canada, including the U.S., Europe and Asia, 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.

Taxation

The Company operates both locally and outside of Canada. As such, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments, the U.S. and certain other jurisdictions.

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

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

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

Compliance with Laws and Regulations Affecting Public Companies

Any future changes to the laws and regulations affecting public companies, may cause the Company to incur increased costs as it evaluates the implications of new rules and implements any new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

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

The Company will be required annually to review and report on the effectiveness of its internal control over financial reporting and disclosure controls and procedures in accordance with National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators. The results of this review are reported in the Company's Management's Discussion and Analysis of Results of Operations and Financial Condition for fiscal 2018. The Company's Chief Executive Officer and Chief Financial Officer are required to report on and certify the effectiveness of the Company's internal control over financial reporting.

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

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

Public Company Requirements May Strain Resources

As a public company, the Company is subject to the securities laws of the jurisdictions in which it is a reporting issuer and the listing requirements of the TSX. The ever-increasing obligations of operating as a public company will require significant expenditures and will place additional demands on management as the Company complies with the reporting requirements of a public company. The Company may need to hire additional accounting, financial and legal staff with appropriate public company experience and technical accounting and regulatory knowledge.

In addition, actions that may be taken by significant stockholders may divert the time and attention of the Company's Board of Directors and management from its business operations. Campaigns by significant investors to effect changes at publicly traded companies have increased in recent years. If a proxy contest were to be pursued by any of the Company's stockholders, it could result in substantial expense to the Company and consume significant attention of management and the Board of Directors. In addition, there can

be no assurance that any stockholder will not pursue actions to effect changes in the management and strategic direction of the Company, including through the solicitation of proxies from the Company's stockholders.

The Ability to Effectively Manage the Growth of our Business

The Company's future growth, if any, may cause a significant strain on management, operational, financial and other resources. The ability to effectively manage growth will require the Company to improve and/or expand its scientific, operational, financial and management information systems and to train, manage and motivate its employees. These demands may require the addition of new management personnel and the development of additional expertise by management. Any increase in resources devoted to research, product and business development without a corresponding increase in scientific, operational, financial and management information systems could have a material adverse effect on performance. The failure of the Company's management team to effectively manage growth could have a material adverse effect on the Company's business, financial condition and results of operations.

Volatility of Share Price

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

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

In addition, a public trading market in the Company's securities having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of common shares of Crescita at any given time, which presence is dependent on the individual decisions of investors over which the Company has no control. There can be no assurance that an active trading market in securities of the Company will be established and sustained. The market price for the Company's securities could be subject to wide fluctuations, which could have an adverse effect on the market price of the Company. If an active public market for the Company's securities does not develop, the liquidity of a shareholder's investment may be limited, and the share price may decline.

Limited Trading History for Common Shares

The common shares of Crescita were listed and posted for trading on the TSX commencing on March 7, 2016 and accordingly, have been publicly traded for a limited period-of-time. Due in part to the relatively recent listing of the common shares on a public market and Crescita's limited operating history, the market price for the common shares may be volatile and may be significantly affected by such factors as quarter-to-quarter variations in the Company's results of operations or predictions, announcements, changes in general market conditions, adverse publicity regarding the Company or its industry in general, regulatory actions, changes in financial estimates by securities analysts and other factors. Crescita cannot predict at what price the common shares will trade, and there can be no assurance that an active trading market will be sustained in the common shares or that the market price of Crescita's common shares will not decline.

Dilution from further Equity Financing and Declining Share Price

If the Company raises additional funding or completes an acquisition or merger by issuing additional equity securities, such issuance may substantially dilute the interests of shareholders of the Company and reduce the value of their investment. The market price of the Company's common shares could decline as a result of issuances of new shares or sales by existing shareholders of common shares in the market or the perception that such sales could occur. Sales by shareholders might also make it more difficult for the Company itself to sell equity securities at a time and price that it deems appropriate.

Issue of Preference Shares

The Company's Board of Directors has the authority to issue undesignated preference shares in one or more series and, before issue, to fix the designation of, and the rights and restrictions attached to, the preference shares of each series, without consent from holders of common shares. Preference shares could be issued with voting, dividend, liquidation, dissolution, winding-up and other rights superior to those of the holders of common shares.

Absence of Dividends

The Company has not paid dividends on its common shares and does not anticipate declaring any dividends in the near future. As a result, the return on an investment in the Company's common shares will depend upon any future appreciation in value. There is no guarantee that the common shares will appreciate in value or even maintain the price at which they were purchased.

Securities Industry Analyst Research Reports

Currently, to the Company's knowledge, there are no analysts that publish research reports about the Company. The trading market for the Company's common stock is influenced by the research and reports that industry or securities analysts publish about the Company or any of its partners. If covered, a decision by an analyst to cease coverage of the Company or failure to regularly publish reports on the Company, could cause the Company to lose visibility in the financial markets, which in turn could cause the stock price or trading volume to decline. Moreover, if an analyst who covers the Company or any of its partners downgrades its, or its partner's stock or if operating results do not meet analysts' expectations, the stock price could decline.

The Shareholders' Rights Plan may Discourage, Delay or Prevent a Merger or Change of Control

The Company adopted a shareholder rights plan in 2016 (the "Rights Plan") which among other things requires anyone who seeks to acquire 20% or more of the Company's outstanding common shares to make a bid complying with specific provisions contained in the plan. Failure of the acquirer to comply with the provisions of the Rights Plan can trigger rights held by existing shareholders that may make the acquisition less attractive to the acquirer even if holders of Crescita common shares consider the acquisition favourable. See "Description of Capital Structure – Description of the Common Shares". The presence of this plan could prevent or delay a change of control and may deprive or limit strategic opportunities for shareholders to sell their shares.

Historical Financial Information

The historical financial information of Crescita up to and including March 1, 2016 is presented on a carve-out basis as if Crescita operated as a stand-alone entity for the periods presented. Due to the fact that Crescita's operations were combined with those of Nuvo Research, the financial information does not necessarily reflect what Crescita's results of operations, financial position or cash flows would have been had Crescita been an independent, combined entity during the periods presented and are not necessarily indicative of what Crescita's results of operations, financial position, cash flows or costs and expenses will be in the future.

Inability to Achieve Expected Savings from Restructurings

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

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.

Independent auditor's report

To the Shareholders of Crescita Therapeutics Inc.

Opinion

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

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

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

We also:

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yannick Ouimet.

*Ernst & Young LLP*¹

Montréal, Canada
March 20, 2019

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

CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	As at December 31, 2018	As at December 31, 2017
		\$	\$
Assets			
Current			
Cash and cash equivalents		8,589	6,997
Accounts receivable	23	5,087	1,463
Inventories	4, 7	2,698	3,165
Other current assets	8, 23	318	540
Total current assets		16,692	12,165
Non-current			
Property, plant and equipment	9	708	708
Intangible assets	4, 5, 10	8,719	9,692
Deferred tax assets	4, 21	1,446	-
Total assets		27,565	22,565
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities	23	3,788	3,422
Current portion of long-term debt	11, 23	1,556	1,139
Current portion of other obligations	5, 13, 23	300	1,300
Total current liabilities		5,644	5,861
Long-term debt	11, 14, 23	1,990	2,341
Convertible debentures	12, 23	863	834
Other obligations	5, 13, 23	61	422
Total liabilities		8,558	9,458
Equity			
Common shares issued	14	59,220	55,694
Contributed surplus	17	1,120	778
Accumulated other comprehensive income (AOCI)		810	1,174
Deficit		(42,143)	(44,539)
Total equity		19,007	13,107
Total liabilities and equity		27,565	22,565

Commitments (Note 22)
See accompanying Notes.

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

		Year ended December 31, 2018	Year ended December 31, 2017
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>	Notes	\$	\$
Revenues	15	16,628	12,014
Operating expenses			
Cost of goods sold	7, 19	5,539	4,940
Research and development	17, 19	1,063	1,112
Selling, general and administrative	17, 19, 26	10,063	12,176
Operating Loss		(37)	(6,214)
Other income (expenses)			
Other income	16	1,105	1,079
Goodwill and intangible assets impairment	4, 10	-	(5,670)
Interest expense	11, 12, 13	(603)	(421)
Interest income		110	64
Foreign currency gain (loss)		74	(96)
Total Other Income (Expenses)		686	(5,044)
Net income (loss) before income taxes from continuing operations		649	(11,258)
Income tax recovery	4, 21	1,773	-
Net income (loss) from continued operations		2,422	(11,258)
Net loss from discontinued operations	6	(26)	(205)
Net income (loss)		2,396	(11,463)
Other comprehensive income (loss) to be reclassified to net loss in subsequent periods			
Unrealized (loss) gain on translation of foreign operations (net of income taxes)		(364)	10
Total Comprehensive Income (Loss)		2,032	(11,453)
Net income (loss) per common share from continuing operations			
- basic and diluted	18	\$0.12	\$(0.81)
Net loss per common share from discontinued operations			
- basic and diluted	6, 18	\$(0.00)	\$(0.01)
Weighted average number of common shares outstanding			
- basic and diluted	18	19,706,535	13,959,518

See accompanying Notes.

**CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Common Shares		Contributed Surplus	Deficit	AOCI	Total
<i>(In thousands of Canadian dollars, except for number of shares)</i>	000's	\$	\$	\$	\$	\$
Notes	<i>1, 14, 17</i>	<i>1, 14, 17</i>	<i>11, 12, 17</i>			
Balance, December 31, 2016	13,935,638	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	67,568	48	-	-	-	48
Share-based compensation expense	-	-	228	-	-	228
Unrealized gain on translation of foreign operations	-	-	-	-	10	10
Balance, December, 2017	14,003,206	55,694	778	(44,539)	1,174	13,107
Net income	-	-	-	2,396	-	2,396
Rights offering, net	7,001,603	3,520	-	-	-	3,520
Share-based option exercise	11,250	6	-	-	-	6
Share-based compensation expense	-	-	342	-	-	342
Unrealized loss on translation of foreign operations (net of income taxes)	-	-	-	-	(364)	(364)
Balance, December 31, 2018	21,016,059	59,220	1,120	(42,143)	810	19,007

See accompanying Notes.

**CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	Year ended December 31, 2018	Year ended December 31, 2017
		\$	\$
Operating Activities			
Net income (loss) from continuing operations		2,422	(11,258)
Net loss from discontinued operations	6	(26)	(205)
Items not involving cash flows:			
Depreciation and amortization	9, 10, 19	1,146	1,161
Equity-settled share-based compensation	17	342	251
Inventory write-down	4, 7	149	432
Other income	16	(1,105)	(1,079)
Accretion on fair value of inventory		-	371
Goodwill and intangible assets impairment	4	-	5,670
Deferred income taxes	4, 21	(1,773)	-
Other		321	(335)
		1,476	(4,992)
Net change in non-cash working capital	20	(2,954)	(2,410)
Cash used in operating activities		(1,478)	(7,402)
Investing Activities			
Acquisitions, net of cash acquired	5	-	(600)
Acquisition of property, plant and equipment	9	(144)	(107)
Redemption of short-term investments	11	-	8,551
Cash (used in) provided by investing activities		(144)	7,844
Financing Activities			
Cash received from convertible debenture	12	-	1,000
Share issuances under rights offering, net	14	3,520	-
Share issuances under share plans	17	-	25
Cash received on exercise of options	14, 17	6	-
Payments under other obligations related to a previous acquisition by INTEGA	13	(40)	(1,000)
Payment under other obligations related to the Alyria acquisition	13	(300)	(100)
Principal repayments on long-term debt	11	-	(3,184)
Cash provided by (used in) financing activities		3,186	(3,259)
Effect of exchange rate changes on cash		28	7
Net change in cash and cash equivalents during the year		1,592	(2,810)
Cash and cash equivalents, beginning of year		6,997	9,807
Cash and cash equivalents, end of year		8,589	6,997
<i>Interest paid ⁽ⁱ⁾</i>		419	535
<i>Interest received ⁽ⁱ⁾</i>		87	61

⁽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**

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 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. As required by its bylaws, Crescita maintain its registered office at 6733 Mississauga Road, Suite 610, Mississauga, Ontario, L5N 6J5.

On August 8, 2017, the Company's wholly owned subsidiary, INTEGA Skin Sciences Inc. (INTEGA), acquired the Alyria® skincare line of products (Alyria).

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."

2. BASIS OF PREPARATION

Statement of Compliance

These Consolidated Financial Statements have been prepared by management in accordance with 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, except for the adoption of new accounting standards effective January 1, 2018 (Note 3, *Summary of Significant Accounting Policies*).

These consolidated financial statements were issued and effective as at March 20, 2019, the date the Board of Directors approved these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement

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

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.

	December 31, 2018	December 31, 2017
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:		
Nuvo Research GmbH	100%	100%

The Company controls the subsidiaries above with the power to direct relevant activities, 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 the 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. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates of exchange at the end of the reporting period. The resulting gains and losses are included in each entity's net income or loss in the period in which they arise.

The Company's foreign operations are translated into the Company's presentation currency, 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 the exchange rates in effect at the end of the reporting period, while revenues and expenses are translated at the average exchange rate for the period in which the transaction occurred as this is considered to be a reasonable approximation of 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 include 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 change in value, therefore cost approximates fair value.

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 labor, 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:

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, the useful lives of the assets and the depreciation method are reviewed annually and adjusted prospectively, 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 the 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

Useful lives of the intangible assets are reviewed annually and adjusted prospectively, if appropriate.

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. For all individual assets or cash generating units (CGU), 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

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual obligations of the instrument.

(i) Financial Assets

On initial recognition, the Company's financial assets are recognized at fair value. Subsequent to initial recognition, financial assets are measured according to the category to which they are classified. These categories are: amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit and loss (FVTPL). Financial assets are subsequently measured at amortized cost, unless they are classified as FVOCI or FVTPL, in which case they are subsequently measured at fair value.

The classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial assets measured as amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets measured at FVOCI are subsequently measured at fair value. The fair value changes are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial assets measured at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in the consolidated statements of income (loss).

Classifications are not changed subsequent to initial recognition unless the Company changes its business model for managing its financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which it neither transfers or retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company records expected credit losses (ECL) on the entire accounts receivable balance. The Company has applied the simplified approach and has calculated the lifetime ECLs based on an established provision matrix that considers the Company's historical credit loss experience, adjusted for forward-looking factors specific to the Company's customers and the economic environment.

Currently, the Company classifies all its financial assets at amortized cost, which includes cash and cash equivalents, accounts receivable and other financial assets.

(ii) Financial liabilities

On initial recognition, the Company's financial liabilities are measured at fair value and are classified as amortized cost or FVTPL. A financial liability is classified as amortized cost at initial recognition unless it is classified as held-for-trading, is a derivative instrument or is specifically designated as FVTPL. Financial liabilities classified as amortized cost are subsequently measured using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statements of income (loss) in the period in which such changes arise. Financial liabilities at FVTPL are subsequently measured at fair value with changes in fair value recognized in the consolidated statements of income (loss) in the period in which such changes arise.

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.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired. When an existing liability is replaced by another from the same creditor on substantially different terms, or the terms of the liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized as a gain or loss in the consolidated statements of income (loss).

Currently, the Company classifies accounts payable and accrued liabilities, long-term debt, convertible debentures (debt component) and other long-term obligations as financial liabilities measured at amortized cost.

Convertible debentures

The convertible debentures are separated into their debt and equity components. The value of the debt component 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 to 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 reach 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. The resulting 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, 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 terms of a contract with a customer have been satisfied. This occurs when: the control over the product has been transferred to the customer; the product is received by the customer (non-prescription skincare products sales) or transfer of title to the customer occurs upon shipment (third-party contract manufactured orders). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for selling the goods and bears the risks of obsolescence and loss in relation to the goods. Revenue from customer contracts is recognized based on the price specified in the contract, net of reserves for estimated sales discounts and allowances, returns, rebates and chargebacks. A receivable is recognized by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Out-licensing revenues

Licensing and Collaboration Arrangements

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

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

Royalties

Royalties are typically calculated as a percentage of net sales realized by the Company's licensees of its products (including their sub-licensees), as specifically defined in each agreement. The licensees' sales generally consist of revenues from product sales of the Company's prescription products and net sales are determined by deducting the following: estimates for chargebacks, rebates, sales incentives and allowances, returns and losses and other customary deductions in each region where the Company has licensees. For the recognition of revenue for sales-based or usage-based royalties on licenses of intellectual property, royalties received in exchange for licenses of intellectual property are recognized at the later of when:

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

Services Revenue

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

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

Refer to Note 15, *Disaggregated Revenue Information* – for a disaggregation of revenues by source and geographic area.

Research and Development

Research costs are charged to profit or loss 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 profit or loss 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.

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 mainly anti-dilutive or dilutive impact is immaterial for each year presented.

Income Taxes

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

The Company has two share-based compensation plans: the Share Incentive Plan and the Share Appreciation Rights (SARs) Plan. Under the Share Incentive Plan, there are three sub-plans: (i) the Share Option Plan (ii) the Share Purchase Plan and (iii) 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. The three sub-plans are equity-settled share-based compensation plans.

- (i) 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 of an award is considered a separate award with its own vesting period and grant date fair value. The 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.
- (ii) 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.
- (iii) 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 was an equity compensation plan of Nuvo prior to the Reorganization. Following the Reorganization, no additional share appreciation rights could be granted under the SARs Plan. The SARs Plan remains in effect for the purposes of administering Crescita's SAR.

SARs were 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 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 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.

Issuance Costs of Equity Instruments

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

Accounting Standards Adopted

On January 1, 2018, the Company applied, for the first time, IFRS 15, *Revenues from Contracts with Customers* and IFRS 9, *Financial Instruments*.

IFRS 15 - Revenue from Contracts with Customers

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

IFRS 9 - Financial Instruments

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

The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. The Company performed a detailed impact assessment of all three aspects of IFRS 9; however, as discussed below, they did not have a material impact on the consolidated financial statements:

- Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value in other comprehensive income (FVOCI); or fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument, as a whole, is assessed for classification. The Company did not identify any changes to the measurement of the existing financial instruments upon applying IFRS 9.
- IFRS 9 requires the Company to record ECL on the entire accounts receivable balance. The Company has applied the simplified approach and has calculated the lifetime ECLs based on an established provision matrix that considers the Company's historical credit loss experience, adjusted for forward-looking factors specific to the Company's customers and the economic environment.

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

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 following standard has been issued but is not yet effective.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - *Leases* (IFRS 16), its new leases standard that requires lessees to recognize assets, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Lessor accounting is substantially unchanged. This standard is applicable to annual reporting periods beginning on or after January 1, 2019. For leases where the Company is the lessee, the transition to IFRS 16 can be done using a full retrospective approach or a modified retrospective approach. The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective method, in which the cumulative effects of initial application are recorded in opening retained earnings as at January 1, 2019 with no restatement of the comparative period. This change in policy is expected to result in the recognition of right-of-use assets and lease liabilities amounting to approximately \$0.8 million and \$1.0 million respectively.

4. 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:

Impairment of Non-Financial Assets

The Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test on a 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% (2.5% in 2017) 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 2018 and 2017 was 14%. Based on the Company's annual assessment, the recoverable amount of the INTEGA CGU using fair value less costs to sell exceeded its carrying value and accordingly, the Company did not recognize any impairment.

A 50-basis point increase in the post-tax discount rate would have resulted in an impairment charge of \$0.6 million in 2018.

A 5% decrease evenly distributed over the future periods, in the expected future net cash inflows would have resulted in an impairment charge of \$0.6 million in 2018.

During 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, during the year ended December 31, 2017, the Company decided against making any future investments related to non-performing brands and, as a result, wrote-off intangible assets in the amount of \$0.5 million. No further adjustments were made in 2018 relating to these brands.

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, shelf life and expiry of finished goods, 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. Refer to Note 7, *Inventories*, for details on inventory write downs.

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 17- *Share-based Compensation and Other Share-based Payments*.

Valuation of Deferred Income Tax Assets

Management uses estimates when determining income tax provisions and deferred income tax assets. Significant judgment is required to determine the probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget process by jurisdiction on an undiscounted basis. Management also exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of prudent tax planning strategies. Changes in market conditions, changes in tax legislation, patent challenges and other factors could adversely affect the probable future taxable profits. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

5. ASSET PURCHASE – ALYRIA

On August 8, 2017, the Company announced that its wholly owned subsidiary, INTEGA acquired Alyria from Sanofi Consumer Health Inc. (Sanofi). Alyria is a high-quality, non-prescription, line of medical skincare products sold into medical spas by Crescita's existing sales force. The Company subsequently entered into an amendment (the Amended Alyria Agreement) 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 until 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.

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 was based on a weighted average probability.

Management estimated the combined fair value of the future consideration payable and the contingent consideration - royalty earn-out at \$0.8 million as at the acquisition date using an income approach with a discount rate of 14%.

In addition, under the terms of the Amended Alyria Agreement, the Company is entitled to receive consideration related to achieving certain sales targets and levels of inventory consumption. This benefit was recorded as a contingent consideration receivable of \$0.1 million (refer to Note 8⁽ⁱ⁾, *Other Current Assets*).

Under IFRS 3 – *Business Combinations* (IFRS 3), this acquisition did not qualify as a business combination and was 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

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 and restated its operating results to reflect the Immunology Group as a discontinued operation. The Company is in the process of completing the wind-up for these operations.

The following table presents the effect of the discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss):

	Year Ended December 31, 2018	Year Ended December 31, 2017
	\$	\$
Operating expenses		
Research and development expenses	-	2
Selling, general and administrative expenses	22	213
Total Operating Expenses	22	215
Other expenses		
Foreign currency loss (gain)	4	(10)
Net loss from Discontinued Operations	(26)	(205)
Net loss per common share from discontinued operations		
- basic and diluted	\$(0.00)	\$(0.01)
Weighted average number of common shares outstanding		
- basic and diluted	19,706,535	13,959,518

The following table presents the effect of the discontinued operations on the consolidated statements of cash flows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
	\$	\$
Cash used in operating activities	(51)	(174)
Cash used in investing activities	-	-
Cash used in financing activities	-	-
Net cash outflow	(51)	(174)

7. INVENTORIES

Inventories consisted of the following as at:

	December 31, 2018	December 31, 2017
	\$	\$
Raw materials	1,416	1,599
Work-in-process	758	490
Finished goods	524	1,076
	2,698	3,165

During the year ended December 31, 2018, inventories related to continuing operations in the amount of \$4.8 million were recognized in cost of goods sold [\$3.8 million for the year ended December 31, 2017].

During the year ended December 31, 2018, \$0.1 million of finished goods related to continuing operations were written down [\$0.4 million for the year ended December 31, 2017, including \$0.3M for non-performing brands that were discontinued].

There were no reversals of prior write-downs during the year ended December 31, 2018 [\$nil - December 31, 2017].

8. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	December 31, 2018	December 31, 2017
	\$	\$
Contingent consideration receivable ⁽ⁱ⁾ (Note 5)	-	115
Prepaid expenses	222	286
Deposits	51	61
Sales taxes receivable	45	58
Research and development supplies	-	20
	318	540

⁽ⁱ⁾ On August 8, 2017, a contingent consideration receivable of \$0.1 million was recorded in accordance with the Amended Alyria Agreement. During the year ended December 31, 2018, the contingent consideration receivable was revalued to \$0.3 million and was reclassified against accounts payable and accrued liabilities (\$0.2 million) and other obligations (\$0.1 million).

9. PROPERTY, PLANT AND EQUIPMENT

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

	Leasehold Improvements	Furniture and Fixtures	Computer Equipment and Software	Production Laboratory and Other Equipment	Total
Cost	\$	\$	\$	\$	\$
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
Additions ⁽ⁱ⁾	23	6	26	118	173
Balance, December 31, 2018	502	190	1,244	966	2,902
Accumulated depreciation					
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
Depreciation expense	53	4	87	29	173
Disposals	-	-	-	-	-
Balance, December 31, 2018	251	167	1,067	709	2,194
Net book value as at December 31, 2017	281	21	238	168	708
Net book value as at December 31, 2018	251	23	177	257	708

⁽ⁱ⁾ As at December 31, 2018, \$29 of total PP&E additions were unpaid and included in accounts payable and accrued liabilities.

10. INTANGIBLE ASSETS

Intangible assets consisted of the following as at:

	Product Brands and Formulations	Customer Relationships	License Agreement	Total
Cost	\$	\$	\$	\$
Balance, December 31, 2016	6,740	3,050	350	10,140
Additions – Alyria Acquisition (Note 5)	1,256	-	-	1,256
Balance, December 31, 2017	7,996	3,050	350	11,396
Additions	-	-	-	-
Balance, December 31, 2018	7,996	3,050	350	11,396
Accumulated amortization				
Balance, December 31, 2016	187	102	12	301
Amortization	612	305	35	952
Impairment (Note 4)	148	-	303	451
Balance, December 31, 2017	947	407	350	1,704
Amortization	669	304	-	973
Balance, December 31, 2018	1,616	711	350	2,677
Net book value as at December 31, 2017	7,049	2,643	-	9,692
Net book value as at December 31, 2018	6,380	2,339	-	8,719

11. LONG-TERM DEBT

Long-term debt consisted of the following as at:

	December 31, 2018	December 31, 2017
	\$	\$
Knight loan – principal	3,639	3,639
Knight loan – unamortized discount	(93)	(159)
	3,546	3,480
Less current portion	1,556	1,139
Long-term balance	1,990	2,341

On September 1, 2016, concurrent with the acquisition of INTEGA, the Company entered into an amended and restated loan agreement with Knight Therapeutics Inc. (Knight) (First Amended Knight Loan Agreement), 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 its loan with Knight and entered into a second amended and restated loan agreement (the Second Amended Loan Agreement). Crescita immediately repaid \$3.2 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 loan continues to bear interest at 9% per annum with a maturity date of January 22, 2022 and does not contain any financial covenants.

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 received in connection with the Taro Agreement, debt or equity financing, or through the sale of assets. The loan can be repaid by the Company at any time prior to December 31, 2018 without penalty. Thereafter, the Company has the right to prepay the outstanding principal of the loan and pay a prepayment fee equal to 5% of the principal amount prepaid. Under the Second Amended Loan Agreement, Crescita agreed to make additional repayments such that the principal amount of the loan would be reduced to \$2.5 million by December 31, 2018. The remainder of the principal amount of the loan is repayable in monthly installments of \$83 beginning on August 2019 and ending on January 2022.

The Second Amended Loan Agreement 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 (refer to Note 17, *Share-Based Compensation and other Share-Based Payments*).

As the terms of the Second Amended Loan Agreement were substantially different from the First Amended Knight Loan Agreement, the renegotiation created a debt extinguishment for accounting purposes and the First Amended Knight Loan was derecognized with the Second Amended Loan Agreement being recognized at fair value. The difference in the fair value of the Second Amended Loan Agreement and the carrying value of the First Amended Knight Loan Agreement resulted in a gain of \$1.1 million in 2017, net of transaction costs.

Recent Developments

During the year ended December 31, 2018, the Company received an irrevocable waiver from Knight of the cash sweep provision of Second Amended Loan Agreement in connection with its Rights Offering (The Offering), allowing Crescita to benefit from 100% of the net proceeds of The Offering - refer to Note 14⁽ⁱ⁾, Share Capital, as well as a similar waiver in connection with revenue received under the out-licensing agreement with Taro – refer to Note 15⁽ⁱ⁾, Disaggregated Revenue Information for further details.

In addition, during the fourth quarter of 2018, the Company initiated discussions with Knight to further renegotiate the terms currently in effect. Accordingly, the parties executed certain amendments to the Second Amended Loan Agreement on December 7, 2018 and then again on January 31, 2019, extending the repayment date without penalty from December 31, 2018 to January 31, 2019 and then to March 31, 2019. These amendments allowed the Company to defer the date by which the principal amount of the loan is reduced to \$2.5 million from December 31, 2018 to March 31, 2019 and as such, no repayments on principal were made in 2018. Further negotiations of the terms of the loan are currently in progress.

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 (refer to Note 17, *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, 2017	834	173	1,007
Accretion	29	-	29
Balance, December 31, 2018	863	173	1,036

13. OTHER OBLIGATIONS

Other obligations consisted of the following as at:

	December 31, 2018	December 31, 2017
	\$	\$
Payable relating to a previous acquisition by INTEGA (Note 16 ⁽ⁱ⁾)	-	1,000
Consideration payable relating to the Alyria Acquisition (Notes 5, 8 ⁽ⁱ⁾)	341	702
Contingent payments relating to the Alyria Acquisition (Note 5)	20	20
	361	1,722
Less current portion	300	1,300
Long-term balance	61	422

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

The following table summarizes Crescita's outstanding common shares:

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

⁽ⁱ⁾ On March 9th, 2018, the Company completed its Rights Offering upon which 7,001,603 Class A common shares were issued at a price of \$0.53 per share for gross proceeds of \$3.7 million, with issuance costs of \$0.2 million. Crescita 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.

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

Crescita has 21,016,059 common shares issued and outstanding as at December 31, 2018.

15. 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 year ended December 31, 2018	Product Sales	Out-licensing revenues ⁽ⁱ⁾	Service revenue	Total
	\$	\$	\$	\$
Canada	6,349	7,355	28	13,732
U.S.	2,107	-	-	2,107
Europe	-	131	-	131
Other foreign countries	626	32	-	658
Balance, December 31, 2018	9,082	7,518	28	16,628

For the year ended December 31, 2017				
	Product Sales	Out-licensing revenues	Service revenue	Total
	\$	\$	\$	\$
Canada	6,390	3,395	298	10,083
U.S.	952	-	-	952
Europe	-	130	-	130
Other foreign countries	792	57	-	849
Balance, December 31, 2018	8,134	3,582	298	12,014

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 twelve months ended December 31, 2018, the Company had one major customer that accounted for 44% of the Company's total revenue [28% of revenues for the twelve months ended December 31, 2017].

- (i) Crescita has obtained an irrevocable waiver from Knight of certain provisions of the Second Amended Loan Agreement, allowing Crescita to benefit from 100% of the net cash proceeds received through milestone and royalty revenue up to February 15, 2019.

16. OTHER INCOME

Other income consisted of the following as at:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Gain on debt renegotiations, net (Note 11)	-	1,079
Gain on settlement ⁽ⁱ⁾	650	-
Other income ⁽ⁱⁱ⁾	455	-
	1,105	1,079

- (i) The Company entered into an agreement relating to a \$1.0 million historical liability owing under a previous acquisition concluded in 2016. Pursuant to the terms of the agreement, in consideration for INTEGA releasing the counterparty from any potential future claims under the agreement 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.
- (ii) Other income includes a gain of \$0.2 million related to the revaluation of the contingent consideration receivable in connection with the Alyria Acquisition (Note 5, 8(i)).

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

The Company has two share-based compensation plans: the Share Incentive Plan and the SARs Plan. The following is a summary of share-based compensation activity for the years ended December 31, 2018 and 2017:

Share Incentive Plan

Under the Company's Share Incentive Plan, there are three sub-plans: (i) the Share Option Plan, (ii) the Share Purchase Plan and the (iii) 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 Toronto Stock Exchange (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. The continuance of the Share Incentive Plan was approved at Crescita's last Annual General and Special Meeting of Shareholders on June 13, 2018. As at December 31, 2018, the number of common shares available for issuance under the Share Incentive Plan was 977,410.

(i) Share Option Plan

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

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

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000's	\$	\$
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 - 3.12	1.14
Granted	465	0.48 - 0.49	0.49
Forfeited	(40)	0.65	0.65
Expired	(35)	1.21 - 1.77	1.54
Exercised	(11)	0.43	0.43
Balance, December 31, 2018	2,162	0.43 - 3.12	1.00

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, 2017 - 7.0%], and the remaining model inputs for options granted during the years ended December 31, 2018 and 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	5	98 - 122	0.38 - 0.45
50	December 13, 2017	0.58	0.58	1.41 - 1.57	5	68 - 125	0.15 - 0.40
425	April 3, 2018	0.49	0.49	1.74 - 1.94	5	61 - 106	0.14 - 0.35
40	May 14, 2018	0.48	0.48	1.88 - 2.12	5	61 - 106	0.12 - 0.32

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

Exercise Price Range \$	Outstanding			Exercisable	
	Number of Options 000's	Remaining Contractual Life years	Weighted Average Exercise Price \$	Vested Options 000's	Weighted Average Exercise Price \$
0.43 - 0.74	1,330	8.22	0.59	395	0.66
1.21 - 1.42	163	3.08	1.37	163	1.37
1.63 - 1.91	624	7.39	1.63	321	1.63
3.12	45	1.46	3.12	45	3.12
	2,162	7.45	1.00	924	1.24

(ii) 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 2018, Crescita's employees made contributions of \$nil [2017 - \$25] to the Share Purchase Plan.

(iii) Share Bonus Plan

Under the Share Bonus Plan, the Company may issue common shares as a discretionary bonus to the officers, certain employees, directors as well as designated affiliates. Persons who perform services for the Company are also eligible to receive shares in lieu of cash compensation.

During 2018, no shares were issued under the plan [2017 - nil]

Share Appreciation Rights Plan

SARs was an equity compensation plan of Nuvo prior to the Reorganization. Following the Reorganization, no additional share appreciation rights could be granted under the SARs Plan.

The SARs Plan was established for 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 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 the Company'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 Crescita's SARs as at December 31, 2018:

	Number of SARs 000's	Fair Values \$	Accrual \$
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
Expired	(119)	0.00	-
Adjustment to market value	-	-	(1)
Balance, December 31, 2018	52	0.00	-

As at December 31, 2018, a SARs accrual of \$nil was included in Crescita's accounts payable and accrued liabilities [December 31, 2017 - \$1]. The 51,860 units outstanding at December 31, 2018 expired as at January 1, 2019 with a fair value of nil.

Fair values of each tranche issued and outstanding as at December 31, 2018 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 \$
52	January 7, 2015	1.58	2.19	<1	77	0.00

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. 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	Range of Exercise Price	Weighted Average Exercise Price
	000's	\$	\$
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
Issued	-	-	-
Cancelled	-	-	-
Balance, December 31, 2018	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 the warrants issued during the years ended December 31, 2018 and December 31, 2017 were as follows:

Warrants 000s	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
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

Summary of Share-based Compensation

Share-based compensation expense is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Stock option compensation expense	342	228
Employee Share Purchase Plan	-	23
SARs compensation expense	(1)	(99)
Share-based compensation expense	341	152

Recorded in the consolidated statements of income (loss) and comprehensive income (loss) as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Research and development expenses	31	32
Selling, general and administrative expenses	310	120
Share-based compensation expense	341	152

18. NET INCOME (LOSS) PER COMMON SHARE

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

	Year ended December 31, 2018	Year ended December 31, 2017
	000's	000's
Common shares issued and outstanding (Note 14)	21,016	14,003
Stock options outstanding (Note 17)	2,162	1,783
Convertible debentures (Note 12)	1,000	1,000
SARs liability ⁽ⁱ⁾ (Note 17)	52	171
Warrants (Note 17)	661	661
	24,891	17,618

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

19. EXPENSES BY NATURE

The consolidated statements of income (loss) and comprehensive income (loss) include the following expenses by nature:

(a) Employee costs from continuing operations:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Short-term employee wages, bonuses and benefits	6,511	6,611
Share-based payments (Note 17)	265	152
Termination benefits	51	293
Total employee costs	6,827	7,056
Included in:		
Cost of goods sold	1,143	1,318
Research and development expenses	934	785
Selling, general and administrative expenses	4,750	4,953
Total employee costs	6,827	7,056

(b) Depreciation and amortization from continuing operations:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Depreciation included in cost of goods sold	129	152
Depreciation and amortization included in selling, general and administrative expenses ⁽ⁱ⁾	1,017	1,009
Total depreciation and amortization	1,146	1,161

⁽ⁱ⁾ Selling, general and administrative expenses included \$973 of amortization of intangible assets and \$44 of depreciation of tangible assets for the year ended December 31, 2018 [\$952 and \$57 respectively for the year ended December 31, 2017].

20. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Accounts receivable	(3,883)	206
Inventories	318	(986)
Other current assets	101	939
Accounts payable and accrued liabilities	510	(2,569)
Net change in non-cash working capital	(2,954)	(2,410)

21. INCOME TAXES

Deferred Tax Assets and Liabilities

(a) Recognized deferred tax assets (liabilities)

	As at December 31, 2017	Recognized in income	Recognized in other comprehensive income	As at December 31, 2018
	\$	\$	\$	\$
Canadian non-capital loss carryforwards	1,582	1,416	-	2,998
Canadian property plant and equipment	(48)	253	-	205
Convertible debenture	(42)	6	-	(36)
Share Issuance costs and unamortized discount on long-term debt	144	(56)	-	88
Unrealized foreign exchange gain	-	-	(327)	(327)
Provisions and other accruals	-	(58)	-	(58)
Intangible assets	(1,636)	212	-	(1,424)
Net deferred tax assets	-	1,773	(327)	1,446

Net deferred tax assets of \$1.4 million were recognized as at December 31, 2018 in respect of temporary differences that have arisen in jurisdictions where the Company has a history of recent losses. Based on projections for future taxable income, management believes it is probable the Company will realize the benefits of these deductible differences and operating tax loss carry forwards. Refer to Note 4 – *Use of estimates and judgments* for further details on how the Company determines the extent to which deferred income tax assets are recognized.

(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, 2018	Year ended December 31, 2017
	\$	\$
U.S. non-capital loss carryforwards	82,518	74,825
U.S. federal and state research and development credits	4,676	4,300
Unrealized foreign exchange loss on account of capital	-	462
Canadian non-capital loss carryforwards	6,262	13,626
U.S. Tax basis of property, plant and equipment and intangible assets in excess of (less than) accounting value	1,750	2,146
Canadian tax basis of property, plant and equipment and intangible assets in excess of (less than) accounting value	-	1,193
Share issuance costs	-	72
Deductible temporary differences not recognized	95,206	96,624

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

	Year ended December 31, 2018	Year ended December 31, 2017
	%	%
Statutory rate	26.5	26.5
Non-deductible expense, non-taxable income and other items	12.8	(0.1)
Impact of future tax rate differences	-	(1.6)
Goodwill impairment not deductible	-	(13.4)
Impact of foreign income tax rate differential	1.2	1.4
Recognition of previously unrecognized temporary differences	(367.5)	-
Unrecognized temporary differences	79.7	(12.8)
	(247.3)	-

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
		\$
United States ⁽ⁱ⁾	2023 to 2029	46,776
United States	2025 to 2038	35,742
Canada	2033 to 2038	17,574
		100,092

⁽ⁱ⁾ These U.S. losses carried forward were acquired with the purchase of ZARS in 2011. The use of those losses of US\$34.3 million are subject to restrictions under the U.S. change of ownership rules.

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.

22. COMMITMENTS

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

	Operating Leases
	\$
2019	405
2020	405
2021	303
Total Commitments	1,113

For the year ended December 31, 2018, payments under operating leases totaled \$0.4 million [December 31, 2017 - \$0.6 million].

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.

23. 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, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration receivable (Notes 5, 8)	-	-	-	-	-	115
Contingent consideration – royalty earn-out (Note 5)	-	-	(20)	-	-	(20)
SARs (Note 17)	-	-	-	-	(1)	-

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, 2018 and 2017.

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

Level 2 liabilities include obligations of the Company for the SARs Plan described in Note 17, *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 Alyria Acquisition. The fair value of the contingent consideration receivable and payable is revalued at each reporting period based on management's best estimate using the discounted cash flow method.

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

Risk Factors

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

Liquidity Risk

The Company 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 2019 and beyond. 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 \$1.1 million that is payable from 2019 to 2021.

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

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that may be subject 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 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 December 31, 2018, 3% of accounts receivables related to customers outside North America and the E.U. [December 31, 2017 - 8%].

As at 31 December 2018, the Company had two customers that accounted for approximately 86% [December 31, 2017 - 28%] of the total accounts receivables.

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

	December 31, 2018	December 31, 2017
	\$	\$
Current	4,775	696
0-30 days past due	197	512
31-60 days past due	137	112
61-90 days past due	38	196
Over 90 days past due	(9)	26
	5,138	1,542
Allowance for doubtful accounts	(51)	(79)
	5,087	1,463

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, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	€	€	\$	\$
Cash and cash equivalents	51	54	194	573
Accounts receivable	-	-	3,334	305
Other current assets	38	18	30	47
Accounts payable and accrued liabilities	(93)	(86)	(843)	(357)
	(4)	(14)	2,715	568

Based on the aforementioned net exposure as at December 31, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$0.4 million on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$1 on total comprehensive loss.

In terms of the euro, the Company has three significant exposures: its euro-denominated cash held in its Canadian operations, 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 and its net investment and net cash flows in its European operations (refer to 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 U.S. dollar-denominated cash held in its Canadian operations, royalties and milestones from licensing agreements with Galderma S.A. (Galderma) and Taro regarding Pliaglis and 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 and 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.

24. SEGMENTED INFORMATION

Following the discontinuation of the Immunology Group in 2016, the Company reports the entire business as one segment. As at December 31, 2018, all the Company's Property, Plant & Equipment and intangible assets were located in Canada.

25. 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, issuance of new shares and debt financing to finance growth initiatives.

26. RELATED PARTY TRANSACTIONS

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, 2018	Year ended December 31, 2017
	\$	\$
Short-term wages, bonuses and benefits	1,711	1,685
Share-based payments	237	133
Total key management compensation	1,948	1,818
<i>Included in:</i>		
General and administrative expenses	1,948	1,818
Total key management compensation	1,948	1,818

27. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to current year presentation.

Corporate Information

REGISTERED HEAD OFFICE

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Tel. 1-905-673-6980
Fax. 1-905-673-4295
Email: info@crescitatx.com
Website: www.crescitatherapeutics.com

CORPORATE HEAD OFFICE

2805 Place Louis-R Renaud
Laval, Québec, Canada, H7V 0A3

AUDITORS

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants
Montreal, Canada

LEGAL COUNSEL

Goodmans LLP
Toronto, Canada

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Symbol: CTX

INVESTOR RELATIONS

Email: ir@crescitatx.com

TRANSFER AGENT/REGISTRAR

Common Shares

AST Trust Company (Canada)
P.O. Box 700, Postal Station B
Montreal, Québec, Canada, H3B 3K3
Telephone: 1-800-387-0825
or outside Canada and U.S. 416-682-3860
Fax: 1-888-249-6189
or outside Canada and U.S. 514-985-8843
Email: inquiries@astfinancial.com

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

Serge Verreault, BA, MBA
President and Chief Executive Officer

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