Crescita Therapeutics Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022
(unaudited)

NOTICE TO READER

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

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

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

Crescita Therapeutics Inc.
Consolidated Interim Statements of Financial Position
(Unaudited)

(In thousands of Canadian dollars)	*Notes*	**As at September 30, 2023** **$**	As at December 31, 2022 $
Assets			
Current			
Cash and cash equivalents		**10,021**	8,238
Accounts receivable	*14*	**2,322**	4,561
Inventories	*5*	**5,889**	5,646
Other current assets	*14*	**420**	494
Current portion of contract assets	*6, 14*	**161**	1,577
Total current assets		**18,813**	20,516
Non-current			
Contract assets	*6, 14*	**1,490**	1,570
Property, plant and equipment		**650**	791
Right-of-use asset		**1,214**	1,517
Intangible assets		**2,211**	2,866
Investment in an associate	*7*	**368**	342
Convertible note	*7*	**429**	427
Deferred tax assets		**196**	455
Total assets		**25,371**	28,484
Liabilities			
Current			
Accounts payable and accrued liabilities	*14*	**4,755**	5,602
Current portion of lease obligation		**418**	405
Current portion of other obligations		**50**	50
Total current liabilities		**5,223**	6,057
Non-current			
Lease obligation		**892**	1,208
Other obligations		**141**	123
Total liabilities		**6,256**	7,388
Equity			
Capital Stock	*9*	**55,350**	56,304
Contributed surplus		**5,082**	4,271
Accumulated other comprehensive income (AOCI)		**1,132**	1,134
Deficit		**(42,449)**	(40,613)
Total equity		**19,115**	21,096
Total liabilities and equity		**25,371**	28,484

See accompanying Notes.

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

		Three months ended September 30,		Nine months ended September 30,	
		2023	2022	**2023**	2022
(In thousands of Canadian dollars, except per share data and number of shares)	***Notes***	**$**	$	**$**	$
Revenues	*10*	**3,033**	6,032	**12,797**	17,495
Operating expenses					
Cost of goods sold	*5, 12*	**1,534**	3,094	**5,493**	8,198
Research and development	*12*	**143**	161	**481**	449
Selling, general and administrative	*12*	**2,360**	2,286	**7,539**	7,797
Depreciation and amortization	*12*	**377**	358	**1,127**	1,094
Operating profit (loss)		**(1,381)**	133	**(1,843)**	(43)
Interest expense		**21**	25	**65**	134
Interest income		**(113)**	(81)	**(350)**	(168)
Foreign exchange (gain) loss		**2**	(7)	**23**	182
Share of (profit) loss of an associate	*7*	**(9)**	1	**(26)**	30
Net loss on convertible note measured at fair value through profit or loss	*7*	**-**	-	**22**	95
Income (loss) before income taxes		**(1,282)**	195	**(1,577)**	(316)
Deferred income tax expense		**-**	-	**259**	-
Net income (loss)		**(1,282)**	195	**(1,836)**	(316)
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods					
Unrealized gain (loss) on translation of foreign operations (net of income taxes)		**(1)**	(2)	**(2)**	3
Total comprehensive income (loss)		**(1,283)**	193	**(1,838)**	(313)
Earnings (loss) per share					
- Basic		**$ (0.06)**	$ 0.01	**$ (0.09)**	$ (0.02)
- Diluted		**$ (0.06)**	$ 0.01	**$ (0.09)**	$ (0.02)
Weighted average number of common shares outstanding					
- Basic		**20,367,631**	20,627,424	**20,345,435**	20,791,517
- Diluted		**20,367,631**	20,912,159	**20,345,435**	20,791,517

See accompanying Notes.

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

	Common Shares		Contributed Surplus	Deficit	AOCI	Total
(In thousands of Canadian dollars, except for number of shares)		$	$	$	$	$
Notes	*9, 11*	*9, 11*	*9, 11*			
Balance, December 31, 2021	20,982,752	58,084	2,769	(41,475)	1,148	20,526
Net loss	-	-	-	(316)	-	(316)
Class A shares cancelled	(17,080)	-	-	-	-	-
Class A shares repurchased and cancelled	(500,580)	(1,386)	1,051	-	-	(335)
Class A shares repurchased but not cancelled	-	(95)	73	-	-	(22)
Class A shares issued through options exercised	15,001	10	(4)	-	-	6
Share-based compensation expense	-	-	114	-	-	114
Unrealized gain on translation of foreign operations (tax effect of $nil)	-	-	-	-	3	3
Balance, September 30, 2022	20,480,093	56,613	4,003	(41,791)	1,151	19,976
Net income	-	-	-	1,178	-	1,178
Class A shares cancelled	-	-	-	-	-	-
Class A shares repurchased and cancelled	(145,940)	(309)	237	-	-	(72)
Share-based compensation expense	-	-	31	-	-	31
Unrealized loss on translation of foreign operations (net of income tax expense of $3)	-	-	-	-	(17)	(17)
Balance, December 31, 2022	20,334,153	56,304	4,271	(40,613)	1,134	21,096
Net loss	-	-	-	(1,836)	-	(1,836)
Class A shares repurchased but not cancelled	-	(982)	742	-	-	(240)
Class A shares issued through options exercised	40,000	28	(9)	-	-	19
Share-based compensation expense	-	-	78	-	-	78
Unrealized loss on translation of foreign operations (tax effect of $nil)	-	-	-	-	(2)	(2)
Balance, September 30, 2023	**20,374,153**	**55,350**	**5,082**	**(42,449)**	**1,132**	**19,115**

See accompanying Notes.

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

		Three months ended September 30,		Nine months ended September 30,	
		2023	2022	**2023**	2022
(In thousands of Canadian dollars)	***Notes***	**$**	$	**$**	$
Operating Activities					
Net income (loss)		**(1,282)**	195	**(1,836)**	(316)
Adjustments for:					
Depreciation and amortization	*12*	**377**	358	**1,127**	1,094
Share-based compensation	*11*	**16**	21	**103**	173
Inventory write-down	*5*	**108**	170	**280**	345
Deferred income taxes		**-**	-	**259**	-
Net interest accretion		**(16)**	(29)	**(67)**	(69)
Share of (profit) loss of an associate	*7*	**(9)**	1	**(26)**	30
Net loss on convertible note measured at fair value through profit or loss	*7*	**-**	-	**22**	95
Other		**(35)**	20	**(10)**	151
		(841)	736	**(148)**	1,503
Net change in non-cash working capital	*13*	**966**	(280)	**2,485**	(308)
Cash provided by operating activities		**125**	456	**2,337**	1,195
Investing Activities					
Acquisition of property, plant and equipment		**(28)**	(2)	**(28)**	(216)
Cash used in investing activities		**(28)**	(2)	**(28)**	(216)
Financing Activities					
Cash received on exercise of options	*11*	**19**	-	**19**	6
Repayment of convertible debentures[(i)]		**-**	-	**-**	(1,000)
Payment of principal portion of lease obligation		**(103)**	(92)	**(303)**	(274)
Repurchase of Class A shares	*9*	**(240)**	(180)	**(240)**	(357)
Cash used in financing activities		**(324)**	(272)	**(524)**	(1,625)
Effect of exchange rate changes on cash		**22**	54	**(2)**	53
Net change in cash and cash equivalents during the period		**(205)**	236	**1,783**	(593)
Cash and cash equivalents, beginning of period		**10,226**	10,502	**8,238**	11,331
Cash and cash equivalents, end of period		**10,021**	10,738	**10,021**	10,738
Supplemental Cash Flow Information					
Interest paid [(ii)]		**14**	18	**47**	89
Interest received [(ii)]		**80**	46	**222**	57

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

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

See accompanying Notes.

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 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

2. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2023 and 2022 (the "Interim Financial Statements") have been prepared by management in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), and accordingly, do not include all disclosures required for annual financial statements. These Interim Financial Statements should be read in conjunction with the Company's most recent annual consolidated audited financial statements for the years ended December 31, 2022 and 2021 ("2022 Annual Financial Statements"), which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR+") at www.sedarplus.ca.

The Company's Interim Financial Statements were authorized for issue by the Board of Directors on November 7, 2023.

Basis of Measurement

These Interim Financial Statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which have been measured at fair value. Refer to Note 14 – *Financial Instruments and Risk Management*. Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These Interim Financial Statements are presented in Canadian dollars, the Company's functional currency.

3. Summary of Significant Accounting Policies

The policies applied in these Interim Financial Statements are based on International Financial Reporting Standards ("IFRS"). All significant accounting policies have been applied on a basis consistent with those followed in the Company's 2022 Annual Financial Statements.

Use of Estimates and Judgments

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

Management has identified key areas of judgements, estimates or use of managerial assumptions that it believes are most critical to understanding these Interim Financial Statements. These accounting estimates are considered critical because they require management to make subjective and/or complex judgements that are inherently uncertain and because they could have a material impact on the presentation of the Company's consolidated financial condition and/or results of operations. The Company's actual results could differ from these estimates and such differences could also be material. These key areas are disclosed in Note 4 – *Use of Estimates and Judgments* to the Company's 2022 Annual Financial Statements.

4. Segmented Information

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

Commercial Skincare
The Commercial Skincare reportable segment manufactures and sells branded non-prescription skincare products for the Canadian and international markets. It also commercializes Pliaglis®, NCTF® Boost 135 HA, ART FILLER® and Obagi Medical® in Canada. Non-prescription product brands manufactured by the Company include: Laboratoire Dr Renaud®, Pro-Derm® and Alyria®. These premium skincare lines provide solutions for a wide range of skin concerns such as aging, acne, hydration, pigmentation, and rosacea.

In Canada, the Company's sales force calls on aesthetic spas, medispas as well as medical aesthetic clinics using a business-to-business model. Some of Crescita's brands are also sold directly to consumers through its online platforms and certain retail outlets. Our brands are also distributed by partners in international markets including the United States ("U.S."), South Korea and Malaysia.

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, which may combine its technologies and various selected molecules to fuel future licensing agreements in the non-prescription skincare market. The key revenue streams in the Licensing segment include upfront and pre- and post-commercialization milestone payments, royalties determined using the agreed-upon formulas as described in each respective licensing agreement, and product sales under supply agreements with the Company's licensing partners.

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

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

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Three months ended September 30, 2023	**$**	**$**	**$**	**$**	**$**
Revenue	**2,412**	**163**	**458**	**-**	**3,033**
Cost of goods sold	**1,139**	**42**	**353**	**-**	**1,534**
	1,273	**121**	**105**	**-**	**1,499**
Research and development	**-**	**-**	**-**	**143**	**143**
Selling, general and administrative	**-**	**-**	**-**	**2,360**	**2,360**
Depreciation and amortization	**-**	**-**	**-**	**377**	**377**
Other income, net	**-**	**-**	**-**	**(99)**	**(99)**
Total expenses	**-**	**-**	**-**	**2,781**	**2,781**
	1,273	**121**	**105**	**(2,781)**	**(1,282)**

Nine months ended September 30, 2023	Commercial Skincare $	Licensing & Royalties $	Manufacturing and Services $	Corporate and Other $	Total $
Revenue	**7,589**	**483**	**4,725**	**-**	**12,797**
Cost of goods sold	**3,114**	**42**	**2,337**	**-**	**5,493**
	4,475	**441**	**2,388**	**-**	**7,304**
Research and development	**-**	**-**	**-**	**481**	**481**
Selling, general and administrative	**-**	**-**	**-**	**7,539**	**7,539**
Depreciation and amortization	**-**	**-**	**-**	**1,127**	**1,127**
Other income, net	**-**	**-**	**-**	**(266)**	**(266)**
Deferred income tax expense	**-**	**-**	**-**	**259**	**259**
Total expenses	**-**	**-**	**-**	**9,140**	**9,140**
	4,475	**441**	**2,388**	**(9,140)**	**(1,836)**

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

Nine months ended September 30, 2022	Commercial Skincare $	Licensing & Royalties $	Manufacturing and Services $	Corporate and Other $	Total $
Revenue	5,600	319	11,576	-	17,495
Cost of goods sold	2,439	-	5,759	-	8,198
	3,161	319	5,817	-	9,297
Research and development	-	-	-	449	449
Selling, general and administrative	-	-	-	7,797	7,797
Depreciation and amortization	-	-	-	1,094	1,094
Other expenses, net	-	-	-	273	273
Total expenses	-	-	-	9,613	9,613
	3,161	319	5,817	(9,613)	(316)

5. Inventories

Inventories consisted of the following as at:

	September 30, 2023 $	December 31, 2022 $
Raw materials	**2,958**	2,936
Work-in-process	**567**	512
Finished goods	**2,364**	2,198
	5,889	5,646

During the three and nine months ended September 30, 2023, inventories in the amount of $1,426 and $5,213, respectively were recognized in cost of goods sold ($2,924 and $7,853 respectively for the three and nine months ended September 30, 2022).

During the three and nine months ended September 30, 2023, $108 and $280 of finished goods were written down, respectively ($170 and $345, respectively for the three and nine months ended September 30, 2022).

There were no reversals of prior write-downs during the three and nine months ended September 30, 2023 ($nil for the three and nine months ended September 30, 2022).

6. Contract Assets

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

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

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

	$
Balance, December 31, 2022	3,147
Amounts billed to customers and transferred to accounts receivable	(1,577)
Interest accretion	83
Foreign exchange movement	(2)
Balance, September 30, 2023	**1,651**
Less: current portion	161
Long-term balance	**1,490**

7. Investment in an Associate and Convertible Note

On September 7, 2021, the Company announced the acquisition of a minority interest in The Best You ("TBY"), a privately-held network of seven medical aesthetic clinics in the province of Ontario. In consideration for the minority interest, Crescita issued 470,128 common shares ("Common Shares") at a price of $0.70 per Common Share for total consideration of $330 (the "Initial Investment"). The Company determined that it has significant influence over TBY from its representation on the board of directors and participation in significant business decisions. The investment is accounted for using the equity method. In October 2022, the Company acquired an additional interest in TBY for cash consideration of $61.

In connection with the Initial Investment, the Company purchased a secured convertible promissory note (the "Convertible Note" or the "Note") from TBY with an initial principal amount of $500. The Company may be required to invest an additional $750, contingent on certain events and/or financial indicators being met. The Convertible Note bears interest at variable rates up to 12% based on Crescita's annual volume of product sales to TBY. The Note is convertible into an additional equity interest in TBY at Crescita's option at any time after July 31, 2023, or upon the occurrence of certain events, and is mandatorily convertible should TBY achieve a specified level of financial performance. The Convertible Note matures on September 2, 2026 and qualifies as a financial asset to be measured at fair value through profit or loss ("FVTPL").

The fair value of the Convertible Note is re-measured at each reporting period using the discounted cash flow method. Management's best estimate of the annual volume of product sales to TBY is used to determine the interest component of future cash flows. The discount rate is adjusted at each reporting period based on changes in relevant credit spreads and changes in risk free rates.

The discount rate used for valuation at September 30, 2023 was 17.42% primarily due to the general increase in interest rates (15.23% at December 31, 2022) resulting in a fair value loss of $nil and $22 for the three and nine months ended September 30, 2023, respectively. A 50-basis point increase (decrease) in the discount rate would have resulted in a $5 decrease (increase) in the fair value of the Convertible Note at quarter end.

8. Credit Facility

The Company has a revolving demand credit facility (the "Facility") with a Canadian chartered bank (the "Bank") for an authorized amount, subject to margin requirements, of $3,500. Loans drawn on the Facility are secured by a first-ranking charge in favour of the Bank over the Company's accounts receivable and inventories. Drawings in excess of the first $1,000 are limited to a percentage of the Company's outstanding accounts receivable and inventory, resulting in a total amount available under the Facility of $3,004 at September 30, 2023 ($3,500 at December 31, 2022). The Facility bears interest at the Bank's prime rate (7.20% as at September 30, 2023) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at September 30, 2023 ($nil at December 31, 2022).

9. Capital Stock

Authorized

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

Issued and Outstanding

The following table summarizes Crescita's outstanding common shares:

	Number of Shares	$
Balance, December 31, 2021	20,982,752	58,084
Shares cancelled	(17,080)	-
Shares repurchased and cancelled	(646,520)	(1,790)
Shares issued through options exercised	15,001	10
Balance, December 31, 2022	20,334,153	56,304
Shares repurchased but not cancelled	-	(982)
Shares issued through options exercised (Note 11)	40,000	28
Balance, September 30, 2023	**20,374,153**	**55,350**

On August 29, 2023, the Company announced that the Toronto Stock Exchange ("TSX") approved its proposed normal course issuer bid ("NCIB") to purchase up to a maximum of 1,821,616 Common Shares for cancellation starting August 31, 2023 and ending August 30, 2024 or such earlier date as the Company completes its purchases pursuant to the NCIB or provides notice of termination. In connection with the NCIB, the Company entered into 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 pre-established 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 three and nine months ended September 30, 2023, 355,110 Common Shares with a carrying value of $982 were repurchased for cancellation under the Company's NCIB for cash consideration of $240. The excess of the carrying value over the purchase price in the amount of $742 was recorded to Contributed Surplus. The 355,110 Common Shares were cancelled subsequent to September 30, 2023.

10. Revenues

The following table presents external revenues disaggregated by reportable segment, revenue source and geographic area (based on the customer's billing address) for the three and nine months ended September 30, 2023 and 2022:

	For the three months ended September 30,							
	Canada		U.S.		Rest-of-World		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	$	$	**$**	$	**$**	$	**$**	$
Commercial Skincare								
Product Sales	**2,213**	1,585	**17**	7	**182**	80	**2,412**	1,672
Licensing and Royalties								
Licensing Revenue	**-**	-	**-**	-	**163**	92	**163**	92
Manufacturing and Services								
Product Sales	**54**	281	**404**	3,759	**-**	228	**458**	4,268
	2,267	1,866	**421**	3,766	**345**	400	**3,033**	6,032

	For the nine months ended September 30,							
	Canada		U.S.		Rest-of-World		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	$	$	**$**	$	**$**	$	**$**	$
Commercial Skincare								
Product Sales	**7,104**	5,294	**35**	34	**450**	272	**7,589**	5,600
Licensing and Royalties								
Licensing Revenue	**-**	-	**-**	-	**483**	319	**483**	319
Manufacturing and Services								
Product Sales	**419**	921	**4,079**	10,156	**227**	499	**4,725**	11,576
	7,523	6,215	**4,114**	10,190	**1,160**	1,090	**12,797**	17,495

Major Customers

Under IFRS 8, major customers are those that account for greater than 10% of the Company's consolidated revenues. For the three months ended September 30, 2023, no single customer accounted for greater than 10% of the Company's consolidated revenues. For the three months ended September 30, 2022, the Company had one major customer in the Manufacturing segment that accounted for 56% of total revenues. For the nine months ended September 30, 2023 and 2022, the Company had one major customer in the Manufacturing segment representing 29% and 55%, respectively, of total revenues.

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

Share Option Plan

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

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price
	000's	**$**	**$**
Balance, December 31, 2022	2,967	0.43 – 1.65	0.77
Granted	299	0.65 – 0.66	0.65
Forfeited	(218)	0.60 – 1.63	1.17
Exercised	(40)	0.46 – 0.49	0.48
Balance, September 30, 2023	**3,008**	**0.43 – 1.65**	**0.74**

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at September 30, 2023:

	Outstanding			Exercisable	
Exercise Price Range	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested Options	Weighted Average Exercise Price
$	**000's**	**years**	**$**	**000's**	**$**
0.43 - 0.58	856	4.77	0.48	856	0.48
0.60 - 0.81	1,750	6.44	0.65	1,043	0.66
1.63 - 1.65	402	2.63	1.63	402	1.63
	3,008	**5.45**	**0.74**	**2,301**	**0.76**

Share Appreciation Rights ("SARs") Plan

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

	Number of SARs	Range of Grant Price	Weighted Average Grant Price	Range of Fair Value	Accrual
	000's	**$**	**$**	**$**	**$**
Balance, December 31, 2022	527	0.65 – 0.70	0.67	0.10 – 0.18	31
Adjustment to market value	-	-	-	-	(16)
Balance, September 30, 2023	**527**	**0.65 – 0.70**	**0.67**	**0.01 – 0.09**	**15**

Deferred Share Unit ("DSU") Plan

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

	Number of DSUs	Fair Value	Accrual
	000's	**$**	**$**
Balance, December 31, 2022	228	0.66	150
Granted	72	0.65	47
Paid out	(67)	0.65	(44)
Adjustment to market value	-	-	(6)
Balance, September 30, 2023	**233**	**0.63**	**147**

Summary of Share-based Compensation

Share-based compensation expense is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Share Option Plan	**28**	35	**78**	114
SARs Plan	**(8)**	(3)	**(16)**	5
DSU Plan	**(4)**	(11)	**41**	54
Share-based compensation expense	**16**	21	**103**	173
Recorded in the consolidated interim statements of income (loss) and comprehensive income (loss) as follows:				
Selling, general and administrative expenses	**16**	21	**103**	173
Share-based compensation expense	**16**	21	**103**	173

12. Expenses by Nature

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

(a) Employee costs:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Short-term employee wages, bonuses and benefits	**1,831**	2,149	**6,025**	6,578
Share-based payments[(i)] (Note 11)	**20**	28	**60**	110
Total employee costs	**1,851**	2,177	**6,085**	6,688
Included in:				
Cost of goods sold	**496**	560	**1,616**	1,819
Research and development expenses (R&D)	**138**	138	**428**	399
Selling, general and administrative expenses (SG&A)	**1,217**	1,479	**4,041**	4,470
Total employee costs	**1,851**	2,177	**6,085**	6,688

(i) Excludes share-based payments to directors.

(b) Depreciation and amortization:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Cost of goods sold	**137**	121	**408**	380
Selling, general and administrative expenses[(ii)]	**240**	237	**719**	714
Total depreciation and amortization	**377**	358	**1,127**	1,094

(ii) Includes $218 and $655 of amortization of intangible assets and $22 and $64 of depreciation of tangible assets respectively for the three and nine months ended September 30, 2023 ($218 and $655 for intangible assets and $19 and $59 for tangible assets respectively for the three and nine months ended September 30, 2022).

13. Net Change in Non-Cash Working Capital

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Accounts receivable	**1,361**	(50)	**2,236**	(1,534)
Inventories	**(671)**	(227)	**(523)**	(944)
Other current assets	**(148)**	21	**74**	176
Contract assets	**-**	-	**1,577**	1,491
Accounts payable and accrued liabilities	**424**	(24)	**(879)**	503
Net change in non-cash working capital	**966**	(280)	**2,485**	(308)

14. Financial Instruments and Risk Management

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

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

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

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

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

	September 30, 2023			December 31, 2022		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	$	**$**	**$**	$	$	$
Recurring fair value measurements						
Convertible note – The Best You (Note 7)	**-**	**-**	**429**	-	-	427

Valuation Methods and Assumptions
Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three and nine months ended September 30, 2023 and 2022.

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

Level 3 assets represent the convertible note receivable from The Best You. The fair value of the convertible note is revalued at each reporting period based on management's best estimate using the discounted cash flow method. Refer to Note 7 – *Investment in an Associate and Convertible Note*.

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

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

Liquidity Risk
The Company anticipates that its current cash, amount available under its revolving credit facility and the revenue it expects to generate from product and contract manufacturing 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. 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 such as the level of commercial expenses including the costs associated with maintaining regulatory approvals, the acquisition costs of licenses for new products or technologies, and the timing of payments received or made under licensing arrangements.

Credit Risk
Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that may subject the Company to credit risk consist of cash, 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 receivable are subject to normal industry risks in each geographic region in which the Company operates. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America, including its contract asset related to its licensing agreement with Cantabria Labs Inc. (the "Cantabria Agreement"), due to potentially higher risks of enforceability and collectability.

As at September 30, 2023, 10% of accounts receivable related to customers outside North America and the European Union (December 31, 2022 - 9%).

The contract asset in the amount of $1,651 at September 30, 2023 was related to the Cantabria Agreement and is denominated in euros. Included in total contract assets of $3,147 at December 31, 2022 was a balance of $1,788 related to the Cantabria Agreement and a balance of $1,359 related to the licensing agreement with Taro Pharmaceuticals Inc. ("Taro"), denominated in euros and U.S. dollars, respectively. Refer to Note 6 – *Contract Assets*.

As at September 30, 2023, the Company had one customer that accounted for approximately 58% of the total accounts receivable (one customer that accounted for approximately 80% of accounts receivable as at December 31, 2022).

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

	September 30, 2023	December 31, 2022
	$	$
Current	**678**	**606**
0-30 days past due	**186**	**1,957**
31-60 days past due	**324**	**311**
61-90 days past due	**1,096**	**1,728**
Over 90 days past due	**79**	**13**
	2,363	**4,615**
Allowance for doubtful accounts	**(41)**	**(54)**
	2,322	**4,561**

Interest Rate Risk
The Company's practice is to minimize interest rate cash flow risk exposures on its financing. The Company is currently not exposed to interest rate variability as it had not drawn any amounts on its Facility as at September 30, 2023.

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. At September 30, 2023, the Company had a US$1,000 foreign currency forward contract (US$2,000 at December 31, 2022) outstanding to limit its exposure to the U.S. dollar foreign exchange risk. The contract's fair value at September 30, 2023 and December 31, 2022 was nominal.

The significant balances in foreign currencies were as follows as at:

	Euros		U.S. Dollars	
	September 30, 2023	December 31, 2022	**September 30, 2023**	December 31, 2022
	€	€	**$**	$
Cash and cash equivalents	**173**	179	**672**	235
Accounts receivable	**61**	80	**1,049**	2,799
Other current assets	**2**	2	**1**	8
Contract assets	**1,155**	1,237	**-**	1,000
Accounts payable and accrued liabilities	**(241)**	(311)	**(1,361)**	(1,486)
	1,150	1,187	**361**	2,556

Based on the aforementioned net exposure as at September 30, 2023, 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 $49 on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $164 on total comprehensive loss.

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

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

15. Event after the Reporting Period

On October 25, 2023, Taro delivered a notice to terminate the development and commercialization license agreement for Pliaglis® in the U.S. market. Our final entitlement to the annual guaranteed minimum royalties in the amount of US$1.0 million will be recognized in Q4-2023, with payment expected in Q2-2024.