

# CRESCITA

T H E R A P E U T I C S

**Crescita Therapeutics Inc.**

Consolidated Audited Financial Statements

Fiscal years ended  
December 31, 2021 and 2020

# Independent Auditor's Report

To the Shareholders of  
**Crescita Therapeutics Inc.**

## Opinion

We have audited the consolidated financial statements of **Crescita Therapeutics Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, 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 Group as at December 31, 2021 and 2020, 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 Group 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



## Key audit matter

## How our audit addressed the key audit matter

### **Revenue recognition – Multiple elements in licensing and supply agreements**

The Group entered into licensing and supply agreements for its commercial products as discussed in notes 5, 9 and 19. Each agreement is not standardized and may include non-refundable upfronts and licensing fees, pre and post-commercialization milestone payments, royalties and minimum future royalties on any future product sales derived from such collaborations, and product sales under supply agreements. Management analyzes each agreement to identify all performance obligations, determine and allocate the transaction price on a relative stand-alone selling price basis and recognize revenue on the achievement of revenue recognition criteria.

Auditing these agreements is complex given the non-standard nature of these agreements, as management needs to exercise judgement in applying the guidance on identification of performance obligations and timing of revenue recognition, given the multiple elements of these non-standard agreements, and the amounts involved, which could be material to the consolidated financial statements taken as a whole.

Our audit of the Group's licensing and supply agreements included the following procedures, among others:

- We obtained the Group's licensing and supply agreements, as well as management's accounting analyses, and we evaluated whether management's assessments considered all relevant terms included in the agreements.
- We assessed management's identification of different promises in the agreements and determination of whether there exists one combined performance obligation or distinct performance obligations reflecting each promise separately.
- We evaluated the reasonableness of management's analyses of achievement of revenue recognition based on when each performance obligation will be satisfied in conformity with the Group's accounting policies.

### **Other information**

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

- Management's Discussion and Analysis

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.



## **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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*Ernst & Young LLP*<sup>1</sup>

Montréal, Canada  
March 22, 2022

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A127424



**Crescita Therapeutics Inc.**  
**Consolidated Statements of Financial Position**

<b>As at December 31</b>		<b>2021</b>	<b>2020</b>
<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	<i>\$</i>	<i>\$</i>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		11,331	14,281
Accounts receivable	27	2,107	1,072
Inventories	5, 7	4,392	3,457
Other current assets	8, 27	767	497
Current portion of contract assets	9, 27	1,495	147
<b>Total current assets</b>		<b>20,092</b>	<b>19,454</b>
<b>Non-current</b>			
Contract assets	9, 27	1,664	1,977
Property, plant and equipment	10	766	558
Right-of-use asset	11	1,810	228
Intangible assets	5, 12	3,740	4,614
Investment in an associate	13	338	-
Convertible note	13	513	-
<b>Total assets</b>		<b>28,923</b>	<b>26,831</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	27	5,332	4,271
Convertible debentures	16	976	-
Current portion of lease obligation	15	367	297
Current portion of other obligations	17	50	50
<b>Total current liabilities</b>		<b>6,725</b>	<b>4,618</b>
<b>Non-current</b>			
Convertible debentures	16	-	933
Lease obligation	15	1,525	-
Other obligations	17	147	147
<b>Total liabilities</b>		<b>8,397</b>	<b>5,698</b>
<b>Equity</b>			
Capital Stock	18	58,084	58,184
Contributed surplus		2,769	2,273
Accumulated other comprehensive income (AOCI)		1,148	1,046
Deficit		(41,475)	(40,370)
<b>Total equity</b>		<b>20,526</b>	<b>21,133</b>
<b>Total liabilities and equity</b>		<b>28,923</b>	<b>26,831</b>

Commitments (Note 26)  
See accompanying Notes.

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

<b>Years ended December 31</b>		<b>2021</b>	<b>2020</b>
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>			
	<b>Notes</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	19	<b>16,769</b>	15,640
<b>Operating expenses</b>			
Cost of goods sold	7, 23	<b>6,755</b>	4,367
Research and development	23	<b>634</b>	1,101
Selling, general and administrative	21, 23, 29	<b>8,720</b>	7,126
Depreciation and amortization	10, 11, 12, 23	<b>1,379</b>	1,491
<b>Operating profit (loss)</b>		<b>(719)</b>	1,555
Interest expense	15, 16	<b>236</b>	252
Interest income		<b>(182)</b>	(291)
Impairment of intangible assets	12	-	1,918
Other income	20	-	(668)
Foreign exchange (gain) loss		<b>244</b>	(176)
<b>Total other (income) expenses</b>		<b>298</b>	1,035
Share of profit of an associate	13	<b>8</b>	-
<b>Income (loss) before income taxes</b>		<b>(1,009)</b>	520
Deferred income tax expense	5, 25	<b>96</b>	483
<b>Net income (loss)</b>		<b>(1,105)</b>	37
<b>Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods</b>			
Unrealized gain (loss) on translation of foreign operations (net of income taxes)		<b>102</b>	(99)
<b>Total comprehensive income (loss)</b>		<b>(1,003)</b>	(62)
<b>Earnings per share</b>	22		
- Basic		<b>\$ (0.05)</b>	\$ -
- Diluted		<b>\$ (0.05)</b>	\$ -
<b>Weighted average number of common shares outstanding</b>			
- Basic		<b>20,755,290</b>	20,661,477
- Diluted		<b>20,755,290</b>	20,969,205

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	\$	\$	\$	\$	
<b>Notes</b>	<i>13, 18, 21</i>	<i>13, 18, 21</i>	<i>18, 21</i>			
Balance, December 31, 2019	20,742,183	58,422	1,948	(40,407)	1,145	21,108
Net income	-	-	-	37	-	37
Class A shares cancelled	(9,547)	-	-	-	-	-
Class A shares repurchased and cancelled	(84,188)	(238)	170	-	-	(68)
Share-based compensation expense	-	-	155	-	-	155
Unrealized loss on translation of foreign operations (net of income tax expense of \$96)	-	-	-	-	(99)	(99)
<b>Balance, December 31, 2020</b>	<b>20,648,448</b>	<b>58,184</b>	<b>2,273</b>	<b>(40,370)</b>	<b>1,046</b>	<b>21,133</b>
Net loss	-	-	-	(1,105)	-	(1,105)
Class A shares issued	470,128	330	-	-	-	330
Class A shares repurchased and cancelled	(135,824)	(382)	292	-	-	(90)
Class A shares repurchased but not cancelled	-	(48)	37	-	-	(11)
Share-based compensation expense	-	-	167	-	-	167
Unrealized gain on translation of foreign operations (net of income tax recovery of \$96)	-	-	-	-	102	102
<b>Balance, December 31, 2021</b>	<b>20,982,752</b>	<b>58,084</b>	<b>2,769</b>	<b>(41,475)</b>	<b>1,148</b>	<b>20,526</b>

See accompanying Notes.

**Crescita Therapeutics Inc.**  
**Consolidated Statements of Cash Flows**

<b>Years ended December 31</b>		<b>2021</b>	<b>2020</b>
<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	<b>\$</b>	<b>\$</b>
<b>Operating Activities</b>			
Net income (loss)		<b>(1,105)</b>	37
<b>Adjustments for:</b>			
Depreciation and amortization	10, 11, 12, 23	<b>1,379</b>	1,491
Share-based compensation	21	<b>272</b>	155
Inventory write-down	5, 7	<b>440</b>	368
Impairment of intangible assets	12	<b>-</b>	1,918
Deferred income taxes	5, 25	<b>96</b>	483
Contract assets	9	<b>(1,279)</b>	(413)
Interest accretion		<b>(80)</b>	(133)
Share of profit of an associate	13	<b>(8)</b>	-
Other		<b>154</b>	120
		<b>(131)</b>	4,026
Net change in non-cash working capital	24	<b>(1,466)</b>	1,582
<b>Cash provided by (used in) operating activities</b>		<b>(1,597)</b>	5,608
<b>Investing Activities</b>			
Acquisition of property, plant and equipment	10	<b>(346)</b>	(59)
Purchase of convertible note	13	<b>(500)</b>	-
<b>Cash used in investing activities</b>		<b>(846)</b>	(59)
<b>Financing Activities</b>			
Payment of principal portion of lease obligation	15	<b>(349)</b>	(358)
Repurchase of Class A shares	18	<b>(101)</b>	(68)
Payment of other obligations	17	<b>(50)</b>	(50)
<b>Cash used in financing activities</b>		<b>(500)</b>	(476)
Effect of exchange rate changes on cash		<b>(7)</b>	(60)
Net change in cash and cash equivalents during the year		<b>(2,950)</b>	5,013
Cash and cash equivalents, beginning of year		<b>14,281</b>	9,268
<b>Cash and cash equivalents, end of year</b>		<b>11,331</b>	14,281
<b>Supplemental Cash Flow Information</b>			
<i>Interest paid <sup>(i)</sup></i>		<b>163</b>	146
<i>Interest received <sup>(i)</sup></i>		<b>27</b>	113

<sup>(i)</sup> 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 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 consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The policies applied to these consolidated financial statements are based on IFRS, which have been applied consistently to all reporting periods presented.

The Company’s consolidated financial statements for the years ended December 31, 2021 and 2020 were authorized for issue by the Board of Directors on March 22, 2022.

**3. Summary of Significant Accounting Policies**

**Basis of Measurement**

These consolidated 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 *Financial Instruments* below and to Note 27 – *Financial Instruments and Risk Management*. These consolidated financial statements are presented in Canadian dollars.

**Basis of Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned Canadian, United States (“U.S.”) and European subsidiaries.

<b>December 31,</b>	<b>2021</b>	<b>2020</b>
Crescita Skin Sciences Inc. previously “INTEGA Skin Sciences Inc.”	<b>100%</b>	100%
Nuvo Research America, Inc. and its subsidiaries:		
Nuvo Research US, Inc., ZARS Pharma, Inc. (“ZARS”), and ZARS (UK) Limited	<b>100%</b>	100%
Dimethaid Immunology Inc.	<b>100%</b>	100%
Nuvo Research AG and its subsidiary:		
Nuvo Research GmbH	<b>100%</b>	100%

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Specifically, the Company controls an entity if, and only if, the Company has:

- power over the entity (i.e., existing rights that give it the current ability to direct the relevant activities of the entity);
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect its returns.

The Company re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date of acquisition, when the Company obtains control over the subsidiary, until the date the Company no longer controls the subsidiary.

All intercompany transactions and balances are eliminated in full on consolidation.

### **Translation of Foreign Currencies**

The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. Each entity in the company group included in these consolidated financial statements determines its functional currency based on the currency of the primary economic environment in which they operate. The functional currencies of the Company's foreign operations are either the U.S. dollar or the euro.

#### *(i) Foreign Currency Transactions and Balances*

Revenues, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. The resulting realized and unrealized gains and losses are recognized in income.

#### *(ii) Foreign Operations*

For foreign operations that have functional currencies different from the Company, assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the period. The resulting unrealized gains or losses on translating financial statements of foreign operations are reported in other comprehensive income ("OCI"), with the cumulative gain or loss reported in accumulated other comprehensive income ("AOCI").

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of unrestricted cash and short-term investments with a maturity of three months or less from the date of purchase.

### **Inventories**

Inventories include raw materials, work-in-process and finished goods. Raw materials are stated at the lower of cost, where cost is determined on a standard cost basis (which approximates the actual cost on a first-in, first-out basis ("FIFO")), and replacement cost. Manufactured inventory, which includes finished goods and work-in-process, is valued at the lower of cost, where cost is determined on a standard cost basis (which approximates the actual cost on a FIFO basis), and net realizable value. Manufactured inventory cost includes the cost of raw materials including packaging components, freight-in, 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.

### **Contract assets**

The timing of revenue recognition, billings and cash collections results 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.

### **Contract liabilities**

Contract liabilities are recognized when amounts from customers are due or are received, whichever is earlier, before the related performance obligation is satisfied, such as the transfer of goods or services. Contract liabilities are subsequently recognized in revenue when the Company performs its obligations under the contract.

### **Property, Plant and Equipment**

Property, plant and equipment ("PP&E") are 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

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

## Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease under IFRS 16 – *Leases* (“IFRS 16”) based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company is party to a lease for its corporate headquarters.

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

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

### (ii) Lease Obligations

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

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

### (iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

## 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. Useful lives of the intangible assets are reviewed annually and adjusted prospectively, if appropriate. The estimated useful lives are as follows:

Product brands and formulations	10 years	Straight line
Customer relationships	5 years	Straight line

## Investment in an Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company determined that it has significant influence over its associate based on its representation on the board of directors and participation in decisions over relevant activities. The Company's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. The consolidated statements of income (loss) reflect the Company's share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. Refer to Note 13 – *Investment in an Associate and Convertible Note*.

## 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 their carrying amounts may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, representing 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.

Except for 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.

## 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 at 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.

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.

The Company classifies cash and cash equivalents, accounts receivable and other financial assets as financial assets measured at amortized cost. The Company's convertible note is measured at FVTPL.

#### *(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 reporting 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).

The Company classifies accounts payable and accrued liabilities (excluding liabilities pertaining to share appreciation rights and deferred share units measured at FVTPL), convertible debentures (debt component) and other 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 debt component presented in the consolidated statements of financial position increases over the term of the debenture to reach 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 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**

Comprehensive income is the change in equity from transactions and other events and circumstances from non-shareholder sources. OCI refers to items recognized in comprehensive income, but that are excluded from net income 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 for the reporting period.

### **Revenue Recognition**

The Company recognizes revenue from multiple revenue sources: product sales, licensing collaboration arrangements including royalties, upfront and milestone payments, and manufacturing and service agreements.

#### *Product Sales*

Performance obligations for product sales are primarily satisfied upon delivery of products to the Company's customers, however, in some instances, it may be upon shipment depending on the terms of the contract with the customer. For the sale of non-prescription skincare products, performance obligations are satisfied when the product is delivered to the customer and control over the product has been transferred. In the fulfillment of third-party contract manufacturing orders, revenue is recognized upon shipment, when title is transferred to the customer. Following delivery, the customer has full discretion over the channel of distribution and price at which to sell the goods, it also 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 measured based on the negotiated price, net of reserves for estimated sales discounts and allowances, returns, rebates and chargebacks as applicable. 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.

#### *Licensing Revenue*

Licensing revenue is comprised of upfront payments, pre-commercialization milestones, post-commercialization milestones, royalties and product sales. Upfront payments and pre-commercialization milestones are recognized to coincide with the timing of when control is transferred, which is typically at a point in time. Post-commercialization milestones, such as sales targets are recognized as revenue when the underlying condition is achieved or highly probable of being achieved and is unconditional on any further performance.

##### *(i) Licensing and Collaboration Arrangements*

The Company may enter into licensing and collaboration arrangements for product development, licensing, supply and distribution of its commercial products, patented technologies, and pipeline products. The terms of the agreements may include non-refundable upfront and licensing fees, milestone payments, royalties and minimum future royalties on any future product sales derived from such collaborations. Agreements are analyzed to identify all performance obligations forming part of the contracts based on which 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 with similar agreements.

- a) Licenses are considered to be right-to-use licenses. As such, the Company recognizes licensing revenue at a point in time, upon granting the license or when the customer can use and benefit from the license.
- b) Pre-commercialization milestone payments are a type of variable consideration. 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. Due to the significant uncertainty associated with achievement of certain conditions, pre-commercialization milestone payments related to licensing and collaboration agreements are generally not recognized until the uncertainty related to the condition has been resolved.

- c) Post-commercialization milestone payments are a type of variable consideration. Post-commercialization milestones are based on the licensing partners' subsequent sales and represent variable consideration because it is contingent on the licensing partners' sales reaching certain thresholds. The Company accounts for post-commercialization milestone payments in accordance with the royalty recognition constraint and only recognizes revenue for the post-commercialization payment once the licensing partners' sales reach contractual thresholds.
- d) Revenue from product sales under agreements where the Company supplies the products to its licensing partners is recognized upon transfer to the Company's licensees, which generally occurs upon shipment of the products. Although the products are manufactured by a third party, the Company has control over them. It therefore acts as principal and records revenue on a gross basis.

#### *(ii) Royalties*

Royalty revenue is recognized in the period in which the Company earns the royalty and is based on the net sales reported by the Company's licensing partners. Royalties are typically calculated as a percentage of product sales realized by the Company's licensing partners, as specifically defined in each agreement. Net sales are determined by deducting 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 sales-based or usage-based royalty revenue 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 the sales-based or usage-based royalty has been allocated is satisfied, or partially satisfied.

Under IFRS 15, when licensing agreements include minimum guaranteed sales-based royalties, and the Company assesses the contractual minimum as fixed consideration (where a significant reversal is highly unlikely), the Company recognizes all the contractual minimums upfront and a contract asset is set-up. Any sales-based royalties earned, in excess of the contractual minimums, would be recognized when the sales occur. This can result in differences in the timing of revenue recognition and the corresponding receipt of cash flows.

#### *Service 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 from product development services is recognized 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 19 – *Revenues* for a disaggregation of revenues by reportable segment, revenue source and geographic area.

#### **Research and Development**

Research costs are charged to net income 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 in accordance with IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance* (“IAS 20”); 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.

## **Earnings per Share**

Basic earnings per common share is calculated using the weighted average number of common shares outstanding during the year.

Diluted earnings 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 and stock options 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 reporting period. 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.

## **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 taxes payable or receivable on the taxable income or loss for the reporting 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 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 offers both equity-settled and cash-settled share-based arrangements under the following plans: the Share Incentive Plan, the Share Appreciation Rights Plan (“SARs” and the “SARs Plan”) and the Deferred Share Unit Plan (“DSU” and the “DSU Plan”).

### *Share Incentive Plan*

The Share Incentive Plan (“SIP”) is comprised of three sub-plans: (i) the Share Option Plan, (ii) the Share Purchase Plan and (iii) the Share Bonus Plan. The SIP consists of equity-settled plans. The Company measures and recognizes compensation expense for the SIP based on the fair value of the common shares or options issued as follows:

- (i) Under the Share Option Plan, the Company issues either fixed awards or performance-based options. Options typically vest over a period of 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 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*

The Company’s SARs plan was approved by the Board of Directors on December 31, 2020. The SARs Plan is a cash-settled plan. Under the SARs Plan, SARs are issued to directors, officers, employees, or designated affiliates to provide incentive compensation based on the appreciation in value of the Company’s common shares.

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 period and adjusted at the settlement date when the intrinsic value is realized.

Participants receive, upon vesting, a cash amount equal to the difference between the SARs’ settlement value and the grant price value, net of any applicable taxes and withholdings. At the settlement date, the settlement value is determined using the closing price of the Company’s common shares on the Toronto Stock Exchange (“TSX”) on the last trading day preceding the applicable vesting date.

### *Deferred Share Unit Plan*

The Company’s DSU Plan was approved by the Board of Directors on May 10, 2021. The DSU Plan is a cash-settled plan. Under the DSU Plan, DSUs are issued exclusively to directors who are entitled to an annual grant and may also elect to receive a part of or all their cash fees as DSUs.

DSUs vest immediately but are not realizable until a participant retires or otherwise ceases to be a director. As units granted vest immediately, the Company fully recognizes as compensation expense, at issuance, the grant date fair value of DSUs issued to directors. The fair value of the liability is remeasured at the end of each reporting period based on the closing price of the Company’s common shares on the TSX on the last trading day of the quarter and adjusted at the settlement date when the intrinsic value is realized.

Participants receive, upon retirement or otherwise ceasing to be a director, a cash amount equal to the DSUs’ settlement value, net of any applicable tax and other withholdings. At the settlement date, the settlement value is based on the volume weighted average price of the Company’s common shares on the TSX for the immediately preceding five trading days (“5-Day VWAP”) determined on the next trading day after participants cease to be directors.

### **Issuance Costs of Equity Instruments**

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

#### 4. Impact of COVID-19

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

The Company sells its dermocosmetic products mainly through a direct sales force that meets face-to-face with spa and medspa owners as well as physicians. Such establishments have been considered non-essential by public health authorities throughout the Pandemic and have therefore been subject to prolonged closures in 2020 and 2021. While vaccination rates have increased in Canada, there remains a risk of lower product sell-through, due to potential closures, should governments reintroduce strict sanitary measures due to COVID-19 variants of concern. With most services offered in aesthetic spas and medspas being discretionary, the performance of the Company’s business is closely tied to fluctuations in consumer disposable income and evolving consumer behaviors and has been impacted by the Pandemic. 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. In addition, the cost of inflation within our supply chain remains at elevated levels, and further cost increases could have a significant impact on our cost of sales and gross profit margins.

While the Company has used all currently available information in assessing its business prospects, it remains unclear what the duration and long-term effects of the Pandemic will be. Management continues to closely monitor its evolution.

#### 5. Use of Estimates and Judgments

The preparation of 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 consolidated 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 consolidated 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:

##### **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 long-term growth rate.

The temporary closures of personal care service businesses in connection with COVID-19, including spas and medspas, during prolonged periods throughout the 2020 fiscal year was identified as a triggering event for purposes of testing intangible assets for impairment. At that time, the Company updated its assessment mainly to reflect the pandemic-driven decrease in demand for its non-prescription skincare products and contract manufacturing services, resulting in an impairment charge being taken in the amount of \$1,918. In 2021, despite the signs of recovery in demand observed, COVID-19 continued to have an impact on the Company’s operations and performance. As a result, the Company carried out a similar impairment analysis in the current year. Refer to Note 12 – *Intangible Assets*.

### **Multiple Elements Licensing and Collaboration Agreements**

The Company enters into licensing and collaboration agreements for product development, licensing, supply and distribution for its commercial products, patented technologies, and pipeline products. Each agreement is distinct and could contain specific clauses that may lead to different accounting conclusions. The terms of the agreements may include non-refundable upfronts and licensing fees, pre and post-commercialization milestone payments, royalties and minimum future royalties on any future product sales derived from such collaborations, and product sales under supply agreements. Management analyzes each agreement to identify all performance obligations, determine and allocate the transaction price on a relative stand-alone selling price basis and recognize revenue on the achievement of revenue recognition criteria. The non-standard nature of these agreements gives rise to the risk that revenues could be misstated due to the complexity of the multi-element licensing and collaboration contracts.

### **Inventory Valuation**

The Company values at the lower of cost, where cost is determined on a standard cost basis (which approximates the actual cost on a FIFO basis), and replacement cost for raw materials and packaging components, 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 the cost of sales and profit or loss.

Management reviews the carrying value of inventories at each reporting date. 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 forecasted 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, 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 SARs, 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 SARs 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 21, *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.

## 6. 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 in both the Canadian and international markets. It also commercializes Pliaglis® and New Cellular Treatment Factor® in Canada. Branded non-prescription products 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 U. S., South Korea and Malaysia, where some of the Company's brands are sold by distribution partners, including through e-commerce.

### Licensing & 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 combining its technologies and various selected molecules in order 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

The Corporate and Other total includes the Company's share of profit of its associate, and all the operating expenses, financing costs and corporate income tax expenses incurred to support its public company infrastructure and the three reportable segments.

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
<b>Year ended December 31, 2021</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	7,469	3,967	5,333	-	16,769
Cost of goods sold	3,099	116	3,540	-	6,755
	4,370	3,851	1,793	-	10,014
Research and development	-	-	-	634	634
Selling, general and administrative	-	-	-	8,720	8,720
Depreciation and amortization	-	-	-	1,379	1,379
Other expenses, net	-	-	-	298	298
Deferred income tax expense	-	-	-	96	96
Total expenses	-	-	-	11,127	11,127
Share of profit of an associate (Note 13)	-	-	-	8	8
	4,370	3,851	1,793	(11,119)	(1,105)

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Year ended December 31, 2020	\$	\$	\$	\$	\$
Revenue	6,704	7,224	1,712	-	15,640
Cost of goods sold	3,241	-	1,126	-	4,367
	3,463	7,224	586	-	11,273
Research and development	-	-	-	1,101	1,101
Selling, general and administrative	-	-	-	7,126	7,126
Depreciation and amortization	-	-	-	1,491	1,491
Other expenses, net	-	-	-	1,035	1,035
Deferred income tax expense	-	-	-	483	483
Total expenses	-	-	-	11,236	11,236
	3,463	7,224	586	(11,236)	37

## 7. Inventories

Inventories consisted of the following as at:

December 31,	2021	2020
	\$	\$
Raw materials	2,611	1,653
Work-in-process	594	443
Finished goods	1,187	1,361
	4,392	3,457

During the year ended December 31, 2021, inventories in the amount of \$6,315 were recognized in cost of goods sold (\$3,999 for the year ended December 31, 2020).

During the year ended December 31, 2021, \$440 of finished goods were written down (\$368 for the year ended December 31, 2020).

There were no reversals of prior write-downs during the year ended December 31, 2021 (\$nil - December 31, 2020).

## 8. Other Current Assets

Other current assets consisted of the following as at:

December 31,	2021	2020
	\$	\$
Prepaid expenses	543	236
Deposits	79	61
Sales taxes receivable	145	48
Government grants receivable (Note 23)	-	152
	767	497

## 9. Contract Assets

The following table presents the movements in the current and long-term portions of the contract assets:

<b>December 31,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	2,124	1,657
Addition to contract assets	1,279	413
Amounts billed to customers and transferred to accounts receivable	(225)	(185)
Interest accretion	142	112
Foreign exchange movement	(161)	127
<b>Balance, end of year</b>	<b>3,159</b>	<b>2,124</b>
Less: current portion, end of year	1,495	147
<b>Long-term balance, end of year</b>	<b>1,664</b>	<b>1,977</b>

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 during the year ended December 31, 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.

During the fourth quarter of the year ended December 31, 2021, the Company recorded minimum guaranteed royalties of \$1,279 under its U.S. licensing agreement with Taro Pharmaceuticals Inc. ("Taro"). These minimum guaranteed royalties are included in the current portion of contract assets at December 31, 2021.

## 10. Property, Plant and Equipment

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

	Leasehold Improvements	Furniture and Fixtures	Computer Equipment and Software	Production, Laboratory and Other Equipment <sup>(ii)</sup>	Total
<b>Cost</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, December 31, 2019	617	249	629	1,038	2,533
Additions <sup>(i)</sup>	-	-	-	57	57
Balance, December 31, 2020	617	249	629	1,095	2,590
Additions <sup>(i)</sup>	-	-	-	351	351
<b>Balance, December 31, 2021</b>	<b>617</b>	<b>249</b>	<b>629</b>	<b>1,446</b>	<b>2,941</b>
<b>Accumulated depreciation</b>					
Balance, December 31, 2019	413	237	627	608	1,885
Depreciation expense	20	7	2	118	147
Balance, December 31, 2020	433	244	629	726	2,032
Depreciation expense	20	2	-	121	143
<b>Balance, December 31, 2021</b>	<b>453</b>	<b>246</b>	<b>629</b>	<b>847</b>	<b>2,175</b>
Net book value as at December 31, 2020	184	5	-	369	558
<b>Net book value as at December 31, 2021</b>	<b>164</b>	<b>3</b>	<b>-</b>	<b>599</b>	<b>766</b>

<sup>(i)</sup> As at December 31, 2021, \$5 of total PP&E additions were unpaid and included in accounts payable and accrued liabilities (\$nil – December 31, 2020).

<sup>(ii)</sup> As at December 31, 2021, total Production, Laboratory and Other Equipment included \$302 of capital assets that were not yet in service and therefore not amortized (\$nil – December 31, 2020).

## 11. Right-of-Use Asset

The following table presents the right-of-use asset for the Company:

	Right-of-Use Asset \$
Balance, January 1, 2020	533
Less: amortization	305
Balance, December 31, 2020	228
Add: lease modification <sup>(i)</sup>	1,944
Less: amortization	362
<b>Balance, December 31, 2021</b>	<b>1,810</b>

(i) On March 15, 2021, the Company amended the lease for its manufacturing and office facility resulting in an adjustment to the right-of-use asset of \$1,944. Refer to Note 15 – *Lease Obligation* for details.

## 12. Intangible Assets

Intangible assets consisted of the following:

	Product Brands and Formulations	Customer Relationships	Total
<b>Cost</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, December 31, 2019	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2020	7,996	3,050	11,046
Additions	-	-	-
<b>Balance, December 31, 2021</b>	<b>7,996</b>	<b>3,050</b>	<b>11,046</b>
<b>Accumulated amortization</b>			
Balance, December 31, 2019	2,347	1,128	3,475
Amortization	649	390	1,039
Impairment	1,451	467	1,918
Balance, December 31, 2020	4,447	1,985	6,432
Amortization	546	328	874
<b>Balance, December 31, 2021</b>	<b>4,993</b>	<b>2,313</b>	<b>7,306</b>
Net book value as at December 31, 2020	3,549	1,065	4,614
<b>Net book value as at December 31, 2021</b>	<b>3,003</b>	<b>737</b>	<b>3,740</b>

During the year ended December 31, 2020, the Company updated its impairment assessment, using the fair value less costs to sell model, to reflect pandemic-related decreases in demand which impacted its Commercial Skincare and Manufacturing and Services CGU. Based on the Company's assessment, the carrying amount of the Commercial Skincare and Manufacturing and Services CGU exceeded their recoverable amount and accordingly, the Company recognized an impairment charge of \$1,918 at June 30, 2020 (\$1,101 for Commercial Skincare and \$817 for Manufacturing and Services). At December 31, 2020 and December 31, 2021, the Company performed a similar impairment test and concluded that no further impairment charge was required.

The estimated future cash flows were based on the budget for fiscal 2022 approved by the board of directors, the strategic plan for the first 5 years prepared by management and a terminal growth rate of 2.5% (2.5% in 2020) was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate used to calculate the recoverable amounts was 14% (14% in 2020).

A 50-basis point increase in the post-tax discount rate would have resulted in an impairment charge of approximately \$nil in 2021 (\$300 in 2020).

A 5% decrease evenly distributed over the future periods, in the expected future net cash inflows would have resulted in an impairment charge of approximately \$nil in 2021 (\$400 in 2020).

### 13. 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 from The Best You a secured convertible promissory note (the “Convertible Note”) with an initial principal amount of \$500, that could reach 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 following July 31, 2023 or upon the occurrence of certain events, and mandatorily convertible should The Best You achieve a specified level of financial performance. The Convertible Note matures in September 2026 and qualifies as a financial asset to be measured at FVTPL. The fair value of the Convertible Note is remeasured at each reporting period using the discounted cash flow method. The interest component of future cash flows is based on management’s best estimate of products sold to The Best You on a yearly basis. 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 December 31, 2021 was 11.15%. A 50-basis point increase (decrease) in the discount rate would have resulted in a \$9 decrease (increase) in the fair value of the Convertible Note at year end.

### 14. Credit Facility

The Company has a revolving credit facility (the “Facility”) with a Canadian chartered bank (the “Bank”) for an authorized amount, subject to margin requirements, which was increased in 2021 from \$3,500 to \$6,000 until April 30, 2022. 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 a total amount available under the Facility of \$2,924 at December 31, 2021 (\$2,074 at December 31, 2020). The Facility bears interest at the Bank’s prime rate (2.45% as at December 31, 2021) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at December 31, 2021.

### 15. Lease Obligation

The following table presents the movements in the lease obligation:

<b>December 31,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of year	297	653
Add: Increase of lease payments	-	2
Add: lease modification	1,944	-
Add: interest expense	72	54
Less: lease payments	421	412
<b>Balance, end of year</b>	<b>1,892</b>	<b>297</b>
Less: current portion, end of year	367	297
<b>Long-term balance, end of year</b>	<b>1,525</b>	<b>-</b>

On March 15, 2021, the Company amended the lease for its manufacturing and office facility, extending the lease term for a period of five years until September 30, 2026 and adding a renewal option in favour of the Company for an additional period of five years until September 30, 2031. The lease amendment qualified as a lease modification under IFRS 16 – Leases resulting in an adjustment to the lease obligation and right-of-use asset of \$1,944 based on the net present value of the remaining lease payments until September 30, 2026, discounted using Crescita’s incremental borrowing rate of 4.25%.

## 16. Convertible Debentures

On August 28, 2017, the Company completed a \$1,000 convertible debenture financing with Bloom Burton Healthcare Lending Trust and Bloom Burton Healthcare Lending Trust II (together the “Bloom Burton Funds”). The debentures issued to 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. 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 Debentures are secured by assets of the Company, ranking in priority behind the Bank. Refer to Note 14 – *Credit Facility*.

Management estimated the fair value of the debt using a discount rate of 14% and allocated \$827 to the debenture, \$40 to the issuance of warrants and \$133 to the conversion feature. The Debentures are being accreted to the face value of the debt plus interest to maturity. The Company also issued 100,000 common share warrants to Bloom Burton Funds at an exercise price of \$0.75 per share for a period of six years from that date (refer to Note 21 – *Share-Based Compensation and other Share-Based Payments*).

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

	Liability <sup>(i)</sup>	Equity <sup>(ii)</sup>	Total
	\$	\$	\$
Balance, December 31, 2019	895	173	1,068
Accretion	38	-	38
Balance, December 31, 2020	933	173	1,106
Accretion	43	-	43
<b>Balance, December 31, 2021</b>	<b>976</b>	<b>173</b>	<b>1,149</b>

<sup>(i)</sup> Classified as current at December 31, 2021 given the maturity date of June 30, 2022.

<sup>(ii)</sup> The equity component was recorded in Contributed Surplus.

## 17. Other Obligations

Other obligations consisted of the following as at:

December 31,	2021	2020
	\$	\$
Consideration payable relating to Alyria Acquisition <sup>(i)</sup>	197	177
Contingent payments relating to Alyria Acquisition <sup>(i)</sup>	-	20
<b>Balance, end of year</b>	<b>197</b>	<b>197</b>
Less: current portion, end of year	50	50
<b>Long-term balance, end of year</b>	<b>147</b>	<b>147</b>

<sup>(i)</sup> In August 2017, the Company’s wholly owned subsidiary, Crescita Skin Sciences Inc., acquired the Alyria® skincare product line (“Alyria Acquisition”).

## 18. 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, 2019	20,742,183	58,422
Shares cancelled	(9,547)	-
Shares repurchased and cancelled	(84,188)	(238)
Balance, December 31, 2020	20,648,448	58,184
Shares issued (Note 13)	470,128	330
Shares repurchased and cancelled	(135,824)	(382)
Shares repurchased but not cancelled	-	(48)
<b>Balance, December 31, 2021</b>	<b>20,982,752</b>	<b>58,084</b>

On November 26, 2020, the Company announced that the TSX approved the Company's normal course issuer bid (the "NCIB"), enabling it to purchase up to 1,000,000 Common Shares for cancellation on the open market through the facilities of the TSX, commencing on November 30, 2020 and ending no later than November 29, 2021. 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 and its renewal, 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 year ended December 31, 2021, prior to the renewal, 135,824 Common Shares with a carrying value of \$382 were repurchased for cancellation under the NCIB for cash consideration of \$90. The excesses of the carrying value over the purchase price in the amount of \$292 was recorded to Contributed Surplus. Following the renewal, an additional 17,080 Common Shares with a carrying value of \$48 were repurchased during the year for cancellation for cash consideration of \$11. The excesses of the carrying value over the purchase price in the amount of \$37 was recorded to Contributed Surplus. The Common Shares repurchased after the renewal of the NCIB were cancelled subsequent to December 31, 2021.

## 19. 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 years ended December 31, 2021 and 2020:

	For the years ended December 31,							
	Canada		U.S.		Rest-of-World		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Commercial Skincare</b>								
Product Sales	7,137	5,926	55	74	277	704	7,469	6,704
<b>Licensing and Royalties</b>								
Licensing Revenue	2,085	6,417	-	-	1,719	807	3,804	7,224
Product Sales	-	-	-	-	163	-	163	-
	<b>2,085</b>	<b>6,417</b>	<b>-</b>	<b>-</b>	<b>1,882</b>	<b>807</b>	<b>3,967</b>	<b>7,224</b>
<b>Manufacturing and Services</b>								
Product Sales	405	159	4,695	1,433	228	-	5,328	1,592
Service Revenue	5	120	-	-	-	-	5	120
	<b>410</b>	<b>279</b>	<b>4,695</b>	<b>1,433</b>	<b>228</b>	<b>-</b>	<b>5,333</b>	<b>1,712</b>
	<b>9,632</b>	<b>12,622</b>	<b>4,750</b>	<b>1,507</b>	<b>2,387</b>	<b>1,511</b>	<b>16,769</b>	<b>15,640</b>

### Development and Commercialization Agreement with Taro

During the year ended December 31, 2021, the Company recorded minimum guaranteed royalties of \$2,085 (US\$1,637) in accordance with the terms of its U.S. licensing agreement with Taro which provides for a mitigation mechanism in favour of Crescita in periods where Taro does not reach sales targets.

### Other Licensing Agreements

During the year ended December 31, 2021, the Company recorded upfront and milestone payments totaling \$1,404 in connection with the following licensing agreements: Egis Pharmaceuticals PLC, Croma Pharma GmbH and STADA MENA DWC-LLC, for the commercialization of Pliaglis in a total of 32 countries in Europe and the Middle East and North Africa region.

### Major Customers

Under IFRS 8, major customers are those that account for greater than 10% of the Company's consolidated revenues. For the year ended December 31, 2021, the Company had two major customers reported in the Manufacturing and Licensing segments that accounted for 33% of the Company's total revenue (one major customer reported in the Licensing segment that accounted for 41% of revenues for the year ended December 31, 2020).

## 20. Other Income

Other income consisted of the following for the:

Years ended December 31,	2021	2020
	\$	\$
Taro Amendment <sup>(i)</sup>	-	(668)

<sup>(i)</sup> Under the terms of an amendment to the Company's development and commercialization agreement with Taro in 2020, the Company recognized \$668 (US\$500) in connection with the termination of a non-financial clause regarding the supply of Pliaglis to territories outside the U.S.

## 21. Share-Based Compensation and Other Share-Based Payments

The following is a summary of share-based compensation activity for the years ended December 31, 2021 and 2020.

### 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. 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.

The Company's Share Incentive Plan is a "rolling plan", as defined by the TSX's *Guide to Security-based Compensation Arrangements*. A rolling plan is a plan whereby the maximum number of securities issuable is set as a fixed percentage of the listed issuer's issued and outstanding securities from time to time rather than as of a specific date. Under its rules, the TSX requires that the plan, 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 last approved at Crescita's Annual General and Special Meeting of Shareholders held on May 11, 2021. As at December 31, 2021, the number of common shares available for issuance under the Share Incentive Plan was 326,420.

(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 term of ten years. In general, options vest over a period of 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:

	Number of Options 000's	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, December 31, 2019	2,676	0.43 – 3.12	0.89
Granted	422	0.60 – 0.81	0.61
Forfeited	(241)	0.43 – 1.65	1.08
Expired	(68)	0.74 – 3.12	2.02
Balance, December 31, 2020	2,789	0.43 – 1.65	0.81
Granted	243	0.62 – 0.70	0.68
Forfeited	(173)	0.46 – 0.78	0.59
Expired	(38)	1.21	1.21
<b>Balance, December 31, 2021</b>	<b>2,821</b>	<b>0.43 – 1.65</b>	<b>0.80</b>

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, 2020 - 7.0%), and the remaining model inputs for options granted during the years ended December 31, 2021 and 2020 were:

Options 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Value \$
168	January 1, 2021	0.70	0.70	0.39	5	97	0.51
75	December 15, 2021	0.62	0.62	1.46	5	67	0.40

Options 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
407	August 17, 2020	0.60	0.60	0.27	5	95	0.44
15	November 27, 2020	0.81	0.81	0.32	5	97	0.59

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at December 31, 2021:

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 - 0.58	912	6.44	0.48	603	0.48
0.60 - 0.81	1,298	6.83	0.66	752	0.67
1.21 - 1.42	97	0.24	1.42	97	1.42
1.63 - 1.65	514	4.38	1.63	514	1.63
	<b>2,821</b>	<b>6.03</b>	<b>0.80</b>	<b>1,966</b>	<b>0.90</b>

(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 2021, Crescita's employees made no contributions to the Share Purchase Plan (2020 - \$nil).

### (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 2021, no shares were issued under the Share Bonus Plan (2020 - nil).

### Share Appreciation Rights Plan

Under the SARs Plan, SARs are issued to directors, officers, employees, or designated affiliates to provide incentive compensation based on the appreciation in value of the Company's common shares. 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. Participants receive, upon vesting, a cash amount equal to the difference between the SARs' settlement value and the grant price value, net of any applicable taxes and withholdings. Settlement value is determined using the closing price of the Company's common shares on the TSX on the last trading day preceding the applicable vesting date. The Company's SARs Plan was approved by the board of directors on December 31, 2020.

The following is a schedule of Crescita's SARs outstanding and the related accrual:

	Number of SARs 000's	Range of Grant Price \$	Weighted Average Grant Price \$	Fair Value \$	Accrual \$
Balance, December 31, 2020	-	-	-	-	-
Granted	278	0.70	0.70	0.33	28
Forfeited	(15)	0.70	0.70	0.33	(2)
Adjustment to market value	-	-	-	-	(6)
<b>Balance, December 31, 2021</b>	<b>263</b>	<b>0.70</b>	<b>0.70</b>	<b>0.22</b>	<b>20</b>

The fair value of each tranche issued and outstanding is remeasured at each reporting date using the Black-Scholes option pricing model. SARs are valued with a calculated forfeiture rate of 7.0%, and the remaining model inputs for measurement at December 31, 2021 were:

SARs 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Value \$
263	January 1, 2021	0.65	0.70	1.04	3	66	0.22

### Deferred Share Unit Plan

Under the DSU Plan, the Company may grant units exclusively to directors who are entitled to an annual grant and may also elect to receive a part of or all their cash fees as DSUs. DSUs granted vest immediately but are not realizable until retirement or otherwise ceasing to be a director. Given immediate vesting, the Company fully recognizes as compensation expense, at issuance, the grant date fair value of units issued. The fair value of the liability is remeasured at the end of each reporting period based on the closing price of the Company's Common Shares at quarter end and adjusted at the settlement date when the intrinsic value is realized. Participants receive, at retirement or when they otherwise cease to be directors, a cash amount equal to the 5-Day VWAP of units credited to their account determined on the next trading day after they cease to be directors, net of any applicable tax and other withholdings. The Company's board of directors approved the DSU Plan on May 10, 2021.

The following is a schedule of Crescita's DSUs outstanding and the related accrual:

	Number of DSUs	Fair Value	Accrual
	000's	\$	\$
Balance, December 31, 2020	-	-	-
Granted	131	0.67	88
Adjustment to market value	-	-	(3)
<b>Balance, December 31, 2021</b>	<b>131</b>	<b>0.65</b>	<b>85</b>

### Warrants

During fiscal 2017, the Company issued 496,000 common share purchase warrants (the "Warrants"). Of these, 396,000 were issued to Knight Therapeutics Inc. ("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 from August 14, 2017, the date the Warrants were issued. On August 28, 2017, 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 from that date.

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, 2019	496	0.75 – 1.00	0.84
Issued	-	-	-
Expired	-	-	-
Balance, December 31, 2020	496	0.75 – 1.00	0.84
Issued	-	-	-
Expired	-	-	-
<b>Balance, December 31, 2021</b>	<b>496</b>	<b>0.75 – 1.00</b>	<b>0.84</b>

### Summary of Share-based Compensation

Share-based compensation expense is as follows:

Years ended December 31,	2021	2020
	\$	\$
Share Option Plan	167	155
Share Appreciation Rights Plan	20	-
Deferred Share Unit Plan	85	-
<b>Share-based compensation expense</b>	<b>272</b>	<b>155</b>

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

Selling, general and administrative expenses	272	155
<b>Share-based compensation expense</b>	<b>272</b>	<b>155</b>

## 22. Earnings per Share

Basic and diluted earnings per share were computed as follows:

<b>Years ended December 31,</b>	<b>2021</b>	<b>2020</b>
Net income (loss) attributable to equity holders	<b>(1,105)</b>	37
Interest on convertible debentures, net of income taxes <sup>(i)</sup>	-	-
<b>Dilutive net income attributable to common equity holders</b>	<b>(1,105)</b>	37
Weighted-average number of common shares outstanding	<b>20,755,290</b>	20,661,477
Net effect of dilutive stock options, warrants and convertible debentures <sup>(i)</sup>	-	307,728
<b>Weighted-average number of diluted common shares</b>	<b>20,755,290</b>	20,969,205
<b>Earnings per share</b>		
Basic	<b>\$ (0.05)</b>	\$ -
Diluted	<b>\$ (0.05)</b>	\$ -

<sup>(i)</sup> The impact of convertible debentures, stock options and warrants is excluded from the calculation of diluted earnings per share when such impact is antidilutive.

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:

<b>December 31,</b>	<b>2021</b>	<b>2020</b>
Common shares issued and outstanding (Note 18)	<b>20,982,752</b>	20,648,448
Stock options outstanding (Note 21)	<b>2,820,993</b>	2,789,312
Convertible debentures (Note 16)	<b>1,000,000</b>	1,000,000
Warrants (Note 21)	<b>496,000</b>	496,000
	<b>25,299,745</b>	24,933,760

## 23. Expenses by Nature

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

(a) Employee costs:

<b>Years ended December 31,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Short-term employee wages, bonuses and benefits <sup>(i)</sup>	<b>5,644</b>	4,427
Share-based payments <sup>(ii)</sup> (Note 21)	<b>166</b>	104
Termination benefits	<b>5</b>	101
<b>Total employee costs</b>	<b>5,815</b>	4,632
<b>Included in:</b>		
Cost of goods sold	<b>1,159</b>	833
Research and development expenses (R&D)	<b>518</b>	584
Selling, general and administrative expenses (SG&A)	<b>4,138</b>	3,215
<b>Total employee costs</b>	<b>5,815</b>	4,632

<sup>(i)</sup> 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 is entitled to wage subsidies because its revenue decreased beyond a government-determined threshold due to the COVID-19 pandemic. The subsidies are recorded as a reduction of the related wages and salaries. For the year ended December 31, 2021, the Company recognized \$1,106 (\$1,024 for the year ended December 31, 2020) under the Program. Of this amount, \$329 (\$302 for the year ended December 31, 2020) was recorded against inventory, while the remaining balance of \$777 (\$722 for the year ended December 31, 2020) was recorded against SG&A wages.

<sup>(ii)</sup> Excludes share-based payments to directors.

(b) Depreciation and amortization:

Years ended December 31,	2021	2020
	\$	\$
Cost of goods sold	437	392
Selling, general and administrative expenses <sup>(iii)</sup>	942	1,099
<b>Total depreciation and amortization</b>	<b>1,379</b>	<b>1,491</b>

<sup>(iii)</sup> Includes \$874 of amortization of intangible assets and \$68 of depreciation of tangible assets for the year ended December 31, 2021 (\$1,039 and \$60 respectively for the year ended December 31, 2020).

## 24. Net Change in Non-Cash Working Capital

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

Years ended December 31,	2021	2020
	\$	\$
Accounts receivable	(1,042)	1,246
Inventories	(1,375)	(41)
Other current assets	(267)	(140)
Contract assets	225	185
Accounts payable and accrued liabilities	993	332
<b>Net change in non-cash working capital</b>	<b>(1,466)</b>	<b>1,582</b>

## 25. Income Taxes

### Deferred Tax Assets and Liabilities

(a) Recognized deferred tax assets (liabilities)

	As at December 31, 2020	Recognized in income	Recognized in OCI	As at December 31, 2021
	\$	\$	\$	\$
Canadian non-capital loss carryforwards	689	(349)	-	340
Canadian property plant and equipment	166	(33)	-	133
Convertible debenture	(18)	11	-	(7)
Right-of-use-asset and lease obligation	18	3	-	21
Contract assets	(563)	(20)	-	(583)
Share Issuance costs and unamortized discount on long-term debt	12	(12)	-	-
Income tax credit carryforward	131	94	-	225
Unrealized foreign exchange gain	(96)	-	96	-
Provisions and other accruals	100	26	-	126
Intangible assets	(439)	184	-	(255)
<b>Net deferred tax assets</b>	<b>-</b>	<b>(96)</b>	<b>96</b>	<b>-</b>

The Canadian legal entities comprising Crescita have investment tax credits in the amount of \$131 as at December 31, 2021 (\$131 as at December 31, 2020) available for carryforward to reduce future years' income tax payable. These tax credits expire in 2036.

The Company has approximately \$896 as at December 31, 2021 (\$896 as at December 31, 2020) in scientific research and experimental development expenditures for federal tax purposes available to reduce taxable income in future years. These expenditures can be carried forward over an unlimited period.

The Company has foreign tax credits in the amount of \$93 as at December 31, 2021 (\$46 as at December 31, 2020) available for carryforward to reduce future year's income tax payable. These foreign tax credits expire in 2030 and 2031.

Expiry	Foreign tax credits
	\$
2030	46
2031	47
	<b>93</b>

Refer to Note 5 – *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:

Years ended December 31,	2021	2020
	\$	\$
U.S. non-capital loss carryforwards	76,097	75,884
U.S. federal and state research and development credits	4,385	4,364
Canadian unrealized foreign exchange loss on account of capital	2,222	-
Canadian non-capital loss carryforwards	8,602	9,584
U.S. Tax basis of property, plant and equipment and intangible assets in excess of accounting value	-	544
<b>Deductible temporary differences not recognized</b>	<b>91,306</b>	<b>90,376</b>

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

Years ended December 31,	2021	2020
	%	%
Statutory rate	26.5	26.5
Non-deductible expense, non-taxable income and other items	(5.4)	7.9
Unrecognized temporary differences	(40.5)	52.3
Other	9.9	6.2
	<b>(-9.5)</b>	<b>92.9</b>

**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
		\$
Canada	2032 to 2041	9,884
United States	No expiry	1,630
United States <sup>(i)</sup>	2023 to 2029	42,305
United States	2026 to 2038	32,162
		<b>85,891</b>

<sup>(i)</sup> These U.S. losses carried forward relate to losses acquired upon the purchase of ZARS in 2011. The use of US\$34,300 of these losses is subject to restrictions under the U.S. change of ownership rules.

## 26. Commitments

### 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.

## 27. 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, 2021			December 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Recurring fair value measurements</b>						
Convertible note – The Best You (Note 13)	-	-	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 years ended December 31, 2021 and 2020.

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 include 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 13 – *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 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 COVID-19 pandemic, 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. However, the Company has updated its ECL on the entire accounts receivable balance as at December 31, 2021, 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, including its contract asset related to the Cantabria Agreement, due to potentially higher risks of enforceability and collectability.

As at December 31, 2021, 5% of accounts receivables related to customers outside North America and the European Union (December 31, 2020 - 15%).

The contract assets totaling \$3,159 at December 31, 2021 are related to the Cantabria Agreement and the licensing agreement with Taro, and are denominated in euros and U.S. dollars, respectively. The contract assets in the amount of \$2,124 at December 31, 2020 are related to the Cantabria Agreement and are denominated in euros. Refer to Note 9 – *Contract Assets*.

As at December 31, 2021, the Company had two customers that accounted for approximately 66% of the total accounts receivable (one customer that accounted for approximately 17% as at December 31, 2020).

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

<b>December 31,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Current	<b>1,271</b>	791
0-30 days past due	<b>706</b>	251
31-60 days past due	<b>116</b>	50
61-90 days past due	<b>23</b>	16
Over 90 days past due	<b>70</b>	43
	<b>2,186</b>	1,151
Allowance for doubtful accounts	<b>(79)</b>	(79)
	<b>2,107</b>	1,072

### 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 December 31, 2021.

## 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:

December 31,	Euros		U.S. Dollars	
	2021	2020	2021	2020
	€	€	\$	\$
Cash and cash equivalents	728	110	864	808
Accounts receivable	99	115	1,136	96
Other current assets	3	62	-	9
Contract assets	1,306	1,361	1,000	-
Accounts payable and accrued liabilities	(136)	(82)	(2,008)	(1,162)
	2,000	1,566	992	(249)

Based on the aforementioned net exposure as at December 31, 2021, 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 \$126 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$288 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, 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 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.

## 28. Capital Management

The Company's managed capital is comprised of cash and cash equivalents, convertible debentures 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 common shares from time to time. Historically, the Company has relied on cash on hand, the issuance of new shares and debt financing to finance growth initiatives. In addition, the Company has further liquidity available of up to \$2,924 (refer to Note 14 – *Credit Facility*) under its revolving credit facility, subject to margin requirements. The Facility bears no financial covenants and no amounts have yet been drawn.

## 29. 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 the Company's Chief Executive Officer, Chief Financial Officer, Executive Vice-President and General Manager, and six non-employee directors. The compensation paid or payable to the Company's key management personnel for services rendered was as follows:

<b>Years ended December 31,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Short-term wages, bonuses and benefits	<b>1,454</b>	1,252
Share-based payments	<b>225</b>	96
<b>Total key management compensation</b>	<b>1,679</b>	1,348
<i>Included in:</i>		
Selling, general and administrative expenses	<b>1,679</b>	1,348
<b>Total key management compensation</b>	<b>1,679</b>	1,348