CRESCITA THERAPEUTICS

Crescita Therapeutics Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019
(unaudited)

NOTICE TO READER

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent external auditors, Ernst & Young LLP, have not performed a review or an audit of these condensed consolidated interim financial statements in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor.

The condensed consolidated interim financial statements include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards. Management has determined such amounts on a reasonable basis in order to ensure that the condensed consolidated interim financial statements are presented fairly in all material respects.

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

(In thousands of Canadian dollars)	***Notes***	**As at September 30, 2020** **$**	As at December 31, 2019 $
Assets			
Current			
Cash and cash equivalents		**13,856**	9,268
Accounts receivable	*15*	**1,884**	2,433
Inventories	*4*	**3,862**	3,784
Other current assets	*5, 15*	**477**	437
Total current assets		**20,079**	15,922
Non-current			
Contract assets	*9, 15*	**2,059**	1,584
Property, plant and equipment		**600**	648
Right-of-use-asset		**304**	533
Intangible assets	*6*	**4,749**	7,571
Deferred tax assets		**-**	579
Total assets		**27,791**	26,837
Liabilities			
Current			
Accounts payable and accrued liabilities	*15*	**4,443**	3,935
Current portion of lease obligation		**389**	358
Current portion of other obligations		**50**	50
Total current liabilities		**4,882**	4,343
Non-current			
Convertible debentures		**923**	895
Lease obligation		**-**	295
Other obligations		**200**	196
Total liabilities		**6,005**	5,729
Equity			
Capital Stock	*8*	**58,184**	58,422
Contributed surplus		**2,239**	1,948
Accumulated other comprehensive income (“AOCI”)		**1,141**	1,145
Deficit		**(39,778)**	(40,407)
Total equity		**21,786**	21,108
Total liabilities and equity		**27,791**	26,837

See accompanying Notes.

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

		Three months ended September 30,		Nine months ended September 30,	
		2020	2019	**2020**	2019
(In thousands of Canadian dollars, except per share data and number of shares)	***Notes***	**$**	$	**$**	$
Revenues	*9*	**7,301**	4,906	**12,849**	18,517
Operating expenses					
Cost of goods sold	*4, 13*	**1,172**	1,463	**3,164**	4,113
Research and development	*13*	**212**	462	**776**	1,338
Selling, general and administrative	*13*	**1,632**	2,092	**5,383**	6,335
Depreciation and amortization	*13*	**415**	411	**1,243**	1,177
Operating profit		**3,870**	478	**2,283**	5,554
Interest expense		**52**	149	**199**	460
Interest income		**(57)**	(80)	**(209)**	(182)
Intangible asset impairment	*6*	**-**	-	**1,918**	-
Other expenses (income)	*10*	**(668)**	-	**(668)**	1,274
Foreign exchange (gain) loss		**(64)**	77	**(165)**	105
Total other expenses (income)		**(737)**	146	**1,075**	1,657
Income before income taxes		**4,607**	332	**1,208**	3,897
Deferred income tax expense		**399**	244	**579**	1,559
Net income		**4,208**	88	**629**	2,338
Other comprehensive income (loss) to be reclassified to net loss in subsequent periods					
Unrealized gain (loss) on translation of foreign operations (net of income taxes)		**2**	(9)	**(4)**	329
Total comprehensive income		**4,210**	79	**625**	2,667
Net income per common share	*12*				
- Basic		**$0.20**	$ -	**$ 0.03**	$0.11
- Diluted		**$0.19**	$ -	**$ 0.03**	$0.11
Weighted average number of common shares outstanding	*12*				
- Basic		**20,648,448**	20,921,387	**20,665,803**	20,984,502
- Diluted		**21,796,236**	22,705,677	**21,995,583**	22,442,250

See accompanying Notes.

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

	Common Shares		Contributed Surplus	Deficit	AOCI	Total
(In thousands of Canadian dollars, except for number of shares)	**000's**	**$**	**$**	**$**	**$**	**$**
Notes	*8, 11*	*8, 11*	*11*			
Balance, December 31, 2018	21,016,059	59,220	1,120	(42,143)	810	19,007
First time adoption of IFRS 16	-	-	-	(119)	-	(119)
Net income	-	-	-	2,338	-	2,338
Class A shares purchased and cancelled	(124,688)	(351)	238	-	-	(113)
Class A shares purchased but not cancelled	-	(217)	147	-	-	(70)
Share-based compensation expense	-	-	247	-	-	247
Unrealized gain on translation of foreign operations (net of income tax recovery of $327)	-	-	-	-	329	329
Balance, September 30, 2019	20,891,371	58,652	1,752	(39,924)	1,139	21,619
Net loss	-	-	-	(483)	-	(483)
Class A shares cancelled	(76,829)	-	-	-	-	-
Class A shares purchased and cancelled	(72,359)	(204)	138	-	-	(66)
Class A shares purchased but not cancelled	-	(26)	18	-	-	(8)
Share-based compensation expense	-	-	40	-	-	40
Unrealized gain on translation of foreign operations (tax effect of $nil)	-	-	-	-	6	6
Balance, December 31, 2019	20,742,183	58,422	1,948	(40,407)	1,145	21,108
Net income	-	-	-	629	-	629
Class A shares cancelled	(9,547)	-	-	-	-	-
Class A shares purchased and cancelled	(84,188)	(238)	170	-	-	(68)
Share-based compensation expense	-	-	121	-	-	121
Unrealized loss on translation of foreign operations (tax effect of $nil)	-	-	-	-	(4)	(4)
Balance, September 30, 2020	**20,648,448**	**58,184**	**2,239**	**(39,778)**	**1,141**	**21,786**

See accompanying Notes.

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

		Three months ended September 30,		Nine months ended September 30,	
		2020	2019	**2020**	2019
(In thousands of Canadian dollars)	***Notes***	**$**	$	**$**	$
Operating Activities					
Net income		**4,208**	88	**629**	2,338
Adjustments for:					
Depreciation and amortization	*13*	**415**	411	**1,243**	1,177
Share-based compensation	*11*	**31**	50	**121**	247
Inventory write-down	*4*	**125**	62	**200**	154
Intangible asset impairment	*6*	**-**	-	**1,918**	-
Deferred income taxes		**399**	244	**579**	1,559
Contract assets	*9*	**-**	-	**(413)**	(1,738)
Interest		**(77)**	(27)	**(78)**	7
Other		**(95)**	41	**(35)**	(33)
		5,006	869	**4,164**	3,711
Net change in non-cash working capital	*14*	**(313)**	763	**879**	1,543
Cash provided by operating activities		**4,693**	1,632	**5,043**	5,254
Investing Activities					
Acquisition of property, plant, and equipment		**(1)**	(55)	**(62)**	(169)
Cash used in investing activities		**(1)**	(55)	**(62)**	(169)
Financing Activities					
Repayment of lease obligation		**(90)**	(80)	**(264)**	(233)
Purchase of Class A shares	*8*	**-**	(183)	**(68)**	(183)
Payment of other obligations		**-**	-	**(50)**	(250)
Cash used in financing activities		**(90)**	(263)	**(382)**	(666)
Effect of exchange rate changes on cash		**(11)**	2	**(11)**	(3)
Net change in cash and cash equivalents during the period		**4,591**	1,316	**4,588**	4,416
Cash and cash equivalents, beginning of period		**9,265**	11,689	**9,268**	8,589
Cash and cash equivalents, end of period		**13,856**	13,005	**13,856**	13,005
Supplemental Cash Flow Information					
Interest paid [(i)]		**36**	104	**113**	361
Interest received [(i)]		**79**	113	**105**	159

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

See accompanying Notes.

All amounts presented 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 in-house research & development ("R&D") and manufacturing capabilities. The Company offers a portfolio of non-prescription skincare products and early to commercial stage prescription drug products and owns multiple proprietary drug delivery platforms that support the development of patented formulations that can facilitate the delivery of active ingredients 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. Crescita maintains its registered office at 6733 Mississauga Road, Suite 800, Mississauga, Ontario, L5N 6J5.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared by management in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), and accordingly, do not include all disclosures required for annual financial statements. These Interim Financial Statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and 2019 were authorized for issue by the Company's board of directors on November 11, 2020.

Basis of Measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The policies applied in these Interim Financial Statements are based on International Financial Reporting Standards ("IFRS"). All significant accounting policies have been applied on a basis consistent with those followed in the most recent annual consolidated financial statements for the year ended December 31, 2019.

Use of Estimates and Judgements

The preparation of the Interim Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity, the accompanying disclosure of contingent assets and liabilities at the date of these Interim Financial Statements, as well as the reported amounts of revenues and expenses during the reporting periods.

Management has identified key areas of judgements, estimations or use of managerial assumptions that it believes are most critical to understanding the Interim Financial Statements. These accounting estimates are considered critical because they require management to make subjective and/or complex judgements that are inherently uncertain and because they could have a material impact on the presentation of our financial condition and/or results of operations. The Company's actual results could differ from these estimates and such differences could also be material. These key areas are disclosed in Note 4 – *Use of Estimates and Judgments* to the Company's consolidated financial statements for the year ended December 31, 2019.

Impact of the COVID-19 Pandemic
On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. There have been no comparable events that provide guidance as to the effect that the spread of COVID-19 may have, and as a result its ultimate impact on the Company's business, results of operations and financial condition. The extent of the impact will depend on future developments which are highly uncertain, subject to change and difficult to predict with meaningful precision.

As at the date of these Interim Financial Statements the majority of Canadian provinces have allowed the reopening of personal care service businesses, including spas and medispas, which had temporarily closed in line with recommendations by public health officials on or around March 24, 2020 and throughout most of the second quarter 2020. The pandemic has led to high levels of unemployment in Canada and has resulted in lower consumer spending. The overall reduction in customer demand for our products caused by the temporary closure of spas and medispas in Canada and in the various geographies where we do business has had a meaningful impact on our year-to-date results. With a surge in the number of cases across many provinces this fall, Canadian health officials have confirmed that the country is experiencing the second wave of the pandemic. There is the possibility that restrictions may be reinstituted in the future if outbreaks of COVID-19 worsen in Canada, a vaccine has not been developed and other effective treatment options are not available. Any reinstitution of restrictions leading to temporary closure of spas, medispas and medical clinics, may have further negative impacts on our business.

For the period ended September 30, 2020, the Company assessed the impact of the uncertainties around COVID-19 on its balance sheet carrying amounts and updated the following areas of judgments and estimates:

Impairment on Non-Financial Assets
The temporary closure of personal care service businesses, including spas and medispas, on or around March 24, 2020, was identified as a triggering event for purposes of testing non-financial intangible assets for impairment. The Company updated this assessment mainly to reflect the pandemic-driven decrease in demand for its non-prescription skincare products and contract manufacturing services. Refer to Note 6 – *Intangible Assets* for details.

Expected Credit Losses
The Company also updated its expected credit losses ("ECL") on the entire accounts receivable balance in order to adjust for the potential impact of the COVID-19 pandemic which did not result in any significant impact.

Cash Flow Projections
Considering the current environment, the Company has also updated its cash flow projections. The Company anticipates that its current cash balance, amounts available through its revolving credit facility (refer to Note 7 – *Credit Facility*) as well as the revenue it expects to generate from product sales, upfront, milestone and royalty payments related to licensing its products and technologies will be sufficient to fund Crescita's committed cash obligations and expected level of expenses for at least the next twelve months.

4. INVENTORIES

Inventories consisted of the following as at:

	September 30, 2020	December 31, 2019
	$	$
Raw materials	**1,659**	1,739
Work-in-process	**688**	644
Finished goods	**1,515**	1,401
	3,862	3,784

During the three and nine months ended September 30, 2020, inventories in the amount of $1,047 and $2,964, respectively, were recognized in the cost of goods sold [$1,204 and $3,527 for the three and nine months ended September 30, 2019, respectively].

During the three and nine months ended September 30, 2020, $125 and $200, respectively, of finished goods inventory was written down [$62 and $154, respectively, for the three and nine months ended September 30, 2019].

There were no reversals of prior write-downs during the three and nine months ended September 30, 2020 and 2019.

5. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	September 30, 2020	December 31, 2019
	$	$
Prepaid expenses	**303**	226
Deposits	**61**	61
Sales taxes receivable	**31**	77
Current portion of contract assets (Note 9)	**82**	73
	477	437

6. INTANGIBLE ASSETS

Intangible assets consisted of the following as at:

	Product Brands and Formulations	**Customer Relationships**	**Total**
Cost	**$**	**$**	**$**
Balance, December 31, 2018	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2019	7,996	3,050	11,046
Additions	-	-	-
Balance, September 30, 2020	**7,996**	**3,050**	**11,046**
Accumulated amortization			
Balance, December 31, 2018	1,616	711	2,327
Amortization	731	417	1,148
Balance, December 31, 2019	2,347	1,128	3,475
Amortization	565	339	904
Impairment	1,918	-	1,918
Balance, September 30, 2020	**4,830**	**1,467**	**6,297**
Net book value as at December 31, 2019	5,649	1,922	7,571
Net book value as at September 30, 2020	**3,166**	**1,583**	**4,749**

As a result of certain realignments in the 2020 strategic planning process, the Company now has three reportable segments, effective January 1, 2020: (i) Commercial Skincare; (ii) Licensing and Royalties; and (iii) Manufacturing and Services. The change in reportable segments also resulted in a change to the determination of cash generating units ("CGUs"), which are now also based on reportable segments. Refer to Note 16 – *Segmented Information*. Prior to this, the Company operated its business as one segment and had two CGUs – INTEGA for product sales and Licensing for out-licensing activities.

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 the fair value less costs to sell model. This complex valuation process entails the use of 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 temporary closure of personal care service businesses, including spas and medispas, on or around March 24, 2020, as a result of the declaration of the COVID-19 global pandemic, was identified as a triggering event for purposes of testing non-financial intangible assets for impairment for the Commercial Skincare and Manufacturing and Services CGUs. As at June 30, 2020, the Company updated this assessment mainly to reflect the pandemic-driven decrease in demand for its non-prescription skincare products and contract manufacturing services on its long-term forecasts. The timing of a recovery of consumer behavior and willingness to spend discretionary income on aesthetic products and treatments may adversely affect the Company's ability to generate revenue comparable to historical levels.

Even with the reopening of economies across Canada and worldwide, it remains unclear what the duration and long-term effects of this pandemic will be on our industry. The estimated future cash flows were based on the revised 2020 budget and strategic plan for the first 5 years and a terminal growth rate of 2.5% (2.5% in 2019) was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate used to calculate the recoverable amount at June 30, 2020 and December 31, 2019 was 14%.

Based on the Company's assessment, the carrying amount of the Commercial Skincare and Manufacturing and Services CGUs exceeded their recoverable amount and accordingly, the Company recognized an impairment charge of $1,918 as at June 30, 2020 ($1,101 for Commercial Skincare and $817 for Manufacturing and Services).

At September 30, 2020, the Company updated its impairment test performed at June 30, 2020 and concluded that no further impairment charge was required.

7. CREDIT FACILITY

On February 26, 2020, the Company completed a credit agreement with a Canadian Chartered Bank (the "Bank"), consisting of a revolving credit facility (the "Facility") for an authorized amount up to $3,500, subject to margin requirements. Loans drawn on the Facility are secured by a first-ranking charge in favour of the Bank over the Company's accounts receivable and inventories. Drawings in excess of the first $1,000 are limited to a percentage of the Company's outstanding accounts receivable and inventory. The Facility bears interest at the Bank's prime rate (2.45% as at September 30, 2020) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at September 30, 2020.

8. CAPITAL STOCK

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, 2018	21,016	59,220
Shares purchased and cancelled	(274)	(772)
Shares purchased	-	(26)
Balance, December 31, 2019	20,742	58,422
Shares cancelled	(10)	-
Shares purchased and cancelled	(84)	(238)
Balance, September 30, 2020	**20,648**	**58,184**

The Company's normal course issuer bid (the "NCIB") expired on June 27, 2020 and was not renewed. The NCIB enabled Crescita to purchase up to 1,000,000 of its common shares ("Common Shares") for cancellation on the open market through the facilities of the Toronto Stock Exchange commencing June 28, 2019.

During the nine months ended September 30, 2020, 84,188 Common Shares with a carrying value of $238 were repurchased and cancelled, for a cash consideration of $68. The excess of the carrying value over the purchase price in the amount of $170 was recorded to Contributed Surplus.

9. REVENUE

The following table presents external revenues disaggregated by reportable segment, revenue source and geographic area (based on the customer's billing address) for the three and nine months ended September 30, 2020 and 2019:

	For the three months ended September 30,							
	Canada		U.S.		ROW		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$	**$**	$
Commercial Skincare								
Product Sales	**1,437**	1,310	**14**	25	**331**	370	**1,782**	1,705
	1,437	1,310	**14**	25	**331**	370	**1,782**	1,705
Licensing and Royalties								
Licensing Revenue	**4,964**	2,537	**-**	-	**35**	-	**4,999**	2,537
	4,964	2,537	**-**	-	**35**	-	**4,999**	2,537
Manufacturing and Services								
Product Sales	**30**	69	**490**	572	**-**	-	**520**	641
Service Revenue	**-**	23	**-**	-	**-**	-	**-**	23
	30	92	**490**	572	**-**	-	**520**	664
Balance, September 30	**6,431**	3,939	**504**	597	**366**	370	**7,301**	4,906

	For the nine months ended September 30,							
	Canada		U.S.		ROW		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$	**$**	$
Commercial Skincare								
Product Sales	**4,039**	4,415	**62**	52	**524**	923	**4,625**	5,390
	4,039	4,415	**62**	52	**524**	923	**4,625**	5,390
Licensing and Royalties								
Licensing Revenue	**6,417**	5,266	**-**	-	**448**	5,771	**6,865**	11,037
	6,417	5,266	**-**	-	**448**	5,771	**6,865**	11,037
Manufacturing and Services								
Product Sales	**110**	214	**1,249**	1,760	**-**	-	**1,359**	1,974
Service Revenue	**-**	89	**-**	27	**-**	-	**-**	116
	110	303	**1,249**	1,787	**-**	-	**1,359**	2,090
Balance, September 30	**10,566**	9,984	**1,311**	1,839	**972**	6,694	**12,849**	18,517

Contract Assets

Under IFRS 15 *Revenues from Contracts with Customers*, contract assets represent the present value of the future guaranteed minimum royalties that are expected to be received over the term of licensing agreements that the Company may enter into from time to time. Contract asset balances are reduced as the contractual minimums are realized over the term of an agreement.

The timing of revenue recognition, billings and cash collections result in accounts receivables and unbilled receivables, representing the contract assets. Generally, billings occur subsequent to revenue recognition, resulting in the recognition of accounts receivables. The Company's contract assets relate to licensing revenue attributable to future guaranteed minimum royalties which have not been billed at the reporting date. Unbilled receivables will be billed, and transferred to accounts receivable, in accordance with the agreed-upon contractual terms. The following table presents the movements in the current and long-term portions of the contract assets since December 31, 2019:

	$
Balance, December 31, 2019	**1,657**
Addition to contract assets	**413**
Amounts billed to customers and transferred to accounts receivable	**(185)**
Interest accretion	**132**
Foreign exchange impact	**124**
Balance, September 30, 2020	**2,141**
Less: current portion (Note 5)	**82**
Long-term balance	**2,059**

On June 24, 2020, Crescita's licensing partner, Cantabria Labs ("Cantabria" and the "Cantabria Agreement") received approval from European regulatory authorities for the site transfer variation application previously submitted, allowing its manufacturing facility in Santander, Spain to be the supplier of Pliaglis®, Crescita's lead prescription product, in Europe. In connection with the approval, the Company revised its estimate of the net present value of future guaranteed minimum royalties to be received under the contract, recognizing an additional $413 for the three and nine months ended September 30, 2020. The Cantabria Agreement was signed in April 2019, granting Cantabria the exclusive rights to sell and distribute Pliaglis in Italy, Portugal, France and Spain for an initial term of 15 years.

Amendment to the Development and Commercialization Agreement with Taro Pharmaceuticals Inc.
On July 28, 2020, the Company announced that it entered into an amendment to the development and commercialization agreement with Taro Pharmaceuticals Inc. ("Taro" and the "Taro Amendment") with regard to Pliaglis in the U.S. The Taro Amendment entitled the Company to receive a total one-time payment of $5,151 (US$3,855), of which $4,483 (US$3,355) was recorded as licensing revenue under the Licensing and Royalty segment as it represented a royalty adjustment to past sales. Under the terms of the amendment, the royalty rates on future sales were also adjusted upward.

Major Customers
Under IFRS 8 *Operating Segments* ("IFRS 8"), major customers are those that account for greater than 10% of the Company's consolidated revenue. For the three and nine months ended September 30, 2020, the Company had one major customer that accounted for 68% and 50%, respectively, of the Company's total revenue [two major customers that accounted for 63% and 58%, respectively, of revenue for the three and nine months ended September 30, 2019].

10. OTHER EXPENSES (INCOME)

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Taro Amendment [(i)]	**(668)**	-	**(668)**	-
Termination fees and other costs [(ii)]	**-**	-	**-**	1,274
	(668)	-	**(668)**	1,274

[(i)] Under the terms of the Taro Amendment, the Company also recognized $668 (US$500) as Other Income in connection with the termination of a non-financial clause regarding the supply of Pliaglis to territories outside the U.S.

[(ii)] Effective April 1, 2019, the Company terminated its licensing agreement with Galderma S.A. The termination fees include the costs incurred to re-acquire the Pliaglis rest-of-world ("ROW") rights and other transaction related costs.

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

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

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000's	**$**	**$**
Balance, December 31, 2019	2,676	0.43 – 3.12	0.89
Granted	407	0.60	0.60
Forfeited	(178)	0.46 – 1.65	1.26
Expired	(68)	0.74 – 3.12	2.02
Balance, September 30, 2020	**2,837**	**0.43 – 1.65**	**0.80**

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at September 30, 2020:

	Outstanding			Exercisable	
Exercise Price Range	**Number of Options**	**Remaining Contractual Life**	**Weighted Average Exercise Price**	**Vested Options**	**Weighted Average Exercise Price**
$	**000's**	**years**	**$**	**000's**	**$**
0.43 - 0.58	999	7.60	0.48	439	0.48
0.60 - 0.78	1,189	7.54	0.65	673	0.67
1.21 - 1.42	135	1.32	1.36	135	1.36
1.63 - 1.65	514	5.63	1.63	514	1.63
	2,837	**6.92**	**0.80**	**1,761**	**0.96**

Summary of Share-based Compensation

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Share-based compensation expense	**31**	50	**121**	247
Recorded in the Consolidated Interim Statements of Income and Comprehensive Income as follows:				
Research and development expenses	**-**	9	**-**	31
Selling, general and administrative expenses	**31**	41	**121**	216
Share-based compensation expense	**31**	50	**121**	247

12. EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Net income attributable to equity holders	**4,208**	88	**629**	2,338
Interest on convertible debentures, net of income taxes	**24**	23	**71**	68
Dilutive net income attributable to common equity holders	**4,232**	111	**700**	2,406
Weighted-average number of common shares outstanding	**20,648,448**	20,921,387	**20,665,803**	20,984,502
Net effect of stock options, warrants and convertible debentures	**1,147,788**	1,784,290	**1,329,780**	1,457,748
Weighted-average number of diluted common shares	**21,796,236**	22,705,677	**21,995,583**	22,442,250
EPS				
Basic	**$0.20**	$ -	**$0.03**	$0.11
Diluted	**$0.19**	$ -	**$0.03**	$0.11

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

	September 30, 2020	September 30, 2019
Common shares issued and outstanding (Note 8)	**20,648,448**	20,891,371
Stock options outstanding (Note 11)	**2,836,812**	2,676,002
Convertible debentures	**1,000,000**	1,000,000
Warrants	**496,000**	660,823
Fully Diluted Number of Shares Outstanding	**24,981,260**	25,228,196

13. EXPENSES BY NATURE

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

(a) Employee costs:

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Short-term employee wages, bonuses and benefits[(i)]	**1,259**	1,651	**3,822**	4,984
Share-based payments (Note 11)	**24**	27	**78**	176
Total employee costs	**1,283**	1,678	**3,900**	5,160
Included in:				
Cost of goods sold	**266**	339	**818**	964
Research and development	**144**	252	**414**	733
Selling, general and administrative ("SG&A")	**873**	1,087	**2,668**	3,463
Total employee costs	**1,283**	1,678	**3,900**	5,160

[(i)] The Company determined that it qualified for the Canada Emergency Wage subsidy program ("CEWS" of the "Program") under the COVID-19 Economic Response Plan in Canada. Under the Program, Crescita was entitled to the wage subsidies because its revenue decreased beyond a government-determined threshold due to COVID-19. The subsidies were recorded in the Condensed Consolidated Interim Statement of Income as a reduction of the related wages and salaries. For the three and nine months ended September 30, 2020, the Company recognized $485 and $783, respectively, under the Program. Of these amounts, $226 was recorded against inventory, while the remaining balances of $259 and $557, for the three and nine months were recorded against SG&A wages.

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Cost of goods sold	**98**	95	**293**	281
Selling, general and administrative expenses[(i)]	**317**	316	**950**	896
Total depreciation and amortization	**415**	411	**1,243**	1,177

[(i)] Includes $301 and $904 of amortization of intangible assets and $16 and $46 of depreciation of tangible assets for the three and nine months ended September 30, 2020 [$301 and $846 for intangible assets and $15 and $50 for tangible assets respectively for the three and nine months ended September 30, 2019].

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Accounts receivable	**(339)**	(39)	**480**	1,451
Inventories	**27**	(538)	**(278)**	(1,674)
Other current assets and Contract assets	**(132)**	175	**149**	(20)
Accounts payable and accrued liabilities	**131**	1,165	**528**	1,786
Net change in non-cash working capital	**(313)**	763	**879**	1,543

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Level 1 - determined by reference to quoted prices in active markets for identical assets and liabilities.
Level 2 - include those where valuations are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.
Level 3 - valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

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

	September 30, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	$	**$**	**$**	$	$	$
Recurring fair value measurements						
Contingent payments relating to Alyria acquisition	**-**	**-**	**(20)**	-	-	(20)

Valuation Methods and Assumptions
Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and nine months ended September 30, 2020 and 2019.

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

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

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

The fair value of contract assets, which is presented at amortized cost using the effective interest method, has been determined by discounting the future cash flows using observable inputs, such as interest rate yield curves or credit spreads. The fair value of the contract asset approximates its carrying value as it is related to the Cantabria Agreement. Refer to Note 9 - *Revenue*.

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, revolving credit facility and the revenue it expects to generate from product sales, upfront, milestone and royalty payments related to licensing its products and/or its transdermal delivery technologies, will be sufficient to fund Crescita's committed obligations and expected level of expenses for the next twelve months. Additional funding may be required for the development of new products and/or for future acquisitions.

The Company's exposure to liquidity risk is dependent on the sales growth and profitability of its operations which will be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk including the COVID-19 pandemic, the level of research and development 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 subject the Company to credit risk consist of cash and amounts receivable from customers. The Company manages its exposure to credit risk by holding cash on deposit in major financial institutions. The Company's accounts receivables are subject to normal industry risks in each geographic region in which the Company operates. However, the Company has updated its ECL on the entire accounts receivable balance as at September 30, 2020, in order to adjust for the potential impact of the COVID-19 pandemic on the collectability of its accounts receivable, which did not result in any significant impact. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America due to potentially higher risks of enforceability and collectability.

As at September 30, 2020, 15% of accounts receivables related to customers outside North America and the E.U. [December 31, 2019 - 14%].

The contract asset in the amount of $2,141 is related to the Cantabria Agreement and is denominated in euros.

As at September 30, 2020, the Company had three customers that accounted for approximately 57% of the total accounts receivable [three customers that accounted for approximately 67% as at December 31, 2019].

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

	September 30, 2020	December 31, 2019
	$	$
Current	**983**	1,931
0-30 days past due	**645**	197
31-60 days past due	**295**	248
61-90 days past due	**13**	5
Over 90 days past due	**47**	121
	1,983	2,502
Allowance for doubtful accounts	**(99)**	(69)
	1,884	2,433

Interest Rate Risk
The Company's practice is to minimize interest rate cash flow risk exposures on its financing. The Company is currently not exposed to interest rate variability as its convertible debt instruments bear a fixed interest rate of 9% per year and it had not drawn any amounts on its Facility as at September 30, 2020.

Currency Risk
The Company operates internationally, 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 significant balances in foreign currencies were as follows:

	Euros		U.S. Dollars	
	September 30, 2020	December 31, 2019	**September 30, 2020**	December 31, 2019
	€	€	**$**	$
Cash and cash equivalents	**70**	29	**294**	1,025
Accounts receivable	**43**	52	**660**	1,028
Other current assets	**80**	82	**35**	3
Contract assets	**1,317**	1,086	**-**	-
Accounts payable and accrued liabilities	**(94)**	(91)	**(1,137)**	(1,130)
	1,416	1,158	**(148)**	926

Based on the aforementioned net exposure as at September 30, 2020, 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 $20 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $221 on total comprehensive income (loss).

In terms of the euro, the Company has four exposures: (i) its euro-denominated cash held in its Canadian operations; (ii) the cost of purchasing raw and packaging materials priced in euros or sourced from European suppliers; (iii) upfronts, royalties and milestones from licensing agreements for Pliaglis, the Company's lead prescription product, or for its transdermal delivery technologies; and (iv) its net investment and net cash flows in its European operations.

In terms of the U.S. dollar, the Company has five exposures: (i) its U.S. dollar-denominated cash held in its Canadian operations; (ii) the cost of purchasing raw and packaging materials and packaging materials priced in U.S. dollars or sourced from U.S. suppliers; (iii) upfronts, royalties and milestones from licensing agreements for Pliaglis or for its transdermal delivery technologies; (iv) its net investment and net cash flows in its U.S. operations; and (v) revenues generated in U.S. dollars from its product sales to U.S. customers.

16. SEGMENTED INFORMATION

IFRS 8 requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker (the "CODM") for allocating resources to the segment and for assessing its performance. Based on its analysis, the Company has determined that its CODM is its Chief Executive Officer.

As a result of certain realignments in the 2020 strategic planning process, effective January 1, 2020, the Company now has three reportable segments: (i) Commercial Skincare; (ii) Licensing and Royalties; (iii) Manufacturing and Services. Prior to this, the Company operated its business as one segment.

Commercial Skincare
The Commercial Skincare reportable segment manufactures branded non-prescription skincare products for sale to both the Canadian and international markets. The Company's branded non-prescription products include: Laboratoire Dr. Renaud ("LDR"), Pro-Derm, Alyria and Dermazulene. These premium skincare lines provide solutions for a wide range of skin concerns such as aging, acne, hydration, pigmentation, and rosacea.

In Canada, the Company's sales force calls on aesthetic spas, medispas and medical aesthetic clinics using a business to business to consumer business model. International markets include South Korea and Malaysia where the Company sells LDR through distribution partners, and China where Dermazulene is sold through a leading e-commerce distributor. The Company recognizes revenue from the sale of products when the goods are shipped or received by the customers depending on the specific arrangement.

Licensing & Royalties
The Licensing and Royalties ("Licensing") reportable segment includes revenue generated from licensing the intellectual property related to the Company's lead prescription product, Pliaglis, or for the use of its transdermal delivery technologies, MMPE™ and DuraPeel™, on either an exclusive or non-exclusive basis.

The Licensing segment also leverages the Company's in-house R&D capabilities for the development of new topical products combining its technologies and various selected molecules in order to fuel future licensing agreements in the non-prescription skincare market.

The key revenue components in the Licensing segment are upfront and milestones payments as well as royalties determined using the agreed-upon formulas as described in each respective licensing agreement.

Manufacturing and Services
The Manufacturing and Services reportable segment includes two main revenue streams: 1) revenue from the sale of topical products manufactured to client-specifications under its contract development and manufacturing organization ("CDMO") infrastructure; and 2) revenue for product development services.

Clients in the Manufacturing and Services segment use Crescita's CDMO services to manufacture either under a private label or brand name and may use a combination of Crescita's existing formulations or novel formulations, with or without the utilization of our transdermal delivery technologies.

Corporate and Other
The Corporate and Other total includes all the operating expenses, financing costs and corporate income tax expenses incurred by the Company to support its public company infrastructure and the three operating segments.

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Three months ended September 30, 2020	**$**	**$**	**$**	**$**	**$**
Revenue	**1,782**	**4,999**	**520**	**-**	**7,301**
Cost of goods sold	**789**	**-**	**383**	**-**	**1,172**
	993	**4,999**	**137**	**-**	**6,129**
Expenses					
Research and development	**-**	**-**	**-**	**212**	**212**
Selling, general and administrative	**-**	**-**	**-**	**1,632**	**1,632**
Depreciation and amortization	**-**	**-**	**-**	**415**	**415**
Other expenses (income)	**-**	**-**	**-**	**(737)**	**(737)**
Deferred income tax expense	**-**	**-**	**-**	**399**	**399**
Total Expenses	**-**	**-**	**-**	**1,921**	**1,921**
	993	**4,999**	**137**	**(1,921)**	**4,208**

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Nine months ended September 30, 2020	**$**	**$**	**$**	**$**	**$**
Revenue	**4,625**	**6,865**	**1,359**	**-**	**12,849**
Cost of goods sold	**2,200**	**-**	**964**	**-**	**3,164**
	2,425	**6,865**	**395**	**-**	**9,685**
Expenses					
Research and development	**-**	**-**	**-**	**776**	**776**
Selling, general and administrative	**-**	**-**	**-**	**5,383**	**5,383**
Depreciation and amortization	**-**	**-**	**-**	**1,243**	**1,243**
Other expenses (income)	**-**	**-**	**-**	**1,075**	**1,075**
Deferred income tax expense	**-**	**-**	**-**	**579**	**579**
Total Expenses	**-**	**-**	**-**	**9,056**	**9,056**
	2,425	**6,865**	**395**	**(9,056)**	**629**

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Three months ended September 30, 2019	$	$	$	$	$
Revenue	1,705	2,537	664	-	4,906
Cost of goods sold	722	197	544	-	1,463
	983	2,340	120	-	3,443
Expenses					
Research and development	-	-	-	462	462
Selling, general and administrative	-	-	-	2,092	2,092
Depreciation and amortization	-	-	-	411	411
Other expenses (income)	-	-	-	146	146
Deferred income tax expense	-	-	-	244	244
Total Expenses	-	-	-	3,355	3,355
	983	2,340	120	(3,355)	88

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Nine months ended September 30, 2019	$	$	$	$	$
Revenue	5,390	11,037	2,090	-	18,517
Cost of goods sold	2,389	432	1,292	-	4,113
	3,001	10,605	798	-	14,404
Expenses					
Research and development	-	-	-	1,338	1,338
Selling, general and administrative	-	-	-	6,335	6,335
Depreciation and amortization	-	-	-	1,177	1,177
Other expenses (income)	-	-	-	1,657	1,657
Deferred income tax expense	-	-	-	1,559	1,559
Total Expenses	-	-	-	12,066	12,066
	3,001	10,605	798	(12,066)	2,338

17. SUBSEQUENT EVENTS

Licensing Agreement for Pliaglis® in China

On November 5, 2020, the Company announced that it entered into an exclusive agreement with Juyou-Biotechnology Co. Ltd ("Juyou"), a biotechnology company that develops and sells medical and cosmetic skin care products, for the commercialization and development of Pliaglis® and an enhanced formulation of Pliaglis in mainland China (the "License Agreement").

Juyou will be responsible for the overall clinical development and regulatory filing for Pliaglis with the National Medical Products Administration (the "NMPA", formerly the China State Food and Drug Administration). As part of the License Agreement, Crescita will receive an upfront payment in cash of US$125 and will be eligible for potential regulatory and sales milestones of up to US$1,000 and US$1,800, respectively. Crescita will supply Pliaglis at a pre-determined price per unit including a profit margin and will be eligible to receive double-digit royalties once the product is available for commercial sale.

Licensing Agreement for Pliaglis® in Mexico

On October 19, 2020, the Company entered into a commercialization and license agreement with LIV LABORATÓRIOS ("LIV"), a division of MINOS Labs, a privately held Mexican group of pharmaceutical, consulting, and regulatory companies. LIV specializes in dermatology solutions and sells directly to physicians. The agreement grants LIV the exclusive rights to distribute and sell Pliaglis in Mexico. Crescita will supply the product under its existing agreement with Cantabria and will be entitled to receive payments based on a pre-determined price per unit including a profit margin