



Crescita Therapeutics Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021
(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.
Consolidated Interim Statements of Financial Position
(Unaudited)

<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	As at September 30, 2022	As at December 31, 2021
		\$	\$
Assets			
Current			
Cash and cash equivalents		10,738	11,331
Accounts receivable	14	3,561	2,107
Inventories	5	4,991	4,392
Other current assets	14	591	767
Current portion of contract assets	6, 14	168	1,495
Total current assets		20,049	20,092
Non-current			
Contract assets	6, 14	1,460	1,664
Property, plant and equipment		836	766
Right-of-use asset		1,524	1,810
Intangible assets		3,085	3,740
Investment in an associate	7	308	338
Convertible note	7	449	513
Total assets		27,711	28,923
Liabilities			
Current			
Accounts payable and accrued liabilities	14	5,900	5,332
Convertible debentures		-	976
Current portion of lease obligation		379	367
Current portion of other obligations		50	50
Total current liabilities		6,329	6,725
Non-current			
Lease obligation		1,239	1,525
Other obligations		167	147
Total liabilities		7,735	8,397
Equity			
Capital Stock	9	56,613	58,084
Contributed surplus		4,003	2,769
Accumulated other comprehensive income (AOCI)		1,151	1,148
Deficit		(41,791)	(41,475)
Total equity		19,976	20,526
Total liabilities and equity		27,711	28,923

See accompanying Notes.

Crescita Therapeutics Inc.
Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>					
Revenues	10	6,032	2,993	17,495	9,207
Operating expenses					
Cost of goods sold	5, 12	3,094	1,468	8,198	3,844
Research and development	12	161	126	449	463
Selling, general and administrative	12	2,286	1,909	7,797	5,702
Depreciation and amortization	12	358	350	1,094	1,032
Operating profit (loss)		133	(860)	(43)	(1,834)
Interest expense		25	63	134	174
Interest income		(81)	(36)	(168)	(134)
Foreign exchange (gain) loss		(7)	13	182	174
Share of loss of an associate	7	1	-	30	-
Net loss on convertible note measured at fair value through profit or loss	7	-	-	95	-
Net income (loss)		195	(900)	(316)	(2,048)
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods					
Unrealized gain (loss) on translation of foreign operations (net of income taxes)		(2)	(1)	3	5
Total comprehensive income (loss)		193	(901)	(313)	(2,043)
Earnings (loss) per share					
- Basic		\$ 0.01	\$ (0.04)	\$ (0.02)	\$ (0.10)
- Diluted		\$ 0.01	\$ (0.04)	\$ (0.02)	\$ (0.10)
Weighted average number of common shares outstanding					
- Basic		20,627,424	20,761,085	20,791,517	20,667,337
- Diluted		20,912,159	20,761,085	20,791,517	20,667,337

See accompanying Notes.

Crescita Therapeutics Inc.
Consolidated Interim Statements of Changes in Equity
(Unaudited)

	Common Shares	Contributed Surplus	Deficit	AOCI	Total	
<i>(In thousands of Canadian dollars, except for number of shares)</i>		\$	\$	\$	\$	
Notes	7, 9, 11	7, 9, 11	9, 11			
Balance, December 31, 2020	20,648,448	58,184	2,273	(40,370)	1,046	21,133
Net loss	-	-	-	(2,048)	-	(2,048)
Class A shares issued	470,128	330	-	-	-	330
Class A shares repurchased and cancelled	(56,760)	(160)	121	-	-	(39)
Class A shares repurchased but not cancelled	-	(30)	23	-	-	(7)
Share-based compensation expense	-	-	132	-	-	132
Unrealized gain on translation of foreign operations (tax effect of \$nil)	-	-	-	-	5	5
Balance, September 30, 2021	21,061,816	58,324	2,549	(42,418)	1,051	19,506
Net income	-	-	-	943	-	943
Class A shares repurchased and cancelled	(79,064)	(222)	171	-	-	(51)
Class A shares repurchased but not cancelled	-	(18)	14	-	-	(4)
Share-based compensation expense	-	-	35	-	-	35
Unrealized gain on translation of foreign operations (net of income tax recovery of \$96)	-	-	-	-	97	97
Balance, December 31, 2021	20,982,752	58,084	2,769	(41,475)	1,148	20,526
Net loss	-	-	-	(316)	-	(316)
Class A shares cancelled	(17,080)	-	-	-	-	-
Class A shares repurchased and cancelled	(500,580)	(1,386)	1,051	-	-	(335)
Class A shares repurchased but not cancelled	-	(95)	73	-	-	(22)
Class A shares issued through options exercised	15,001	10	(4)	-	-	6
Share-based compensation expense	-	-	114	-	-	114
Unrealized gain on translation of foreign operations (tax effect of \$nil)	-	-	-	-	3	3
Balance, September 30, 2022	20,480,093	56,613	4,003	(41,791)	1,151	19,976

See accompanying Notes.

Crescita Therapeutics Inc.
Consolidated Interim Statements of Cash Flows
(Unaudited)

		Three months ended		Nine months ended	
		September 30,		September 30,	
		2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	\$	\$	\$	\$
Operating Activities					
Net income (loss)		195	(900)	(316)	(2,048)
Adjustments for:					
Depreciation and amortization	12	358	350	1,094	1,032
Share-based compensation	11	21	39	173	149
Inventory write-down	5	170	160	345	280
Interest accretion		(29)	(12)	(69)	(80)
Share of loss of an associate	7	1	-	30	-
Net loss on convertible note measured at fair value through profit or loss	7	-	-	95	-
Other		20	(51)	151	86
		736	(414)	1,503	(581)
Net change in non-cash working capital	13	(280)	225	(308)	(547)
Cash provided by (used in) operating activities		456	(189)	1,195	(1,128)
Investing Activities					
Acquisition of property, plant and equipment		(2)	(81)	(216)	(124)
Purchase of convertible note	7	-	(500)	-	(500)
Cash used in investing activities		(2)	(581)	(216)	(624)
Financing Activities					
Cash received on exercise of options	11	-	-	6	-
Repayment of convertible debentures ⁽ⁱ⁾		-	-	(1,000)	-
Payment of principal portion of lease obligation		(92)	(82)	(274)	(260)
Repurchase of Class A shares	9	(180)	(22)	(357)	(46)
Cash used in financing activities		(272)	(104)	(1,625)	(306)
Effect of exchange rate changes on cash		54	27	53	13
Net change in cash and cash equivalents during the period		236	(847)	(593)	(2,045)
Cash and cash equivalents, beginning of period		10,502	13,083	11,331	14,281
Cash and cash equivalents, end of period		10,738	12,236	10,738	12,236
Supplemental Cash Flow Information					
Interest paid ⁽ⁱⁱ⁾		18	45	89	97
Interest received ⁽ⁱⁱ⁾		46	7	57	22

⁽ⁱ⁾ In May 2022, the Company repaid in full its convertible debentures financing with Bloom Burton Healthcare Lending Trust and Bloom Burton Healthcare Lending Trust II (the "Debentures") for a total principal amount of \$1,000. The Debentures bore interest at 9% and had a maturity date of June 30, 2022.

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

See accompanying Notes.

Crescita Therapeutics Inc.
Notes to the Condensed Consolidated Interim Financial Statements

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

1. Corporate Information

Crescita Therapeutics Inc. (“Crescita” or the “Company”) is a publicly traded Canadian commercial dermatology company with in-house research & development (“R&D”) and manufacturing capabilities. The Company offers a portfolio of high-quality, science-based non-prescription skincare products and early to commercial stage prescription products. Crescita owns multiple proprietary transdermal delivery platforms that support the development of patented formulations to facilitate the delivery of active ingredients into or through the skin. The Company’s corporate functions are carried out from 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 most recent annual consolidated audited financial statements for the years ended December 31, 2021 and 2020 (“2021 Annual Financial Statements”), which are available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com.

The Company’s Interim Financial Statements for the three and nine months ended September 30, 2022 and 2021 were authorized for issue by the Board of Directors on November 8, 2022.

Basis of Measurement

These Interim Financial Statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which have been measured at fair value. Refer to Note 14 – *Financial Instruments and Risk Management*. Items included in the financial statements of each consolidated entity 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, 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 Company’s 2021 Annual Financial Statements.

Use of Estimates and Judgments

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 revenue and expenses during the reporting periods.

Management has identified key areas of judgements, estimates or use of managerial assumptions that it believes are most critical to understanding these 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 the Company’s consolidated 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 5 – *Use of Estimates and Judgments* to the Company’s 2021 Annual Financial Statements.

4. Segmented Information

The Company has three reportable segments based on its current management structure: (i) Commercial Skincare; (ii) Licensing and Royalties; and (iii) Manufacturing and Services.

Commercial Skincare

The Commercial Skincare reportable segment manufactures and sells branded non-prescription skincare products for the Canadian and international markets. It also commercializes Pliaglis[®], NCTF[®] Boost 135 HA, and Obagi Medical[®] in Canada. Non-prescription product brands manufactured by the Company include: Laboratoire Dr Renaud[®], Pro-Derm[®] and Alyria[®]. 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 as well as medical aesthetic clinics using a business to business model, while some of its brands are also sold directly to consumers through its online platforms. International markets include the United States ("U.S."), South Korea and Malaysia, where some of the Company's brands are sold by distribution partners, including through e-commerce.

Licensing and Royalties

The Licensing and Royalties ("Licensing") reportable segment derives revenue from licensing the intellectual property related to Pliaglis, the Company's lead prescription product, or for the use of its transdermal delivery technologies, Multiplexed Molecular Penetration Enhancers[™] ("MMPE") and DuraPeel[™], on either an exclusive or non-exclusive basis. The Licensing segment may also leverage the Company's in-house R&D capabilities for the development of new topical products, which may combine its technologies and various selected molecules to fuel future licensing agreements in the non-prescription skincare market. The key revenue streams in the Licensing segment include upfront and pre- and post-commercialization milestone payments, royalties determined using the agreed-upon formulas as described in each respective licensing agreement, and product sales under supply agreements with the Company's licensing partners.

Manufacturing and Services

The Manufacturing and Services ("Manufacturing") reportable segment includes two main revenue streams: 1) revenue from the sale of topical products manufactured to client specifications under the Company's contract development and manufacturing organization ("CDMO") infrastructure; and 2) revenue from product development services. Clients in the Manufacturing segment use Crescita's CDMO services to manufacture topicals either under a private label or a brand name and may use a combination of Crescita's existing formulations or novel formulations, with or without the utilization of the Company's transdermal delivery technologies.

Corporate and Other

Corporate and Other includes all the operating expenses to support Crescita's public company infrastructure and its three reportable segments, other expenses (income) which includes financing costs and the Company's share of profit or loss of its associate and net loss (gain) on its convertible note, as well as corporate income tax expenses.

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Three months ended September 30, 2022	\$	\$	\$	\$	\$
Revenue	1,672	92	4,268	-	6,032
Cost of goods sold	725	-	2,369	-	3,094
	947	92	1,899	-	2,938
Research and development	-	-	-	161	161
Selling, general and administrative	-	-	-	2,286	2,286
Depreciation and amortization	-	-	-	358	358
Other income, net	-	-	-	(62)	(62)
Total expenses	-	-	-	2,743	2,743
	947	92	1,899	(2,743)	195

During the three and nine months ended September 30, 2022, inventories in the amount of \$2,924 and \$7,853, respectively were recognized in cost of goods sold (\$1,308 and \$3,564 respectively for the three and nine months ended September 30, 2021).

During the three and nine months ended September 30, 2022, \$170 and \$345 of finished goods were written down, respectively (\$160 and \$280, respectively for the three and nine months ended September 30, 2021).

There were no reversals of prior write-downs during the three and nine months ended September 30, 2022 (\$nil for the three and nine months ended September 30, 2021).

6. Contract Assets

Under IFRS 15 – *Revenue 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. 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:

	\$
Balance, December 31, 2021	3,159
Amounts billed to customers and transferred to accounts receivable	(1,491)
Interest accretion	82
Foreign exchange movement	(122)
Balance, September 30, 2022	1,628
Less: current portion	168
Long-term balance	1,460

7. Investment in an Associate and Convertible Note

On September 7, 2021, the Company announced the acquisition of a minority interest in Akyucorp Ltd. d/b/a The Best You®, a privately-held network of six medical aesthetic clinics in the province of Ontario (“The Best You”). In consideration for the minority interest, Crescita issued 470,128 of its common shares (“Common Shares”) at a price of \$0.70 per Common Share for total consideration of \$330. The Company determined that it has significant influence over The Best You from its representation on the board of directors and participation in decisions over relevant activities. The investment is accounted for using the equity method.

In addition, the Company purchased a secured convertible promissory note (the “Convertible Note”) from The Best You with an initial principal amount of \$500, that could increase up to \$1,250, contingent on certain events and conditions being met. The Convertible Note bears interest at variable rates up to 12% based on the annual volume of products purchased by The Best You from the Company. It is convertible at Crescita’s option into an additional equity interest in The Best You at any time after July 31, 2023 or upon the occurrence of certain events, and is mandatorily convertible should The Best You achieve a specified level of financial performance. The Convertible Note matures on September 2, 2026 and qualifies as a financial asset to be measured at fair value through profit or loss. The fair value of the Convertible Note is remeasured at each reporting period using the discounted cash flow method. Management’s best estimate of the annual level of products sold to The Best You is used in determining the interest component of future cash flows. The discount rate is adjusted at each reporting period based on changes in relevant credit spreads and changes in risk free rates. The discount rate used for valuation at September 30, 2022 was 18.14% primarily due to the general increase in interest rates (11.15% at December 31, 2021) resulting in a fair value loss of \$95 for the nine months ended September 30, 2022. A 50-basis point increase (decrease) in the discount rate would have resulted in a \$6 decrease (increase) in the fair value of the Convertible Note at quarter end.

8. Credit Facility

The Company has a revolving demand credit facility (the "Facility") with a Canadian chartered bank (the "Bank") for an authorized amount, subject to margin requirements, of \$3,500. 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, resulting in the maximum amount available under the Facility of \$3,500 at September 30, 2022 (\$2,924 at December 31, 2021). The Facility bears interest at the Bank's prime rate (5.45% as at September 30, 2022) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at September 30, 2022.

9. 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 of Shares	\$
Balance, December 31, 2020	20,648,448	58,184
Shares issued (Note 7)	470,128	330
Shares repurchased and cancelled	(135,824)	(382)
Shares repurchased but not cancelled	-	(48)
Balance, December 31, 2021	20,982,752	58,084
Shares cancelled	(17,080)	-
Shares repurchased and cancelled	(500,580)	(1,386)
Shares repurchased but not cancelled	-	(95)
Shares issued through options exercised (Note 11)	15,001	10
Balance, September 30, 2022	20,480,093	56,613

On December 15, 2021, the TSX approved the Company's renewal of the NCIB for the purchase of up to 1,000,000 Common Shares for cancellation starting December 17, 2021 and ending December 16, 2022. In connection with the NCIB, the Company adopted an automatic securities purchase plan ("ASPP") that contains strict parameters regarding how its Common Shares may be repurchased during times when it would ordinarily not be permitted to purchase Common Shares due to regulatory restrictions or self-imposed blackout periods. Such purchases are executed by the broker on parameters established by the Company prior to the preestablished ASPP period. The Company may terminate the NCIB provided that the insiders of the Company are not then in a trading blackout and the Company is not otherwise in possession of any material undisclosed information about its business.

During the nine months ended September 30, 2022, 538,930 Common Shares were repurchased for cancellation under the renewed NCIB, of which 535,160 Common Shares with a carrying value of \$1,481 were paid for at September 30, 2022 with the remaining 3,770 Common Shares being paid for subsequent to quarter end. The 535,160 Common Shares were repurchased for cash consideration of \$357, and the excess of the carrying value over the purchase price in the amount of \$1,124 was recorded to Contributed Surplus. Of the 535,160 Common Shares paid for at September 30, 2022, 34,580 Common Shares with a carrying value of \$95 and a purchase value of \$22 were held by the Company and cancelled subsequent to quarter end.

10. Revenues

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, 2022 and 2021:

	For the three months ended September 30,								
	Canada		U.S.		Rest-of-World		Total		
	2022	2021	2022	2021	2022	2021	2022	2021	
	\$	\$	\$	\$	\$	\$	\$	\$	
Commercial Skincare									
Product Sales	1,585	1,500	7	10	80	53	1,672	1,563	
Licensing and Royalties									
Licensing Revenue	-	-	-	-	92	319	92	319	
Manufacturing and Services									
Product Sales	281	117	3,759	888	228	106	4,268	1,111	
	1,866	1,617	3,766	898	400	478	6,032	2,993	

	For the nine months ended September 30,							
	Canada		U.S.		Rest-of-World		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Commercial Skincare								
Product Sales	5,294	4,948	34	38	272	213	5,600	5,199
Licensing and Royalties								
Licensing Revenue	-	806	-	-	319	794	319	1,600
Manufacturing and Services								
Product Sales	921	307	10,156	1,993	499	108	11,576	2,408
	6,215	6,061	10,190	2,031	1,090	1,115	17,495	9,207

Major Customers

Under IFRS 8, major customers are those that account for greater than 10% of the Company's consolidated revenues. For the three months ended September 30, 2022 and 2021, the Company had one major customer in the Manufacturing segment that accounted for 56% and 23%, respectively, of total revenues. For the nine months ended September 30, 2022 and 2021, the Company had one major customer in the Manufacturing segment representing 55% and 17%, respectively, of total revenues.

11. Share-Based Compensation and Other Share-Based Payments

Share Option Plan

Below is a schedule of issued and outstanding options under the Company's Share Option Plan:

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000's	\$	\$
Balance, December 31, 2021	2,821	0.43 – 1.65	0.80
Granted	286	0.65	0.65
Forfeited	(25)	0.60 – 0.65	0.65
Expired	(98)	1.42	1.42
Exercised	(15)	0.43	0.43
Balance, September 30, 2022	2,969	0.43 – 1.65	0.77

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at September 30, 2022:

Exercise Price Range	Outstanding			Exercisable	
	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	896	5.77	0.48	793	0.48
0.60 - 0.81	1,559	6.62	0.66	915	0.66
1.63 - 1.65	514	3.63	1.63	514	1.63
	2,969	5.84	0.77	2,222	0.82

Share Appreciation Rights (“SARs”) Plan

Below is a schedule of issued and outstanding SARs under the Company’s SARs Plan, and the related accrual:

	Number of SARs	Range of Grant Price	Weighted Average Grant Price	Range of Fair Value	Accrual
	000's	\$	\$	\$	\$
Balance, December 31, 2021	263	0.70	0.70	0.22	20
Granted	276	0.65	0.65	0.28	6
Forfeited	(12)	0.65	0.65	0.28	-
Adjustment to market value	-	-	-	-	(1)
Balance, September 30, 2022	527	0.65 – 0.70	0.67	0.10 – 0.20	25

Deferred Share Unit (“DSU”) Plan

Below is a schedule of issued and outstanding DSUs under the Company’s DSU Plan, and the related accrual:

	Number of DSUs	Fair Value	Accrual
	000's	\$	\$
Balance, December 31, 2021	131	0.65	85
Granted	97	0.73	71
Adjustment to market value	-	-	(17)
Balance, September 30, 2022	228	0.61	139

Summary of Share-based Compensation

Share-based compensation expense is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Share Option Plan	35	38	114	132
SARs Plan	(3)	1	5	17
DSU Plan	(11)	-	54	-
Share-based compensation expense	21	39	173	149

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

Selling, general and administrative expenses	21	39	173	149
Share-based compensation expense	21	39	173	149

12. Expenses by Nature

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

(a) Employee costs:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Short-term employee wages, bonuses and benefits ⁽ⁱ⁾	2,149	1,339	6,578	3,767
Share-based payments ⁽ⁱⁱ⁾ (Note 11)	28	35	110	134
Total employee costs	2,177	1,374	6,688	3,901
Included in:				
Cost of goods sold	560	296	1,819	665
Research and development expenses (R&D)	138	107	399	369
Selling, general and administrative expenses (SG&A)	1,479	971	4,470	2,867
Total employee costs	2,177	1,374	6,688	3,901

(i) In 2021, the Company determined that it qualified for the Canada Emergency Wage subsidy program ("CEWS" or the "Program") under the COVID-19 Economic Response Plan in Canada. Under the Program, Crescita was entitled to wage subsidies because its revenue decreased beyond a government-determined threshold due to the COVID-19 pandemic. The subsidies were recorded as a reduction of the related wages and salaries. No amounts were recognized under the program during the three and nine months ended September 30, 2022. For the three and nine months ended September 30, 2021, the Company recognized \$227 and \$1,014, respectively, under the Program. Of these amounts, \$74 and \$298, respectively, were recorded against inventory, while the remaining balances of \$153 and \$716, respectively, were recorded against SG&A.

(ii) Excludes share-based payments to directors.

(b) Depreciation and amortization:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cost of goods sold	121	114	380	326
Selling, general and administrative expenses ⁽ⁱⁱⁱ⁾	237	236	714	706
Total depreciation and amortization	358	350	1,094	1,032

(iii) Includes \$218 and \$655 of amortization of intangible assets and \$19 and \$59 of depreciation of tangible assets respectively for the three and nine months ended September 30, 2022 (\$219 and \$656 for intangible assets and \$17 and \$50 for tangible assets respectively for the three and nine months ended September 30, 2021).

13. 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,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Accounts receivable	(50)	422	(1,534)	35
Inventories	(227)	(1,042)	(944)	(1,639)
Other current assets	21	(83)	176	(258)
Contract assets	-	-	1,491	225
Accounts payable and accrued liabilities	(24)	928	503	1,090
Net change in non-cash working capital	(280)	225	(308)	(547)

14. 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 interim statements of financial position as at:

	September 30, 2022			December 31, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Convertible note – The Best You (Note 7)	-	-	449	-	-	513

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, 2022 and 2021.

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 assets represent the convertible note receivable from The Best You. The fair value of the convertible note is revalued at each reporting period based on management's best estimate using the discounted cash flow method. Refer to Note 7 – *Investment in an Associate and Convertible Note*.

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, amount available under its revolving demand 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 its committed obligations and expected level of expenses for at least 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 may 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, amounts receivable from customers including contract assets, and its convertible note. 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. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America, including its contract asset related to its licensing agreement for Pliaglis, its lead prescription product, with Cantabria Labs Inc. (the "Cantabria Agreement"), due to potentially higher risks of enforceability and collectability.

As at September 30, 2022, 6% of accounts receivables related to customers outside North America and the European Union (December 31, 2021 - 5%).

The contract asset in the amount of \$1,628 at September 30, 2022 (\$3,159 at December 31, 2021) is related to the Cantabria Agreement and is denominated in euros. Refer to Note 6 – *Contract Assets and Currency Risk* below.

As at September 30, 2022, the Company had one customer that accounted for approximately 76% of the total accounts receivable (two customers that accounted for approximately 66% as at December 31, 2021).

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

	September 30, 2022	December 31, 2021
	\$	\$
Current	2,633	1,271
0-30 days past due	308	706
31-60 days past due	548	116
61-90 days past due	71	23
Over 90 days past due	64	70
	3,624	2,186
Allowance for doubtful accounts	(63)	(79)
	3,561	2,107

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 it had not drawn any amounts on its Facility as at September 30, 2022.

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 as at:

	Euros		U.S. Dollars	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
	€	€	\$	\$
Cash and cash equivalents	174	728	1,065	864
Accounts receivable	62	99	2,163	1,136
Other current assets	2	3	-	-
Contract assets	1,217	1,306	-	1,000
Accounts payable and accrued liabilities	(192)	(136)	(1,749)	(2,008)
	1,263	2,000	1,479	992

Based on the aforementioned net exposure as at September 30, 2022, 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 \$200 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$169 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; 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 priced in U.S. dollars or sourced from U.S. suppliers; (iii) upfronts, royalties and milestones from licensing agreements for Pliaglis; (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.