



Crescita Therapeutics Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2024 and 2023
(unaudited)

NOTICE TO READER

The accompanying condensed consolidated interim financial statements of Crescita Therapeutics Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

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

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

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

<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	As at September 30, 2024	As at December 31, 2023
		\$	\$
Assets			
Current			
Cash and cash equivalents		8,438	9,385
Accounts receivable	15	1,102	1,190
Inventories	6	6,130	6,125
Other current assets	15	445	223
Current portion of contract assets	7, 15	170	1,564
Total current assets		16,285	18,487
Non-current			
Contract assets	7, 15	1,435	1,478
Property, plant and equipment		1,423	687
Right-of-use asset		843	1,159
Intangible assets		1,884	1,993
Investment in an associate	8	355	358
Convertible note	8	458	436
Total assets		22,683	24,598
Liabilities			
Current			
Accounts payable and accrued liabilities	15	5,534	4,325
Current portion of lease obligation		453	439
Current portion of other obligations		50	100
Total current liabilities		6,037	4,864
Non-current			
Lease obligation		473	815
Other obligations		112	97
Total liabilities		6,622	5,776
Equity			
Capital Stock	10	53,045	54,341
Contributed surplus		7,083	5,956
Accumulated other comprehensive income (AOCI)		1,120	1,124
Deficit		(45,187)	(42,599)
Total equity		16,061	18,822
Total liabilities and equity		22,683	24,598

See accompanying Notes.

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data and number of shares)</i>					
Revenues	11	3,594	3,033	12,678	12,797
Operating expenses					
Cost of goods sold	6, 13	1,627	1,534	6,065	5,493
Research and development	13	157	143	490	481
Selling, general and administrative	12, 13	2,670	2,360	8,069	7,539
Depreciation and amortization	13	312	377	1,001	1,127
Operating loss		(1,172)	(1,381)	(2,947)	(1,843)
Interest expense		15	21	50	65
Interest income		(111)	(113)	(362)	(350)
Foreign exchange (gain) loss		(36)	2	(50)	23
Share of (profit) loss of an associate	8	(4)	(9)	3	(26)
Net loss on convertible note measured at fair value through profit or loss	8	-	-	-	22
Loss before income taxes		(1,036)	(1,282)	(2,588)	(1,577)
Deferred income tax expense		-	-	-	259
Net loss		(1,036)	(1,282)	(2,588)	(1,836)
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods					
Unrealized loss on translation of foreign operations (net of income taxes)		(2)	(1)	(4)	(2)
Total comprehensive loss		(1,038)	(1,283)	(2,592)	(1,838)
Loss per share					
- Basic and diluted		\$ (0.05)	\$ (0.06)	\$ (0.13)	\$ (0.09)
Weighted average number of common shares outstanding					
- Basic and diluted		19,272,495	20,367,631	19,435,144	20,345,435

See accompanying Notes.

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

	Common Shares	Contributed Surplus	Deficit	AOCI	Total	
<i>(In thousands of Canadian dollars, except for number of shares)</i>	\$	\$	\$	\$	\$	
Notes	10, 12	10, 12	10, 12			
Balance, December 31, 2022	20,334,153	56,304	4,271	(40,613)	1,134	21,096
Net loss	-	-	-	(1,836)	-	(1,836)
Shares repurchased but not cancelled	-	(982)	742	-	-	(240)
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
Net loss	-	-	-	(150)	-	(150)
Shares cancelled	(355,110)	-	-	-	-	-
Share repurchased and cancelled	(63,627)	(177)	141	-	-	(36)
Shares repurchased but not cancelled	-	(832)	715	-	-	(117)
Share-based compensation expense	-	-	18	-	-	18
Unrealized loss on translation of foreign operations (net of income tax recovery of \$1)	-	-	-	-	(8)	(8)
Balance, December 31, 2023	19,955,416	54,341	5,956	(42,599)	1,124	18,822
Net loss	-	-	-	(2,588)	-	(2,588)
Shares cancelled	(300,466)	-	-	-	-	-
Shares repurchased and cancelled	(468,814)	(1,277)	1,037	-	-	(240)
Shares repurchased but not cancelled	-	(19)	16	-	-	(3)
Share-based compensation expense	-	-	74	-	-	74
Unrealized loss on translation of foreign operations (tax effect of \$nil)	-	-	-	-	(4)	(4)
Balance, September 30, 2024	19,186,136	53,045	7,083	(45,187)	1,120	16,061

See accompanying Notes.

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

		Three months ended		Nine months ended	
		September 30,		September 30,	
		2024	2023	2024	2023
<i>(In thousands of Canadian dollars)</i>	<i>Notes</i>	\$	\$	\$	\$
Operating Activities					
Net loss		(1,036)	(1,282)	(2,588)	(1,836)
Adjustments for:					
Depreciation and amortization	13	312	377	1,001	1,127
Share-based compensation	12	89	16	164	103
Inventory write-down	6	51	108	202	280
Deferred income taxes		-	-	-	259
Net interest accretion		24	(16)	(144)	(67)
Share of (profit) loss of an associate	8	(4)	(9)	3	(26)
Net loss on convertible note measured at fair value through profit or loss	8	-	-	-	22
Gain on disposal of property, plant and equipment		(20)	-	(20)	-
Other		(12)	(35)	(69)	(10)
		(596)	(841)	(1,451)	(148)
Net change in non-cash working capital	14	1,020	966	2,800	2,485
Cash provided by operating activities		424	125	1,349	2,337
Investing Activities					
Acquisition of a group of assets	4	-	-	(912)	-
Acquisition of property, plant and equipment		(832)	(28)	(832)	(28)
Proceeds from disposal of property, plant and equipment		78	-	78	-
Cash used in investing activities		(754)	(28)	(1,666)	(28)
Financing Activities					
Cash received on exercise of options		-	19	-	19
Payment of principal portion of lease obligation		(110)	(103)	(328)	(303)
Repurchase of shares	10	(117)	(240)	(243)	(240)
Payment of other obligations		-	-	(50)	-
Cash used in financing activities		(227)	(324)	(621)	(524)
Effect of exchange rate changes on cash		(17)	22	(9)	(2)
Net change in cash and cash equivalents during the period		(574)	(205)	(947)	1,783
Cash and cash equivalents, beginning of period		9,012	10,226	9,385	8,238
Cash and cash equivalents, end of period		8,438	10,021	8,438	10,021
Supplemental Cash Flow Information					
Interest paid ⁽ⁱ⁾		11	14	35	47
Interest received ⁽ⁱ⁾		130	80	287	222

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

See accompanying Notes.

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

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

1. Corporate Information

Crescita Therapeutics Inc. (“Crescita” or the “Company”) is a publicly traded Canadian commercial dermatology company, listed on the Toronto Stock Exchange (the “TSX”), 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 a commercial stage prescription product. Crescita also 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 operations and 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, 2024 and 2023 (the “Interim Financial Statements”) have been prepared by the Company’s 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, 2023 and 2022 (“2023 Annual Financial Statements”), which are available on the Company’s profile 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 5, 2024.

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 15 – *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 Material Accounting Policies

The policies applied in these Interim Financial Statements are based on International Financial Reporting Standards (“IFRS”). All material accounting policies have been applied on a basis consistent with those followed in the Company’s 2023 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 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 2023 Annual Financial Statements.

4. Asset Purchase – Occy Laboratoire Inc.

Effective June 20, 2024 (the “Acquisition Date”), the Company acquired all of the non-real estate business assets of Occy Laboratoire Inc. (“Occy”), a Laval-based manufacturer and distributor of high-quality dermocosmetic products (the “Transaction”). The Transaction, conducted pursuant to the voluntary proceedings undertaken by Occy under the *Bankruptcy and Insolvency Act*, is expected to enhance Crescita’s position in the skincare market by expanding its product offering and client base. The acquired assets include Occy’s accounts receivable, inventories, manufacturing equipment, customer network and intellectual property (the “Assets”). The Company purchased the Assets for total cash consideration of \$912 (the “Purchase Price”) including transaction costs of \$56.

The Company concluded that the Transaction reflects the acquisition of a group of assets that does not constitute a business under IFRS 3 – *Business Combinations*. The Purchase Price of \$912 was allocated to the identifiable assets acquired on the basis of their relative fair values at the Acquisition Date as follows:

	Estimated Fair Value	Relative Fair Value	Amount Recognized on Acquisition
	\$	%	\$
Accounts receivable	32	1.88	17
Inventories	676	39.13	357
Property, plant and equipment	270	15.64	143
Intangible assets	749	43.35	395
	1,727	100.00	912

5. 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 generates revenue from the commercialization of our branded non-prescription skincare products in Canada and in certain international markets. We also sell Pliaglis®, NCTF® Boost 135 HA, ART FILLER® and Obagi® Medical in Canada. Non-prescription products manufactured by the Company include the following brands: Laboratoire Dr Renaud®, Pro-Derm®, Alyria® and Aquafolia®, acquired in June 2024 from Occy. These premium skincare lines provide solutions for a range of common skin concerns such as aging, acne, hydration, pigmentation, and rosacea.

The Company’s sales force calls on aesthetic spas, medispas as well as medical aesthetic clinics in Canada under a business-to-business (“B2B”) model. Some of our brands are also sold directly to consumers through online platforms and certain retail outlets and are distributed by partners in international markets including the United States (“U.S.”), Hong Kong, South Korea, Malaysia and Guatemala.

Licensing and Royalties

The Licensing and Royalties (“Licensing”) reportable segment currently derives revenue from licensing the intellectual property (the “IP”) related to Pliaglis and would include any revenue from licensing the IP for the use of our transdermal delivery technologies, Multiplexed Molecular Penetration Enhancers™ (“MMPE”) and DuraPeel™ (the “Technologies”), in the development of any topical formulation. While we may still do so from time to time, leveraging our Technologies to fuel our licensing pipeline is no longer a strategic focus for the Company. 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, to a lesser extent, 2) revenue from product development services. Clients in the Manufacturing segment use Crescita’s services to manufacture topicals either under a private label or a brand name and may use a combination of Crescita’s existing formulations, their own formulations or novel formulations.

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 and Royalties	Manufacturing and Services	Corporate and Other	Total
Three months ended September 30, 2024	\$	\$	\$	\$	\$
Revenue	2,703	457	434	-	3,594
Cost of goods sold	1,087	204	336	-	1,627
Gross profit	1,616	253	98	-	1,967

Research and development	-	-	-	157	157
Selling, general and administrative	-	-	-	2,670	2,670
Depreciation and amortization	-	-	-	312	312
Other income, net	-	-	-	(136)	(136)
Total expenses	-	-	-	3,003	3,003
	1,616	253	98	(3,003)	(1,036)

	Commercial Skincare	Licensing and Royalties	Manufacturing and Services	Corporate and Other	Total
Nine months ended September 30, 2024	\$	\$	\$	\$	\$
Revenue	8,210	948	3,520	-	12,678
Cost of goods sold	3,338	315	2,412	-	6,065
Gross profit	4,872	633	1,108	-	6,613

Research and development	-	-	-	490	490
Selling, general and administrative	-	-	-	8,069	8,069
Depreciation and amortization	-	-	-	1,001	1,001
Other income, net	-	-	-	(359)	(359)
Total expenses	-	-	-	9,201	9,201
	4,872	633	1,108	(9,210)	(2,588)

	Commercial Skincare	Licensing and 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
Gross profit	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)

	Commercial Skincare	Licensing and Royalties	Manufacturing and Services	Corporate and Other	Total
Nine months ended September 30, 2023	\$	\$	\$	\$	\$
Revenue	7,589	483	4,725	-	12,797
Cost of goods sold	3,114	42	2,337	-	5,493
Gross profit	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)

6. Inventories

Inventories consisted of the following as at:

	September 30, 2024	December 31, 2023
	\$	\$
Raw materials	2,621	2,500
Work-in-process	755	589
Finished goods	2,754	3,036
	6,130	6,125

During the three and nine months ended September 30, 2024, inventories in the amount of \$1,576 and \$5,863, respectively were recognized in the cost of goods sold (\$1,426 and \$5,213 respectively for the three and nine months ended September 30, 2023).

During the three and nine months ended September 30, 2024, \$51 and \$202 of finished goods, respectively, were written down, (\$108 and \$280, respectively for the three and nine months ended September 30, 2023).

There were no reversals of prior write-downs during the three and nine months ended September 30, 2024 (\$nil for the three and nine months ended September 30, 2023).

7. Contract Assets

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

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

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

	\$
Balance, December 31, 2023	3,042
Amounts billed to customers and transferred to accounts receivable	(1,564)
Interest accretion	79
Foreign exchange movement	48
Balance, September 30, 2024	1,605
Less: current portion	170
Long-term balance	1,435

8. 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 (the “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 following 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, 2024 was 17.42% (17.42% at December 31, 2023). A 50-basis point increase (decrease) in the discount rate would have resulted in a \$4 decrease (increase) in the fair value of the Convertible Note at quarter end.

9. 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 \$3.5 million. 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 \$1.0 million are limited to a percentage of the Company’s outstanding accounts receivable and inventory, resulting in a total amount available under the Facility of \$2,026 at September 30, 2024 (\$2,069 at December 31, 2023). The Facility bears interest at the Bank’s prime rate (6.45% as at September 30, 2024) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at September 30, 2024 (\$nil at December 31, 2023).

10. 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, 2022	20,334,153	56,304
Shares repurchased and cancelled	(418,737)	(1,159)
Shares repurchased but not cancelled	-	(832)
Shares issued through options exercised	40,000	28
Balance, December 31, 2023	19,955,416	54,341
Shares cancelled	(300,466)	-
Shares repurchased and cancelled	(468,814)	(1,277)
Shares repurchased but not cancelled	-	(19)
Balance, September 30, 2024	19,186,136	53,045

On September 24, 2024, the Company announced that the TSX approved its proposed normal course issuer bid ("NCIB") to purchase up to a maximum of 1,478,854 Common Shares for cancellation starting September 27, 2024 and ending September 26, 2025, or such earlier date as the Company completes its purchases pursuant to the NCIB or provides notice of termination. In connection with its NCIB, the Company entered into an automatic securities purchase plan (the "ASPP") containing 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 designated broker on parameters established by the Company prior to the pre-established ASPP period. The Company may terminate the ASPP and the NCIB provided that the insiders of the Company are not then in a trading blackout and the Company is not otherwise in possession of any material undisclosed information about its business.

During the nine months ended September 30, 2024, 476,178 Common Shares with a carrying value of \$1,296 were repurchased for cancellation under the Company's NCIBs for cash consideration of \$243. The excess of the carrying value over the purchase price in the amount of \$1,053 was recorded to Contributed Surplus. Of the 476,178 Common Shares repurchased, 7,364 Common Shares were purchased under the current bid and cancelled subsequent to September 30, 2024, while the remainder were purchased and cancelled under the Company's previous NCIB which ended August 30, 2024.

11. 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, 2024 and 2023:

	For the three months ended September 30,							
	Canada		U.S.		Rest-of-World		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$	\$	\$
Commercial Skincare								
Product Sales	2,569	2,213	16	17	118	182	2,703	2,412
Licensing and Royalties								
Licensing Revenue	83	-	-	-	374	163	457	163
Manufacturing and Services								
Product Sales	74	54	171	404	189	-	434	458
	2,726	2,267	187	421	681	345	3,594	3,033

For the nine months ended September 30,

	Canada		U.S.		Rest-of-World		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$	\$	\$
Commercial Skincare								
Product Sales	7,926	7,104	45	35	239	450	8,210	7,589
Licensing and Royalties								
Licensing Revenue	83	-	-	-	865	483	948	483
Manufacturing and Services								
Product Sales	603	419	2,533	4,079	384	227	3,520	4,725
	8,612	7,523	2,578	4,114	1,488	1,160	12,678	12,797

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, 2024 and 2023, the Company had no major customer representing greater than 10% of consolidated revenues. For the nine months ended September 30, 2024 and 2023, the Company had one major customer in the Manufacturing segment representing 20% and 29%, respectively, of total revenues.

12. 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, 2023	2,974	0.46 – 1.63	0.73
Forfeited	(44)	0.65 – 0.66	0.65
Expired	(118)	0.74	0.74
Balance, September 30, 2024	2,812	0.46 – 1.63	0.73

The following table summarizes the outstanding and exercisable share options held by directors, officers, employees and consultants as at September 30, 2024:

Exercise Price Range	Outstanding			Exercisable	
	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested Options	Weighted Average Exercise Price
\$	000's	years	\$	000's	\$
0.46 - 0.58	948	4.47	0.48	840	0.48
0.60 - 0.81	1,462	5.62	0.65	1,137	0.65
1.63	402	1.62	1.63	402	1.63
	2,812	4.66	0.73	2,379	0.75

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, 2023	978	0.46 – 0.70	0.57	0.00 – 0.18	9
Granted	25	0.64	0.64	0.22	-
Forfeited	(55)	0.46	0.46	0.15	-
Expired	(263)	0.70	0.70	0.33	-
Adjustment to market value	-	-	-	-	17
Balance, September 30, 2024	685	0.46 – 0.65	0.53	0.00 – 0.24	26

262,500 SARs granted on January 1, 2021 expired on January 1, 2024 with no payment to participants as the grant price of \$0.70 exceeded the closing price of \$0.49 of the Common Shares on the TSX on December 29, 2023, the last trading day preceding the vesting date of January 1, 2024.

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 000’s	Fair Value \$	Accrual \$
Balance, December 31, 2023	233	0.49	114
Granted	78	0.60	47
Adjustment to market value	-	-	26
Balance, September 30, 2024	311	0.60	187

Summary of Share-based Compensation

Share-based compensation expense is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Share Option Plan	21	28	74	78
Share Appreciation Rights Plan	4	(8)	17	(16)
Deferred Share Unit Plan	64	(4)	73	41
Share-based compensation expense	89	16	164	103

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

Selling, general and administrative expenses	89	16	164	103
Share-based compensation expense	89	16	164	103

13. Expenses by Nature

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

(a) Employee costs:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Short-term employee wages, bonuses and benefits	1,883	1,831	5,986	6,025
Share-based payments ⁽ⁱ⁾ (Note 12)	24	20	88	60
Total employee costs	1,907	1,851	6,074	6,085
Included in:				
Cost of goods sold	537	496	1,644	1,616
Research and development expenses (R&D)	130	138	418	428
Selling, general and administrative expenses (SG&A)	1,240	1,217	4,012	4,041
Total employee costs	1,907	1,851	6,074	6,085

(i) Excludes share-based payments to directors.

(b) Depreciation and amortization:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Cost of goods sold	141	137	430	408
Selling, general and administrative expenses ⁽ⁱⁱ⁾	171	240	571	719
Total depreciation and amortization	312	377	1,001	1,127

(ii) Includes \$149 and \$504 of amortization of intangible assets and \$22 and \$67 of depreciation of tangible assets respectively for the three and nine months ended September 30, 2024 (\$218 and \$655 for intangible assets and \$22 and \$64 for tangible assets respectively for the three and nine months ended September 30, 2023).

14. Net Change in Non-Cash Working Capital

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Accounts receivable	1,036	1,361	148	2,236
Inventories	(912)	(671)	150	(523)
Other current assets	9	(148)	(222)	74
Contract assets	-	-	1,564	1,577
Accounts payable and accrued liabilities	887	424	1,160	(879)
Net change in non-cash working capital	1,020	966	2,800	2,485

15. Financial Instruments and Risk Management

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

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

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

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

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

	September 30, 2024			December 31, 2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
Recurring fair value measurements						
Convertible note – The Best You (Note 8)	-	-	458	-	-	436

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, 2024 and 2023.

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 8 – *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 its licensing agreements, 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, 2024, 10% of accounts receivable related to customers outside North America and the European Union (December 31, 2023 - 5%).

The contract asset in the amount of \$1,605 at September 30, 2024 was related to the Cantabria Agreement and is denominated in euros. Included in total contract assets of \$3,042 at December 31, 2023 was a balance of \$1,699 related to the Cantabria Agreement and a balance of \$1,343 related to the licensing agreement with Taro Pharmaceuticals Inc., denominated in euros and U.S. dollars, respectively. These balances represent future guaranteed minimum royalties not yet billed. Refer to Note 7 – *Contract Assets*.

As at September 30, 2024, the Company had two customers that accounted for approximately 29% of the total accounts receivable (two customers that accounted for approximately 27% as at December 31, 2023).

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

	September 30, 2024	December 31, 2023
	\$	\$
Current	754	783
0-30 days past due	276	247
31-60 days past due	26	14
61-90 days past due	46	9
Over 90 days past due	47	184
	1,149	1,237
Allowance for doubtful accounts	(47)	(47)
	1,102	1,190

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, 2024.

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, 2024, the Company had a US\$1,000 foreign currency forward contract (US\$1,000 at December 31, 2023) outstanding to limit its exposure to the U.S. dollar foreign exchange risk. The contract's fair value at September 30, 2024 and December 31, 2023 was nominal.

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

	Euros		U.S. Dollars	
	September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	€	€	\$	\$
Cash and cash equivalents	60	28	1,242	800
Accounts receivable	191	129	70	203
Other current assets	2	2	1	1
Contract assets	1,065	1,162	-	1,000
Accounts payable and accrued liabilities	(338)	(41)	(1,336)	(1,186)
	980	1,280	(23)	818

Based on the aforementioned net exposure as at September 30, 2024, 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 \$3 on total comprehensive loss and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$148 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.