2020 Annual Report

Letter to Shareholders

Dear Fellow Shareholders,

2020 will always be remembered as the year everything changed. The COVID-19 pandemic brought unprecedented challenges and affected everyday life around the world, triggering health, financial and personal crises. Healthcare professionals have been and continue to be pillars in the fight against COVID-19, making tremendous sacrifices. I would like to express my sincere gratitude to each of them who are risking their lives to keep everyone safe. I would also like to wish all of you health and safety as we continue to navigate these disorienting circumstances. I am confident that we will move forward stronger as a community and, as a company, we will continue working toward our vision of becoming a leader in innovative, science-based skincare solutions.

COVID-19 Response

I am proud of our employees' commitment and agility in our response to the pandemic. To ensure a safe environment, we promptly put in place many health and safety measures, strictly following public heath recommendations at our facility. We quickly sourced materials, obtained authorization from regulators, and geared-up our plant to produce hand sanitizer at a time when it was a scarce commodity, to support our employees and customers. We adapted to a changing business environment by implementing digital commercial initiatives such as the launch of a new direct-to-consumer e-commerce platform and the accelerated roll-out of a social media campaign.

We also engaged with our customers more frequently during the peak of the pandemic and throughout the year. We made sure that our independent spa and medispa owners knew they could count on us as a trusted business partner. We offered them solutions in preparation for the safe reopening of their practices with sanitary product starter kits and provided incentives for them to direct consumers to our online platform - because when they win, we all win.

Fiscal 2020 Highlights

Despite the pandemic's impact on consumer demand, we remained focused on the execution of our corporate growth strategy by honing-in on controllable outcomes. During the year, we:

- advanced Pliaglis® in the rest-of-world by signing agreements with partners in Austria, Mexico and China, solidifying future revenue streams;
- bolstered our medical aesthetic platform by entering into an exclusive distribution agreement with Laboratoires FILLMED for NCTF ®, a skin revitalization solution, and ART-FILLER®, a range of dermal fillers that will allow us to leverage the booming medical aesthetic market;
- generated $5.2 million in additional cash revenue to fuel growth through an amendment to our license agreement with Taro Pharmaceuticals Inc., our commercial partner for Pliaglis in the U.S.; and
- secured a $3.5 million revolving credit facility with the Royal Bank of Canada, improving our financial flexibility.

These achievements speak to our ability to deliver results, as we continue our evolution from a young cash burning player in the industry when I joined Crescita, to the leading Canadian commercial dermatology company we aspire to be. The contrast between our Adjusted EBITDA loss of $4.4 million, cash position of $7.0 million and long-term debt of $3.5 million at the end of 2017, and our positive Adjusted EBITDA of $3.2 million, cash position of $14.3 million and no long-term debt, only 3 years later, is a significant improvement. We have made great progress in laying the foundation necessary to succeed and we now have the financial resources to facilitate the execution of our strategic plans.

A Strong Foundation for Growth

We are poised for profitable growth. Our cash balance and access to capital affords us the flexibility to be opportunistic in our pursuit of strategic acquisitions and to invest in organic growth initiatives in key areas like R&D, business development and sales and marketing. We benefit from our unique offering that serves the non-prescription skincare market, including a fully integrated go-to-market platform with a robust portfolio of premium aesthetic and medical aesthetic brands, and the prescription skincare market with Pliaglis®, a ready-to-commercialize product, with 18 rest-of-world countries where the product is approved and available for licensing. Our contract development and manufacturing services provide turnkey solutions to our customers. We have dedicated resources to grow this business segment to generate both revenue and margins as we increase the utilization of our plant. Some of our other potential revenue-generating assets include: our patented transdermal technologies, MMPE™ and DuraPeel™ which can be leveraged in our own topical product formulations or licensed to partners looking for a differentiating factor in topicals; as well as our pipeline products, CTX-101 and CTX-102, that have strong IP protection and are currently available for partnering.

Business Outlook

While establishing recurring revenue streams has been a challenge in the past, we have benefited from significant licensing revenues such as upfront and milestone payments under our existing partnerships. These tailwinds have allowed us to strengthen our balance sheet to pursue sustainable profitable growth opportunities in 2021. Our diversified asset portfolio and our team's relentless focus on execution will drive success in achieving our strategic priorities. As we, along with the rest of the world, recover from the COVID-19 pandemic, we are committed to leveraging our business development resources as a key catalyst for growth.

We remain steadfast to thriving in the rest-of-world with Pliaglis and capitalizing on the multiple licensing opportunities we have already identified. Our history has shown that the cash-generative deal structures we sign lead to lucrative returns. We currently have licensing agreements in 8 countries, including China, and the potential of untapped markets is significant with launches expected over the next few years.

We will also actively explore strategic and synergistic acquisition targets to gain critical mass, expand our medical aesthetic and aesthetic businesses through further direct-to-consumer initiatives. I am particularly eager for the upcoming launch of NCTF in the Canadian market which we expect in the first half of 2021. Current market trends depicting the increasing adoption of minimally invasive and non-invasive aesthetic procedures fuel our desire to keep growing our medical aesthetics business. Finally, we will aim to increase our contract development and manufacturing services customer base, as mentioned earlier, and pursue licensing opportunities for our technologies and pipeline products.

Thank You

Our accomplishments and transformation would not have been possible without the contribution of our shareholders, board of directors, employees and customers. I would like to thank you for your precious confidence, your support, your guidance, and sticking with us during these challenging times. You are critical to the realization of our vision as we head to the future. Our path forward is an exciting one and we believe we have in place the building blocks for long-term success. We look forward to pursuing continued profitable growth and becoming a leader in the skincare market.

Yours sincerely,

(signed) Serge Verreault

President and CEO

Management's Discussion and Analysis

March 23, 2021

Basis of Presentation

This Management's Discussion and Analysis of the financial position and results of operations ("MD&A") is the responsibility of management and has been reviewed and approved by Crescita's board of directors (the "Board of Directors"). This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators ("CSA"). While the Board of Directors is ultimately responsible for approving the MD&A, it carries out this responsibility mainly through the oversight of its Audit Committee, which has been appointed by the Board of Directors and is composed entirely of independent and financially literate directors.

Throughout this document, Crescita Therapeutics Inc. is referred to as "Crescita", "we", "our" or "Company". This MD&A provides information that management believes is relevant to an assessment and understanding of the consolidated results of operations, cash flows and financial condition of the Company. The following information should be read in conjunction with Crescita's Consolidated Audited Financial Statements and the notes thereto for the years ended December 31, 2020 and 2019 (the "2020 Consolidated Financial Statements") which have been filed on the System for Electronic Document Analysis and Retrieval ("SEDAR"). Crescita's accounting policies are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information relating to the Company, including its most recently filed Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com.

Materiality of Disclosures

This MD&A includes information we believe is material to investors. We consider something to be material if it results in or would reasonably be expected to result in a significant change in the market price or value of our shares, or if it is likely that a reasonable investor would consider the information important in making an investment decision.

All amounts in this MD&A are expressed in thousands of Canadian dollars ("CAD"), unless otherwise noted. This MD&A contains "forward-looking information". Refer to *Forward-looking Statements*.

The Company uses non-IFRS and key financial measures in this MD&A. Refer to the *Non-IFRS and Key Financial Measures* and the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A.

Highlights and Key Business Developments

Fiscal 2020 vs Fiscal 2019 Financial Highlights

- Revenue was $15,640 compared to $22,337, a decrease of $6,697;
- During the year, we amended our licensing agreement with Taro Pharmaceuticals Inc. ("Taro"), our commercial partner for Pliaglis® in the United States ("U.S.") and received a one-time payment of $5,151 (US$3,855).
- Gross Profit was $11,273, compared to $16,536, a decrease of $5,263;
- Operating expenses were $9,718 compared to $11,568, a decrease of $1,850;
- Adjusted EBITDA was $3,201 compared to $6,984, a decrease of $3,783;
- Ending cash position was $14,281, an increase of $5,013.

Key Business Developments

For the year ended December 31, 2020 and up to the date of this MD&A:

Patent Granted for CTX-102
On March 16, 2021, the United States Patent and Trademark Office ("USPTO") granted U.S. Patent No. 10,945,952 for Rinse-Off Compositions and Uses Thereof for Delivery of Active Agents which provides coverage for CTX-102 through March 16, 2040. This patent, with term to 2040, is Orange Book listable against CTX-102 once the product is approved. An Investigational New Drug Application for CTX-102 has been submitted with the U.S. regulatory authority.

Licensing Agreement for Pliaglis in China
On November 5, 2020, we announced that we entered into an exclusive agreement with Juyou Bio-Technology Co. Ltd ("Juyou"), a biotechnology company that develops and sells medical and cosmetic skincare products, for the commercialization and development of Pliaglis and an enhanced formulation of Pliaglis in mainland China. Juyou will be responsible for the overall clinical development and regulatory filings for Pliaglis with the National Medical Products Administration (the "NMPA", formerly the China State Food and Drug Administration). As part of the license agreement, Crescita received an upfront payment of $165 (US$125) and will be eligible to receive potential regulatory and sales milestones of up to US$1,000 and US$1,800, respectively. Crescita will supply Pliaglis at a pre-determined transfer price per unit that includes a profit margin. Following the regulatory approval of Pliaglis in China, Crescita will be eligible for tiered double-digit royalties should the product's retail price surpass pre-determined amounts. Under the agreement, Juyou has committed to purchase minimum volumes failing which it may lose exclusivity or allow the Company to terminate the license agreement.

Launch of Pliaglis in Spain by Cantabria Labs
In October 2020, our commercial partner, Cantabria Labs Inc. ("Cantabria") launched Pliaglis in Spain. Under the commercialization and license agreement in place, the first commercial sale in Spain entitled Crescita to a milestone payment of $78 (€50). Refer to *Significant Partnerships.*

Licensing Agreement for Pliaglis in Mexico
On October 19, 2020, we entered into a commercialization license agreement with LIV LABORATÓRIOS ("LIV"), a division of MINOS Labs, a privately held Mexican group of pharmaceutical, consulting, and regulatory companies. LIV specializes in dermatology solutions and sells directly to physicians. The agreement grants LIV the exclusive rights to distribute and sell Pliaglis in Mexico. Crescita will supply the product under its existing agreement with Cantabria at a pre-determined transfer price per unit that includes a profit margin. Under the agreement, LIV has committed to purchase minimum volumes failing which it may lose exclusivity or allow the Company to terminate the license agreement. We expect LIV to launch Pliaglis in early 2022.

Licensing Agreement for Pliaglis in Austria
On August 12, 2020, we entered into a commercialization license agreement with Pelpharma, a privately held Austrian pharmaceutical company specializing in the treatment of various skin and nail diseases, granting it the exclusive rights to distribute and sell Pliaglis in Austria. Crescita will supply Pliaglis through its existing partnership with Cantabria at a pre-determined transfer price per unit that includes a profit margin. Under the agreement, Pelpharma has committed to purchase minimum volumes failing which it may lose exclusivity or allow the Company to terminate the license agreement. Pelpharma expects to launch Pliaglis in Austria in September 2021.

Amendment to the Development and Commercialization License Agreement with Taro.
On July 28, 2020, we announced an amendment to the development and commercialization license agreement with Taro (the "Taro Amendment") with regard to Pliaglis in the U.S. The Taro Amendment entitled us to receive a one-time payment of $5,151 (US$3,855). Refer to *Significant Partnerships* and *Other Expenses – Taro Amendment.*

Credit Facility with the Royal Bank of Canada
On January 22, 2020, we announced that we secured a $3,500 revolving credit facility (the “Facility”) with the Royal Bank of Canada (“RBC”). The Facility can be drawn for working capital requirements and general corporate purposes and bears interest at RBC's prime rate (2.45% as at December 31, 2020) plus 0.25%. The Facility is secured by a first ranking charge in favour of RBC over the Company's accounts receivable and inventories. Drawings after the first $1,000 on the Facility will be limited to a percentage of the Company's then outstanding accounts receivable and inventory. At December 31, 2020, a total of $2,074 was available under the Facility. No drawings under the facility have yet been made by the Company.

Exclusive Distribution and Promotion Agreement with Laboratoires FILLMED
On January 20, 2020, we announced that we entered into an exclusive distribution and promotion agreement with Laboratoires FILLMED (“FILLMED”) for the distribution of the ART FILLER® injectables range and the New Cellular Treatment Factor® (“NCTF”) in Canada, allowing us to expand our product offering and benefit from the growth in the field of medical aesthetics. ART FILLER is an exclusive collection of five hyaluronic acid (“HA”)-based fillers, while NCTF135 HA is a skin revitalization solution primarily used for the improvement of skin quality and fine lines. FILLMED is a French aesthetic medicine company with expertise in developing aesthetic anti-ageing treatment solutions using HA.

On January 21, 2021, we announced that FILLMED submitted the application to Health Canada for a new Medical Device License (“MDL”) for the ART FILLER range as a Class III medical device. Due to backlogs resulting from the coronavirus (“COVID-19”) pandemic, it is estimated that the average target review time by Health Canada may range from six to nine months but may be longer. We are planning to launch NCTF in the first half of 2021, while we anticipate launching the ART FILLER range in early 2022, imminently following its approval by Health Canada. Both launches represent key opportunities for the Company to take advantage of the increasing popularity of minimally invasive and non-invasive aesthetic procedures and to strengthen its presence in the rapidly growing medical aesthetics market.

Forward-looking Statements

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws. Forward-looking statements can be identified by words such as: "anticipate", "intend", "plan", "goal", "seek", "believe", "project", "estimate", "expect", "strategy", "future", "likely", "may", "should", "will" and similar references to future periods. Example of forward-looking statements include, but are not limited to, statements regarding the Company's objectives, plans, goals, strategies, growth, performance, operating results, financial condition, our belief that we have sufficient liquidity to fund our business operations during the upcoming fiscal year, strategy for customer retention, growth, product development, market position, financial results and reserves, strategy for risk management, business prospects, opportunities and industry trends, the expected impact of, and responses taken by the Company with respect to, the COVID-19 pandemic, and similar statements concerning anticipated future events, results, circumstances, performance or expectations. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company's control. Crescita's actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, readers should not unduly rely on any of these forward-looking statements. Important factors that could cause Crescita's actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, economic and market conditions, the impact of the COVID-19 pandemic and the response thereto of governments and consumers, the Company's ability to execute its growth strategies, reliance on third parties for clinical trials, marketing, distribution and commercialization, the impact of changing conditions in the regulatory environment and product development processes, manufacturing and supply risks, increasing competition in the industries in which the Company operates, the Company's ability to meet its debt commitments, the impact of unexpected product liability matters, the impact of litigation involving the Company and/or its products, the impact of changes in relationships with customers and suppliers, the degree of intellectual property protection of the Company's products, the degree of market acceptance of the Company's products, developments and changes in applicable laws and regulations, as well as other risk factors described from time to time in the reports and disclosure documents filed by Crescita with Canadian securities regulatory agencies and commissions, including the sections entitled "Risk Factors" in this MD&A and the Company's AIF dated March 24, 2021. As a result of the foregoing and other factors, no assurance can be given that future results, levels of activity or achievements indicated in any forward-looking statements will actually be achieved. Any forward-looking statement made by the Company in this MD&A is based only on information currently available to management and speaks only as of the date on which it is made. Except as required by applicable securities laws, Crescita undertakes no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Non-IFRS and Key Financial Measures

We report our financial results in accordance with IFRS. However, we use certain non-IFRS financial measures to assess our Company's performance. We believe these to be useful to management, investors, and other financial stakeholders in assessing Crescita's performance. The non-IFRS measures used in this MD&A do not have any standardized meaning prescribed by IFRS and are therefore not comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS.

The following are the non-IFRS and key financial measures used by management alongside their respective definitions:

Profitability	• **EBITDA *(non-IFRS)*** – is defined as earnings before interest, income taxes, depreciation and amortization. A reconciliation of EBITDA to its closest IFRS measure can be found under the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A. • **Adjusted EBITDA *(non-IFRS)*** – is defined as earnings before interest, income taxes, depreciation and amortization, other expenses or (income), share-based compensation costs, goodwill and intangible asset impairment, and foreign exchange (gains) or losses, as applicable. Management believes that Adjusted EBITDA is an important measure of operating performance and cash flow and provides useful information to investors as it highlights trends in the underlying business that may not otherwise be apparent when relying solely on IFRS measures. A reconciliation of Adjusted EBITDA to its closest IFRS measure can be found under the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A. • **Net income (loss) before income taxes** – is a measure of income or loss generated by the Company during the period.
Liquidity	• **Cash provided by (used in) operating activities** – is a measure of cash generated from or used in managing our day-to-day business operations. We believe that operating cash flow is indicative of financial flexibility, allowing us to execute our growth strategy.

Change in Reporting Segments

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

As a result of certain realignments in the 2020 strategic planning process, effective January 1, 2020, we now have three reportable segments: (i) Commercial Skincare ("Commercial"); (ii) Licensing and Royalties ("Licensing"); and (iii) Manufacturing and Services ("Manufacturing"). Prior to this, we operated our business as one segment. The Company has retrospectively revised the segmented information for the comparative period to conform to the new segmented information structure.

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

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

Licensing and Royalties
The Licensing and Royalties reportable segment includes revenue generated from licensing the intellectual property related to our lead prescription product, Pliaglis, or for the use of our transdermal delivery technologies, Multiplexed Molecular Penetration Enhancers™ ("MMPE") and DuraPeel™, either on an exclusive or non-exclusive basis. The Licensing segment also leverages our in-house research and development ("R&D") capabilities for the development of new topical products combining our technologies and various selected molecules to fuel future licensing agreements in the non-prescription skincare market. The key revenue components in the Licensing segment are upfront and milestones payments as well as royalties determined using the agreed-upon formulas described in each respective licensing agreement.

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

We have retrospectively revised the segmented information for the comparative period to conform to the new segmented information structure. Refer to the *Revenue by Segment* and *Gross Profit by Segment* sections of this MD&A and to Note 6 - *Segmented Information* of our 2020 Consolidated Financial Statements.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic (the "Pandemic"). The Pandemic resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, border shutdowns, self-imposed quarantine periods, restrictive social measures and the closure of non-essential businesses have caused material disruptions to businesses globally, resulting in an economic slowdown as well as significant volatility in global equity markets.

The Pandemic caused high levels of unemployment in Canada and has resulted in lower consumer spending in many sectors. With most services offered in aesthetic spas and medispas being discretionary, the performance of our business is closely tied to fluctuations in consumer disposable income and changing 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 continue to adversely affect the Company's ability to generate revenue comparable to historical levels.

During the first wave of the Pandemic, a significant number of our clients in the aesthetic and medical aesthetic sectors across Canada, deemed to be non-essential businesses, temporarily closed their practices, on or around March 24, 2020 and throughout most of Q2-20. On March 24, 2020, we temporarily closed our office and manufacturing facility, which resulted in temporary layoffs affecting plant, sales, and most office personnel, while other employees deemed critical to maintaining basic services during the shutdown worked remotely and with reduced hours. We also implemented other cash conservation initiatives to navigate the uncertainties and economic pressures posed by the Pandemic including: (i) temporary base salary reductions for the executive team including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as well as fee reductions for all members of the Company's Board of Directors ranging between 25% and 40%; and (ii) the termination of the Company's automatic securities purchase plan in connection with its previous Normal Course Issuer Bid. Refer to *Normal Course Issuer Bid*. On May 11, 2020, in line with recommendations from the Québec provincial government, we progressively re-opened our office and manufacturing facility and started rehiring employees that had been temporarily laid off. Full base salaries and fees were also restored for the executive team and for the Board of Directors effective July 1, 2020 and rehires were completed along with a return to a five-day workweek.

We anticipate that royalties from the worldwide sales of Pliaglis as well as revenue from our CDMO, aesthetics and export businesses may continue to be adversely affected by the persisting stressful economic conditions created by the Pandemic. In Q2-20, we reviewed the estimates, judgments and assumptions used in the preparation of our financial statements and recorded an impairment charge of $1,918 as a result of a recoverability test performed on our intangible assets. At December 31, 2020, we updated our impairment test and concluded that no further impairment charge was required. Refer to Note 12 - *Intangible Assets* of our 2020 Consolidated Financial Statements.

In support of a safe environment, we put in place several health and safety measures for our employees and visitors according to the recommendations of public health officials and the CNESST - *Commission des normes, de l'équité, de la santé et de la sécurité du travail,* the organization mandated by the government of Québec to administer the province's occupational health and safety plan. Our safety measures include but are not limited to: the requirement to always wear masks and social distance, the widespread availability of hand sanitizing stations throughout our building, frequent and thorough disinfection of high-touch surfaces, and the mandatory completion of daily health and safety measures checklists for quality assurance and production personnel.

The emergence of the second wave of the Pandemic has led several provincial governments to reinstitute closures and other restrictive public health measures to slow the spread of the virus. Both closures have had a meaningful impact on our fiscal 2020 results and may continue to influence our financial performance in 2021. Overall, we have seen a falling demand for our products driven in part by the decrease in demand for in-cabin aesthetic and medical aesthetic treatments due to the very nature of these services and the inability to successfully socially distance. Even with the existence of multiple viable vaccine options, it remains unclear what the duration and long-term effects of the Pandemic will be on our business. Since December 24, 2020, in line with public health recommendations, we have asked all office employees whose presence on-site is not

essential to the pursuit of our activities to work from home. Our manufacturing facility and customer service department remain open to complete commitments and fulfill client orders.

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The Company determined that it qualified for the Canada Emergency Wage Subsidy ("CEWS") program under the COVID-19 Economic Response Plan in Canada. For the year ended December 31, 2020, the Company recognized payroll subsidies of $1,024 under the CEWS program. In addition, as previously described, Crescita's management proactively implemented various cost reduction measures in response to the first wave of the Pandemic to protect its financial flexibility.

While the Pandemic has posed undeniable challenges, it has also afforded us additional perspective on our business, our products and our customers. Throughout fiscal 2020, we adapted our commercial activities to the changing business landscape. Initiatives we took this year include: (i) the launch of new digital commercial activities through our direct-to-consumer online platform and heightened social media presence and awareness campaign for our brands; and (ii) the production and commercialization of hand sanitizer and sanitary product starter kits, not only to support the reopening of our clients' businesses and to drive incremental commercial sales, but also to help our employees and our community.

We continue to focus on the execution of our commercial plan including preparing for the upcoming launches of NCTF and ART FILLER. Crescita's executive team continues to closely monitor the evolution of the Pandemic. The health and safety of our employees, clients, and community continue to be a top priority.

Outlook and Liquidity Update

Our objectives when managing our liquidity and capital structure are to maintain enough cash to fund our operations, including business development and organic growth initiatives to enable us to continue as a going concern and to meet contractual obligations as they become due. As of December 31, 2020, Crescita had working capital (defined as current assets minus current liabilities) of $14,781, including a cash balance of $14,281, and an accumulated deficit of $(40,370). Our cash and other current assets at December 31, 2020, were sufficient to meet our current accounts payable, accrued liabilities and other obligations for at least the next twelve months. In addition, The Company has further liquidity available of up to $3,500 under its revolving credit facility, subject to margin requirements. Based on our accounts receivables and inventory values at year-end, the total amount available under the Facility was $2,074. The Facility bears no financial covenants, and no amounts have yet been drawn.

Our ability to generate sufficient revenue to reach profitability depends on the successful implementation of our growth strategy. The emergence of the COVID-19 pandemic, causing the slowdown of the worldwide economy, could adversely impact our ability to carry out our plans. The ability to raise additional financing for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond our control, such as uncertainty in the capital markets. This exposure is discussed in more detail in the *Risks Factors* section of this MD&A, and in our most recently filed AIF for the 2020 fiscal year. The evolution of the Pandemic is dynamic and the ultimate duration and magnitude of its impact on the economy, capital markets and our financial position cannot be reasonably estimated at this time.

Normal Course Issuer Bid

On November 26, 2020, the Company announced that the Toronto Stock Exchange ("TSX") approved the Company's intention to make a normal course issuer bid (the "NCIB") for a portion of its Class A common shares ("Common Shares"), enabling the Company to purchase up to 1,000,000 Common Shares for cancellation on the open market through the facilities of the TSX. The NCIB was effective November 30, 2020 and ends no later than November 29, 2021, or such earlier time as the Company completes its purchases pursuant to the NCIB or provides notice of termination.

In connection with the NCIB, the Company adopted an automatic securities purchase plan ("ASPP") that contains strict parameters regarding how its Common Shares may be repurchased during times when it would ordinarily not be permitted to purchase Common Shares due to regulatory restrictions or self-imposed blackout periods. During the year ended December 31, 2020, no Common Shares were repurchased under the NCIB.

Pursuant to the Company's previous normal course issuer bid that commenced on June 28, 2019 and ended on June 27, 2020, and enabled the Company to purchase up to 1,000,000 of its Common Shares for cancellation on the open market through the facilities of the TSX (the "Previous NCIB"), a total of 367,611 Common Shares were repurchased at a weighted average price of $0.88 per share, of which 84,188 were repurchased and cancelled during the 2020 fiscal year, at an average market price of $0.81, for aggregate consideration including commissions of $68.

In connection with its Previous NCIB, the Company had also adopted an ASPP which was terminated on March 24, 2020 as part of the measures we took in response to the Pandemic.

Outstanding Share Data

The following table provides the designation and number of each class and series of voting, equity, or convertible securities of Crescita, outstanding:

	As at March 22, 2021
Common shares	20,617,840
Stock options[1]	2,956,812
Convertible debentures[2]	1,000,000
Warrants	496,000

[1] This amount includes 1,820,812 options which have vested.
[2] The convertible debentures are convertible into common shares at the option of the holder at a conversion price of $1.00 per share.

Selected Yearly Financial Information

In thousands of CAD, except per share data and number of shares	2020	2019	2018
Operations	**$**	$	$
Revenues	**15,640**	22,337	16,628
Cost of goods sold	**4,367**	5,801	5,573
Gross profit	**11,273**	16,536	11,055
Gross margin	***72.1%***	*74.0%*	*66.5%*
Operating expenses	**9,718**	11,568	11,092
Operating profit (loss)	**1,555**	4,968	(37)
Interest expense (income), net	**(39)**	403	493
Impairment of intangible assets	**1,918**	-	-
Other expenses (income)	**(668)**	1,274	(1,105)
Foreign exchange (gain) loss	**(176)**	111	(74)
Total other expenses (income)	**1,035**	1,788	(686)
Income from continuing operations before income taxes	**520**	3,180	649
Deferred income tax expense (recovery)	**483**	1,325	(1,773)
Net income from continuing operations	**37**	1,855	2,422
Net loss from discontinued operations	**-**	-	(26)
Net income	**37**	1,855	2,396
Adjusted EBITDA[1]	**3,201**	6,984	1,451
Earnings per share			
Basic	**$ -**	$ 0.09	$ 0.12
Diluted	**$ -**	$ 0.09	$ 0.12
Weighted average number of common shares outstanding			
Basic	**20,661,477**	20,941,690	19,706,535
Diluted	**20,969,205**	22,496,719	19,706,535
Balance Sheet (As at December 31)			
Cash and cash equivalents	**14,281**	9,268	8,589
Total assets	**26,831**	26,837	27,565
Total non-current financial liabilities [2, 3]	**1,080**	1,386	2,914
Total liabilities	**5,698**	5,729	8,558
Total equity	**21,133**	21,108	19,007

[1] Adjusted EBITDA is a non-IFRS measure. Refer to the *Non-IFRS and Key Financial Measures and the EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A. On January 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16"). Prior periods were not restated to reflect the adoption of IFRS 16.

[2] Non-current financial liabilities are defined as the sum of the long-term portions of long-term debt, convertible debentures, other obligations, and lease obligations, following the adoption of IFRS 16 on January 1, 2019. Prior periods were not restated.

[3] Non-current financial liabilities as at December 31, 2018 included the Company's long-term debt with Knight Therapeutics Inc. In Q4-19, the Company repaid the entire outstanding balance of $3,570.

Corporate Overview

About Crescita

Crescita (TSX: CTX and OTC US: CRRTF) is a growth-oriented, innovation-driven Canadian commercial dermatology company with in-house 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. In addition, we own multiple proprietary transdermal delivery platforms that support the development of patented formulations that facilitate the delivery of active ingredients into or through the skin.

Our non-prescription portfolio includes a wide variety of premium quality dermocosmetic products. To qualify as a dermocosmetic, a product must contain active ingredients whose effectiveness against a specific skin concern has been proven through clinical studies. Our dermocosmetic products include facial creams, cleansers, exfoliants, masks, serums and suncare, that each serve a different and personalized consumer need. The portfolio is designed to address preventive care to combating the first signs of aging, as well as all primary aesthetic skin concerns.

Our dermocosmetic products address two sub-sets of the skincare market: (i) aesthetics and (ii) medical aesthetics.

(i) Professional aestheticians use our skincare products to target well-known and common skin concerns, such as mild acne, aging, dehydration, pigmentation, sensitivity, and rosacea. Most professional aestheticians in Canada operate a single-location aesthetic salon or spa business and typically serve a small geographic area. The spa environment provides non-invasive skincare solutions to consumers. Our lead aesthetic skincare brand, Laboratoire Dr Renaud®, is sold to professional aestheticians and directly to consumers via our website www.ldrenaud.com. LDR has high performance-active ingredient formulations to enhance the results of skincare treatments as well as the overall appearance of the skin.

(ii) Medical aesthetics includes medical treatments that are focused on improving patients' cosmetic appearance. Medical aesthetics is a niche market between the cosmetic industry and plastic surgery. Qualified doctors and nurses typically perform both non-invasive and minimally invasive procedures or skincare treatments such as chemical peels, advanced retinol facials, microdermabrasion, HA and neurotoxin injections, and various laser and device treatments. Our primary medical aesthetic skincare brands are Pro-Derm™ and Alyria®. To expand our offering in the Canadian medical aesthetic market, we signed an exclusive Canadian distribution and promotion agreement for NCTF, an HA serum, and the ART FILLER range of injectables from FILLMED, which are expected to be launched in the first half of 2021 and early 2022, respectively.

Our national sales force consisting of eight members calls on aesthetic practitioners and medical aesthetic clinics and medispas across Canada. In addition, our skincare brands are sold in certain Asian markets, such as Malaysia, South Korea and China through international distributors, as well as through various e-commerce platforms.

Crescita's portfolio also includes Pliaglis, our lead prescription product, that utilizes our proprietary phase-changing topical cream Peel technology – refer to *Transdermal Delivery Technologies*. Pliaglis is a topical local anesthetic cream that provides safe and effective local dermal analgesia on intact skin prior to superficial dermatological procedures. The product is currently approved in over 25 different countries, is sold by commercial partners in the U.S., Italy, Spain and Brazil, and was most recently licensed to partners in Austria, Mexico and China. In addition, we market Pliaglis in the Canadian physician-dispensed skincare market through our existing sales force.

Our expertise in topical product formulation and development can be leveraged in combination with our patented transdermal delivery technologies to develop and manufacture creams, liquids, gels, ointments and serums under our CDMO infrastructure. We provide our services to several North American clients under full cGMP ("Current Good Manufacturing Practice") conditions. We deliver turnkey solutions, integrating production with in-house R&D, supply chain, and quality control functions. Our integrated approach aims to

simplify our clients' supply chain to maximize value, ensuring timely and cost-effective product launches and commercialization.

We run our operations from our head office located in the heart of the Biotech City in Laval, Québec, including a 50,000 square-foot production facility where we also manufacture the majority of our non-prescription skincare products. Formulations manufactured by or for Crescita include cosmetics, natural health products ("NHP") and products with Drug Identification Numbers ("DIN"). We maintain a registered office located at 6733 Mississauga Road, Suite 800, Mississauga, Ontario, L5N 6J5.

Vision and Growth Strategy

Our vision is to become a leader in innovative, science-based skincare solutions, providing improved outcomes for all our clients' skincare concerns.

Our corporate growth strategy is comprised of four pillars, each of which is based on the fundamentals of our business model. Together, we refer to these as our "Four-Pillar Growth Strategy."

- Pillar 1: Organic Growth
- Pillar 2: Strategic Acquisitions and/or In-licensing Agreements
- Pillar 3: Strategic Out-licensing of Assets
- Pillar 4: Contract Development and Manufacturing Services

Pillar 1: Organic Growth
The first pillar focuses on generating revenue growth from existing commercial activities within our non-prescription and prescription portfolios mainly through the introduction of product innovations and line extensions, which may leverage our patented transdermal delivery technologies, MMPE and DuraPeel™, the expansion of our distribution channels as well as expanding into new geographic markets. Our in-house R&D and innovation function plays an important role in fueling new product development and innovations based on formulation expertise and market intelligence. As such, we may, as appropriate, allocate resources to exploratory product development with various molecules to target new therapeutic areas.

Pillar 2: Strategic Acquisitions and/or In-licensing Agreements
The second pillar focuses on the acquisition of dermatology and/or skincare companies or assets, offering product or services portfolios which are complementary to our own. We also remain open to acquiring niche commercial stage prescription dermatology products, however, all the assets or businesses we review must be strategic in the context of our growth plan.

Pillar 3: Strategic Out-licensing of Assets
The third growth pillar focuses on: (i) out-licensing our products in markets where we have no commercial presence, and (ii) out-licensing our patented transdermal delivery technologies, MMPE and DuraPeel to partners looking for a differentiating factor for topical dermatology or dermocosmetic product development. These technologies have already been tested with several active ingredients, and in those cases, have demonstrated significantly increased skin permeation of the active ingredient versus the control vehicle. We believe that these technologies could be used with many other molecules and could potentially increase the efficacy of certain topical products currently sold. The Company plans to further leverage its in-house R&D and innovation function to develop products intended for out-licensing which may use MMPE and DuraPeel.

Pillar 4: Contract Development and Manufacturing Services
The fourth growth pillar aims to generate incremental revenue by: (i) leveraging our in-house R&D and formulation expertise and, (ii) increasing the utilization of our manufacturing facility, which has yet to operate at full capacity.

Strategic Focus and Business Outlook

Our Four-Pillar Growth Strategy guides our overall strategic initiatives and resource allocation decisions. The success of the strategy will depend on management's effective execution and implementation of initiatives in each of the pillars.

While we continue to pursue organic growth pathways, the potential of organic growth remains relatively modest given the mature state of the dermocosmetic industry and the intense competitive landscape in which we operate. The discretionary nature of the products and services offered in our industry ties our organic growth opportunities in part to consumer disposable income and consumer confidence. In addition, the COVID-19 pandemic has created losses in many industries including ours, which may continue, as consumers may experience health and safety concerns due to the difficulty to socially distance as a result of the necessary person to person contact of most services offered in spas, medispas and medical clinics. Moreover, some spas, medispas and medical clinics have been and may in the future be forced to close or limit the number of customers due to governmental orders related to the Pandemic.

Business development remains the overarching driver through all our pillars and the execution of accretive collaborative arrangements remains a critical component of our business model and growth strategy. To supplement organic growth initiatives, we are actively pursuing acquisition targets in the dermocosmetic industry, which will help us expand our geographic presence and critical mass as well as enable us to better compete in our industry.

In 2021, we intend to propel our growth through the following strategic initiatives: (i) maximizing licensing opportunities of Pliaglis in the rest-of-world ("ROW"), with emphasis on high-potential countries where marketing authorizations have already been granted; (ii) securing licensing partners for our transdermal delivery technologies and pipeline products; (iii) pursuing strategic acquisitions to gain critical mass and to further our access to consumers; (iv) bolstering our medical aesthetic business platform as the exclusive Canadian distributor of FILLMED products, with the successful launch of NCTF; and (v) increasing our CDMO customer base to improve our plant's utilization and generate revenue.

With a robust portfolio of assets and a dedicated management team in place, we believe we are well-positioned to execute our vision and commercial growth strategy in 2021 and beyond.

Competitive Conditions

Non-prescription Skincare Products

The dermocosmetic industry is mature and is subject to intense competition. Our direct competition consists of both Canadian and international premium skincare brands which are mostly independently founded and owned, and that market and sell their products directly to spas, medical aesthetic spas and medical clinics. Some of these competitors are longstanding, have established brands and command a significant share of the market.

The global skincare industry is subject to shifts in consumer trends, preferences, and consumer spending. Our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. Our ability to excel in this highly competitive landscape relies on the timely introduction of an innovative and on-trend product portfolio, as well as our capacity to build and foster strong relationships with the professional aestheticians and healthcare professionals who use and sell our products, as they will ultimately be the ambassadors of our brands. We believe that our brands offer a unique, high quality product portfolio that has an ability to stay on-trend through our ongoing product innovation cycle. Our in-house product development team, including dermocosmetic formulation experts, works closely with our brand managers, sales, regulatory and manufacturing teams to allow for a seamless process to bring a product from idea to shelves.

Consumer awareness of our brands, their perception of our value proposition, the effectiveness and reach of our marketing and promotional activities, amongst other factors, all have a direct impact on our ability to be successful. Some of the major competitors in the skincare industry invest substantially in the promotion of their brands, which, combined with their extensive marketing experience and know-how, allows them to achieve and maintain stronger brand awareness among target consumers. Furthermore, due to their critical mass, such

competitors typically have access to favourable terms with regard to marketing, manufacturing, distributing and selling their products, which provides a notable competitive advantage.

We differentiate ourselves from other dermocosmetic companies through what we believe to be our unique competitive strengths:

- Expertise in skin-sciences, with the ability to combine our in-house transdermal delivery technologies with new and existing formulations to introduce innovation into the market;
- Over 250 science-based product formulations, providing the agility to adapt to changing customer preferences;
- In-house R&D and manufacturing facilities for rapid formulation development;
- A fully integrated sales and marketing infrastructure focused on rapid commercialization.

Prescription Drug Products

The pharmaceutical industry is characterized by evolving technology and intense competition. Many companies, including major pharmaceutical and specialized biotechnology companies, are engaged in activities focused on medical conditions that are the same as or similar to those targeted by Crescita. Competition from pharmaceutical, chemical and biotechnology companies, as well as universities and research institutes, is intense and is expected to increase. Many of these organizations engage in substantially more R&D, have greater experience in manufacturing, marketing, and possess greater financial and managerial resources. The Company's branded products may also face competition from generic versions and our success depends upon maintaining our competitive position in the R&D and commercialization of our products.

Pliaglis faces competition from other topically applied local anesthetic drug products such as compounded anesthetic creams that are available from certain compounding pharmacies and EMLA cream. The American Society of Plastic Surgeons reports that of the over 15 million cosmetic procedures performed in the U.S. each year, 13.4 million (89%) were nonsurgical.[1] While there are many types of anesthesia used to decrease the pain associated with superficial dermatologic, aesthetic, and laser procedures, the most used are EMLA (lidocaine 2.5% and prilocaine 2.5%), and BLT cream (Benzocaine 20%, Lidocaine 8% and Tetracaine 4%), a compounded topical anesthetic cream.[2] Compounding is the process by which the pharmacist or doctor combines, mixes or alters pharmaceuticals or other active ingredients to create a custom-made medication in accordance with a prescription. Pliaglis also faces competition from L.M.X 4 and L.M.X 5 sold under the brand names Maxilene 4 and Maxilene 5 in Canada that contain lidocaine in concentrations of either 4% or 5%, non-prescription strengths, and that are available over the counter.

None of the competitors mentioned above offer the unique benefits provided by Pliaglis, including its self-occluding properties due to the utilization of the Company's proprietary *Peel* technology, and the highest concentrations of lidocaine and tetracaine ever approved by the U.S. Food and Drug Administration ("FDA") and Health Canada. Refer to *Prescription Product Portfolio.* Management believes that the global market for skin anesthesia is not adequately fulfilled and that Pliaglis addresses an unmet need in this market.

[1] Jack, M. MD, Pozner, J. MD, Plastic and Reconstructive Surgery Journal, Putting it All Together: Recommendations for Pain Management in Nonsurgical Facial Rejuvenation, https://pubmed.ncbi.nlm.nih.gov/

[2] Zdybski, J. MD, Dermatology Online, Topical Anesthesia in Cosmetic Dermatological Procedures, http://www.odermatol.com/

Non-Prescription Skincare Product Portfolio

Laboratoire Dr Renaud®
Founded over 70 years ago, Laboratoire Dr Renaud is a pioneer in the cosmetics industry. The product line was founded in France in 1947 by Dr. Louis Raymond Renaud, a well-known French dermatologist and was proudly launched as a Canadian brand in Montreal in 1963. Laboratoire Dr Renaud is inspired by nature to develop personalized solutions to address daily skin concerns such as: aging, acne, rosacea, pigmentation, dehydration, and sensitivity. With research and innovation at the heart of the brand, Laboratoire Dr Renaud's skincare solutions represent the perfect synergy of science and aesthetics. Products are designed according to the principles of biomimicry which imitate natural processes, making them extremely compatible with the skin. Crescita owns the trademark rights for the skincare line in North America, certain South American countries, and the Pacific Rim as well as the worldwide rights for the formulations. Virtually all the LDR products are manufactured at the Company's Laval manufacturing facility and can be purchased either through a professional aesthetician or through our e-commerce platform.

Pro-Derm™
Pro-Derm is a line of high-quality dermocosmetic products sold to physicians operating medispas and medical aesthetic clinics. Pro-Derm products are used in conjunction with anti-aging medical procedures both pre and post treatment, such as dermal filler injections for lines and wrinkles, facial peels, laser treatments, aesthetic surgery as well as to prevent the undesired effects of aging. Developed by a Canadian team of chemists and a dermatologist, the products are designed to achieve and maintain healthy-looking skin and to optimize cosmetic procedures offered by physicians. By offering a range of clinically proven effective ingredients, Pro-Derm combines the benefits of both cosmetic and pharmaceutical products. Our formulas are free from parabens, dyes, perfumes, alcohol, mineral oils, and other harsh chemicals, as well as from ingredients of animal origin. Crescita owns the trademark rights for Canada and the worldwide formulations and marketing rights for Pro-Derm. Virtually all the Pro-Derm products are manufactured at the Company's Laval manufacturing facility.

Alyria®
Alyria is a comprehensive dermocosmetic skincare line developed using scientific research to target major skincare concerns. Alyria offers a complete regimen to help patients achieve healthier-looking skin. Alyria products are sold by physicians operating medispas and medical aesthetic clinics and use therapeutic concentrations of high-quality ingredients in proven formulations, delivered through advanced skin optimizing systems. Alyria's portfolio is complementary to our Pro-Derm line and can be purchased throughout Canada in various medispas and medical clinics. Crescita owns the trademark rights for Canada, Europe, certain South American countries, and the U.S. In addition, Crescita owns the worldwide marketing rights for Alyria, as well as the rights to the product formulations, which are, in some cases, on a non-exclusive basis. We are advancing the transfer of the manufacturing process of the Alyria line to our facility and now anticipate completion of the transfer by the second half of 2021 due to pandemic-related delays.

Dermazulene®
Dermazulene is a skincare brand developed specifically to address the skincare needs of Asian consumers. The brand differentiates itself through effective anti-aging, whitening and anti-pollution formulas, while offering novel packaging such as encapsulated products. The brand was launched in China in early 2019 through NetEase Kaola, an e-commerce platform of Alibaba Group Holding Limited. Crescita owns the trademark rights to Dermazulene in Canada, China, and the U.S.

New Cellular Treatment Factor®
NCTF 135 HA is a skin revitalization solution primarily used for the improvement of skin quality and fine lines. Since 1978, NCTF has been a leader in skin revitalization with millions of bottles sold around the world. Comprising HA and more than 50 key ingredients including amino acids, vitamins, co-enzymes and minerals, NCTF is a hydration booster providing the essential ingredients for skin health. Suitable for all generations, it specifically targets age-related skin changes such as dryness, dullness, uneven complexion, dilated pores and wrinkles. We are expecting to launch NCTF onto the Canadian medical aesthetic market in the first half of 2021.

ART FILLER®
ART FILLER is an exclusive collection of five HA-based fillers designed to smooth-out superficial to deep wrinkles, plump up the lips and create/restore the volumes and contours of the face. Developed, manufactured, and launched in 2016 by FILLMED, the ART FILLER range benefits from the Tri-Hyal® technology, an innovation in the R&D space. The gels are made of non-animal origin HA and feature an optimized equilibrium between free HA, long chains and very long chains of HA. Each product of the range has been developed with consideration of a precise treatment objective. The high performance and the tolerance of ART FILLER have been proven through a unique study combining clinical evaluations and instrument-based measurements over an 18-month period. We are expecting to launch the ART FILLER range in the Canadian medical aesthetic market in early 2022, following its approval by Health Canada.

Prescription Product Portfolio

Pliaglis®
Pliaglis is a topical local anesthetic cream that provides safe and effective local dermal analgesia on intact skin prior to superficial dermatological procedures. The formulation contains a eutectic mixture of 7% lidocaine and 7% tetracaine that utilizes our proprietary phase-changing topical cream *Peel* technology. The *Peel* technology consists of a drug-containing cream which, once applied to a patient's skin, dries to form a pliable layer that releases the active ingredients into the skin. Pliaglis is applied to intact skin for 20 to 30 minutes prior to superficial dermatological procedures such as dermal filler injections, non-ablative laser facial resurfacing, or pulsed-dye laser therapy and 60 minutes prior to procedures such as laser-assisted tattoo removal. Following the application period, the pliable layer is easily removed from the skin allowing the procedure to be performed with minimal to no pain. In clinical studies, the mean duration of anesthesia has been shown to be in the range of 7 to 9 hours after the application of Pliaglis.

The product is currently approved in over 25 countries and sold by commercial partners in the U.S., Italy, Spain, and Brazil (refer to *Significant Partnerships*), and was most recently licensed to partners in Austria, Mexico and China. Crescita continues to focus on expanding its global network for Pliaglis in the ROW and is actively seeking to secure licensing partners in countries that have been identified by management as having the highest strategic priority.

We launched Pliaglis in the Canadian medispa market through our existing sales force in late 2019, however, commercial efforts were affected due to the COVID-19 pandemic. We are planning to relaunch Pliaglis in Canada in the first half of 2021 through various initiatives including the introduction of a patient satisfaction index for common aesthetic procedures ("PSICAP"), a tool intended to collect and analyze patient experiences with minor and major aesthetic procedures. We have created an advisory board with Canadian dermatologists to use the product and seek patient feedback. Clinical publications will also be written to reach key opinion leaders ("KOLs").

Enhanced Formulation of Pliaglis®
The Company developed alternate enhanced formulations of Pliaglis with extended patent protection through 2031 in multiple jurisdictions. The alternate formulations also contain 7% lidocaine and 7% tetracaine but possess improved application and removal properties compared to Pliaglis.

On March 31, 2020, the USPTO granted U.S. Patent No. 10,603,293 for Solid-Forming Anesthetic Formulations for Pain Control, which covers both Pliaglis and enhanced formulations of Pliaglis through January 14, 2031. The new patent was listed in a publication called *Approved Drug Products with Therapeutic Equivalence Evaluations* (commonly known as the "Orange Book"), on April 14, 2020 by Taro, the Company's licensing partner for Pliaglis in the U.S. The Orange Book identifies drug products approved on the basis of safety and effectiveness by the FDA under the Federal Food, Drug, and Cosmetic Act and related patent and exclusivity information.

On August 25, 2020, the USPTO granted U.S. Patent No. 10,751,305 for Solid-Forming Topical Formulations for Pain Control, which covers enhanced formulations of Pliaglis through January 14, 2031. The new patent was listed in the FDA's Orange Book by Taro on September 21, 2020.

Product Candidates in Co-Development

In April 2014, Crescita entered into a joint venture with Ferndale Laboratories Inc. and a leading U.S. contract research organization (a “CRO” and together the “Development Partners”) to develop and formulate two topical dermatology product candidates (the “Product Candidates”) utilizing our patented MMPE technology. Under this agreement (the “Original Joint Venture Agreement”), upon completion of the formulations, the Development Partners would oversee and fund the formulations’ advancement through Phase 2 clinical studies, after which, it was anticipated that the Product Candidates would be made available for licensing. However, in 2019, we amended the Original Joint Venture Agreement, including a financial commitment from Crescita to fund our proportionate share of the Phase 3 clinical development costs to maintain our anticipated share of future licensing proceeds.

CTX-101
CTX-101 is a topical formulation utilizing a corticosteroid in combination with our patented MMPE technology to treat plaque psoriasis. On February 11, 2020, we announced positive topline results from two pivotal Phase 3 clinical trials for CTX-101. The two Phase 3 multi-centre, randomized, vehicle-controlled, double-blind, parallel group trials were conducted in the U.S. using the same study design.

Both studies met the primary endpoint demonstrating that a statistically significant greater number of patients achieved the Investigator's Global Assessment (“IGAs”) treatment success ($p < 0.001$) at the end of study. The IGA score is a static evaluation by the investigator of the overall assessment of the patient's disease status within the designated treatment area. These results are based on the Intention to Treat population and study results in the Per Protocol population were also highly significant as were key secondary endpoints for both studies. We are currently working with our Development Partners to complete the full development program and clinical reports for these studies for submission to the FDA and have agreed with our Development Partners that they may initiate licensing discussions.

Two U.S. patents claiming certain combinations of particular molecular penetration enhancers together with active drugs in topical formulations were issued on January 1, 2013 as U.S. Patent No. 8,343,962, and May 9, 2017 as U.S. Patent No. 9,642,912. In addition, patent applications are pending in Australia, Canada, Europe, Mexico, New Zealand and the United States, with anticipated term through 2036.

CTX-102
CTX-102 is a topical formulation also utilizing our patented MMPE technology to treat an undisclosed dermatological skin condition. Initial formulation development efforts for CTX-102 were completed in Q2-18, while an Investigational New Drug (“IND”) application update was filed on June 25, 2018 including details on the formulations to be evaluated in the first planned Phase 1 vasoconstrictor assay (“VCA”) study. The IND update was accepted by the FDA and the initial Phase 1 VCA study designed to evaluate the relative potency of several formulations was completed in Q1-19. The results of the Phase 1 VCA study were encouraging, and a successful pilot Phase 2 study was recently completed, providing encouraging feedback on the safety, user response and clinical efficacy of the lead formulation. We are now working with our Development Partners to evaluate the next steps of the development program.

Two U.S. patents claiming certain combinations of particular molecular penetration enhancers together with active drugs in topical formulations were issued on January 1, 2013 as U.S. Patent No. 8,343,962, and May 9, 2017 as U.S. Patent No. 9,642,912. In addition, U.S. Patent No. 10,945,952 was granted March 16, 2021 for Rinse-Off Compositions and Uses Thereof for Delivery of Active Agents with term to March 16, 2040. Additional international and US patent applications are also pending with anticipated term through 2040.

Transdermal Delivery Technologies

Crescita has multiple drug delivery platforms supporting the development of patented formulations that deliver active ingredients into or through the skin.

Peel and DuraPeel™

The Peel and DuraPeel technologies are self-occluding, film-forming cream/gel formulations that provide extended-release delivery of the active ingredients to the site of application. The cream/gel contains a drug that, when applied to a patient's skin, forms a pliable layer that releases the active ingredient into the skin for up to 12 hours. The benefits of the Peel and DuraPeel technologies include proven compatibility with a variety of active pharmaceutical ingredients ("APIs"). A self-occluding film reduces product transference risk, provides fast drying time, facilitates easy application and removal, and enables application to large and irregular skin surfaces.

While the Peel technology typically involves a single solvent that dries to form a pliable film, the DuraPeel technology involves a two-solvent system which includes: 1) a volatile solvent component that dries to form a self-occluding film and 2) a non-volatile solvent component that remains in the formulation to facilitate prolonged release of the active ingredient from the formulation into the skin.

Peel technology patents have been issued in 21 countries including the U.S., with the latest expiring in 2031. Patent applications are pending in Brazil and the U.S. DuraPeel patents have been issued in Australia, Canada, Japan, and in the U.S. with the latest expiry in 2027. The European patent application is pending.

MMPE™

The MMPE technology uses synergistic combinations of certain specific pharmaceutical excipients included on the FDA's Inactive Ingredients Database ("IID") for improved topical delivery of active ingredients into or through the skin. The benefits of this technology include the potential for increased penetration of APIs with the possibility of improved efficacy, lower API concentration and/or reduced dosing. Issued U.S. patents provide intellectual property protection through March 6, 2027. Applications are pending in Australia, Canada, Europe, Mexico, New Zealand, and in the U.S., with the latest expiry date in 2036.

Pipeline Products

Non-Prescription Skincare Products

The non-prescription skincare business requires that the product lines be rejuvenated from time-to-time with the introduction of new product offerings and innovations, which in some cases utilize our patented transdermal delivery technologies. Crescita has established a multi-disciplinary product development committee that screens and identifies new products to be developed or existing products to be upgraded. These new products are selected based on sales and marketing trends, but also include regulatory, manufacturing and cost considerations. The products under development are usually kept confidential for competitive reasons.

Prescription Drug Products

Crescita has a portfolio of development and commercial stage products and proprietary platform technologies, which include MMPE and DuraPeel. The following table summarizes the Company's key prescription drug products and product candidates and associated intellectual property.

Product	Therapeutic Area	Stage of Development	Intellectual Property [2]
Pliaglis and enhanced formulation of Pliaglis (U.S.)	Local anesthesia prior to superficial dermatological procedures	Commercial	U.S. patent for Pliaglis expired on September 28, 2019. Three Orange Book listed U.S. patents for enhanced formulation expiring in 2031. Application pending in the U.S. through 2031.
Pliaglis (ROW)	Local anesthesia prior to superficial dermatological procedures	Commercial	International patents for Pliaglis expired on September 27, 2020.
Enhanced formulations of Pliaglis (ROW)	Local anesthesia prior to superficial dermatological procedures	Phase 3/4	Patents granted in AU, CA, CN, AT, BE, CH, DE, ES, FR, GB, GR, IT, LU, NL, PL, TR, HK, JP, MX, and RU, with latest expiring in 2031. Application pending in BR through 2031.
CTX-101 [1]	Plaque Psoriasis	Phase 3	Patents granted in the U.S. expiring in 2027. Applications pending in AU, CA, EP, MX, NZ, and U.S. through 2036.
CTX-102 [1]	Dermatological skin treatment	Phase 1	Patents granted in the U.S. expiring in 2027. Applications pending in AU, CA, EP, MX, NZ, and U.S. through 2036. U.S. patent for CTX-102 granted through 2040. International and U.S. applications pending through 2040.
Dermatology products utilizing MMPE [3]	Prescription treatments of skin diseases	Pre-clinical	Patent granted in the U.S. expiring in 2027.

1. CTX-101 and CTX-102 are topical products in co-development with the Company's Development Partners which utilize our MMPE technology.
2. Country abbreviations defined as follows: Australia (AU), Brazil (BR), Canada (CA), China (CN), Austria (AT), Belgium (BE), Switzerland (CH), Germany (DE), Spain (ES), France (FR), Great Britain (GB), Greece (GR), Italy (IT), Luxembourg (LU), Netherlands (NL), Poland (PL), Turkey (TR), Hong Kong (HK), Japan (JP), Mexico (MX), Russian Federation (RU), United States (U.S.), Rest of World (ROW), Europe (EP).
3. Crescita licensed the MMPE technology to a U.S.-based, major dermatological CRO. The licensee, in this case, will oversee and fund the total cost of the development program.

Significant Partnerships

Development and License Agreement with Sundial Growers Inc.
On October 28, 2019, we announced that we entered into a development and license agreement with Sundial Growers Inc. (“Sundial” and the “Sundial Agreement”), a Canadian licensed producer of cannabis, granting Sundial the worldwide rights to Crescita’s proprietary transdermal delivery technologies, MMPE and DuraPeel, for the development of topicals containing cannabis and hemp for the Canadian and international non-prescription markets. Sundial funds the development and formulation costs and obtains the worldwide marketing and distribution rights for the newly developed products. Sundial's initial topical offerings will include two products that will utilize our MMPE technology. In addition, under the agreement, Sundial would support Crescita in applying for and obtaining the Health Canada Standard Processing License for Cannabis.

While Sundial is still interested in entering the topical cannabis market, we have no certainty as to when and if they will launch the developed products. In the event that Sundial launches the products, Crescita will be eligible to receive tiered royalties on the net worldwide sales for these products and retains the right to leverage its intellectual property for future product development under its own brands.

Licensing Agreement with Cantabria Labs
On April 25, 2019, we announced that we entered into a commercialization license agreement with Cantabria (the “Cantabria Agreement”) for an initial term of 15 years, granting Cantabria the exclusive rights to sell and distribute Pliaglis in Italy, Portugal, France and Spain (the “Territories”). Under the Cantabria Agreement, we are eligible to receive double-digit royalties on the net sales of Pliaglis in the Territories, with minimum guaranteed sales-based royalties per year, and milestones related to the launch and sales performance of Pliaglis in each of the Territories. Effective April 1, 2019, Crescita reacquired the ROW development and marketing rights for Pliaglis from Galderma S.A. (“Galderma”), a global pharmaceutical company specialized in dermatology.

During Q4-20, Cantabria launched Pliaglis in Spain, which entitled Crescita to a milestone payment of $78 (€50). Cantabria is promoting Pliaglis through its field force, calling on physicians such as aesthetic doctors and dermatologists, similarly to the sales approach in Italy. Cantabria is planning to launch the product in Portugal and France in 2021.

In addition, the parties agreed that Cantabria would transfer the manufacturing of Pliaglis to its centre for sustainable production in Spain and that Cantabria would supply the product to Crescita outside the Territories.

In Q1-20, Cantabria successfully completed the transfer of the manufacturing process and analytical test methods for Pliaglis to its manufacturing facility in Santander, Spain. A manufacturing site variation application seeking approval for Cantabria’s facility to manufacture Pliaglis for the European market was submitted to the European Union (“E.U.”) member states and was approved on June 24, 2020. The approval allows Cantabria’s manufacturing facility to be the supplier of Pliaglis in Europe. In connection with the approval, we revised our estimate of the present value of future minimum guaranteed sales-based royalties to be received under the contract, recognizing incremental licensing revenue of $413 in Q2-20.

Licensing Agreement with Taro Pharmaceuticals Inc.
On April 25, 2017, we announced that we entered into a development and commercialization license agreement with Taro Pharmaceuticals Inc., a subsidiary of Taro Pharmaceutical Industries Ltd. (the “Original Taro Agreement”). Under the terms of the Original Taro Agreement, Crescita granted Taro an exclusive license to sell and distribute Pliaglis and an enhanced formulation of Pliaglis in the U.S. market.

On July 28, 2020, we announced that we entered into an amendment to the Original Taro Agreement. The Taro Amendment entitled Crescita to a one-time total cash payment of $5,151 (US$3,855), largely representing a royalty adjustment to past sales as well as an upward modification of future royalty payments. The parties also agreed to certain modifications of non-financial clauses, which resulted in the recognition of Other Income of $668 (US$500) during the quarter. Refer to *Other Expenses – Taro Amendment.* Under the Taro Amendment, royalties will now be calculated using a higher double-digit flat rate in lieu of a series of tiered double-digit rates as prescribed under the Original Taro Agreement.

As previously announced, we were informed by Taro of certain restrictive amendments to U.S. managed care in Q4-19 which may adversely affect Pliaglis sales. In the U.S., Pliaglis and an authorized generic form of the branded “Pliaglis” have been and are still sold by third-party distributors directly to pharmacy chains. While management has not yet been able to determine the isolated impact of the restrictive amendments on product sales, it has become apparent that these, as well as the unknown impact of COVID-19 have both contributed to the decrease in Pliaglis sales in the U.S.

There were no royalties on the U.S. Pliaglis sales of Pliaglis in each of Q2-20 and Q4-20, with fiscal 2020 royalties reaching $1,934 (excluding amounts received in connection with the Taro Amendment), compared to $2,626 in fiscal 2019, representing a decrease of $692. As a mitigation mechanism, under the terms of the Original Taro Agreement, we are entitled to minimum annual royalties in the amount of US$1,000 per year. Taro is also entitled to terminate the agreement without penalty, subject to a six-month notice period.

Results of Operations

Fluctuations in Operating Results

Crescita’s results of operations have fluctuated significantly from period-to-period in the past and are likely to do so in the future. Crescita anticipates that its quarterly and annual results of operations will be impacted for the foreseeable future by several factors including the COVID-19 pandemic, the timing and amount of product sales, royalties, milestone and upfront payments received pursuant to current and future collaboration and licensing arrangements and the progress and timing of expenditures related to product development efforts. Due to these fluctuations, Crescita believes that the period-to-period comparisons of its operating results are not necessarily an adequate indicator of future performance.

Foreign Exchange Rates

Through its international operations, Crescita is exposed to changes in foreign currency rates. Accordingly, as prescribed by IFRS, we value assets, liabilities and transactions measured in foreign currencies using various exchange rates. We report all amounts in CAD, unless otherwise noted. Refer *to Financial Instruments and Risk Management - Currency Risk* for a further discussion on the impact of foreign currency fluctuations on our results of operations.

	Three months ended December 31,		Twelve months ended December 31,	
Average rates	**2020**	**2019**	**2020**	**2019**
U.S. dollar	**1.3030**	1.3200	**1.3412**	1.3268
Euro	**1.5536**	1.4617	**1.5296**	1.4855

	As at December 31,	
Spot rates	**2020**	**2019**
U.S. dollar	**1.2732**	1.2988
Euro	**1.5608**	1.4583

Revenue by Segment

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Commercial skincare	**6,704**	7,600	(896)
Licensing and royalties	**7,224**	12,059	(4,835)
Manufacturing and services	**1,712**	2,678	(966)
Total revenue	**15,640**	22,337	(6,697)

For the year ended December 31, 2020, total revenue was $15,640 compared to $22,337 in the prior year, representing a decrease of $6,697 which was primarily driven by the Licensing segment in the amount of $4,835 year-over-year. Also contributing to the overall revenue shortfall were the Commercial Skincare and Manufacturing and Services segments, posting decreases of $896 and $966, respectively, mainly as a result of lower demand for our products and services due to COVID-19-related temporary shutdowns of spas and medispas throughout most of the second quarter of 2020.

Commercial Skincare
Commercial Skincare sales for the year ended December 31, 2020 were $6,704 compared to $7,600 for the year ended December 31, 2019, representing a decrease of $896. The decrease was mainly driven by lower overall demand for our skincare products, both in the Canadian and international markets, triggered by the temporary closure of aesthetic spas, medispas and medical aesthetic clinics due to the COVID-19 pandemic throughout most of the second quarter, as well as certain shifts in customer behaviour away from in-cabin treatments due to the inability to appropriately socially distance because of the necessary person to person contact of the majority of spa services. The decrease was partly offset by the incremental sales of hand sanitizer and personal protective equipment starter kits commercialized by the Company during the Pandemic, as well as incremental direct-to-consumer sales from our newly launched e-commerce platform for LDR.

Licensing and Royalties
For the year ended December 31, 2020, Licensing and Royalties revenue was $7,224 compared to $12,059 for the year ended December 31, 2019, representing a decrease of $4,835. In 2020, the Company had the following revenue streams: 1) $4,483 recognized as part of the Taro Amendment; 2) $2,069 in royalties on global Pliaglis sales; 3) $413 recognized under the Cantabria Agreement following a revision to the net present value of future guaranteed minimum royalties; 4) $181 in upfront payments from licensing agreements for Pliaglis; and 5) $78 (€50) in sales milestone triggered by the first commercial sale of Pliaglis in Spain. In 2019, the Company had the following revenue streams: 1) $5,459 in connection to the Cantabria Agreement ($3,721 in up-front payments and $1,738 in future guaranteed minimum royalties); 2) $2,967 in royalties on global Pliaglis sales; 3) $2,645 (US$2,000) in sales milestones triggered by Taro reaching the third and fourth and final contractual cumulative sales targets; and 4) $988 (US$750) for a development milestone under the Original Taro Agreement in connection with the FDA approval of an enhanced formulation of Pliaglis for the U.S. market.

Manufacturing and Services
Manufacturing and Services revenue for the year ended December 31, 2020 was $1,712 compared to $2,678 for the year ended December 31, 2019. The year-over-year shortfall of $966 was mainly due to the decrease in demand for our services as a result of the economic impacts of the COVID-19 pandemic on our clients, as well as the timing of those services.

Revenue Distribution

The following tables provide additional information regarding our revenue mix by geography and reportable segment for the years ended December 31, 2020 and 2019:

By Geography *(based on client's billing address)*

For the years ended December 31,	2020	2019
Canada	**81%**	57%
U.S.	**9%**	11%
ROW	**10%**	32%
	100%	100%

By Segment

For the years ended December 31,	2020	2019
Commercial Skincare	**43%**	34%
Licensing and Royalties	**46%**	54%
Manufacturing and Services	**11%**	12%
	100%	100%

Major Customers

Under IFRS 8, major customers are those that account for greater than 10% of a company's consolidated revenue. For the year ended December 31, 2020, we had one major customer reported in the Licensing and Royalties segment that accounted for 41% of our total revenue, and two major customers reported in the Licensing and Royalties segment that accounted for 53% of our total revenue for the year ended December 31, 2019.

Gross Profit by Segment

The CODM uses gross profit as the measure to assess the performance of the Company's segments and to allocate resources to these segments. Gross profit is calculated by subtracting the cost of goods sold ("COGS") from revenue, either on a consolidated or on a by segment basis. Gross margin, as reported below and elsewhere in this MD&A, is an expression of gross profit as a percentage of revenue, either on a consolidated or by segment basis. COGS primarily includes: the costs associated with manufacturing and packaging our products, provisions for inventory obsolescence, freight-in costs, the cost of products purchased from third parties, costs for the development of formulas under our CDMO services, as well as the costs related to earning licensing revenue in the prior year.

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**15,640**	22,337	(6,697)
Cost of goods sold	**4,367**	5,801	(1,434)
Gross profit	**11,273**	16,536	(5,263)
Gross margin %	***72.1%***	*74.0%*	*-1.9%*

For the year ended December 31, 2020, gross profit was $11,273, representing a gross margin of 72.1%, compared to $16,536 and 74.0%, respectively, for the year ended December 31, 2019. The decreases of $5,263 and 1.9%, respectively, were mainly due to the drop in high margin licensing revenue and the COVID-

19 related business and product demand disruptions, partly offset by the benefit of wage subsidies under the CEWS program, and lower costs associated to earning royalties on Pliaglis year-over-year.

Commercial Skincare

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**6,704**	7,600	(896)
Cost of goods sold	**3,241**	3,599	(358)
Gross profit	**3,463**	4,001	(538)
Gross margin %	***51.7%***	*52.6%*	*-0.9%*

For the year ended December 31, 2020, gross profit in the Commercial segment was $3,463, representing a gross margin of 51.7%, compared to $4,001 and 52.6% for the year ended December 31, 2019. The decreases of $538 and 0.9%, respectively, were mainly attributable to lower segment revenue due to COVID-19 related business and product demand disruptions, as well as the incremental obsolescence charges taken versus the prior year, partly offset by the benefit of wage subsidies under the CEWS program.

Licensing and Royalties

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**7,224**	12,059	(4,835)
Cost of goods sold	**-**	432	(432)
Gross profit	**7,224**	11,627	(4,403)
Gross margin %	***100.0%***	*96.4%*	*3.6%*

For the year ended December 31, 2020, gross profit in the Licensing segment was $7,224, representing a gross margin of 100.0%, compared to $11,627 and 96.4% for the year ended December 31, 2019. The decreases in gross profit of $4,403 was primarily a result of lower segment revenue, as described previously, while the improvement in gross margin of 3.6% was related to the lower cost of earning royalties year-over-year.

Manufacturing and Services

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**1,712**	2,678	(966)
Cost of goods sold	**1,126**	1,770	(644)
Gross profit	**586**	908	(322)
Gross margin %	***34.2%***	*33.9%*	*0.3%*

For the year ended December 31, 2020, gross profit in the Manufacturing segment was $586, representing a gross margin of 34.2%, compared to $908 and 33.9%, respectively, for the year ended December 31, 2019. The decrease in gross profit of $322 was primarily a result of lower segment revenue, as described previously, while the improvement in gross margin of 0.3% was related to a favourable timing and mix of CDMO orders versus the prior year, as well as the benefit of wage subsidies under the CEWS program.

The gross margins generated by our Manufacturing and Services segment are dependent on the specific terms of each agreement and vary by customer. The timing of customer orders and the mix of customers will continue to have an impact on our margins.

Operating Expenses

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Research and development	**1,101**	1,376	(275)
Selling, general and administrative	**7,126**	8,463	(1,337)
Depreciation and amortization	**1,491**	1,729	(238)
Total operating expenses	**9,718**	11,568	(1,850)

For the year ended December 31, 2020, total operating expenses were $9,718 compared to $11,568 for the year ended December 31, 2019. The year-over-year decrease of $1,850 was mainly driven by lower selling, general and administrative ("SG&A") and R&D expenses. Late in Q1-20, we initiated cash conservation measures in response to the COVID-19 pandemic which contributed significantly to the year-over-year decrease. In addition, we had the benefit of wage subsidies under the CEWS program of $722 for the year ended December 31, 2020, which were recorded against SG&A-related compensation, as well as savings due to certain unfilled positions versus the prior year. Management continues to monitor the evolution of the Pandemic and may reinstate cost containment measures or add new ones to maintain financial flexibility through this uncertain time.

Research and Development
R&D expenses are mainly composed of employee compensation costs, clinical trial costs, clinical manufacturing and scale-up costs and other third-party laboratory testing and service fees. In the normal course of business, the Company allocates a significant part of its R&D resources to the rejuvenation of its non-prescription skincare lines through product development and product reformulations, as well as to support its Manufacturing and Services and Licensing businesses.

Product portfolio rejuvenation and innovation activities are ongoing and are a key success factor for Crescita, allowing us to remain competitive in our product offerings. To a lesser extent, the Company also incurs formulation development and clinical costs related to our prescription product candidates such as CTX-101 and CTX-102. R&D expenditures vary depending on the stage of development of products and product candidates in Crescita's pipeline and management's allocation of Crescita's internal resources to these activities and to each product specifically. The Company also leverages its in-house R&D function for the development of new topical products combining its technologies and various selected molecules to fuel future licensing agreements in the non-prescription skincare market.

For the year ended December 31, 2020, R&D expenses were $1,101 compared to $1,376 for the year ended December 31, 2019. The year-over-year decrease of $275 was mainly driven by the cash conservation measures we initiated in late Q1-20 in response to the COVID-19 pandemic, including temporary layoffs and salary reductions, lower third-party laboratory, and service fees, as well as a Scientific Research and Experimental Development ("SR&ED") tax credit received in Q4-19 which did not repeat, partly offset by higher expenses pertaining to CTX-101.

Selling, General and Administrative
For the year ended December 31, 2020, SG&A expenses were $7,126 compared to $8,463, representing a decrease of $1,337 year-over-year. The decrease was primarily driven by the impact of cash conservation measures we initiated in late Q1-20 in response to the COVID-19 pandemic, including temporary layoffs and salary reductions, the benefit of $722 in wage subsidies under the CEWS program, savings from certain vacant positions versus the prior year, a decrease in share-based compensation, and lower travel expenses as a result of the conversion of industry conferences and trade shows to virtual events due to shelter-in-place rules.

Depreciation and Amortization
For the year ended December 31, 2020, depreciation and amortization expense was $1,491 compared to $1,729 for the year ended December 31, 2019. The year-over-year decrease of $238 is primarily due to certain assets being fully amortized versus the prior year and to the revision to the periodic amortization expense for intangibles following the recognition of an impairment charge of $1,918 in Q2-20.

Other Expenses (Income)

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Interest expense	**252**	679	(427)
Interest income	**(291)**	(276)	(15)
Foreign exchange (gain) loss	**(176)**	111	(287)
Impairment of intangible assets	**1,918**	-	1,918
Taro Amendment	**(668)**	-	(668)
Termination fees and other costs	**-**	1,274	(1,274)
Total other expenses	**1,035**	1,788	(753)

Interest
For the year ended December 31, 2020, interest expense was $252 compared to $679 for the year ended December 31, 2019. The year-over-year decreases of $427 was primarily a result of the repayment in full of our long-term debt with Knight Therapeutics Inc. (the "Knight Loan") in December 2019. Interest expense also includes the interest accretion on other obligations related to: the acquisition of Alyria, the lease obligation and on the convertible debentures.

For the year ended December 31, 2020, interest income was $291 compared to $276 for the year ended December 31, 2019, representing an increase of $15 year-over-year. The Company earns interest on its cash balances and short-term investments. In addition, the Company records interest income accretion on the contract assets related to the guaranteed minimum royalties recognized under the Cantabria Agreement. Refer to Note 9 – *Contract Assets* to our 2020 Consolidated Financial Statements.

Foreign Exchange (Gain) Loss
For the year ended December 31, 2020, we recorded a net foreign currency gain of $176 compared to a net foreign currency loss of $111 for the year ended December 31, 2019. The year-over-year foreign currency variances are primarily driven by the timing of payments and settlements of foreign currency denominated balances, the revaluation of certain items on the Consolidated Statement of Financial Position, including contract assets related to the Cantabria Agreement denominated in euros, combined with the volatility of foreign exchange rates.

Impairment of Intangible Assets
In Q2-20, we recognized an impairment charge of $1,918, following an update to our impairment assessment. The impairment charge was mainly to reflect the projected impact on our long-term forecasts of the pandemic-driven decrease in demand for our non-prescription skincare products and contract manufacturing and development services. At December 31, 2020, we updated our impairment test and concluded that no further impairment charge was required. Refer to Note 12 – *Intangible Assets* to our 2020 Consolidated Financial Statements.

Taro Amendment
As part of the Taro Amendment concluded during the year, the Company recognized $668 (US$500) in connection with the termination of a non-financial clause regarding the supply of Pliaglis outside the U.S.

Termination Fees and Other Costs
Effective April 1, 2019, the Company terminated its licensing agreement with Galderma for the ROW rights for Pliaglis. The termination fees include the costs incurred to reacquire the Pliaglis ROW rights as well as other transaction-related costs of $1,274.

Net Income and Earnings per Share

For the years ended December 31,	2020	2019	Change
In thousands of CAD, except number of shares and per share data	**$**	$	$
Income before income taxes	**520**	3,180	(2,660)
Deferred income tax expense	**483**	1,325	(842)
Net income	**37**	1,855	(1,818)
Weighted average number of common shares outstanding			
Basic	**20,661,477**	20,941,690	(280,213)
Diluted	**20,969,205**	22,496,719	(1,527,514)
Earnings per share			
Basic	**$ -**	$ 0.09	$ (0.09)
Diluted	**$ -**	$ 0.09	$ (0.09)

Income before Income Taxes
For the year ended December 31, 2020, the Company reported income before income taxes of $520 compared to $3,180 for the year ended December 31, 2019. The year-over-year decrease of $2,660 was mainly attributable to: 1) the reduction in gross profit of $4,700 across all segments, excluding the impacts of both the Cantabria Agreement as well as the Taro Amendment; 2) the net year-over-year benefit of the upfront payment and guaranteed minimum royalties under the Cantabria Agreement of $3,772, net of the non-recurring contract termination fees recognized in Q2-19; 3) the impairment charge of $1,918 taken in Q2-20; partly offset by 1) the aggregate impact of the Taro Amendment of $5,151; 2) the decrease in SG&A and R&D expenses of $1,337 and $275, respectively; 3) the reduction in net interest expense of $442; and 4) the favourable impact of a net foreign exchange gain in the amount of $287 year-over-year.

Deferred Income Tax Expense
Deferred income tax expense for the year ended December 31, 2020 was $483 compared to $1,325 for the year ended December 31, 2019.

Net Income
For the year ended December 31, 2020, net income was $37 compared to net income of $1,855 reported for the year ended December 31, 2019. The year-over-year decrease of $1,818 was mainly caused by the same factors as identified above under the section entitled *Income before Income Taxes*.

Weighted Average Number of Common Shares Outstanding
The basic and diluted weighted average number of shares were both affected by the shares purchased for cancellation under the Company's Previous NCIB, which expired on June 27, 2020. The weighted average number of diluted shares outstanding for the periods was further impacted by the number of options and warrants that were "in the money", as well as the dilutive impact of convertible debentures where applicable.

EBITDA and Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net income, as reported in accordance with IFRS, and EBITDA and Adjusted EBITDA, for the fiscal years ended December 31, 2020 and 2019. Refer to the section entitled *Income before Income Taxes* for details.

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Net income	**37**	1,855	(1,818)
Adjust for:			
Depreciation and amortization	**1,491**	1,729	(238)
Interest expense (income), net	**(39)**	403	(442)
Deferred income tax expense	**483**	1,325	(842)
EBITDA	**1,972**	5,312	(3,340)
Adjust for:			
Share-based compensation	**155**	287	(132)
Foreign exchange (gain) loss	**(176)**	111	(287)
Other expenses (income)	**(668)**	1,274	(1,942)
Impairment of intangible assets	**1,918**	-	1,918
Adjusted EBITDA	**3,201**	6,984	(3,783)

Liquidity and Capital Resources

Consolidated Statement of Cash Flows

For the years ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Net income	**37**	1,855	(1,818)
Items not involving cash flows	**3,989**	1,725	2,264
Cash from operations	**4,026**	3,580	446
Net change in non-cash working capital	**1,582**	1,726	(144)
Cash provided by operating activities	**5,608**	5,306	302
Cash used in investing activities	**(59)**	(215)	156
Cash used in financing activities	**(476)**	(4,394)	3,918
Effect of foreign exchange rates on cash and cash equivalents	**(60)**	(18)	(42)
Net change in cash and cash equivalents during the year	**5,013**	679	4,334
Cash and cash equivalents beginning of the year	**9,268**	8,589	679
Cash and cash equivalents, end of the year	**14,281**	9,268	5,013

Operating Activities
For the year ended December 31, 2020, cash provided by operating activities was $5,608 compared to $5,306 for the year ended December 31, 2019. The year-over-year increase of $302 was mainly driven by the increase in cash generated from operations of $446, partly offset by the unfavourable movement in non-cash working capital items of $(144) year-over-year.

The net change in non-cash working capital of $1,582 for the year ended December 31, 2020 was mainly driven by the decrease in accounts receivable due to the timing of collections. The net change in non-cash working capital of $1,726 for the year ended December 31, 2019 was mainly driven by a decrease in accounts receivable related to the timing of collections, partly offset by an increase in inventory to meet planned demand. The timing of our working capital inflows and outflows will always have an impact on the cash flow from operations.

Investing Activities
For the year ended December 31, 2020, the Company invested $59 compared to $215 invested for the year ended December 31, 2019. The amounts for both years primarily related to plant equipment and facility upgrades.

Financing Activities
For the year ended December 31, 2020, cash used in financing activities totaled $476 compared to $4,394 for the year ended December 31, 2019, representing a year-over-year decrease of $3,918. During fiscal 2020, the Company paid: 1) $358 under its lease obligation for its manufacturing and office facility, compared to $317 in 2019; 2) $68 for the purchase for cancellation of 84,188 Common Shares, compared to $257 for the purchase for cancellation of 283,423 Common Shares in 2019; and 3) $50 in connection with the acquisition of the Alyria product line, compared to $250 in 2019. In addition, in December 2019, the Company repaid the entire amount outstanding of Knight Loan in the amount of $3,570.

Commitments

The Company has commitments under a lease for the rental of its manufacturing and office facility. This lease is accounted for entirely on the Consolidated Statement of Financial Position under IFRS 16 – *Leases*. Refer to Note 3 – *Summary of Significant Accounting Policies* in the Company's 2020 Consolidated Financial Statements for further details.

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, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration – Alyria royalty earn-out	**-**	**-**	**(20)**	-	-	(20)

Valuation Methods and Assumptions

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2020 and 2019.

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

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

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

The fair value of contract assets, which are presented at amortized cost using the effective interest method, has been determined by discounting the future cash flows using observable inputs, such as interest rate yield curves or credit spreads. The fair value of the contract asset approximates its carrying value. Refer to Note 9 – *Contract Assets* to our 2020 Consolidated Financial Statements.

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, the 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 will be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk including the COVID-19 pandemic, the level of 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 and amounts receivable from customers including contract assets. 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 expected credit losses ("ECL") on the entire accounts receivable balance as at December 31, 2020, in order to adjust for the potential impact of the COVID-19 pandemic on the collectability of its accounts receivable, which did not result in any significant impact. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America, including its contract asset, due to potentially higher risks of enforceability and collectability.

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

The contract asset in the amount of $2,124 is related to the Cantabria Agreement and is denominated in euros (December 31, 2019 - $1,657).

As at December 31, 2020, the Company had one customer that accounted for approximately 17% of the total accounts receivable (three customers that accounted for approximately 67% as at December 31, 2019).

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

In thousands of CAD	December 31, 2020	December 31, 2019
Current	**791**	1,931
0-30 days past due	**251**	197
31-60 days past due	**50**	248
61-90 days past due	**16**	5
Over 90 days past due	**43**	121
	1,151	2,502
Allowance for doubtful accounts	**(79)**	(69)
Total accounts receivable	**1,072**	2,433

Interest Rate Risk

The Company's practice is to minimize interest rate cash flow risk exposures on its financing. The Company is currently not exposed to interest rate variability as its convertible debt instruments bear a fixed interest rate of 9% per year and it had not drawn any amounts on its Facility as at December 31, 2020.

Currency Risk

The Company operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies.

The significant balances in foreign currencies were as follows:

	Euro (€)		U.S. Dollars	
In thousands of CAD dollars	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Cash and cash equivalents	**110**	29	**808**	1,025
Accounts receivable	**115**	52	**96**	1,028
Other current assets	**121**	82	**9**	3
Contract assets	**1,302**	1,086	**-**	-
Accounts payable and accrued liabilities	**(82)**	(91)	**(1,162)**	(1,130)
	1,566	1,158	**(249)**	926

Based on the aforementioned net exposure as at December 31, 2020, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $32 on total comprehensive (loss) income and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $244 on total comprehensive (loss) income.

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.

Off-Balance Sheet Arrangements

Crescita does not have any off-balance sheet arrangements.

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 amounts were accrued in the results presented for the year ended December 31, 2020.

Capability to Deliver Results

The Company will need to spend resources to research, develop, manufacture and commercialize its products and technologies. Crescita may finance these activities through existing cash, revenue generated from product sales to its customers, royalty, upfront and milestone payments, licensing and co-development agreements for other new drug candidates or of its existing products in territories where they are not currently licensed or sold, by drawing on its Facility, by raising funds in the capital markets or by incurring debt. Despite the COVID-19 impact outlined earlier in this MD&A, we believe that we have sufficient capital resources from our cash and investment accounts and revolving credit facility to support our ongoing business operations and to execute our Four-Pillar Growth Strategy.

Crescita is dependent on its sales force for the marketing and sale of its products to its Canadian customers. In certain foreign jurisdictions, Crescita relies on its commercial partners to market and sell its products. Management believes that it has appropriate in-house personnel with the experience and expertise to market and sell its existing products and to develop its pipeline. To execute the current business plan, Crescita may selectively add key personnel and in the future, may need to hire additional staff as activities expand. In addition, market acceptance of the Company’s products by consumers, physicians or patients will depend on distribution channels accepting the product for sale.

Fourth Quarter Results

In thousands of CAD, except per share data and number of shares	2020	2019	Change
Operations	**$**	$	$
Commercial skincare	**2,079**	2,210	(131)
Licensing and royalties	**359**	1,022	(663)
Manufacturing and services	**353**	588	(235)
Revenues	**2,791**	3,820	(1,029)
Cost of goods sold	**1,203**	1,688	(485)
Gross profit	**1,588**	2,132	(544)
Gross margin	***56.9%***	*55.8%*	*1.1%*
Research and development	**325**	38	287
Selling, general and administrative	**1,743**	2,128	(385)
Depreciation and amortization	**248**	552	(304)
Operating expenses	**2,316**	2,718	(402)
Operating loss	**(728)**	(586)	(142)
Interest expense (income), net	**(29)**	125	(154)
Foreign exchange (gain) loss	**(11)**	6	(17)
Loss before income taxes	**(688)**	(717)	(29)
Deferred income tax recovery	**(96)**	(234)	138
Net loss	**(592)**	(483)	(109)
Adjusted EBITDA[1]	**(446)**	6	(452)
Loss per share			
Basic	**$ (0.03)**	$ (0.02)	$ (0.01)
Diluted	**$ (0.03)**	$ (0.02)	$ (0.01)
Weighted average number of common shares outstanding			
Basic	**20,648,448**	20,766,565	(118,117)
Diluted	**20,648,448**	22,540,834	(1,892,386)

[1] Adjusted EBITDA is a non-IFRS measure. Refer to the *Non-IFRS and Key Financial Measures* and the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A. On January 1, 2019, the Company adopted IFRS 16. Prior periods were not restated to reflect the adoption of IFRS 16.

Q4-20 vs Q4-19 Financial Highlights

- Revenue was $2,791 compared to $3,820, a decrease of $1,029;
- Gross Profit was $1,588 compared to $2,132, representing a decrease of $544;
- Operating expenses were $2,316 compared to $2,718, a decrease of $402;
- Adjusted EBITDA was $(446) compared to $6, a decrease of $452;
- Ending cash position of $14,281, generating $425 in cash during the quarter.

For key business development for the quarter and transactions having occurred after December 31, 2020 up to the date of this MD&A, refer to the *Highlights and Key Business Developments*.

Results of Operations

Revenue by Segment

For the three months ended December 31, 2020, total revenue was $2,791 compared to $3,820 for the three months ended December 31, 2019, representing a year-over-year decrease of $1,029. The decrease came primarily from the Licensing and Royalties segment, representing $663. In Q4-19, the Company earned the remaining development milestone under the Original Taro Agreement in connection with the FDA approval of an enhanced formulation of Pliaglis for the U.S market in the amount of $988 (US$750), which did not repeat in Q4-20 and accounted for the majority of the segment variance. Revenue from the Commercial Skincare and Manufacturing and Services segments decreased by $131 and $235, respectively, from lower export sales due to the timing of shipments and a reduction in work volumes from our contract manufacturing clients due to pandemic-driven decreases in demand.

Commercial Skincare

Commercial Skincare sales for the three months ended December 31, 2020 were $2,079 compared to $2,210 for the three months ended December 31, 2019, representing a slight decrease of $131. The decrease was mainly driven by lower export sales versus the prior year's quarter due to the COVID-19 pandemic, partly offset by an increase in sales from our lead aesthetic brand, LDR, including incremental sales of hand sanitizer as well as incremental direct-to-consumer sales through our newly launched LDR e-commerce platform.

Licensing and Royalties

For the three months ended December 31, 2020, Licensing and Royalties revenue was $359, compared to $1,022 for the three months ended December 31, 2019, representing a decrease of $663. The decrease was driven by the non-recurring development milestone of $988 (US$750) under the Original Taro Agreement in connection with the FDA approval of an enhanced formulation of Pliaglis for the U.S. market recognized in Q4-19, offset by a $165 (US$125) upfront payment under the license agreement with Juyou received in Q4-20, an increase of $82 in royalties on global Pliaglis sales versus Q4-19, and a $78 (€50) sales milestone triggered by the first commercial sale of Pliaglis in Spain received in Q4-20.

Manufacturing and Services

Manufacturing and Services revenue for the three months ended December 31, 2020, was $353 compared to $588 for the three months ended December 30, 2019. The year-over-year decrease of $235 was mainly due to the decrease in demand for our services as a result of the economic impacts of the COVID-19 pandemic on our clients, as well as the timing of those services.

Gross Profit by Segment

For the three months ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**2,791**	3,820	(1,029)
Cost of goods sold	**1,203**	1,688	(485)
Gross profit	**1,588**	2,132	(544)
Gross margin %	***56.9%***	*55.8%*	*1.1%*

For the three months ended December 31, 2020, gross profit was $1,588, representing a gross margin of 56.9%, compared to $2,132 and 55.8%, respectively, for the three months ended December 31, 2019. The year-over-year decrease in gross profit of $544 was primarily due to the decrease in high margin licensing revenue, while the improvement in gross margin of 1.1% was largely due to our product mix and to the benefit of wage subsidies under the CEWS program.

Commercial Skincare

For the three months ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**2,079**	2,210	(131)
Cost of goods sold	**1,041**	1,210	(169)
Gross profit	**1,038**	1,000	38
Gross margin %	***49.9%***	*45.2%*	*4.7%*

For the three months ended December 31, 2020, gross profit in the Commercial Skincare segment was $1,038, representing a gross margin of 49.9%, compared to $1,000 and 45.2%, respectively, for the three months ended December 31, 2019. While gross profit only increased slightly by $38, the improvement in gross margin of 4.7% was primarily driven by our product mix and to the benefit of wage subsidies under the CEWS program.

Licensing and Royalties

For the three months ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**359**	1,022	(663)
Cost of goods sold	**-**	-	-
Gross Profit	**359**	1,022	(663)
Gross Margin %	***100.0%***	*100.0%*	*0.0%*

For the three months ended December 31, 2020, gross profit in the Licensing and Royalties segment was $359, compared to $1,022 for the three months ended December 31, 2019, while the gross margin remained flat at 100.0% year-over-year. The decrease in gross profit of $663 was primarily related to the decline in segment revenue, as described above.

Manufacturing and Services

For the three months ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Revenue	**353**	588	(235)
Cost of goods sold	**162**	478	(316)
Gross profit	**191**	110	81
Gross margin %	***54.1%***	*18.7%*	*35.4%*

For the three months ended December 31, 2020, gross profit in the Manufacturing and Services segment was $191, representing a gross margin of 54.1%, compared to $110 and 18.7%, respectively, for the three months ended December 31, 2019. The year-over-year improvements of $81 and 35.4% were largely due to high margin CDMO sales in the current year's quarter as well as the benefit of wage subsidies under the CEWS program.

Research and Development

R&D expenses for the three months ended December 31, 2020 were $325 compared to $38 for the three months ended December 31, 2019. The year-over-year increase of $287 was mainly a result of higher expenses pertaining to CTX-101 and a SR&ED tax credit received in Q4-19 relating to development work performed in the past, which did not repeat in Q4-20.

Selling, General and Administrative
SG&A expenses for the three months ended December 31, 2020 were $1,743 compared to $2,128 for the three months ended December 31, 2019, representing a decrease of $385. The decrease was mainly driven by the combined benefit of the federal government wage subsidy under the CEWS program of the Canadian COVID-19 Economic Response Plan in the amount of $165, as well as savings from certain vacant positions versus the prior year's quarter as well as lower travel expenses due to shelter-in place rules.

Interest
For the three months ended December 31, 2020, the Company recorded net interest income of $29, compared to net interest expense of $125 for the three months ended December 31, 2019. The net variance of $154 was primarily a result of the repayment in full of the Knight Loan in December 2019.

Loss before Income Taxes
For the three months ended December 31, 2020, the Company reported a loss before income taxes of $688 compared to a loss before income taxes of $717 for the three months ended December 31, 2019. The year-over-year decrease of $29 was mainly attributable to: 1) savings in SG&A expenses of $385, a decrease in depreciation and amortization expense of $304, and a favourable variance in net interest of $154; partly offset by 2) lower gross profit across our segments of $544 largely as a result of the non-recurring regulatory milestone under the Original Taro Agreement in the amount of $988 (US$750) recognized in Q4-19, and 2) an increase in R&D expenses of $287.

EBITDA and Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net loss, as reported in accordance with IFRS, and EBITDA and Adjusted EBITDA, for the three months ended December 31, 2020 and 2019. Refer to the section entitled *Loss before Income Taxes* for details.

For the three months ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Net loss	**(592)**	(483)	(109)
Adjust for:			
Depreciation and amortization	**248**	552	(304)
Interest expense (income), net	**(29)**	125	(154)
Deferred income tax recovery	**(96)**	(234)	138
EBITDA	**(469)**	(40)	(429)
Adjust for:			
Share-based compensation	**34**	40	(6)
Foreign exchange (gain) loss	**(11)**	6	(17)
Adjusted EBITDA	**(446)**	6	(452)

Consolidated Statement of Cash Flows

For the three months ended December 31,	2020	2019	Change
In thousands of CAD	**$**	$	$
Net loss	**(592)**	(483)	(109)
Items not involving cash flows	**454**	352	102
Cash used in operations	**(138)**	(131)	(7)
Net change in non-cash working capital	**706**	183	523
Cash provided by operating activities	**568**	52	516
Cash used in investing activities	**-**	(46)	46
Cash used in financing activities	**(94)**	(3,728)	3,634
Effect of foreign exchange rates on cash and cash equivalents	**(49)**	(15)	(34)
Net change in cash and cash equivalents during the period	**425**	(3,737)	4,162
Cash and cash equivalents beginning of the period	**13,856**	13,005	851
Cash and cash equivalents, end of the period	**14,281**	9,268	5,013

Cash provided by operating activities was $568 for the three months ended December 31, 2020, compared to $52 for the three months ended December 31, 2019. The year-over-year increase of $516 was mainly a result of the favourable movement of $523 in non-cash working capital items year-over-year. In Q4-20, the Company recovered $706 from changes in non-cash working capital items, while the Company recovered $183 from changes in non-cash working capital items in Q4-19. The net variance in non-cash working capital items year-over-year is primarily a function of the timing of revenue collections and movement in accounts payable. Working capital inflows and outflows will always have an impact on the cash flow from operations.

Cash used in investing activities totaled $nil for the three months ended December 31, 2020, compared to $46 used in investing activities for the three months ended December 31, 2019 mainly to upgrade certain equipment in our plant and laboratories.

For the three months ended December 31, 2020, the amount of $94 used in financing activities represents the payment of the Company's lease obligation for its manufacturing and office building. In the three months ended December 31, 2019, the Company used $3,728 in financing activities, mainly related to the repayment in full of its long-term debt with Knight Therapeutics Inc. in the amount of $3,570.

Eight Quarter Summary - Selected Financial Information

As at and for the three months ended,	Dec. 31, 2020	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
In thousands of CAD except per share data and number of shares	$	$	$	$	$	$	$	$
Growth – Revenue by Segment								
Commercial Skincare	2,079	1,782	1,304	1,539	2,210	1,705	1,967	1,718
Licensing[1]	359	4,999	413	1,453	1,022	2,537	6,697	1,803
Manufacturing and Services	353	520	16	823	588	664	698	728
Revenue	2,791	7,301	1,733	3,815	3,820	4,906	9,362	4,249
Profitability								
Total Operating Expenses (incl. COGS)	3,519	3,431	2,959	4,176	4,406	4,428	4,753	3,782
Net income (loss)	(592)	4,208	(3,085)	(494)	(483)	88	2,208	42
Adjusted EBITDA[2]	(446)	4,316	(781)	112	6	939	5,083	956
Share information								
Earnings (loss) per share								
Basic	$ (0.03)	$ 0.20	$ (0.15)	$ (0.02)	$ (0.02)	$ -	$ 0.11	$ -
Diluted	$ (0.03)	$ 0.19	$ (0.15)	$ (0.02)	$ (0.02)	$ -	$ 0.10	$ -
Weighted average number of common shares outstanding								
Basic	20,648	20,648	20,648	20,700	20,767	20,921	21,016	21,016
Diluted	20,648	21,796	21,856	22,289	22,541	22,706	22,486	21,016
Financial Position								
Cash and cash equivalents	14,281	13,856	9,265	9,334	9,268	13,005	11,689	10,879
Long-term debt[3]	-	-	-	-	-	3,564	3,558	3,552
Total assets	26,831	27,791	23,472	26,607	26,837	32,537	31,534	28,923
Total non-current financial liabilities[4]	1,080	1,123	1,196	1,270	1,386	5,001	5,049	5,081

[1] Revenue for Q3-20 included $4,483 received as part of the Taro Amendment and revenue from Q2-19 included $3,721 in up-front payments as well as $1,738 in guaranteed future minimum royalties, which are to be received over the term of the Cantabria Agreement.

[2] Adjusted EBITDA is a non-IFRS measure. Refer to the *Non-IFRS and Key Financial Measures* and the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A. On January 1, 2019, the Company adopted IFRS 16. Prior periods were not restated to reflect the adoption of IFRS 16.

[3] Long-term debt represents the short and long-term portions of the Company's long-term debt with Knight Therapeutics Inc. On December 21, 2019, the Company repaid the entire balance outstanding of $3,570 and currently has no long-term debt.

[4] Non-current financial liabilities are defined as the sum of the long-term portions of long-term debt, convertible debentures, other obligations, and lease obligations, following the adoption of IFRS 16 on January 1, 2019. Prior periods were not restated.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 3 – *Summary of Significant Accounting Policies* of the 2020 Consolidated Financial Statements. The preparation of the 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 the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting periods.

Management has identified key areas of judgments, estimations or use of managerial assumptions that it believes are most critical to understanding the financial statements. These accounting estimates are considered critical because they require management to make subjective and/or complex judgments that are inherently uncertain and because they could have a material impact on the presentation of our financial condition and/or results of operations. The Company's actual results could differ from these estimates and such differences could also be material. These key areas are disclosed in Note 5 - *Use of Estimates and Judgments* to the Company's 2020 Consolidated Financial Statements.

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 cash generating unit ("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 growth rate used for the extrapolation.

The temporary closures of personal care service businesses in connection with COVID-19, including spas and medispas, during prolonged periods throughout the 2020 fiscal year was identified as a triggering event for purposes of testing intangible assets for impairment. 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. Refer to Note 12 - *Intangible Assets* in our 2020 Consolidated Financial Statements for details.

Multiple elements in out-licensing agreements
The Company enters into licensing and collaboration agreements for product development, licensing, supply and distribution for its commercial products, patented technologies and product pipeline. 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 signing and licensing fees, milestone payments and royalties and minimum future royalties on any future product sales derived from such collaborations. 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 first-in, first-out basis), and replacement cost for raw materials and packaging, 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 historical sales. Any write downs in value may be reversed if the circumstances which caused them cease to exist. Refer to Note 7 - *Inventories,* to our 2020 Consolidated Financial Statements, 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 share appreciation rights ("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 20, *Share-based Compensation and Other Share-based Payments,* to our 2020 Consolidated Financial Statements.

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.

Management's Responsibility for Financial Reporting

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Disclosure controls and procedures ("DCP") are designed to provide reasonable assurance that information required to be disclosed by the Company in its filings under Canadian securities legislation is recorded, processed, summarized, and reported in a timely manner. The system of DCP includes, among other things, the Company's Corporate Disclosure and Code of Conduct and Business Ethics policies, the review and approval procedures of the Corporate Disclosure Committee and continuous review and monitoring procedures by senior management.

Management, under the supervision of the CEO and the CFO, have designed, or caused to be designed, internal controls over financial reporting ("ICFR") in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Due to its inherent limitations, DCP and ICFR may not prevent or detect all misstatements, errors, and fraud. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective DCP and ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial and other reporting.

The Company evaluated the effectiveness of its DCP and internal controls over financial reporting, supervised by and with the participation of the CEO and the CFO as of December 31, 2020. The CEO and the CFO concluded that, based on this evaluation, the Company's disclosure controls and procedures and internal controls over financial reporting were adequate and effective, at a reasonable level of assurance.

Risk Factors

The following specific risk factors could materially affect our business. An investor should carefully consider these risks when deciding whether to make an investment in the securities of Crescita, together with other information contained in this MD&A and the Company's other continuous disclosure documents. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business. Upon the occurrence of any one or more of the following risks, the Company's business, financial condition, results of operations and consequently, the price of our Common Shares, could be seriously affected.

Risks Related to the Company's Business

Ability to Implement the Company's Growth Strategy

The Company's strategy is to increase revenue through its Four-Pillar Growth Strategy (as described in *Corporate Overview*). To successfully execute this strategy, the Company must develop and implement effective marketing campaigns for its commercial products and aggressively pursue and successfully close business development opportunities to secure strategic acquisitions and/or licensing agreements. The Company must also expand its product offering either by introducing innovative products or by in-licensing complementary products or assets. More specifically, the Company will have to dedicate significant time and effort to identifying suitable licensees for its lead prescription product, Pliaglis, in the approximately 20 ROW countries which remain available for licensing. Many of the Company's competitors have substantially greater financial, marketing, sales and other resources, therefore the Company may not be able to license Pliaglis or acquire rights to additional products on acceptable terms. The inability to do so may limit the overall growth of the Company's business and hinder its cash flow. Furthermore, even if the Company finds suitable commercial partners or it acquires rights to additional products, the Company or its partners may not generate sales sufficient to achieve profitability or avoid loss.

Acquisition and Integration of Complementary Assets or Businesses

The Company plans to continue to pursue and evaluate product or business acquisitions that could complement or expand its existing business under its Four-Pillar Growth Strategy. However, it may not be able to identify appropriate acquisition candidates. If an acquisition candidate is identified, the Company will conduct business, legal and financial due diligence with the objective of identifying and evaluating material risks involved in any acquisition. Despite its best efforts, the Company may not detect and or evaluate all such risks.

Crescita may enter into negotiations for an acquisition but determine not to, or be unable to, complete any particular acquisition or other arrangement, which could divert management's attention from the ongoing development of the Company's business, and result in substantial out-of-pocket costs, and other adverse consequences. For example, the market price of the Company's Common Shares may reflect a market assumption that such transactions will occur, and a failure to complete such transactions could result in a general negative perception by the market leading to a decline in the price of its Common Shares. In addition, significant transaction costs may be payable by the Company whether or not such transactions are completed.

Should an acquisition occur, the Company may not be able to successfully integrate the businesses, products, technologies, or personnel that are acquired, or may potentially lose key employees, particularly those of the acquired organizations, all of which may harm its business. Moreover, the Company may never realize the anticipated benefits of an acquisition or forecasted sales.

These acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated or to achieve anticipated benefits and success, expose it to increased competition or challenges with respect to its products or geographic markets, and expose it to additional or unexpected liabilities associated with an acquired business, product, technology or other asset or arrangement.

In connection with an acquisition, the Company may acquire goodwill and other long-lived assets that are subject to value impairment tests, which could result in future value impairment charges. Finally, to the extent the Company issues Common Shares or other rights to finance any acquisition, existing Company shareholders may be diluted.

Reliance on Third Parties for the Marketing and Commercialization of our Prescription Products

The Company relies on marketing arrangements, including joint ventures, licensing or other third-party arrangements to distribute its products in jurisdictions where it lacks geographic presence, resources or expertise. Even if acceptable and timely marketing arrangements are available, the products may not be accepted, or sales may not grow even if initially accepted.

The Company has minimal or no influence on the sales and marketing activities for Pliaglis in certain jurisdictions including the U.S., Brazil, Italy, France, Spain, Portugal, Mexico, Austria, and China, as these decisions are or will be made independently by its partners in each of the territories, when the product gains regulatory approval or is launched. There can be no assurance that the Company's partners will dedicate the necessary resources to successfully market and distribute the Company's products and maximize sales. Our licensing partners may make marketing and other commercialization decisions without our input and may not perform in the anticipated manner. As a result, many of the variables that may affect the Company's results of operations, financial condition and cash flows may not be exclusively within its control. In addition, under these arrangements, disputes could arise with respect to payments that the Company or its partners believe are due under distribution or marketing agreements, or a partner or distributor may develop or distribute products that compete with the Company's products or terminate the relationship.

Moreover, the Company depends on its partners and licensees to comply with all legislation and regulation relating to selling the Company's products in their respective jurisdictions. If any of the Company's partners fails to comply, this could have a material impact on the cash flows of the Company.

Inability to Secure Suitable Partners for Pliaglis in the ROW

The ability to secure licensing partners for Pliaglis on favourable terms is an integral part of the Company's growth strategy. The Company faces significant competition in seeking appropriate partners for Pliaglis in international jurisdictions. In some international jurisdictions Crescita may require marketing and distribution partners to file for and gain regulatory approval for Pliaglis on its behalf. In the absence of suitable partners, Crescita may undertake these activities itself, which may require additional time, effort and out-of-pocket costs. Moreover, collaboration and distribution arrangements are complex, and time consuming to negotiate, document and implement. There can be no assurance that the Company will be able to find additional marketing and distribution partners in any jurisdiction or be able to enter into any marketing and distribution arrangements on acceptable terms, if at all for Pliaglis.

License Revenue from a Limited Number of Distribution Agreements

The Company currently generates licensing revenue from a limited number of distribution agreements, which is entirely derived from royalties earned on the global sales of Pliaglis, as well as from sales and development milestones under the various arrangements. The Company earned $7,224 in licensing revenue during fiscal 2020, representing 46% of the Company's consolidated revenues. There can be no assurance that the Company's partners' sales and marketing efforts will be successful, or that they will continue to allocate the same level of resources to promote the product and that pharmacies and medical clinics will continue to purchase the product for resale to their own customers. A decrease in our partners' sales, marketing efforts or the loss of a significant partner in a territory could have a materially negative impact on the Company's business conditions and results of operations.

Sales, Marketing and Distribution of Skincare Products

To successfully commercialize its skincare products, the Company must devote sufficient resources to develop and maintain an effective sales, marketing and distribution infrastructure or enter collaborations to perform some or all these activities on behalf of the Company. The Company may be unable to devote the resources necessary to develop and maintain suitable sales, marketing and distribution infrastructure. The Company distributes its skincare products primarily through a network of professional aestheticians, spas, medispas, medical clinics, international distributors and e-commerce platforms. The Company's business would be

harmed if any of its customers or distributors became unable or unwilling to distribute the Company's skincare products on terms commercially favourable to the Company. Distribution partners could decide to change their policies or fees, or both, in the future. This could result in their refusal to distribute certain products, or cause higher product distribution costs, lower margins, or the need to find alternative methods of distributing products. Such alternative methods may not exist or may not be economically viable.

Factors that may inhibit the Company's efforts to grow or maintain an internal sales, marketing and distribution infrastructure or its ability to successfully commercialize its skincare products include:

- lack of sufficient financial resources;
- inability to recruit or retain effective sales and marketing personnel;
- inability of marketing and sales personnel to generate and secure demand for its skincare products;
- lack of complementary products, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with maintaining and expanding a sales and marketing team.

Non-prescription Skincare Products Adversely Affected by Factors Impacting our Customers' Businesses

The Company primarily operates using a business-to-business-to-consumer business model. Factors that adversely impact our customers' businesses may have an adverse effect on our business, prospects, results of operations, financial condition, and cash flows. These factors may include, but are not limited to:

- A reduction in consumer traffic and demand for our products at spas or medispas due to economic downturns or changes in consumer preferences;
- Credit risks associated with the financial condition of our customers;
- The effect of consolidation or weakness in the wellness and spa industry, including the closure of customer doors and the resulting uncertainty;
- The changing purchasing habits from spas and retail outlets to online and social media platforms; and
- Inventory reduction initiatives and other factors affecting customer buying patterns, including any reduction in retail space committed to skincare products and retailer practices used to control inventory shrinkage.

E-Commerce and the Use of Social Media

In 2020, the Company launched its first e-commerce platform selling its lead aesthetic brand, Laboratoire Dr Renaud directly to consumers. Growing this platform will be part of our corporate initiatives in the future.

The usability of, confidentiality of, and customer experience provided by, our online shopping platform is critical to the success and growth of our e-commerce business. Some of our competitors already have e-commerce businesses that are substantially larger and more developed than ours. Moreover, e-commerce is a rapidly changing channel and many of our competitors update their e-commerce business on an ongoing basis to match consumer preferences. Any extended software disruption of our e-commerce business or a failure on our part to maintain the privacy of customer data and provide an attractive, effective, reliable, user-friendly e-commerce business could expose us to fraudulent transactions, place us at a competitive disadvantage, result in the loss of sales or harm our reputation with customers and could have a material adverse effect on our growth, our business and our results of operations.

In addition, we use the Internet and social media networks including Facebook and Instagram to reach consumers and provide education about our products and on important topics related to skincare. Negative commentary regarding us or our products may be posted on our social media platforms and may be adverse to our reputation or business. Our target consumers often value readily available information and often act on

such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

Lastly, an increase in the use of social media for product promotion and marketing may cause an increase in the burden on us to monitor compliance of such materials and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations. The inability of or failure by us to timely or properly monitor all product promotion conducted online or through social media or elsewhere may also subject us to regulatory action, lawsuits, liability, fines, or other penalties and have a material adverse effect on our business, financial condition or results of operations.

Potential Product Safety, Efficacy and Liability Concerns

The Company's success depends, in part, on the quality, efficacy and safety of its marketed and commercialized products. If products are found or alleged to be defective or unsafe, whether or not scientifically justified, or if they fail to meet consumer or regulatory standards, the Company could lose sales, be forced to recall or withdraw its products, or become subject to labeling revisions, any of which could have a material adverse effect on the business, prospects, results of operations, financial condition or cash flows. The Company may also be subject to product liability claims associated with the use of its products and there can be no assurance that liability insurance will continue to be available on commercially reasonable terms or at all. Product liability claims might also exceed the amounts or fall outside of such coverage. Product liability claims against the Company, regardless of their merit or potential outcome, could be costly and divert management's attention from other business matters or adversely affect its reputation and the demand for its products.

In addition, certain drug and skincare retailers and distributors require minimum liability insurance as a condition of purchasing or accepting products for retail or wholesale distribution. Failure to satisfy such insurance requirements could impede the ability of the Company or its potential partners in achieving broad retail distribution of its products, resulting in a material adverse effect on the Company.

Personnel

The Company is highly dependent upon a relatively small group of key personnel for its sales, marketing, manufacturing, scientific research and development and executive management teams. The loss of the services of one of more of the Company's senior officers could have a material adverse effect on the Company, its operations and its ability to execute its strategy successfully. The Company does not maintain key-man insurance on any employee.

In addition, the Company's anticipated growth may require additional expertise and the addition of new qualified personnel. The Company faces intense competition for such personnel. It may not be able to retain and attract the qualified personnel necessary for the development and growth of its business. Also, it must provide training for its employee base due to the highly specialized nature of its products.

Reimbursement, U.S. Formulary Listing and Product Pricing for Prescription Drug Products

There can be no assurance that Pliaglis will receive reimbursement coverage in any jurisdiction. In the U.S., Canada and other countries, sales of Pliaglis will depend in part upon the availability of reimbursement from third-party payers, which include government health authorities, managed care organizations and other private health insurers. Increasingly, government and other third-party payers are attempting to contain expenditures for new therapeutic products by limiting or refusing coverage, limiting reimbursement levels, imposing high co-pays, requiring prior authorizations, and implementing other measures. Inadequate coverage or reimbursement could adversely affect market acceptance of the Company's products.

Moreover, the trend toward managed healthcare in the U.S., the growth of organizations such as health maintenance organizations and reforms to healthcare and government insurance programs, could significantly influence the purchase of healthcare services and products, resulting in lower prices and reduced demand for the Company's products. Furthermore, even after approval for reimbursement for the Company's products is obtained from private health coverage insurers or government health authorities, it may be removed at any time. In addition, managed care organizations and pharmacy benefit managers in the U.S. typically develop formularies to reduce their cost for medications. Due to their lower costs, generic products are often favored. The breadth of the products covered by formularies varies considerably from one managed care organization

to another, and many formularies include alternative and competitive products for treatment of particular medical conditions.

In some countries, particularly the countries of the E.U., the pricing of prescription pharmaceuticals is subject to government control. In these countries, pricing negotiations with governmental authorities can take considerable time and potentially delay the introduction of a product to the market. To obtain reimbursement or pricing approval in some countries, the Company may be required to conduct a clinical trial that compares the cost effectiveness of its product candidate to other available therapies. If reimbursement of the Company's product is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, its business could be adversely affected. In addition, any country could pass legislation or change regulations affecting the pricing of pharmaceuticals before or after a regulatory agency approves any of its product candidates for marketing in ways that could adversely affect the Company.

Manufacturing and Supply Risks

The Company purchases key raw materials necessary for the manufacture of its products from a limited number of suppliers around the world and, in the case of Pliaglis, relies on licensing partners to manufacture the product. There are a limited number of manufacturing facilities qualified and approved to manufacture Pliaglis for the various territories where it is commercialized. A disruption in supply or inability to manufacture and supply the product at one of the qualified facilities could adversely impact the ability of Crescita and our licensing partners to commercialize the product.

Increases in the costs of goods, interruptions in supply of product or lapses in quality could adversely impact the Company's margins, profitability and cash flows. The Company is reliant on its third-party contract manufacturing organizations ("CMOs") and suppliers of raw materials and manufacturing components to maintain their facilities in compliance with various countries' regulatory authorities. If the CMO or suppliers fails to maintain compliance with regulatory authorities, they could be ordered to cease manufacturing, which would have a material adverse impact on the Company's business, results of operations, financial condition, and cash flows.

If the relationships with the CMOs or any of the single-sourced suppliers is discontinued or, if any manufacturer is unable to supply or produce required quantities of product on a timely basis or at all, or if a supplier ceases production of an ingredient or component, the operations would be negatively impacted, and the business would be harmed.

The Company will be reliant on Galderma, Taro and Cantabria to maintain the facilities at which they manufacture Pliaglis in compliance with Therapeutic Products Directorate ("TPD"), FDA, European Medicines Agency ("EMA"), state and local regulations and other regulatory agencies. If they fail to maintain compliance with FDA, EMA or other critical regulations, they could be ordered to cease manufacturing, which would have a material adverse impact on the Company's business, results of operations, financial condition and cash flows. In addition to FDA regulations, violation of standards enforced by the Environmental Protection Agency ("EPA"), the Occupational Safety and Health Administration ("OSHA") and their counterpart agencies at the state level, could slow down or curtail operations of Galderma, Taro and Cantabria.

In addition, the FDA and other regulatory agencies require that raw material manufacturers comply with all applicable regulations and standards pertaining to the manufacture, control, testing and use of the raw materials as appropriate. For the APIs or critical raw materials depending on the drug product, this means compliance to cGMPs for APIs and submission of all data related to the manufacture, control and testing of the API for quality, purity, identity and stability, as well as a complete description of the process, equipment, controls and standards used to produce the API. This is usually submitted to the FDA in the form of a drug master file ("DMF") by the manufacturer and referenced by the sponsor of the New Drug Application ("NDA"). The DMF information and data is reviewed by the FDA as a critical component of the approval of the NDA.

As a result, in the case where only one supplier of a particular API or critical raw material meets all the FDA's (or other regulatory agencies') requirements and has a DMF (or similar filing) on file with the FDA, the Company will be at risk should a supplier violate cGMPs, fail an FDA inspection, terminate access to its DMF, be unable to manufacture product, choose not to supply the Company or decide to increase prices. Pliaglis contains the APIs lidocaine and tetracaine and in the past the form of tetracaine used in the product has, at times, been difficult to procure.

In addition, the Company could be subject to various import duties applicable to both finished products and raw materials and it may be affected by other import and export restrictions, as well as developments with an impact on international trade. Under certain circumstances, these international trade factors could affect manufacturing costs, which will in turn affect the Company's margins, as well as the wholesale and retail prices of manufactured products.

Concentration of Manufacturing Capacity

The Company manufactures most of its products, including both cosmetic (NHP) and DIN products, as well as all the products for its CDMO business at its facility in Laval, Québec. This exposes the Company to the following risks, any of which could delay or prevent the commercialization of its products or cause the failure of delivery of products to clients under any of its third-party manufacturing contracts, resulting in higher costs or depriving the Company of potential revenues:

- the Company may encounter difficulties in achieving volume production, quality control and quality assurance, as well as relating to shortages of qualified personnel. Accordingly, the Company might not be able to manufacture enough quantities to meet commercial demand for its products and demands under new and existing CDMO agreements;
- the Company's manufacturing facilities are required to undergo satisfactory cGMPs inspections prior to regulatory approval and are obliged to operate in accordance with Health Canada and other nationally mandated cGMPs, which govern manufacturing processes, stability testing, record keeping and quality standards. Failure to establish and follow cGMPs and to document adherence to such practices, may lead to significant delays in the availability of products manufactured by the Company; and
- changing manufacturing locations would be difficult and the number of potential manufacturers is limited. For some products, changing manufacturers generally requires re-validation of the manufacturing processes and procedures in accordance with E.U. and other nationally mandated cGMPs. Such re-validation would be costly and time consuming. It would be difficult or impossible to quickly find replacement manufacturers on acceptable terms, if at all.

The Company's manufacturing facilities are subject to periodic unannounced inspection by Health Canada and other government agencies, and may be subject to inspection by local, provincial and federal authorities from various jurisdictions to ensure strict compliance with cGMPs and other government regulations. If the Company or a regulatory agency discovers issues with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions relative to that product or the manufacturing facility, including requiring recall or withdrawal of the product from the market or suspension of its manufacturing license. Failure by the Company to comply with applicable regulations could also result in sanctions being imposed on it, including fines, injunctions, civil penalties, failure of the government to grant review of submissions or market approval of products, delays, suspension or withdrawal of approvals and criminal prosecutions, any of which could materially adversely affect the Company's business.

Reliance on Third Parties for Warehousing, Distribution and Logistics Services

The Company relies on third parties to provide distribution and logistics services, including the warehousing of finished goods. If the third parties cease to be able to provide the Company with these services or do not provide these services in a timely or professional manner, or in accordance with the applicable regulatory requirements, or if contracts with such third parties are terminated for any reason, the Company may not be able to successfully manage the logistics associated with distributing and selling its products which could result in a delay or interruption in delivering products to its customers and could impact product sales and revenues or the Company's ability to integrate new products into its business, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. Such third parties' failure to comply with the applicable regulatory requirements could also subject the Company to regulatory action.

In addition, the supply of the Company's products to its customers (or, in some cases, supply from the Company's contract manufacturers to the Company) is subject to and dependent upon the use of transportation services and third-party distribution facilities. Such supply chain logistics result in the Company not being in control of its products at all times, while maintaining liability for such products. Moreover,

transportation services or third-party distribution facilities may be disrupted (as a result of weather conditions or due to technical, labour or other difficulties or conditions), any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Shortening Life Cycles and our Ability to Manage Inventory

The competitive nature of the skincare industry and rapidly changing consumer preferences require constant product innovation and have led to the shortening of product life cycles. As a result, the Company monitors inventories based on forecasted demand, the estimated market value and shelf life of inventory and historic experience. If the Company misjudges consumer preferences or demands or future sales do not reach forecasted levels, the Company could have excess inventory that may not be needed, may need to be held for a long period-of-time, written down, sold at prices lower than expected or discarded. If the Company is not successful in managing inventory, the business, results of operations, financial condition or cash flows could be adversely affected.

Need for Additional Financing

At December 31, 2020, the Company had cash and cash equivalents of $14,281, as well as up to an additional $2,074 available under its revolving credit facility, of which no amounts were drawn at year-end. During fiscal 2021, the Company expects to continue incurring expenses and making certain strategic investments as it executes its Four-Pillar Growth Strategy and pursues potential development programs to advance its product pipeline. Additional funding may be required for the development of new products or for future potential acquisitions. Unexpected increases in the Company's costs and expenses due to operational decisions taken by management or factors beyond the Company's control could cause its cash resources to be depleted and profitability may not be achieved.

There can be no assurance that the Company will have enough capital to fund its ongoing operations or develop or commercialize any further products or make product acquisitions without future financings. In addition, the credit ratings that the Company might obtain in connection with any debt financing may make securing debt financing prohibitive. There can be no assurance that additional debt or equity financing will be available on acceptable terms or at all.

If adequate funds are not available, the Company may have to substantially reduce or eliminate planned expenditures, terminate or delay clinical trials for its product candidates, curtail product development programs designed to expand the product pipeline or discontinue certain operations, all of which would have a materially adverse effect on the Company's financial position, results of operations and cash flows.

Inability to Achieve Recurring Profitability

The Company had an accumulated deficit of $(40,370) as at December 31, 2020. The Company has incurred losses in the past and may continue to incur losses in the future as a result of its inability to identify and secure recurring revenue streams from its licensing arrangements or from organic growth of its core businesses, or due to increased operating costs including the costs of operating as a public company. There is no guarantee that Crescita will be able to achieve recurring profitability in the future. Crescita has never paid a dividend on its common shares and does not expect to do so in the foreseeable future. The Company's inability to achieve and maintain profitability could depress the market price of its shares and could impair its ability to raise capital, expand its business and product pipeline and continue its business operations.

Inability to Meet Debt Commitments

As at the date of this MD&A, the Company had no long-term debt obligations, but had $933 in convertible debentures outstanding on its balance sheet. The Company may incur future debt obligations that might subject it to restrictive covenants that could affect its financial and operational flexibility. Further, any restrictions governing the Company's indebtedness may prevent it from taking actions in the best interest of its business and may make it difficult for Crescita to execute its business strategy successfully or effectively compete with companies that are not similarly restricted.

Security and Cyber Security Breaches

The Company has implemented security protocols and systems with the intent of maintaining the physical and electronic security of its operations and protecting its confidential information and information related to identifiable individuals against unauthorized access. Despite the implementation of security measures, the Company's information systems and those of its contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Unauthorized physical access to one of the Company's facilities or electronic access to its information systems could result in, among other things, unfavourable publicity, litigation by affected parties, damage to sources of competitive advantage, disruptions to its operations, loss of proprietary information, customer information and customers, financial obligations for damages related to the theft or misuse of such information and costs to remediate such security vulnerabilities, any of which could have a substantial impact on the Company's results of operations, financial condition or cash flows.

Hazardous Materials and Environmental Laws

The Company's products involve the use of potentially hazardous materials, and as a result, it is exposed to potential liability claims and costs associated with complying with laws regulating hazardous waste. Product development and manufacturing activities involve the use of hazardous materials, including chemicals, and are subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous materials and waste products. Accidental injury or contamination from these materials may occur. In the event of an accident, the Company could be held liable for any damages, which could exceed its available financial resources. In addition, the Company may be required to incur significant costs to comply with environmental laws and regulations in the future.

Impact of Natural Disasters or Other Events that Disrupt our Business Operations

Natural disasters, pandemics or similar events, such as influenza or other pandemic illnesses, blizzards, fires or explosions or large-scale accidents or power outages, could disrupt the Company's supply chains, markets for its products and its operations or otherwise have a material adverse effect on the Company's business, results of operations, financial condition and prospects. If a disaster, power outage or similar event occurred that prevented us from using all or a significant portion of the Company's facilities or those of its business partners, or that damaged the Company's infrastructure or that otherwise disrupted operations, it may impede our business or operations for a substantial period-of-time.

Disease Outbreaks

The occurrence of an illness that leads to or is anticipated to lead to a local, regional, or national outbreak or epidemic, or to an international outbreak or pandemic, such as Middle East Respiratory Syndrome ("MERS-CoV"), Severe Acute Respiratory Syndrome ("SARS"), Ebola ("EVD"), H1N1 influenza virus, avian flu, or most notably, the recent novel coronavirus ("COVID-19"), or any similar illness, could affect our business.

On or around March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown.

Companies are taking precautions, such as requiring employees to work remotely, imposing travel restrictions and temporarily closing businesses. As a result of increased remote working arrangements due to a pandemic, the exposure to, and reliance on, networked systems and the internet has increased. This can lead to increased risk and frequency of cybersecurity incidents. Cybersecurity incidents can result from unintentional events or deliberate attacks by insiders or third parties, including cybercriminals, competitors, nation-states, and hacktivists. Any of these events could cause or contribute to risk and uncertainty and could adversely affect our business, results of operations and financial condition.

Further, depending on the duration of the Pandemic, or if the Pandemic were to worsen, existing emergency measures may be extended, or additional restrictive measures may be implemented, causing further economic impact and uncertainty.

Any additional border closures and economic and supply chain disruptions could materially affect the Company's financial results and operations. The COVID-19 pandemic could also cause significant further impacts to product demand in connection with an ensuing economic downturn and contribute to supply shortages, trade disruption, temporary staff shortages and temporary closures of facilities. The extent to which COVID-19 and its effect on the economy will impact the Company's financial results and operations may lead to adverse changes in the Company's cash flows, working capital levels, debt balances, operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Company's business is not known at this time.

Scope of International Operations

The Company conducts business internationally, including in the U.S., Europe and Asia, to research, develop, market, distribute or manufacture certain of its products and potential products. The Company may expand such operations in the future. Participation in international markets requires resources and management's attention and subjects the Company to business risks, including the following:

- unique regulatory requirements for approval of its product candidates;
- dependence on local distributors;
- cultural and language differences;
- longer payment cycles and problems in collecting accounts receivable;
- adverse changes in trade and tax regulations;
- absence or substantial lack of legal protection for intellectual property rights;
- difficulty in managing widespread operations including limited access to qualified personnel;
- political and economic instability;
- increased costs and complexities associated with financial reporting; and
- currency risks.

Similarly, adverse economic conditions impacting the Company's customers or uncertainty about global economic conditions could cause purchases of its products to decline, which could adversely affect the Company's revenues and operating results. The occurrence of any of these or other international factors may cause the Company's international operations to be unsuccessful, could lower the prices at which it can sell its products or otherwise have an adverse effect on its operating results.

Taxation

The Company operates both locally and outside of Canada. As such, it is subject to the tax laws and regulations of Canadian federal, provincial and local governments, the U.S. and certain other jurisdictions.

Significant judgment will be required in determining the Company's provision for income taxes and claims for investment tax credits ("ITCs") related to qualifying SR&ED expenditures in Canada. Various internal and external factors may have favourable or unfavourable effects on future provisions for income taxes and the Company's effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, results of audits by tax authorities, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, future levels of R&D spending and changes in overall levels of income before taxes. Furthermore, new accounting pronouncements or new interpretation of existing accounting pronouncements can have a material impact on the Company's effective income tax rate.

The Company could be impacted by certain tax treatments for various revenue streams in different tax jurisdictions. The Company may be subject to withholding taxes on certain of its revenue streams. The withholding tax rates that were used were based on the interpretation of specific tax acts and related treaties. If a tax authority has a different interpretation from the Company's, it could potentially impose additional taxes, penalties, or fines. This would potentially reduce the amounts of revenue ultimately received by the Company.

Losses Caused by Fluctuations in Foreign Currency Exchange Rates

Foreign exchange risk exists when the Company receives or makes payments in foreign currencies, such as in U.S. dollars and in Euros. To that extent, fluctuations in the exchange rate of the Canadian dollar relative to other currencies could result in the Company realizing a lower than anticipated profit margin on sales of its products and product candidates than at the time of entering into such commercial agreements. Fluctuations in the value of the Canadian dollar against these foreign currencies can lead to adverse material effects on the Company's financial condition and results of operations and cash flows.

Litigation and Regulation

The Company may in the future become party to litigation, regulatory proceedings or other disputes. These potential claims include but are not limited to product liability, class action lawsuits, patent infringement, personal injury, breach of contract and lost profits or other consequential damage claims.

A significant judgment against the Company or the imposition of a significant fine or penalty or a finding that the Company has failed to comply with laws or regulations or a failure to settle any dispute on satisfactory terms, could have a significant adverse impact on the Company's ability to continue operations. Additionally, lawsuits and investigations can be expensive to defend, whether or not the lawsuit or investigation has merit, and the defense of these actions may divert the attention of the Company's management and other resources that would otherwise be engaged in running the Company's business.

Risks Related to our Industry

Competition

Non-Prescription Skincare Products

The skincare industry is highly competitive and can change rapidly due to consumer preferences and industry trends. Competition in the skincare industry is based on brand strength, pricing and assortment of products, point of sale presence and visibility, innovation, perceived value, product availability and order fulfillment, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce and mobile commerce initiatives and other activities. It is difficult to predict the timing and scale of the Company's competitors' actions in these areas. The Company's success depends on its products' appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change, and on its ability to anticipate and respond in a timely and cost-effective manner to market trends through product innovations, product line extensions and marketing and promotional activities. As product life cycles shorten, the Company must continually work to develop, produce, and market product innovations and maintain and enhance the recognition of our brands. Net revenues and margins on cosmetic products tend to decline as they advance in their life cycles, so net revenues and margins could suffer if the Company does not successfully and continuously develop new products. This risk is further compounded by the rapidly increasing use and proliferation of social and digital media by consumers, and the speed with which information and opinions are shared. Constant product innovation also can place a strain on our financial and personnel resources. The Company may incur expenses in connection with product innovation and development, marketing and advertising that are not subsequently supported by a sufficient level of sales. These factors, as well as new product risks, could have an adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Prescription Drug Products

The pharmaceutical industry is characterized by evolving technology and intense competition. The Company is engaged in areas of research where developments are expected to continue at a rapid pace. Many companies, including major pharmaceutical and specialized biotechnology companies, are engaged in activities focused on medical conditions that are the same as or similar to those targeted by the Company. The Company's success depends upon maintaining its competitive position in product development and formulation as well as its speed in commercializing its products. Competition from pharmaceutical, chemical and biotechnology companies, as well as universities and research institutes, is intense and is expected to increase. Many of these organizations have substantially greater product development, experience in manufacturing, marketing, financial and managerial resources and they represent significant competition. If the Company fails to compete successfully in any of these areas, its business, results of operations, financial condition and cash flows could be adversely affected.

The intensely competitive environment of the branded products business requires an ongoing, extensive search for medical and technological innovations and the ability to market products effectively, including the ability to communicate the effectiveness, safety and value of branded products for their intended uses to healthcare professionals in private practice, group practices and managed care organizations. There can be no assurance that the Company and its drug development partners will be able to successfully develop medical or technological innovations or that the Company and its licensing partners will be able to effectively market the Company's existing products or any future products.

Additionally, the Company competes to acquire the intellectual property assets that are required to continue to develop and broaden its product portfolio. In addition to in-house product development efforts, the Company seeks to acquire rights to new intellectual property through corporate acquisitions, asset acquisitions, licensing and joint venture arrangements. Competitors with greater resources may acquire assets that the Company seeks, and even if the Company is successful, competition may increase the acquisition price of such assets. The Company's growth may be limited if it fails to compete successfully.

Competition from Generic Products

The Company's branded prescription products may face competition from generic versions, which are generally significantly cheaper than the branded version. In the U.S. and Canada, even if customers have a prescription for our product, a generic version where available, may be required or encouraged in preference to the branded version under third-party reimbursement programs. In addition, a pharmacist may recommend a less expensive product even if that product is less effective or designed for conditions different from what the customer is seeking to treat.

If sales of any of the Company's products that no longer enjoy market exclusivity or are not sufficiently protected by associated intellectual property were to increase substantially, competitors may be more likely to develop generic formulations that compete directly with such products. Generic competition with the Company's branded products would be expected to have a material adverse effect on net sales and profitability of the branded product and of the Company.

Additionally, generic competitors may attempt to market, sell or use generic versions of the Company's products for which the Company has an exclusive license. Where such generic competition emerges, the Company will take all appropriate legal steps to enforce its rights and/or commercial steps to protect its market share, but there can be no guarantee that the Company's market share for such products will not be negatively impacted.

New Product Launches May Fail to Achieve Market Acceptance

Our industry requires that our product lines be rejuvenated from time-to-time with new product offerings and product innovations. Crescita has established a multi-disciplinary product development committee that screens and validates new products to be developed or existing products to be upgraded.

Nonetheless, each new product launch involves risks. For example, the acceptance of new product launches and sales to our network of professional aesthetic and medical aesthetic practitioners, consumers and / or physicians may not be as high as we anticipate, due to lack of acceptance of the products themselves or their price, or limited effectiveness of our marketing strategies. If any product commercialized by the Company does not provide a treatment regimen that is as beneficial as the current standard of care or otherwise does not provide consumer or patient benefits, there is the potential that it will not achieve market acceptance. In addition, our ability to launch new products may be limited by delays or difficulties affecting the ability of our suppliers or manufacturers to timely manufacture, distribute and ship new products or displays for new products or changes in regulatory requirements.

Sales of new products may be affected by inventory management and we may experience product shortages. We may also experience a decrease in sales of certain existing products as a result of newly-launched products. Any of these occurrences could delay or impede our ability to achieve our sales objectives, which could have a material adverse effect on our business, financial condition and results of operations.

As part of our ongoing growth strategy we expect to continue to introduce new products and innovations in our traditional product categories, while also expanding our product launches into adjacent categories in which we

may have little to no operating experience, such as injectable neurotoxins, fillers, microneedling devices and mesotherapy. The success of product launches in adjacent product categories could be hampered by our relative inexperience operating in such categories, failure to establish new buyer relationships, the strength of our competitors or any of the other risks referred to above. Furthermore, any introduction of new products or expansion into new product categories may prove to be an operational and financial constraint which inhibits our ability to successfully accomplish such introduction or expansion. New product launches may also encounter difficulties in manufacturing or packaging leading to lower-than-expected margins. Our inability to introduce successful products in our traditional categories or in adjacent categories could limit our future growth and have a material adverse effect on our business, financial condition and results of operations.

Obtaining Government and Regulatory Approval

Non-Prescription Skincare Products

There are numerous categories of non-prescription skincare products in the U.S., Canada and in other regions around the world and the classification and regulatory requirements vary by jurisdiction. Some categories of products require a license and others can be sold without prior authorization. There is a risk that the regulatory authorities may not agree with the Company's classification of a given product nor allow it to be marketed based on the regulatory status, product labeling or marketing claims. Regulatory authorities also have the ability to inspect the related manufacturing facilities and can restrict product supply if the facility is deemed to not comply with relevant regulations. Any delay or failure to obtain regulatory approvals or to ensure compliance with relevant regulations for marketed products could adversely affect the Company's business, financial condition and operational results. Non-prescription skincare companies may also be subject to additional regulations covering occupational safety, manufacturing and laboratory practices, environmental protection and hazardous substance control. They may also be subject to existing and future local, provincial, state, federal and foreign regulation.

Canada

All cosmetics sold in Canada must contain appropriate ingredients, be safe to use, and must not pose health risks. They must also meet the requirements of the *Food and Drugs Act* and the *Cosmetic Regulations* which require that cosmetics sold in Canada be manufactured, prepared, preserved, packed, and stored under sanitary conditions. It is the manufacturer's responsibility to ensure that the products meet the requirements for cosmetics under the *Food and Drugs Act* and the *Cosmetic Regulations*. The manufacturer and importer must notify Health Canada that it is selling the product and provide a list of the product's ingredients.

Health Canada assesses all NHPs before allowing them to be sold in Canada. They also check that NHPs are properly manufactured (without contamination or incorrect ingredients) and perform post-market monitoring to make sure that NHP Regulations are being followed. If the product is found to be unacceptable for sale in Canada, Health Canada will take appropriate compliance and enforcement actions as deemed appropriate and the product may be referred to the Health Products and Food Branch ("HPFB") Inspectorate. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions including product seizures, injunction actions and criminal prosecutions.

United States

Cosmetic products (most non-prescription skincare products) and ingredients typically do not require FDA approval before they are marketed, but the FDA monitors the safety and marketing claims of marketed cosmetic products. The FDA can inspect manufacturing facilities to determine if proper controls and practices are being followed and they also work with U.S. Customs and Border Protection to examine imported cosmetics. If the FDA believes that a cosmetic product may not comply with the regulations, they can ask a federal court to issue an injunction, request that U.S. marshals seize the products, initiate criminal action, refuse entry of an imported cosmetic, or request that a company recall a product. Failure to comply with regulatory requirements could have a material adverse effect on the Company's business, financial condition and operational results.

Additional Regulatory Considerations

Additional local, provincial, state, federal and foreign regulations may apply in various territories around the world. Any delays in obtaining, or failure to obtain regulatory approvals or to maintain proper compliance with relevant regulations in Canada, the U.S., the E.U. or other foreign countries, may significantly delay the development and commercialization of the Company's products and the receipt of revenues from the sale of its products.

Prescription Drug Products

The research, testing, manufacturing, packaging, labeling, approval, storage, selling, marketing, and distribution of prescription drug products are subject to extensive regulation in the U.S. by the FDA, in Canada by the TPD and by similar regulatory authorities in the E.U. and elsewhere. Despite the time and expense exerted by the Company, failure can occur at any stage. The drug development process is time-consuming, may involve significant delays despite the Company's best efforts and can require substantial cash resources. Even after initial approval has been obtained, further research, including post-marketing studies and surveillance programs may be required. Moreover, regulations are subject to change and the Company cannot predict its ability to meet new or changing regulations. There is also a risk that the Company's products may be subject to recalls if there are product manufacturing or quality issues or be withdrawn from the market due to non-compliance with regulatory requirements.

There can be no assurance that the Company's products will prove to be safe and effective in clinical trials or receive the requisite regulatory approval in any market. Any delay or failure to obtain regulatory approvals could adversely affect the Company's business, financial condition and operational results. Pharmaceutical companies are also subject to additional regulations covering occupational safety, manufacturing and laboratory practices, environmental protection and hazardous substance control. They may also be subject to existing and future local, provincial, state, federal and foreign regulation. Failure to obtain necessary regulatory approvals, the restriction, suspension or revocation of existing approvals or any other failure to comply with regulatory requirements, could have a material adverse effect on the Company's business, financial condition and operational results.

United States

The FDA has substantial discretion in the drug approval process. The FDA may delay, limit or deny approval of a drug candidate for many reasons. The process of receiving FDA approval has become more difficult with the requirement to submit a Risk Evaluation and Mitigation Strategy ("REMS") for certain drug products. Even once drug candidates are approved, these approvals may be withdrawn if compliance with regulatory standards is not maintained. In addition, the FDA has the authority to regulate the claims the Company's partners make in marketing its prescription drug products to ensure that such claims are true, not misleading, supported by scientific evidence and consistent with the product's approved labelling. Failure to comply with applicable requirements can result in fines, suspensions or withdrawal of approvals, product seizures and injunctions against the manufacture, holding, distribution, marketing and sale of a product, and both civil and criminal sanctions.

Canada

The TPD may deny issuance of a Notice of Compliance ("NOC") for a New Drug Submission ("NDS") if applicable regulatory criteria are not satisfied or they may require additional testing. Product approvals may be withdrawn if compliance with regulatory standards is not maintained. The TPD may require further testing and surveillance programs to monitor a pharmaceutical product which has been commercialized. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions including product seizures, injunction actions and criminal prosecutions.

Risks Related to Research & Development Activities

Risk Related to Clinical Trials

The Company and its drug development partners must demonstrate, through preclinical studies and clinical trials, that the product being developed is safe and efficacious before obtaining regulatory approval for the commercial sale of the product. The results of preclinical studies and previous clinical trials are not necessarily predictive of future results and the Company's current product candidates may not have favourable results in later testing or trials. Preclinical tests and Phase 1 and Phase 2 clinical trials are primarily designed to test

safety, to study pharmacokinetics and pharmacodynamics and to understand the side effects of products at various doses and schedules. Success in preclinical or animal studies and early clinical trials does not ensure that later large-scale efficacy trials will be successful and such success is not necessarily predictive of final results. Favourable results in early trials may not be repeated in later trials and positive interim results do not ensure success in final results. Even after the completion of Phase 3 clinical trials, the FDA, TPD, EMA or other regulatory authorities may disagree with the clinical trial design and interpretation of data and may require additional clinical trials to demonstrate the efficacy of product candidates.

Several companies in the biotechnology and pharmaceutical industries have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials and preclinical studies. In many cases where clinical results were not favourable, were perceived negatively or otherwise did not meet expectations, the share prices of these companies declined significantly. Failure to complete clinical trials successfully and to obtain successful results on a timely basis could have an adverse effect on the Company's future business and the price of its common shares.

The Company's prospects could also suffer if it, or any of its drug development partners, fails to develop and maintain sufficient levels of patient enrolment in its current or future clinical trials. Delays in planned patient enrolment may result in increased costs, and/or delays or termination of clinical trials, which could materially harm the Company's prospects.

Reliance on Third Parties to Conduct Clinical and Preclinical Studies

The Company and its drug development partners rely on third parties such as CROs, medical institutions and clinical investigators to enroll qualified patients, conduct, supervise and monitor its clinical trials, conduct preclinical studies and complete Chemistry, Manufacturing, and Control ("CMC") work. The reliance on these third parties for clinical development activities reduces its control over these activities. The reliance on these third parties, however, does not relieve the Company or its drug development partners of their regulatory responsibilities, including ensuring that its clinical trials are conducted in accordance with Good Clinical Practices ("GCPs") and that its preclinical studies are conducted in accordance with Good Laboratory Practices ("GLPs"). Furthermore, these third parties may have relationships with other entities, some of which may be competitors. In addition, they may not complete activities on schedule or may not conduct preclinical studies or clinical trials in accordance with regulatory requirements or the Company's trial design. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Company's ability to obtain regulatory approvals for product candidates may be delayed or prevented.

Inability to Achieve Drug Development Goals

From time-to-time, the Company sets targets and makes public statements regarding its expected timing for achieving drug development goals. These include targets for the commencement and completion of preclinical and clinical trials, studies and tests and anticipated regulatory filing and approval dates. These targets are set based on a number of assumptions that may not prove to be accurate. The actual timing of these forward-looking events can vary dramatically from the Company's estimates or they might not be achieved at all, due to factors such as delays or failures in clinical trials or preclinical work, scheduling changes at CROs, the need to develop additional data required by regulators as a condition of approval, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements necessary to commercialize product candidates, including out-licensing of product candidates if the Company deems this necessary and limitations are placed on the funds available to the Company. If the Company does not meet these targets, including those which are publicly announced, the ultimate commercialization of its products may be delayed and, as a result, its business could be harmed.

The Company has several product candidates that are at different stages of development and for which additional preclinical and clinical testing are underway or anticipated in the near future. There can be no assurance that preclinical or clinical testing of the Company's product candidates will yield sufficiently positive results to enable progress toward commercialization and any such trials will take significant time to complete. Unsatisfactory results may prompt the Company to reduce or abandon future testing or commercialization of particular product candidates and this may have a material adverse effect on the Company.

Due to the inherent risk associated with product development efforts in the pharmaceutical industry, particularly with respect to new drugs, the Company's product development expenditures may not result in the successful

introduction of government approved new pharmaceutical products. Also, after submitting a drug candidate for regulatory approval, the regulatory authority may require additional studies, and as a result, the Company may be unable to reasonably predict the total R&D costs to develop a particular product.

Risks Related to our Intellectual Property

Patents, Trademarks and Proprietary Technology

There can be no assurance as to the breadth or degree of protection that existing or future patents or patent applications may afford the Company or that any patent applications will result in issued patents or that the Company's patents or trademarks will be upheld if challenged. It is possible that the Company's existing patent or trademark rights may be deemed invalid. Although the Company believes that its products do not, and will not, infringe valid patents or trademarks or violate the proprietary rights of others, it is possible that use, sale or manufacture of its products may infringe on existing or future patents, trademarks or proprietary rights of others. If the Company's products infringe the patents or proprietary rights of others, the Company may be required to stop selling or making its products, may be required to modify or rename its products or may have to obtain licenses to continue using, making or selling them. There can be no assurance that the Company will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. The failure to do any of the foregoing could have a material adverse effect upon the Company. In addition, there can be no assurance that the Company will have sufficient financial or other resources to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if the Company's products infringe patents, trademarks or proprietary rights of others, the Company could, under certain circumstances, become liable for substantial damages which could also have a material adverse effect.

Regardless of the validity of the Company's patents, there can be no assurance that others will be unable to obtain patents or develop competitive non-infringing products or processes that permit such parties to compete with the Company. The Company may not be able to protect its intellectual property rights throughout the world as filing, prosecuting and defending patents and trademarks on all of the Company's product candidates, products and product names, when and if they exist, in every jurisdiction would be prohibitively expensive and can take several years. Competitors may manufacture, sell or use the Company's technologies and use its trademarks in jurisdictions where the Company or its partners have not obtained patent and trademark protection. These products may compete with the Company's products, when and if it has any, and may not be covered by any of its or its partners' patent claims or other intellectual property rights.

The laws of some countries do not protect intellectual property rights to the same extent as the laws of Canada and the U.S. and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favour the enforcement of patents, trademarks and other intellectual property protection, particularly those protections relating to biotechnology and pharmaceuticals, which could make it difficult for the Company to stop the infringement of its patents. Proceedings to enforce patent rights in foreign jurisdictions could result in substantial cost and could divert efforts and attention from other aspects of the business.

The pre-trial discovery process, the trial and the appeals process in patent litigation can take several years. The Company could commence a lawsuit against a third party for patent infringement or a lawsuit could commence against the Company with respect to the validity of its patents or any alleged patent infringement by the Company. The cost of such litigation, as well as the ultimate outcome of such litigation, whether or not the Company is successful, could have a material adverse effect on its business, results of operations, financial condition and cash flows.

Ability to Protect Know-How and Trade Secrets

The ability of the Company to maintain the confidentiality of its expertise and trade secrets is essential to its success. Disclosure and use of the Company's expertise and trade secrets, not otherwise protected by patents, are generally controlled under agreements with the parties involved. There can be no assurance however, that all confidentiality agreements are legally enforceable or will be honoured, that others will not independently develop equivalent or competing technology, that disputes will not arise over the ownership of intellectual property or that disclosure of the Company's trade secrets will not occur. To the extent that consultants or other research collaborators use intellectual property owned by others while working with the Company, disputes may also arise over the rights to related or resulting expertise or inventions.

Risks Related to Operating as a Public Company

Compliance with Laws and Regulations Affecting Public Companies

Any future changes to the laws and regulations affecting public companies, may cause the Company to incur increased costs as it evaluates the implications of new rules and implements any new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

Any new laws and regulations may make it more expensive for the Company to provide indemnities to the Company's officers and directors and may make it more difficult to obtain certain types of insurance, including liability insurance for directors and officers. Accordingly, the Company may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for the Company to attract and retain qualified persons to serve on its Board of Directors or as executive officers. The Company may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which could cause general and administrative costs to increase beyond what the Company currently has planned. The Company is continuously evaluating and monitoring developments with respect to these laws, rules and regulations and it cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs.

The Company is required annually to review and report on the effectiveness of its internal control over financial reporting and DCP in accordance with National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings of the CSA. The results of this review are reported in the Company's Management's Discussion and Analysis of Results of Operations and Financial Condition for fiscal 2020. The Company's CEO and CFO are required to report on and certify the effectiveness of the Company's internal control over financial reporting.

Management's review is designed to provide reasonable assurance, not absolute assurance, that all material weaknesses existing within the Company's internal controls are identified. Material weaknesses represent deficiencies existing in the Company's internal controls that may not prevent or detect a misstatement occurring which could have a material adverse effect on the quarterly or annual financial statements of the Company. In addition, management cannot provide assurance that the remedial actions being taken by the Company to address any material weaknesses identified will be successful, nor can management provide assurance that no further material weaknesses will be identified within its internal controls over financial reporting in future years.

If the Company fails to maintain effective internal controls over its financial reporting, there is the possibility of errors or omissions occurring or misrepresentations in the Company's disclosures which could have a material adverse effect on the Company's business, its financial statements and the value of the Company's common shares.

Public Company Requirements May Strain Resources

As a public company, the Company is subject to the securities laws of the jurisdictions in which it is a reporting issuer and the listing requirements of the TSX. The ever-increasing obligations of operating as a public company will require significant expenditures and will place additional demands on management as the Company complies with the reporting requirements of a public company. The Company may need to hire additional accounting, financial and legal staff with appropriate public company experience and technical accounting and regulatory knowledge.

In addition, actions that may be taken by significant stockholders may divert the time and attention of the Company's Board of Directors and management from its business operations. Campaigns by significant investors to effect changes at publicly traded companies have increased in recent years. If a proxy contest were to be pursued by any of the Company's stockholders, it could result in substantial expense to the Company and consume significant attention of management and the Board of Directors. In addition, there can be no assurance that any stockholder will not pursue actions to effect changes in the management and strategic direction of the Company, including through the solicitation of proxies from the Company's stockholders.

Risks Related to our Common Shares

Quarterly Fluctuations

The Company's quarterly and annual operating results are likely to fluctuate in the future. These fluctuations could cause the price of the Company's common shares to decline. The nature of the Company's business involves variable factors, such as the timing of launch and market acceptance of the Company's products, the timing and costs associated with product development and regulatory submissions of our products, the costs of maintaining manufacturing facilities operating below capacity and the costs associated with public company and other regulatory compliance. As a result, in some future quarters or years, the Company's clinical, financial or operating results may not meet the expectations of securities analysts and investors which could result in a decline in the price of the Company's common shares.

Volatility of Share Price

Market prices for securities, including those of the Company, have been historically volatile and subject to substantial fluctuations. The stock market experiences significant price and volume fluctuations unrelated to the operating performance of particular companies. Future announcements concerning the Company or its competitors, including the results of testing, technological innovations, new commercial products, marketing arrangements, government regulations, developments concerning regulatory actions affecting the Company's products and its competitors' products in any jurisdiction, developments concerning proprietary rights, litigation, additions or departures of key personnel, cash flow, public concerns about the safety of the Company's products and economic conditions and political factors in the U.S., the E.U., Canada or other regions may have a significant impact on the market price of the common shares. In addition, there can be no assurance that the common shares will continue to be listed on the TSX.

The market price of the Company's common shares could fluctuate significantly for many other reasons, including for reasons unrelated to the Company's specific performance, such as reports by industry analysts, investor perceptions, or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. In addition, when the market price of a company's shares drops significantly, shareholders may pursue securities class action lawsuits against the company. A lawsuit against the Company could result in substantial costs and could divert the time and attention of the Company's management and other resources.

Dilution from further Equity Financing and Declining Share Price

If the Company raises additional funding or completes an acquisition or merger by issuing additional equity securities, such issuance may substantially dilute the interests of shareholders of the Company and reduce the value of their investment. The market price of the Company's common shares could decline as a result of issuances of new shares or sales by existing shareholders of common shares in the market or the perception that such sales could occur. Sales by shareholders might also make it more difficult for the Company itself to sell equity securities at a time and price that it deems appropriate.

Absence of Dividends

The Company has not paid dividends on its common shares and does not anticipate declaring any dividends in the near future. As a result, the return on an investment in the Company's common shares will depend upon any future appreciation in value. There is no guarantee that the common shares will appreciate in value or even maintain the price at which they were purchased.

Litigation

From time-to-time, during the ordinary course of business, Crescita may be threatened with, or named as, a defendant in various legal proceedings including lawsuits based upon product liability, personal injury, breach of contract and lost profits or other consequential damage claims. Although the outcome of such matters is not predictable with assurance, the Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a material adverse effect on the Company's financial position, results of operations or the ability to carry on any of its business activities.

Additional Information

Additional information relating to the Company, including the Company's most recently filed AIF, can be found on SEDAR at www.sedar.com.

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, 2020 and 2019, 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, 2020 and 2019, 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 each 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 these matters. 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 matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addresses the key audit matter
Intangible Assets Impairment Assessment – Commercial Skincare and Manufacturing & Services reportable segments	
As at December 31, 2020, the carrying value of intangible assets related to the Commercial Skincare and Manufacturing & Services reportable segments amounted to $4.4 million, representing 16.8% of the Company's total assets. Any time an indicator of impairment exists, management assesses whether there has been an impairment loss in the carrying value of these assets. As disclosed in notes 5 and 12 to the consolidated financial statements, the temporary closures during the year of personal care service businesses, including spas and medispas, as a result of the COVID-19 global pandemic, was identified by management as a triggering event for purposes of testing intangible assets for impairment. The Company recognized an impairment loss of $1.9 million on these finite-lived intangible assets during the year, of which $1.1 million relates to Commercial Skincare segment and $0.8 million relates to Manufacturing & Services reportable segment. The recoverable amount was determined by management using a fair value less costs to sell model and a discounted cash flow model. Auditing management's impairment test was complex, given the degree of judgment and subjectivity in evaluating management's estimates and key assumptions. The key assumptions in the model included the discount rate, forecasted sales growth rates and earnings margins.	As part of our audit procedures, we tested the key assumptions, as well as the methodology and data used by the Group in their valuation model, by comparing them to external data when possible such as expected inflation rates and average growth rates for the Canadian consumer goods industry. We performed procedures to test that the cash flow projections used in the model are consistent with the information approved by the Board of Directors. Additionally, we have evaluated the historical accuracy of management's estimates that drive the assessment, such as sales and earnings margins by comparing management's past projections to actual performance. We involved our valuation specialists to assist us in evaluating the discount rate and methodology used, by evaluating inputs used and mathematical accuracy of the calculation. We performed a sensitivity analysis on each of the key stated assumptions to consider the degree to which these assumptions would change the recoverable amount of the Commercial Skincare and Manufacturing & Services reportable segments. We also evaluated the information presented in notes 5 and 12 of the notes to the consolidated financial statements.

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 [1]

Montréal, Canada
March 23, 2021

[1] CPA auditor, CA, public accountancy permit no. A127424

CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31		**2020**	2019
(In thousands of Canadian dollars)	***Notes***	**$**	$
Assets			
Current			
Cash and cash equivalents		**14,281**	9,268
Accounts receivable	*26*	**1,072**	2,433
Inventories	*5, 7*	**3,457**	3,784
Other current assets	*8, 26*	**589**	437
Total current assets		**19,399**	15,922
Non-current			
Contract assets	*9, 26*	**2,032**	1,584
Property, plant and equipment	*10*	**558**	648
Right-of-use asset	*11*	**228**	533
Intangible assets	*5, 12*	**4,614**	7,571
Deferred tax assets	*5, 24*	**-**	579
Total assets		**26,831**	26,837
Liabilities			
Current			
Accounts payable and accrued liabilities	*26*	**4,271**	3,935
Current portion of lease obligation	*14*	**297**	358
Current portion of other obligations	*16*	**50**	50
Total current liabilities		**4,618**	4,343
Non-current			
Convertible debentures	*15*	**933**	895
Lease obligation	*14*	**-**	295
Other obligations	*16*	**147**	196
Total liabilities		**5,698**	5,729
Equity			
Capital Stock	*17*	**58,184**	58,422
Contributed surplus		**2,273**	1,948
Accumulated other comprehensive income (AOCI)		**1,046**	1,145
Deficit		**(40,370)**	(40,407)
Total equity		**21,133**	21,108
Total liabilities and equity		**26,831**	26,837

Commitments (Note 25)
See accompanying Notes.

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

Years ended December 31		**2020**	2019
(In thousands of Canadian dollars, except shares and per share amounts)	***Notes***	**$**	$
Revenues	*18*	**15,640**	22,337
Operating expenses			
Cost of goods sold	*7, 22*	**4,367**	5,801
Research and development	*20, 22*	**1,101**	1,376
Selling, general and administrative	*20, 22, 28*	**7,126**	8,463
Depreciation and amortization	*10, 11, 12, 22*	**1,491**	1,729
Operating profit		**1,555**	4,968
Interest expense	*14, 15*	**252**	679
Interest income		**(291)**	(276)
Impairment of intangible assets	*12*	**1,918**	-
Other expenses (income)	*19*	**(668)**	1,274
Foreign exchange (gain) loss		**(176)**	111
Total other expenses		**1,035**	1,788
Income before income taxes		**520**	3,180
Deferred income tax expense	*5, 24*	**483**	1,325
Net income		**37**	1,855
Other comprehensive income (loss) to be reclassified to net loss in subsequent periods			
Unrealized (loss) gain on translation of foreign operations (net of income taxes)		**(99)**	335
Total comprehensive income (loss)		**(62)**	2,190
Earnings per share	*21*		
- Basic		**$ -**	$ 0.09
- Diluted		**$ -**	$ 0.09
Weighted average number of common shares outstanding			
- Basic		**20,661,477**	20,941,690
- Diluted		**20,969,205**	22,496,719

See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of Canadian dollars, except for number of shares)	Common Shares		Contributed Surplus	Deficit	AOCI	Total
	000's	$	$	$	$	$
Notes	*1, 17, 20*	*1, 17, 20*	*20*			
Balance, December 31, 2018	21,016,059	59,220	1,120	(42,143)	810	19,007
First time adoption of IFRS 16	-	-	-	(119)	-	(119)
Net income	-	-	-	1,855	-	1,855
Class A shares repurchased and cancelled *(note 17)*	(273,876)	(772)	523	-	-	(249)
Class A shares repurchased but not cancelled *(note 17)*	-	(26)	18	-	-	(8)
Share-based compensation expense	-	-	287	-	-	287
Unrealized gain on translation of foreign operations (net of income tax recovery of $ 327)	-	-	-	-	335	335
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 *(note 17)*	(9,547)	-	-	-	-	-
Class A shares repurchased and cancelled *(note 17)*	(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)
Balance, December 31, 2020	**20,648,448**	**58,184**	**2,273**	**(40,370)**	**1,046**	**21,133**

See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31		**2020**	2019
(In thousands of Canadian dollars)	***Notes***	**$**	$
Operating Activities			
Net income		**37**	1,855
Adjustments for:			
Depreciation and amortization	*10,11, 12, 22*	**1,491**	1,729
Share-based compensation	*20*	**155**	287
Inventory write-down	*5, 7*	**368**	252
Impairment of intangible assets	*12*	**1,918**	**-**
Deferred income taxes	*5, 24*	**483**	1,325
Contract assets	*9*	**(413)**	(1,738)
Interest accretion		**(133)**	14
Other		**120**	(144)
		4,026	3,580
Net change in non-cash working capital	*23*	**1,582**	1,726
Cash provided by operating activities		**5,608**	5,306
Investing Activities			
Acquisition of property, plant and equipment	*10*	**(59)**	(215)
Cash used in investing activities		**(59)**	(215)
Financing Activities			
Payment of lease obligation	*14*	**(358)**	(317)
Repurchase of Class A shares	*17*	**(68)**	(257)
Repayment of long-term debt		**-**	(3,570)
Payment of other obligations	*16*	**(50)**	(250)
Cash used in financing activities		**(476)**	(4,394)
Effect of exchange rate changes on cash		**(60)**	(18)
Net change in cash and cash equivalents during the year		**5,013**	679
Cash and cash equivalents, beginning of year		**9,268**	8,589
Cash and cash equivalents, end of year		**14,281**	9,268
Supplemental Cash Flow Information			
Interest paid [(i)]		**146**	509
Interest received [(i)]		**113**	193

[(i)] Amounts paid and received were reflected as operating cash flows in the Consolidated 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 that facilitate the delivery of active ingredients into or through the skin. The Company's corporate functions are carried out through its headquarters located at 2805, Place Louis-R-Renaud, Laval, Québec, H7V 0A3. Crescita maintains its registered office at 6733 Mississauga Road, Suite 800, Mississauga, Ontario, L5N 6J5.

2. BASIS OF PREPARATION

Statement of Compliance

These 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, 2020 and 2019 were authorized for issue on March 23, 2021, the date the board of directors approved these consolidated financial statements.

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 as described below. 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 consolidated financial statements are presented in Canadian dollars, the Company's functional currency.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned Canadian, U.S. and European subsidiaries.

	December 31, 2020	December 31, 2019
INTEGA Skin Sciences Inc. ("INTEGA")	**100%**	100%
Nuvo Research America, Inc. and its subsidiaries:		
Nuvo Research US, Inc., ZARS Pharma, Inc. ("ZARS"), and ZARS (UK) Limited	**100%**	100%
Dimethaid Immunology Inc.	**100%**	100%
Nuvo Research AG and its subsidiary:		
Nuvo Research GmbH	**100%**	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. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

All intercompany assets and liabilities, equity, income, expenses, and cash flows relating to intercompany transactions 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, 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 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.

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 of 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 main facility.

(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.

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

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 (being 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.

With the exception of 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 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.

Currently, the Company classifies all its financial assets at amortized cost, which includes cash and cash equivalents, accounts receivable, other financial assets and contract assets.

(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 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 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.

Currently, the Company classifies accounts payable and accrued liabilities, lease obligations, long-term debt, convertible debentures (debt component) and other long-term 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 to 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 of 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 product sales, licensing and collaboration arrangements, royalties and manufacturing and services agreements.

Product Sales
Revenue from product sales is recognized when the terms of a contract with a customer have been satisfied. For the sale of non-prescription skincare products, this occurs when the product is received by the customer and control over the product has been transferred to the customer. In the fulfillment of third-party contract manufacturing orders, revenue is recognized upon shipment, when the transfer of title to the customer occurs. 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 price specified in the contract, 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 Revenues

(i) Licensing and Collaboration Arrangements

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

a) Licenses are considered to be right-to-use licenses. As such, the Company recognizes license revenues at a point in time, upon granting the license or when the customer can use and benefit from the license.

b) Milestone revenues are immediately recognized in revenue when the underlying condition is met and collectability is reasonably assured. 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.

(ii) Royalties
Royalties are typically calculated as a percentage of product sales realized by the Company's licensees, including their sub-licensees, as specifically defined in each agreement. The licensees' sales generally consist of revenues from product sales of the Company's prescription products and net sales are determined by deducting the following: 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 revenue for sales-based or usage-based royalties 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 up-front 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.

Services 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 18*, Revenues* – for a disagreggation 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*; 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 has two share-based compensation plans: the Share Incentive Plan and the Share Appreciation Rights (SARs) Plan. Under the Share Incentive Plan, there are three sub-plans: (i) the Share Option Plan, (ii) the Share Purchase Plan and (iii) the Share Bonus Plan.

Share Incentive Plan
The Company measures and recognizes compensation expense for the Share Incentive Plan based on the fair value of the common shares or options issued. The three sub-plans are equity-settled share-based compensation plans.

(i) Under the Share Option Plan, the Company issues either fixed awards or performance-based options. Options vest either immediately upon grant or over a period of one to 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 ("VWAP") 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 (the "SARs Plan") was approved by the board of directors on December 31, 2020. 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. 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.

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 or around 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 will depend on future developments which are highly uncertain, subject to change and difficult to predict with meaningful precision.

The Pandemic caused high levels of unemployment in Canada and has resulted in lower consumer spending in many sectors. With most services offered in aesthetic spas and medispas being discretionary, the performance of the Company's business is closely tied to fluctuations in consumer disposable income and changing 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 continue to adversely affect the Company's ability to generate revenue comparable to historical levels.

During the first wave of the Pandemic, a significant number of Crescita's clients in the aesthetic and medical aesthetic sectors across Canada, deemed to be non-essential businesses, temporarily closed their practices, on or around March 24, 2020 and throughout most of the second quarter of 2020. The second wave of the Pandemic has led to the reinstitution of temporary closures to slow the spread of the virus in various provinces across Canada. These closures have had a meaningful impact on fiscal 2020 results and may continue to influence Crescita's financial performance in 2021. Falling demand for the Company's products has been observed driven in part by the decrease in demand for in-cabin aesthetic and medical aesthetic treatments due to the very nature of these services and the inability to successfully socially distance. Even with the existence of multiple viable vaccine options, it remains unclear what the duration and long-term effects of the Pandemic will be on Crescita's business.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the 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, estimations 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 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 below.

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 growth rate used for the extrapolation.

The temporary closures of personal care service businesses in connection with COVID-19, including spas and medispas, during prolonged periods throughout the 2020 fiscal year was identified as a triggering event for purposes of testing intangible assets for impairment. 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 (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 product pipeline. 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 signing and licensing fees, milestone payments and royalties and minimum future royalties on any future product sales derived from such collaborations. 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, 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 historical 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 20, *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

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

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

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

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

Licensing & Royalties
The Licensing and Royalties ("Licensing") reportable segment includes revenue generated from licensing the intellectual property related to the Company's lead prescription product, Pliaglis, or for the use of its transdermal delivery technologies, MMPE™ and DuraPeel™, on either an exclusive or non-exclusive basis. The Licensing segment also leverages the Company's in-house R&D capabilities for the development of new topical products combining its technologies and various selected molecules in order to fuel future licensing agreements in the non-prescription skincare market. The key revenue components in the Licensing segment are upfront and milestones payments as well as royalties determined using the agreed-upon formulas as described in each respective licensing agreement.

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

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

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
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**
Expenses					
Research and development	**-**	**-**	**-**	**1,101**	**1,101**
Selling, general and administrative	**-**	**-**	**-**	**7,126**	**7,126**
Depreciation and amortization	**-**	**-**	**-**	**1,491**	**1,491**
Other expenses	**-**	**-**	**-**	**1,035**	**1,035**
Deferred income tax expense	**-**	**-**	**-**	**483**	**483**
Total expenses	**-**	**-**	**-**	**11,236**	**11,236**
	3,463	**7,224**	**586**	**(11,236)**	**37**

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Year ended December 31, 2019	$	$	$	$	$
Revenue	7,600	12,059	2,678	**-**	22,337
Cost of goods sold	3,599	432	1,770	**-**	5,801
	4,001	11,627	908	**-**	16,536
Expenses					
Research and development	-	-	-	1,376	1,376
Selling, general and administrative	-	-	-	8,463	8,463
Depreciation and amortization	-	-	-	1,729	1,729
Other expenses	-	-	-	1,788	1,788
Deferred income tax expense	-	-	-	1,325	1,325
Total expenses	-	-	-	14,681	14,681
	4,001	11,627	908	(14,681)	1,855

7. INVENTORIES

Inventories consisted of the following as at:

	December 31, 2020	December 31, 2019
	$	$
Raw materials	**1,653**	1,739
Work-in-process	**443**	644
Finished goods	**1,361**	1,401
	3,457	3,784

During the year ended December 31, 2020, inventories in the amount of $3,999 were recognized in cost of goods sold ($5,117 for the year ended December 31, 2019).

During the year ended December 31, 2020, $368 of finished goods were written down ($252 for the year ended December 31, 2019).

There were no reversals of prior write-downs during the year ended December 31, 2020 ($nil - December 31, 2019).

8. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	December 31, 2020	December 31, 2019
	$	$
Prepaid expenses	**236**	226
Deposits	**61**	61
Sales taxes receivable	**48**	77
Current portion of contract assets (Note 9)	**92**	73
Government grants receivable (Note 22)	**152**	-
	589	437

9. CONTRACT ASSETS

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

	December 31, 2020	December 31, 2019
	$	$
Balance, beginning of year	**1,657**	-
Addition to contract assets	**413**	1,738
Amounts billed to customers and transferred to accounts receivable	**(185)**	(132)
Interest accretion	**112**	87
Foreign exchange movement	**127**	(36)
Balance, end of year	**2,124**	1,657
Less: current portion, end of year (Note 8)	**92**	73
Long-term balance, end of year	**2,032**	1,584

On April 25, 2019, the Company announced that it entered into a commercialization license agreement with Cantabria Labs ("Cantabria" and "the Cantabria Agreement") for an initial term of 15 years, granting Cantabria the exclusive rights to sell and distribute Pliaglis in Italy, Portugal, France and Spain (together "the Territories").

In consideration for the rights granted under the Cantabria Agreement, the Company received upfront payments totalling $3,721 (€2,500), which were recognized in licensing revenue for the year ended December 31, 2019. In addition, the Company recognized $1,738 as a contract asset and licensing revenue, representing the present value of the future minimum guaranteed sales-based royalties that Crescita is entitled to receive over the term of the agreement. The contract asset was calculated using a discount rate of 6.3%.

On June 24, 2020, Cantabria 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 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 incremental licensing revenue of $413 for the year ended December 31, 2020.

10. PROPERTY, PLANT AND EQUIPMENT

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

	Leasehold Improvements	Furniture and Fixtures	Computer Equipment and Software	Production Laboratory and Other Equipment	Total
Cost	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2018	617	249	629	821	2,316
Additions[(i)]	-	-	-	217	217
Balance, December 31, 2019	617	249	629	1,038	2,533
Additions [(i)]	-	-	-	57	57
Balance, December 31, 2020	**617**	**249**	**629**	**1,095**	**2,590**
Accumulated depreciation					
Balance, December 31, 2018	366	226	452	564	1,608
Depreciation expense	47	11	175	44	277
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**
Net book value as at December 31, 2019	204	12	2	430	648
Net book value as at December 31, 2020	**184**	**5**	**-**	**369**	**558**

[(i)] As at December 31, 2020, $nil of total PP&E additions were unpaid and included in accounts payable and accrued liabilities ($2 – December 31, 2019).

11. RIGHT-OF-USE ASSET

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

	Right-of-Use Asset $
Balance, January 1, 2019	837
Less: amortization	304
Balance, December 31, 2019	533
Less: amortization	305
Balance, December 31, 2020	**228**

12. INTANGIBLE ASSETS

Intangible assets consisted of the following as at:

	Product Brands and Formulations	Customer Relationships	Total
Cost	**$**	**$**	**$**
Balance, December 31, 2018	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2019	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2020	**7,996**	**3,050**	**11,046**
Accumulated amortization			
Balance, December 31, 2018	1,616	711	2,327
Amortization [(i)]	731	417	1,148
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**
Net book value as at December 31, 2019	5,649	1,922	7,571
Net book value as at December 31, 2020	**3,549**	**1,065**	**4,614**

(i) In April 2019, the Company reassessed the useful lives of certain product brands and formulations from 20 years to 10 years as well as customer relationships from 10 years to 5 years to better reflect its competitive environment. These changes were adjusted prospectively and resulted in an additional amortization expense of $174 during the year ended December 31, 2019.

Effective January 1, 2020, the Company has three reportable segments: (i) Commercial Skincare; (ii) Licensing and Royalties; and (iii) Manufacturing and Services. The change in reportable segments also resulted in a change to the determination of cash generating units ("CGUs"), which are now also based on reportable segments. Refer to Note 6 – *Segmented Information*. Prior to this, the Company operated its business as one segment and had two CGUs – INTEGA for product sales and Licensing for out-licensing activities.

As described in Note 5 – *Use of Estimates and Judgments*, 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. The timing of a recovery of consumer behavior and willingness to spend discretionary income on aesthetic products and treatments may continue to adversely affect the Company's ability to generate revenue comparable to historical levels. Even with the existence of multiple viable vaccine options, availability and other challenges in vaccinating the population in a timely manner still exist. It therefore remains unclear what the duration and long-term effects of the Pandemic will be on the Company's business.

The estimated future cash flows were based on the budget 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 2019) 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%.

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, the Company updated its impairment test and concluded that no further impairment charge was required.

A 50-basis point increase in the post-tax discount rate would have resulted in an impairment charge of approximately $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 $400 in 2020.

13. CREDIT FACILITY

On February 26, 2020, the Company completed a credit agreement with a Canadian chartered bank (the "Bank"), consisting of a revolving credit facility (the "Facility") for an authorized amount up to $3,500, subject to margin requirements. Loans drawn on the Facility are secured by a first-ranking charge in favour of the Bank over the Company's accounts receivable and inventories. Drawings in excess of the first $1,000 are limited to a percentage of the Company's outstanding accounts receivable and inventory, resulting in a total amount available under the Facility of $2,074 at December 31, 2020. The Facility bears interest at the Bank's prime rate (2.45% as at December 31, 2020) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at December 31, 2020.

14. LEASE OBLIGATION

The following table presents the movements in the lease obligation:

	December 31, 2020	December 31, 2019
	$	$
Balance, beginning of year	**653**	956
Increase of lease payments	**2**	14
Less: lease principal payments	**(358)**	(317)
Balance, end of year	**297**	653
Less: current portion, end of year	**297**	358
Long-term balance, end of year	**-**	295

Interest expense on the lease obligation for the year ended December 31, 2020, was $54 ($90 for the year ended December 31, 2019). The lease liability was recognized based on the present value of the remaining lease payments, discounted using Crescita's incremental borrowing rate of 11%.

15. 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. Commencing on August 29, 2019, following the second anniversary of the issue date, 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 13, *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 (refer to Note 20 – *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	**Equity [(i)]**	**Total**
	$	**$**	**$**
Balance, December 31, 2018	863	173	1,036
Accretion	32	-	32
Balance, December 31, 2019	895	173	1,068
Accretion	38	-	38
Balance, December 31, 2020	**933**	**173**	**1,106**

(i) The equity component was recorded in Contributed Surplus.

16. OTHER OBLIGATIONS

Other obligations consisted of the following as at:

	December 31, 2020	December 31, 2019
	$	$
Consideration payable relating to Alyria Acquisition [(i)]	177	226
Contingent payments relating to Alyria Acquisition [(i)]	20	20
	197	246
Less current portion	50	50
Long-term balance	147	196

[(i)] In August 2017, the Company's wholly owned subsidiary, INTEGA, acquired the Alyria® skincare line of product ("Alyria Acquisition").

17. CAPITAL STOCK

Authorized

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

Issued and Outstanding

The following table summarizes Crescita's outstanding common shares:

	Number 000s	Amount $
Balance, December 31, 2018	21,016	59,220
Shares repurchased and cancelled	(274)	(772)
Shares repurchased	-	(26)
Balance, December 31, 2019	20,742	58,422
Shares cancelled	(10)	-
Shares repurchased and cancelled	(84)	(238)
Balance, December 31, 2020	20,648	58,184

On June 26, 2019, the Company announced that the TSX approved the Company's normal course issuer bid, enabling it to purchase up to 1,000,000 of its Class A common shares ("Common Shares") for cancellation on the open market through the facilities of the TSX (the "Previous NCIB"). During the year ended December 31, 2019, the Company repurchased for cancellation 283,423 Common Shares with a carrying value of $798 for a cash consideration of $257. The excess of the carrying value over the purchase price in the amount of $541 was recorded to Contributed Surplus. Of the Common Shares repurchased, 9,547 Common Shares with a carrying value of $26 and a purchase value of $8 were held by the Company and cancelled subsequent to December 31, 2019.

In connection with its Previous NCIB, the Company adopted an automatic securities purchase plan (the "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. On March 24, 2020, in response to the COVID-19 pandemic, the Company terminated its ASPP. The Previous NCIB expired on June 27, 2020 and was not renewed. During the year ended December 31, 2020, prior to the cancellation of the ASPP, the Company repurchased for cancellation an additional 84,188 Common Shares with a carrying value of $238 for a cash consideration of $68. The excess of the carrying value over the purchase price in the amount of $170 was recorded to Contributed Surplus.

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. The Common Shares may be purchased under the NCIB commencing on November 30, 2020, and ending no later than November 29, 2021, or on such earlier date when the Company completes its purchases or elects to terminate the bid. In connection with its NCIB, the Company also adopted an ASPP. During the year ended December 31, 2020, no Common Shares were repurchased under the NCIB. The Company may terminate the NCIB provided that the insiders of the Company are not in a trading blackout and the Company is not otherwise in possession of any material undisclosed information about its business.

18. 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, 2020 and 2019:

	For the years ended December 31,							
	Canada		U.S.		ROW		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$	**$**	$
Commercial Skincare								
Product Sales	**5,926**	6,074	**74**	179	**704**	1,347	**6,704**	7,600
	5,926	6,074	**74**	179	**704**	1,347	**6,704**	7,600
Licensing and Royalties								
Licensing Revenue	**6,417**	6,260	**-**	-	**807**	5,799	**7,224**	12,059
	6,417	6,260	**-**	-	**807**	5,799	**7,224**	12,059
Manufacturing and Services								
Product Sales	**159**	337	**1,433**	2,229	**-**	-	**1,592**	2,566
Service Revenue	**120**	89	**-**	23	**-**	-	**120**	112
	279	426	**1,433**	2,252	**-**	-	**1,712**	2,678
	12,622	12,760	**1,507**	2,431	**1,511**	7,146	**15,640**	22,337

Amendment to the Development and Commercialization Agreement with Taro Pharmaceuticals Inc.
On July 28, 2020, the Company announced that it entered into an amendment to the development and commercialization agreement with Taro Pharmaceuticals Inc. ("Taro" and the "Taro Amendment") with regard to Pliaglis in the U.S. The Taro Amendment entitled the Company to a one-time payment of $5,151 (US$3,855), of which $4,483 (US$3,355) was recorded as licensing revenue, as it represented a royalty adjustment to past sales, and $668 (US$500) was recorded as Other Income. Refer to Note 19 *Other (Income) Expenses*. Under the terms of the amendment, the royalty rates on future sales were also adjusted upward.

Other Licensing Agreements
During the year ended December 31, 2020, in connection with the regulatory approval of Cantabria's manufacturing facility by European authorities, the Company revised its estimate of the net present value of future guaranteed minimum royalties to be received under the Cantabria Agreement and recognized incremental revenue of $413. Refer to Note 9 – *Contract Assets*. In addition, in October 2020, Cantabria launched Pliaglis in Spain, which entitled the Company to a milestone payment of $78 (€50).

On November 5, 2020, the Company announced that it entered into an exclusive agreement with Juyou Bio-Technology Co. Ltd ("Juyou") for the commercialization and development of Pliaglis and an enhanced formulation of Pliaglis in mainland China. As per the terms of the license agreement with Juyou, the Company received an upfront payment in cash of $165 (US$125) which was recorded in licensing revenue.

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, 2020, the Company had one major customer reported in the Licensing and Royalties segment that accounted for 41% of the Company's total revenue (two major customers reported in the Licensing and Royalties segment that accounted for 53% of revenues for the year ended December 31, 2019).

19. OTHER (INCOME) EXPENSES

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

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
Taro Amendment [(i)]	**(668)**	-
Termination fees and other costs [(ii)]	-	1,274
	(668)	1,274

[(i)] Under the terms of the Taro Amendment, 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.

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

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

The following is a summary of share-based compensation activity for the years ended December 31, 2020 and 2019.

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 June 13, 2018 and will be considered for ratification at its upcoming Annual General and Special Meeting of Shareholders on May 11, 2021. As at December 31, 2020, the number of common shares available for issuance under the Share Incentive Plan was 307,955.

(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 either immediately upon grant or over a period of one to 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 as at:

	Number of Options	**Range of Exercise Price**	**Weighted Average Exercise Price**
	000's	**$**	**$**
Balance, December 31, 2018	2,162	0.43 - 3.12	1.00
Granted	560	0.46 - 0.78	0.52
Forfeited	(46)	0.65 - 3.12	1.57
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**

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, 2019 - 7.0%), and the remaining model inputs for options granted during the years ended December 31, 2020 and 2019 were:

Options 000's	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Value $
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

Options 000's	Grant Date	Share Price $	Exercise Price $	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values $
450	January 4, 2019	0.46	0.46	1.93%	5	99%	0.38
110	May 21, 2019	0.78	0.78	1.50%	5	97%	0.60

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at December 31, 2020:

	Outstanding			Exercisable	
Exercise Price Range	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested Options	Weighted Average Exercise Price
$	000's	years	$	000's	$
0.43 - 0.58	977	7.45	0.48	416	0.49
0.60 - 0.81	1,163	7.35	0.65	633	0.68
1.21 - 1.42	135	1.07	1.36	135	1.36
1.63 - 1.65	514	5.38	1.63	514	1.63
	2,789	**6.72**	**0.81**	**1,698**	**0.97**

(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 2020, Crescita's employees made no contributions to the Share Purchase Plan (2019 - $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 2020, no shares were issued under the Share Bonus Plan (2019 - nil).

Share Appreciation Rights Plan
The Company's SARs Plan was approved by the board of directors on December 31, 2020.

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. Participants receive, upon vesting, a cash amount equal to the difference between the SARs' settlement value and the grant price value. 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. 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.

The first SARs under the Company's SARs Plan were granted January 1, 2021. There was therefore no impact on the year ended December 31, 2020.

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. Concurrent with the issuance of those warrants, Knight surrendered and cancelled the 293,163 common share purchase warrants it previously held. 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, 2018	661	0.75 - 2.44	1.24
Issued	-	-	-
Expired	(165)	2.44	2.44
Balance, December 31, 2019	496	0.75 - 1.00	0.84
Issued	-	-	-
Expired	-	-	-
Balance, December 31, 2020	**496**	**0.75 - 1.00**	**0.84**

Summary of Share-based Compensation

Share-based compensation expense is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
Share-based compensation expense	**155**	287
Recorded in the consolidated statements of income and comprehensive income (loss) as follows:		
Research and development expenses	-	38
Selling, general and administrative expenses	**155**	249
Share-based compensation expense	**155**	287

21. EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Net income attributable to equity holders	**37**	1,855
Interest on convertible debentures, net of income taxes [(i)]	-	91
Dilutive net income attributable to common equity holders	**37**	1,946
Weighted-average number of common shares outstanding	**20,661,477**	20,941,690
Net effect of dilutive stock options, warrants and convertible debentures [(i)]	**307,728**	1,555,029
Weighted-average number of diluted common shares	**20,969,205**	22,496,719
Earnings per share		
Basic	**$ -**	$0.09
Diluted	**$ -**	$0.09

[(i)] For the year ended December 31, 2020, convertible debentures were excluded from the calculation of diluted earnings per share because such inclusion would have been 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:

	Year ended December 31, 2020	Year ended December 31, 2019
Common shares issued and outstanding (Note 17)	**20,648,448**	20,742,183
Stock options outstanding (Note 20)	**2,789,312**	2,676,002
Convertible debentures (Note 15)	**1,000,000**	1,000,000
Warrants (Note 20)	**496,000**	496,000
	24,933,760	24,914,185

22. EXPENSES BY NATURE

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

(a) Employee costs:

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
Short-term employee wages, bonuses and benefits[(i)]	**4,427**	6,445
Share-based payments (Note 20)	**104**	199
Termination benefits	**101**	15
Total employee costs	**4,632**	6,659
Included in:		
Cost of goods sold	**833**	1,344
Research and development expenses (R&D)	**584**	795
Selling, general and administrative expenses (SG&A)	**3,215**	4,520
Total employee costs	**4,632**	6,659

(i) During the year, the Company determined that it qualified for the Canada Emergency Wage subsidy program ("CEWS" or the "Program") under the COVID-19 Economic Response Plan in Canada. Under the Program, Crescita was entitled to these wage subsidies because its revenue decreased beyond a government-determined threshold due to the COVID-19 pandemic. The subsidies were recorded as a reduction of the related wages and salaries. For the year ended December 31, 2020, the Company recognized $1,024 under the Program. Of this amount, $302 was recorded against inventory, while the remaining balance of $722 was recorded against SG&A wages.

(b) Depreciation and amortization:

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
Cost of goods sold	**392**	498
Selling, general and administrative expenses[(ii)]	**1,099**	1,231
Total depreciation and amortization	**1,491**	1,729

(ii) Includes $1,039 of amortization of intangible assets and $60 of depreciation of tangible assets for the year ended December 31, 2020 ($1,148 and $83 respectively for the year ended December 31, 2019).

23. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
Accounts receivable	**1,246**	2,809
Inventories	**(41)**	(1,338)
Other current assets and Contract assets	**45**	92
Accounts payable and accrued liabilities	**332**	163
Net change in non-cash working capital	**1,582**	1,726

24. INCOME TAXES

Deferred Tax Assets and Liabilities

(a) Recognized deferred tax assets (liabilities)

	As at December 31, 2019	Recognized in income	Recognized in other comprehensive income	**As at December 31, 2020**
	$	$	$	**$**
Canadian non-capital loss carryforwards	1,651	(962)	-	689
Canadian property plant and equipment	242	(76)	-	166
Convertible debenture	(28)	10	-	(18)
Right-of-use-asset and lease obligation	32	(14)	-	18
Contract assets	(439)	(124)	-	(563)
Share Issuance costs and unamortized discount on long-term debt	63	(51)	-	12
Income tax credit carryforward	131	-	-	131
Unrealized foreign exchange gain	-	-	(96)	(96)
Provisions and other accruals	100	-	-	100
Intangible assets	(1,173)	734	-	(439)
Net deferred tax assets	579	(483)	(96)	-

The Canadian legal entities comprising Crescita have investment tax credits in the amount of $131 as at December 31, 2020 ($131 as at December 31, 2019) 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, 2020 ($896 as at December 31, 2019) 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.

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:

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
U.S. non-capital loss carryforwards	75,884	76,835
U.S. federal and state research and development credits	4,364	4,452
Canadian unrealized foreign exchange loss on account of capital	-	1,229
Canadian non-capital loss carryforwards	9,584	8,531
U.S. Tax basis of property, plant and equipment and intangible assets in excess of accounting value	544	1,111
Deductible temporary differences not recognized	90,376	92,158

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

	Year ended December 31, 2020	Year ended December 31, 2019
	%	%
Statutory rate	26.5	26.6
Non-deductible expense, non-taxable income and other items	7.9	2.5
Impact of foreign income tax rate differential	-	(1.4)
Unrecognized temporary differences	52.3	17.2
Other	6.2	(3.2)
	92.9	41.7

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**
		$
United States [(i)]	2024 to 2029	42,485
United States	2025 to 2038	32,300
United States	No expiry	1,099
Canada	2033 to 2038	11,799
		87,683

(i) These U.S. losses carried forward were acquired with 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.

25. 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.

26. 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, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration – Alyria royalty earn-out	**-**	**-**	**(20)**	-	-	(20)

Valuation Methods and Assumptions
Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2020 and 2019.

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

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

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

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

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 will be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk including the COVID-19 pandemic, the level of 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 and amounts receivable from customers including contract assets. 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, 2020, in order to adjust for the potential impact of the COVID-19 pandemic on the collectability of its accounts receivable, which did not result in any significant impact.
In addition, the Company is exposed to credit-related losses on sales to its customers outside North America, including its contract asset, due to potentially higher risks of enforceability and collectability.

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

The contract asset in the amount of $2,124 related to the Cantabria Agreement is denominated in euros (December 31, 2019 - $1,657).

As at December 31, 2020, the Company had one customer that accounted for approximately 17% of the total accounts receivable (three customers that accounted for approximately 67% as at December 31, 2019).

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

	December 31, 2020	December 31, 2019
	$	$
Current	**791**	1,931
0-30 days past due	**251**	197
31-60 days past due	**50**	248
61-90 days past due	**16**	5
Over 90 days past due	**43**	121
	1,151	2,502
Allowance for doubtful accounts	**(79)**	(69)
	1,072	2,433

Interest Rate Risk

The Company's practice is to minimize interest rate cash flow risk exposures on its financing. The Company is currently not exposed to interest rate variability as its convertible debt instruments bear a fixed interest rate of 9% per year and it had not drawn any amounts on its Facility as at December 31, 2020.

Currency Risk

The Company operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies.

The significant balances in foreign currencies were as follows:

	Euros		U.S. Dollars	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
	€	€	**$**	$
Cash and cash equivalents	**110**	29	**808**	1,025
Accounts receivable	**115**	52	**96**	1,028
Other current assets	**121**	82	**9**	3
Contract assets	**1,302**	1,086	**-**	-
Accounts payable and accrued liabilities	**(82)**	(91)	**(1,162)**	(1,130)
	1,566	1,158	**(249)**	926

Based on the aforementioned net exposure as at December 31, 2020, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of $32 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of $244 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.

27. 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 $2,074 (refer to Note 13 – *Credit Facility*) under its revolving credit facility, subject to margin requirements. The Facility bears no financial covenants, and no amounts have yet been drawn.

28. 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 three executive officers and five non-employee directors. The compensation paid or payable to the Company's key management personnel for services rendered was as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	$	$
Short-term wages, bonuses and benefits	**1,252**	1,498
Share-based payments	**96**	162
Total key management compensation	**1,348**	1,660
Included in:		
Selling, general and administrative expenses	**1,348**	1,660
Total key management compensation	**1,348**	1,660

Corporate Information

REGISTERED HEAD OFFICE
6733 Mississauga Road, Suite 800
Mississauga, Ontario, Canada L5N 6J5
Tel. 1-905-673-4295
Fax. 1-905-673-3614
Email: info@crescitatx.com
Website: www.crescitatherapeutics.com

CORPORATE HEAD OFFICE
2805 Place Louis-R Renaud
Laval, Québec, Canada, H7V 0A3

AUDITORS
Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants
Montreal, Canada

LEGAL COUNSEL
Goodmans LLP
Toronto, Canada

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Symbol: CTX

INVESTOR RELATIONS
Email: ir@crescitatx.com

TRANSFER AGENT/REGISTRAR
Common Shares
AST Trust Company (Canada)
P.O. Box 700, Postal Station B
Montreal, Québec, Canada, H3B 3K3
Telephone: 1-800-387-0825
or outside Canada and U.S. 416-682-3860
Fax: 1-888-249-6189
or outside Canada and U.S. 514-985-8843
Email: inquiries@astfinancial.com

CORPORATE GOVERNANCE
The Company's website www.crescitatherapeutics.com contains the Company's corporate governance documents including Code of Conduct and Business Ethics, Corporate Disclosure Policy, Insider Trading Policy and Audit Committee Charter.

Board of Directors and Executive Officers

Daniel N. Chicoine, BComm, CPA, CA
Executive Chairman

Serge Verreault, BA, MBA
President and Chief Executive Officer

Jose DaRocha, CPA, CA
Chief Financial Officer

Anthony E. Dobranowski, BSc, MBA, CPA, CA
Lead Director
Chair of the Compensation, Corporate Governance and Nominating Committee

David A. Copeland, BMath, CPA, CA
Chair of the Audit Committee

John C. London, LLB, LLM
Director

Dr. Jean-François Tremblay, MD, CM, FRCPC, FAACS
Director

Thomas Schlader, BSc
Director