CRESCITA THERAPEUTICS

2019 Annual Report

Management's Discussion and Analysis

March 17, 2020

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 the Board of Directors. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. 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 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, 2019 and 2018 which have been filed on 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 Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. All amounts in this MD&A are expressed in thousands of Canadian dollars, unless otherwise noted.

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.

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. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the Company's current beliefs, expectations and assumptions regarding the future of its 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 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, the risk factors included in this MD&A under the heading "Risks Factors", and as described from time to time in the reports and disclosure documents filed by Crescita with Canadian securities regulatory agencies and commissions. These and other factors should be considered carefully, and readers should not place undue reliance on Crescita's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and none of Crescita or any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statement made by the Company in this MD&A is based only on information currently available to it 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

The Company reports its 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 to assess the underlying financial performance of the Company alongside their respective definitions:

Profitability	• **EBITDA *(non-IFRS)*** – is defined as earnings (loss) from continuing operations 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* section of this MD&A on page 23. • **Adjusted EBITDA *(non-IFRS)*** – is defined as earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization, gain on settlement, other income or expense, equity-settled stock-based compensation ("SBC"), gain on debt renegotiations, goodwill and intangible asset impairment, termination and other costs, accretion on the fair value of inventory and foreign currency gains (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 the adjusted EBITDA to its closest IFRS measure can be found under the *EBITDA and Adjusted EBITDA* section of the present document on page 23. • **Net income (loss) from continuing operations before income taxes** – is a measure of income or loss generated by the Company during the period, prior to the impact of any discontinued operations.
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 four-pillar growth strategy.

MD&A Contents

In this document, we aim to provide a narrative explanation of the Consolidated Audited Financial Statements through the eyes of management and provide context within which these financial statements should be analyzed by giving disclosure about the dynamics of the Company's business.

Corporate Overview

About Crescita

Crescita **(TSX: CTX and OTC US: CRRTF)** is a growth-oriented, innovation-driven Canadian commercial dermatology company with in-house research & development ("R&D") and manufacturing capabilities. The Company offers a portfolio of non-prescription skincare products and early to commercial stage prescription drug products and owns multiple proprietary drug delivery platforms that support the development of patented formulations that can facilitate the delivery of active ingredients into or through the skin.

Supported by a sales force covering Canada and executing its business to business to consumer marketing approach, Crescita sells its non-prescription skincare products domestically through spas, medispas, and medical clinics, as well as internationally, through distributors and an e-commerce platform.

1) **Spas:** our lead aesthetic product line, Laboratoire Dr Renaud® ("LDR"), is sold to professional aestheticians in spas, providing high performance active ingredient product formulations to enhance skincare treatments. Specializing in anti-aging, hydration, acne, rosacea, the spa environment provides non-invasive skincare solutions to clients. LDR is also sold and used for training in aesthetic schools across Canada.
2) **Medispas and Medical Clinics:** our medical aesthetic brands, Pro-Derm™ and Alyria®, are sold in medispas and medical clinics which require at least one medical doctor to be on staff or affiliated to the establishment. Such establishments offer both non-invasive and invasive procedures for anti-aging, acne and other skin ailments. Medical aestheticians and the affiliated doctors perform advanced skincare treatments such as chemical peels, advanced retinol facials, microdermabrasion, neurotoxin injections, and various laser and device treatments.
3) **International Distributors:** Some of our brands and formulations are currently sold in certain Asian markets, such as Malaysia and South Korea, through international distributors. In addition, some of the Company's products are also sold in the United States ("U.S.").
4) **E-Commerce:** Dermazulene®, a product specifically designed and created for the Chinese market, is distributed through a leading cross-border e-commerce platform in China.

Crescita's predecessor company, Nuvo Research, developed a prescription product called Pliaglis® that utilizes the Company's proprietary phase-changing topical cream *Peel* technology – see *Transdermal Delivery Technologies*. Pliaglis is a topical local anaesthetic 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 and sold by commercial partners in the U.S., Italy and Brazil, and in Canada by the Company.

Crescita's expertise in product formulation and development can be leveraged in combination with its patented transdermal delivery technologies to develop and manufacture creams, liquids, gels ointments and serums under its contract development and manufacturing organization ("CDMO") infrastructure. Crescita provides its CDMO services to several North American clients under full cGMP (current Canadian Good Manufacturing Practices) conditions and delivers innovative turnkey solutions that integrate production with in-house R&D, supply chain, quality assurance and quality control functions. The Company's integrated approach aims to simplify its clients' supply chain and maximize value to ensure timely and cost-effective commercial product launches for its clients.

The Company operates out of a 50,000-square-foot facility located in Laval, Québec, which produces a significant part of its non-prescription skincare products such as LDR, Pro-Derm and Alyria. Formulations manufactured by or for Crescita include cosmetics, natural health products ("NHP") and products with Drug Identification Numbers ("DIN").

While the Company runs its operations through its corporate head office located in Laval, Québec, it maintains a registered office located at 6733 Mississauga Road, Mississauga, Ontario.

Vision and Growth Strategy

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

Our growth strategy is comprised of four pillars, each of which is based on the fundamentals of 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, Multiplexed Molecular Penetration Enhancers™ ("MMPE™") and DuraPeel™, as well as the expansion of our distribution channels across all our geographic markets. The Company's 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, the Company 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 portfolios which are complementary to our own within the non-prescription and/or prescription markets. Potential acquisition targets pursued by the Company include assets in the medical aesthetic space such as: injectable neurotoxins, fillers, chemical skin peels, microneedling devices and mesotherapy. Management remains open to acquiring niche commercial stage prescription dermatology products. Assets or businesses reviewed by the Company must be strategic to the Company's growth plan.

Pillar 3: Strategic Out-licensing of Assets
The third growth pillar focuses on: (i) out-licensing our products in markets where Crescita has 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 dermo-cosmetic product development. These technologies have already been tested with several active ingredients, including cannabidiol ("CBD"), the non psychoactive component of cannabis, and have demonstrated significantly increased skin permeation of the active ingredient versus the control vehicle. Management believes that these technologies could be exploited with many other molecules and could be used to increase the efficacy of certain topical products currently sold. The Company will 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 leveraging the Company's in-house R&D and formulation expertise and by maximizing the utilization of its manufacturing facility, which has yet to operate at full capacity. In January 2020, the Company announced that its wholly owned subsidiary, INTEGA, was awarded a cannabis research license (the "**Research License**") by Health Canada allowing it to possess cannabis for R&D purposes. See *Subsequent Events*. By obtaining its Research License, Crescita is better positioned to support the needs of its existing partnerships in the cannabis industry through innovation-driven product development, and expects that the Research License may accelerate R&D programs and reduce the time to market for clients of its CDMO services.

Crescita's management is actively seeking customers with which to forge lasting partnerships and to become a third-party CDMO of choice by offering its customers high quality, cost-effective product development and manufacturing services.

Strategic Focus and Execution

The Company's Four-Pillar Growth Strategy guides the Company's overall strategic initiatives and resource allocation decisions. The success of the strategy will hinge upon management's effective execution and implementation of initiatives in each of the pillars of growth.

While the Company continues to pursue organic growth pathways, the potential of organic growth remains modest given the mature state of the dermo-cosmetic industry and the intense competitive landscape in which we operate. Business development continues to be the overarching driver through all our pillars and executing accretive collaborative arrangements remains a critical component of our business model and growth strategy.

The Company's strategic focus in 2020 will be to: (i) maximize the out-licensing of Pliaglis in the rest-of-world countries with emphasis on high-potential markets where marketing authorizations have already been granted; (ii) further leverage our patented transdermal delivery technologies as part of new out-licensing collaborations and by growing existing partnerships; (iii) expand our medical aesthetic portfolio with new products offerings through innovation and in-licensing; and (iv) optimize our commercial and operational capabilities.

With a robust portfolio of assets and a dedicated team in place, management believes it is well-positioned to execute its vision and commercial growth strategy in 2020 and beyond.

Competitive Conditions

Non-prescription Skincare Products
The skincare industry is mature. Longstanding and established companies command a significant share of the market, rendering competition intense. The highly competitive nature of our industry is driven by the ability to meet or surpass evolving consumer preferences and industry trends. Our ability to excel in this highly competitive landscape depends 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.

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 the Company's 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.

The Company differentiates itself through what it believes to be its 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 go-to-market capacity.

Prescription Drug Products
The pharmaceutical industry is also 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 the Company. 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 R&D,

experience in manufacturing, marketing, financial and managerial resources and they represent significant competition. The Company's branded products may also face competition from generic versions. The Company's success depends upon maintaining its competitive position in the R&D and commercialization of its products.

Pliaglis faces competition in all markets from other topically applied local anesthetic drug products such as compounded anesthetic creams that are available from certain compounding pharmacies, EMLA cream (lidocaine 2.5% and prilocaine 2.5%) and L.M.X 4 and L.M.X 5, anorectal creams that are available over the counter.

Non-Prescription Skincare Product Portfolio

Laboratoire Dr Renaud®
The Laboratoire Dr Renaud skincare line is inspired by nature and joins science and aesthetics to develop personalized solutions to address daily skin challenges such as: aging, acne, rosacea, pigmentation, dehydration and sensitivity. The product line was founded in France in 1947 by Dr. Louis Raymond Renaud, a renowned French dermatologist, and was launched as a Canadian brand in Montreal in 1963. With science and innovation at the heart of the brand since its inception, 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 and the worldwide rights for the formulations. Most of the LDR products are manufactured at the Company's Laval manufacturing facility.

Pro-Derm™
Pro-Derm is a line of high-quality cosmeceutical products sold to physicians operating medispas and medical 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 of the Pro-Derm products are manufactured at the Company's Laval manufacturing facility.

Alyria®
Alyria is a comprehensive skincare developed line using scientific research to target major skincare concerns. Alyria offers a complete skincare regimen to help patients achieve healthier-looking skin. Alyria products are sold by physicians and use therapeutic concentrations of some of the world's most advanced ingredients in proven formulations, delivered through advanced skin optimizing systems. Alyria's portfolio is complementary to the Company's existing Pro-Derm line and can be purchased throughout Canada in various medispas. Crescita owns the trademark rights for Canada, Europe, certain South American countries and the United States. 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. The Company has commenced the technology transfer of the manufacturing of the Alyria line of products to its facility and anticipates completion of the transfer by the end of fiscal 2020.

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 the first quarter of 2019 through cross-border import e-commerce platform NetEase Kaola (now owned by Alibaba Holding Group Limited). Dermazulene allows Crescita to create an e-commerce presence and to tap into the buying power of the Chinese market, while leveraging the positive perception of Canadian products there. Crescita owns the trademark rights to Dermazulene in Canada, China and the United States.

Prescription Product Portfolio

Pliaglis®
Pliaglis is a topical local anaesthetic 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 the Company's 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 drug 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 25 different countries and sold by commercial partners in the U.S., Italy and Brazil. See *Significant Transactions and Partnerships.* In addition, the Company launched Pliaglis in the Canadian medispa market through its existing sales force at the end of the fourth quarter 2019. Commercial activities are in place to create awareness regarding the product's availability in Canada. However, it is too early to determine what the market acceptance for this product or what its commercial viability will be in Canada.

Crescita continues to explore alternatives for the preferred commercial distribution pathway for Pliaglis in the ROW and is actively seeking to secure partners in geographies that have been identified as having the highest strategic priority.

Enhanced Formulation of Pliaglis®
The Company developed alternate enhanced formulations of Pliaglis that also contain 7% lidocaine and 7% tetracaine but possess improved application and removal properties compared to Pliaglis with extended patent protection to 2031 in multiple jurisdictions. On July 16, 2019, the United States Patent and Trademark Office granted U.S. Patent No. 10,350,180 for an enhanced formulation of Pliaglis which was subsequently approved by the U.S. Food and Drug Administration ("FDA") on November 5, 2019.

Products Candidates in Co-Development

In April 2014, Nuvo Research, the Company's predecessor company, entered into a joint venture with Ferndale Laboratories Inc. ("Ferndale") and a leading U.S. contract research company (a "CRO" and together the "Development Partners") to formulate and develop two topical dermatology products candidates (the "Product Candidates") utilizing the Company's 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 out-licensing.

However, in the second quarter of 2019, the Company finalized an amendment to the Original Joint Venture Agreement that included a commitment from the Company to participate in the funding of the Phase 3 clinical development in order to maintain Crescita's anticipated share of future licensing proceeds.

CTX-101
CTX-101 (formerly referred to as MiCal 1), is a topical formulation utilizing a corticosteroid in combination with the Company's patented MMPE™ technology to treat plaque psoriasis. On February 11, 2020, the Company 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 United States 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 ("IGA's") 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 Intent to Treat ("ITT") population and study results in the Per Protocol ("PP") population were also highly significant as were key secondary endpoints for both studies. The Company is now working with its Partners to complete the full clinical reports for these studies and to evaluate the next steps in the development program.

CTX-102
CTX-102 (formerly referred to as MiCal 2), is a topical formulation also utilizing the Company's patented MMPE™ technology to treat an undisclosed dermatological skin condition. Initial formulation development efforts for CTX-102 were completed in the second quarter of 2018, 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 which was initiated early in the fourth quarter of 2018, was completed in the first quarter of 2019. The results of the Phase 1 VCA study were encouraging and the Company is now advancing the development program through a pilot Phase 2 study that will provide additional feedback on the safety, user response and clinical efficacy of the lead formulation.

Transdermal Delivery Technologies

Crescita has multiple drug delivery platforms that support the development of patented formulations that can 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 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 two countries. DuraPeel™ patents have been issued in Australia, Canada, Japan and 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 Ingredient Guide 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 the United States, 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 new product offerings and product 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 stage products and proprietary platform technologies, which include MMPE and DuraPeel. See "Technologies". The following table summarizes the Company's key prescription drug 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 cosmetic dermatology procedures	Commercial	Patent for Pliaglis expired on September 28, 2019. Patent for enhanced formulation granted in U.S. and expiring in 2031. Applications pending in the U.S. through 2031.
Pliaglis (ROW)	Local anesthesia prior to cosmetic dermatology procedures	Commercial	Patents granted until September 27, 2020 in EP.
Enhanced formulations of Pliaglis (ROW)	Local anesthesia prior to cosmetic dermatology 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.
Dermatology products utilizing MMPE [3]	Prescription treatments of skin diseases	Pre-clinical	Patent granted in the U.S. expiring in 2027. Patent pending through 2027.

1. CTX-101 and CTX-102, formerly MiCal 1 and 2, respectively, 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.), Patent Cooperation Treaty (PCT), 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.

Fiscal 2019 Financial Highlights

- Record revenue of $22,337, an increase of $5,709 or 34.3% versus $16,628 in FY-2018;
    - Recognized $5,459 in up-front payments and guaranteed future minimum royalties, both related to the out-licensing agreement with Cantabria Labs;
    - Recognized $2,645 (US$2,000) in sales milestone from Taro related to the achievement of the final cumulative targets for the U.S. sales of Pliaglis®;
    - Recognized a $988 ($US750) development milestone from Taro related to the approval of an enhanced formulation of Pliaglis by the FDA;
- Operating expenses of $17,369, an increase of $704 or 4.2% versus $16,665 in FY-2018;
- Adjusted EBITDA[1] of $6,984, an improvement of $5,533 versus $1,451 in FY-2018;
- Repaid the Knight Loan in full in the amount of $3,570;
- Generated $679 in cash following the repayment in full of the Knight Loan for $3,570, resulting in an ending cash position of $9,268, versus $8,589 as at December 31, 2018. Cash generated before the repayment would have been $4,249.

Reporting Segments

Operating 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 to assessing its performance.

For the year ended December 31, 2019, the Company continued to operate as one operating segment. However, as a result of certain realignments in the 2020 strategic planning process and given the early stage of the Company's development, management is considering the requirements of IFRS 8 to ensure its reporting segments will allow users of its financial disclosure to better understand its main activities, how they are carried out and how they are performing. The Company expects to report under its new segment structure starting in the first quarter of 2020.

The determination of the Company's reporting segments will be based on the Company's operating segments or an aggregation thereof within its primary business activities including: (i) its non-prescription skincare business; (ii) the out-licensing of prescription products or product candidates; and (iii) the out-licensing of its transdermal delivery technologies.

[1] Adjusted EBITDA is a non-IFRS measure. Please refer to the *Non-IFRS and Key Financial Measures* and the *EBITDA and Adjusted EBITDA Reconciliation* sections of this MD&A.

Key Business Developments

Significant Transactions and Partnerships

Long-Term Debt with Knight Therapeutics Inc.
On December 20, 2019, Company repaid, in full and without penalty, its outstanding long-term debt of $3,570 with Knight Therapeutics Inc. (“Knight” and the “Knight Loan”). The Knight Loan bore interest at a rate of 9.0% and had a maturity date of June 30, 2022.

Development and License Agreement with Sundial Growers Inc.
On October 28, 2019, the Company announced that it 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.

The partnership combines Crescita’s expertise in dermal sciences and in the development of patented topical formulations with Sundial’s cannabis production and extraction expertise. The agreement will enable the development of unique, high-quality cannabis and hemp topicals for the Canadian and international non-prescription markets.

Sundial will fund the development and formulation costs and will have the worldwide marketing and distribution rights for the newly developed products. Sundial's initial topical offerings will include two products that will utilize the MMPE technology in an effort to deliver faster skin penetration without irritation. Both products are expected to be available for purchase in 2020. Crescita will 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.

In addition, Sundial will support Crescita in applying for and obtaining the Health Canada Standard Processing License for Cannabis.

Pliaglis Out-licensing Agreements

Out-licensing Agreement with Cantabria Labs and Reacquisition of ROW Pliaglis Rights
On April 25, 2019, the Company announced that it had 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 (the “Territories”).

As consideration for the rights granted under the Cantabria Agreement, the Company received up-front payments totaling $3,721 (€2,500). In addition, the Company is eligible to receive double-digit royalties on the net sales of Pliaglis in the Territories, with guaranteed minimum royalties per year, and milestones related to the launch and sales performance of Pliaglis in each of the Territories: Italy, France, Spain and Portugal. The first commercial sale of Pliaglis by Cantabria in Italy occurred on June 10, 2019. The minimum guaranteed royalties of $1,738 were recognized up-front in the second quarter of 2019, as prescribed by IFRS 15 – *Revenue from Contracts with Customers*. See *Results of Operations – Out-licensing Revenue*.

Effective April 1, 2019, Crescita reacquired the rest of world (“ROW”) development and marketing rights for Pliaglis from Galderma S.A. (“Galderma”), a global pharmaceutical company specialized in dermatology. Pliaglis is approved for sale in over 25 ROW countries but is currently only commercialized in Italy and Brazil in the ROW with annual product sales of approximately $3,200 (US$2,500) in these countries in 2018.

Out-licensing Agreement with Taro Pharmaceuticals Inc.
On April 25, 2017, the Company announced that it had entered into a development and commercialization license agreement with Taro Pharmaceuticals Inc., a subsidiary of Taro Pharmaceutical Industries Ltd. ("Taro" and the "Taro Agreement"). Under the terms of the agreement, Crescita granted Taro an exclusive license to sell and distribute Pliaglis and an enhanced formulation of Pliaglis in the U.S. market. Taro launched Pliaglis in the U.S in the first quarter of 2018. The Company earns double-digit tiered royalties on Taro's net sales.

As consideration for the rights granted under the Taro Agreement, Taro made an upfront payment of $2,700 (US$2,000) to Crescita in April 2017. In addition, under the fee-for-service development agreement signed with Taro, Crescita was successful in completing further development activities related to Pliaglis and the enhanced formulation, which resulted in additional milestone payments from Taro. Below is a summary of these development activities and associated milestones.

FDA approval of the Enhanced Formulation

- On November 5, 2019, the Company announced the approval of an enhanced formulation of Pliaglis by the FDA, triggering a $988 (US$750) milestone under the Taro Agreement, which was recognized in the fourth quarter of 2019. On May 2, 2019, Taro filed a CBE-30 supplement seeking approval for an enhanced formulation of Pliaglis which has improved application and removal properties as well as extended patent protection until 2031 in multiple jurisdictions.

Removal of "Not for Home Use" Label Restriction

- In 2017, Taro completed the study to support the removal of the Pliaglis "Not for Home Use" label restriction and filed the FDA submission with the proposed label change on June 8, 2018. On December 17, 2018, Crescita announced that the FDA had approved the Prior Approval Supplement ("PAS") for Pliaglis, allowing the restriction to be removed following its mandated six-month review process. The approval of this submission triggered a $661 (US$500) milestone which was recognized in the fourth quarter of 2018.

Enhanced Formulation Composition Patent

- In July 2017, the United States Patent and Trademark Office granted U.S. Patent No. 9,693,976, entitled "Solid-Forming Local Anesthetic Formulations for Pain Control" relating to an enhanced formulation of Pliaglis. Under the terms of the Taro Agreement, the grant of this U.S. patent entitled Crescita to a $647 (US$500) milestone which was recognized in the third quarter of 2017.

In addition to these development milestones totalling $2,296 (US$1,750), the Company recognized four sales milestones of US$1,000 each, totaling $5,269 (US$4,000) since Pliaglis was launched in the first quarter of 2018. At the inception of the Taro Agreement, Crescita was eligible for US$5,750 in combined sales and development milestones, all of which had been recognized as of December 31, 2019.

Manufacturing & Supply of Pliaglis in the U.S.
In 2018, Taro successfully completed the transfer of the manufacturing process and analytical test methods for Pliaglis to its manufacturing facility in Brampton, Ontario. A Manufacturing Site Change Supplement seeking approval for Taro's facility to manufacture Pliaglis was submitted to the FDA on July 6, 2018. The FDA approved the site addition on September 4, 2018. Taro successfully completed their process validation batches and began to supply commercial batches of Pliaglis for the U.S. market in the fourth quarter of 2018.

Subsequent Events

Corporate Developments after December 31, 2019 and up-to the date of this MD&A:

Positive Topline Results from Two Pivotal Phase 3 Clinical Studies for CTX-101
On February 11, 2020, the Company announced positive topline results from two pivotal Phase 3 clinical trials for CTX-101 (formerly MiCal 1), an ultra-potent topical corticosteroid product being developed for the treatment of plaque psoriasis using the Company's patented MMPE technology. See *Product Candidates in Co-Development*.

Award of Cannabis Research License from Health Canada
On January 24, 2020, the Company announced that its wholly-owned subsidiary, INTEGA Skin Sciences Inc. ("INTEGA") was awarded a cannabis research license by Health Canada under the Cannabis Act and Cannabis Regulations, allowing the Company to possess cannabis for the purpose of R&D. The Research License was effective immediately and will enable the Company to better support the needs of its existing partnerships in the cannabis industry through innovation-driven product development. The Research License is also expected to accelerate R&D programs and reduce the time to market.

The Company also intends to develop cannabinoid-infused topical product formulations under its own skincare brands and may do so using its proprietary transdermal delivery technologies at its Laval facility.

Credit Facility with the Royal Bank of Canada
On January 22, 2020, the Company announced that it had secured a $3,500 revolving demand operating credit facility (the "Facility") with the Royal Bank of Canada ("RBC").

The Facility can be drawn by Crescita for working capital requirements and general corporate purposes, and bears interest at RBC's prime rate 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. The funds under the Facility became available to the Company on February 26, 2020.

Exclusive Distribution Agreement with Laboratoires FILLMED
On January 20, 2020, the Company announced that it entered into a distribution agreement (the "FILLMED Agreement") with Laboratoires FILLMED ("FILLMED") for the exclusive distribution of the ART-FILLER® injectables range and New Cellular Treatment Factor® ("NCTF®") in Canada. FILLMED is a French aesthetic medicine company with expertise in developing aesthetic and cosmetic anti-ageing treatment solutions using hyaluronic acid. The partnership with FILLMED will allow Crescita to expand its product offering in the medical aesthetic field with the addition of the hyaluronic acid ("HA") ART-Filler® injectables range and NCTF® 135 HA, a skin rejuvenation solution indicated primarily for the improvement of skin quality and fine lines and a global leader in its category.

Selected Yearly Financial Information

In thousands of CAD dollars except number of shares and per share data	2019	2018	2017	Change 2019 / 2018	Change 2018 / 2017
Operations					
Revenues	**22,337**	16,628	12,014	5,709	4,614
Total operating expenses	**17,369**	16,665	18,228	704	(1,563)
Operating Profit (Loss)	**4,968**	(37)	(6,214)	5,005	6,177
Interest expense, net	**403**	493	357	(90)	136
Other expenses (income)	**1,274**	(1,105)	4,591	2,379	(5,696)
Foreign exchange (gain) loss	**111**	(74)	96	185	(170)
Total Other Expenses (Income)	**1,788**	(686)	5,044	2,474	(5,730)
Income (Loss) from continuing operations before income taxes	**3,180**	649	(11,258)	2,531	11,907
Deferred income tax expense (recovery)	**1,325**	(1,773)	-	3,098	(1,773)
Net income (loss) from continuing operations	**1,855**	2,422	(11,258)	(567)	13,680
Net (loss) from discontinued operations	**-**	(26)	(205)	26	179
Net income (loss)	**1,855**	2,396	(11,463)	(541)	13,859
Adjusted EBITDA[1]	**6,984**	1,451	(4,431)	5,533	5,882
Net income (loss) per common share					
Basic	**$ 0.09**	$ 0.12	$ (0.81)	$ (0.03)	$ 0.93
Diluted	**$ 0.09**	$ 0.12	$ (0.81)	$ (0.03)	$ 0.93
Weighted average number of common shares outstanding					
Basic	**20,941,690**	19,706,535	13,959,518	1,235,155	5,747,017
Diluted	**22,496,719**	19,706,535	13,959,518	2,790,184	5,747,017
Balance Sheet (As at December 31)					
Cash and cash equivalents[2]	**9,268**	8,589	6,997	679	1,592
Total assets	**26,837**	27,565	22,565	(728)	5,000
Total non-current financial liabilities[3]	**1,386**	2,914	3,597	(1,528)	(683)
Total liabilities	**5,729**	8,558	9,458	(2,829)	(900)
Total equity	**21,108**	19,007	13,107	2,101	5,900

[1] Adjusted EBITDA is a non-IFRS measure. Please refer to the *Non-IFRS Financial Measures*. 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] In Q3-2017, previously restricted short-term investments were transferred to unrestricted cash accounts as part of the Knight loan renegotiation.

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

Outstanding Share Data

The following table provides a summary of the capital stock and stock options outstanding as at:

	As at March 16, 2020
Common shares	20,707,589
Stock options[1]	2,619,594
Convertible debentures[2]	1,000,000
Warrants	496,000

[1] This amount includes 1,753,502 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.

Normal Course Issuer Bid

On June 26, 2019, the Company announced that the Toronto Stock Exchange (the “TSX”) approved the Company's intention to make a normal course issuer bid (the “NCIB”) for a portion of its common shares ("Common Shares") as appropriate opportunities arise from time to time.

The NCIB enables Crescita to purchase on the open market, through the facilities of the Toronto Stock Exchange, up to 1,000,000 Common Shares for cancellation. The Common Shares may be purchased under the NCIB commencing June 28, 2019, and ending no later than June 27, 2020, or on such earlier date when the Company completes its purchases or elects to terminate the bid.

The Company adopted an automatic securities purchase plan (the “ASPP”) in connection with its NCIB that contains strict parameters regarding how its Common Shares may be repurchased by its broker, Haywood Securities Inc., during times when it would ordinarily not be permitted to purchase Common Shares due to regulatory restrictions or self-imposed blackout periods. The automatic securities purchase plan took effect at the commencement of the NCIB.

During the year ended December 31, 2019, 283,423 Common Shares were repurchased for cancellation, at an average market price of $0.91 per Common Share for an aggregate consideration of $257 plus commission, of which 273,876 Common Shares were cancelled as at December 31, 2019, and 9,547 were cancelled subsequently.

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 timing and amount of product sales, royalties and other payments received pursuant to current and future operations and collaborations and licensing arrangements and the progress and timing of expenditures related to integration and product development efforts. Due to these fluctuations, Crescita believes that the period-to-period comparisons of its operating results are not necessarily a good indicator of future performance.

Foreign Exchange Rates

Crescita operates globally and as such 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 dollar amounts in Canadian dollars. Please refer to *Financial Instruments - Currency Risk* for a further discussion on the impact of foreign currency fluctuations on our results of operations.

	Three Months ended Dec 31,			Twelve Months ended Dec 31,		
	2019	2018	Change	2019	2018	Change
U.S. dollar	**1.3200**	1.3214	*-0.1%*	**1.3268**	1.2961	*2.4%*
Euro	**1.4617**	1.5080	*-3.1%*	**1.4855**	1.5306	*-2.9%*

As at December 31,	2019	2018	Change
U.S. dollar	**1.2988**	1.3642	*-4.8%*
Euro	**1.4583**	1.5613	*-6.6%*

Results of Operations

Revenue

For the years ended December 31,	2019	2018	Change $
In thousands of CAD dollars			
Product sales	**10,166**	9,082	1,084
Out-licensing	**12,059**	7,518	4,541
Services	**112**	28	84
Total revenue	**22,337**	16,628	5,709

For the year ended December 31, 2019, total revenue was $22,337 compared to $16,628 in the prior year, representing an increase of $5,709 or 34.3% year-over-year. The increase came primarily from our out-licensing business, representing $4,541 or 60.4% in incremental revenue, and to a lesser extent from product sales, representing an increase of $1,084 or 11.9%.

Product Sales
Product sales consist of both domestic and international sales from branded products in our non-prescription skincare portfolio as well as CDMO revenue. Branded products include: LDR, Pro-Derm, Alyria and Dermazulene. International markets include South Korea and Malaysia where LDR is sold through distributors, and China where the Company sells Dermazulene through a leading import e-commerce platform. The Company recognizes revenue from the sale of products when the goods are shipped or received by the customers depending on the specific arrangement.

Product sales for the year ended December 31, 2019 were $10,166 compared to $9,082 in the prior year, representing an increase of $1,084 or 11.9%. The increase was mainly driven by higher overall revenue from our branded skincare products across all the Company's geographic markets, more particularly due to the launch of Dermazulene in the Chinese market, as well as higher volumes from our CDMO business.

Out-licensing Revenue
Out-licensing revenue includes upfront and milestones payments as well as royalties based on the net sales recognized by the Company's licensing partners.

Taro has the exclusive rights to sell and distribute Pliaglis and its Enhanced Formulation in the U.S. and is responsible for all sales and marketing efforts as well as for all other matters related to Pliaglis in this market. The Company earns double-digit tiered royalties on Taro's net sales.

All other royalty revenue was related to the global net sales of Pliaglis. As of April 2019, the Company terminated its licensing agreement with Galderma for the ROW Pliaglis rights and immediately out-licensed the marketing and development rights for Italy, France, Spain and Portugal to Cantabria. The Company earned a fixed single-digit royalty on Galderma's net sales and earns a double-digit royalty on Cantabria's net sales.

Under the Cantabria Agreement, in addition to royalties and milestones related to the launch and sales performance of Pliaglis in the Territories, the Company will receive annual guaranteed minimum royalties over the term of the agreement. Under IFRS 15 - *Revenue from Contracts with Customers*, the guaranteed minimum royalties were recognized up-front as a contract asset at the inception of the agreement in the second quarter of 2019.

The contract asset was measured at the net present value of the future guaranteed minimum sales-based royalties that are expected to be received over the 15-year life of the licensing agreement. The amount of the royalties is determined using the agreed-upon formulas based on the definition of the licensee's net sales as described in each respective licensing agreement.

During the year ended December 31, 2019, out-licensing revenue was $12,059, compared to $7,518 for the year ended December 31, 2018, representing an increase of $4,541 or 60.4%. During fiscal 2019, the Company recorded 1) $3,721 in up-front payments and $1,738 in guaranteed minimum royalties, both related to the Cantabria Agreement, 2) $2,645 (US$2,000) in sales milestones triggered by Taro reaching the third and fourth and final contractual cumulative sales target in the first and third quarters, respectively, 3) a $988 (US$750) development milestone related to the FDA approval of an enhanced formulation of Pliaglis in the fourth quarter of 2019; and 4) $2,967 in royalties on the global net sales of Pliaglis. Crescita recognized minimal royalties on the net sales of Pliaglis during the last quarter as the U.S. distributor had sufficient inventory to meet commercial demand for the product.

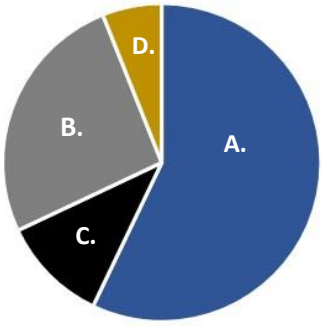
In addition, the Company was informed by its U.S. partner, Taro, of certain restrictive amendments to managed care in the U.S. which may have an adverse impact on Pliaglis sales in the future. Although the impact cannot be quantified and its extent is unknown at this time, the Company, along with its partner, will be closely monitoring sales in the U.S.

For the year ended December 31, 2018, the Company recognized $4,233 in royalties on the global net sales of Pliaglis and $3,285 (US$2,500) in sales and development milestones: 1) $2,624 (US$2,000) for Taro reaching the first and second contractual cumulative sales targets, and 2) $661 ($US500) for obtaining FDA approval to remove the “Not for Home Use” label restriction on Pliaglis in the U.S. The first quarter of 2018 marked the launch of Pliaglis in the U.S. by Taro. As a result, sales of the product, and consequently, royalties, were higher in order to fill the distribution channel in the U.S. market and therefore 2018 sales may not be indicative of future recurring revenue levels.

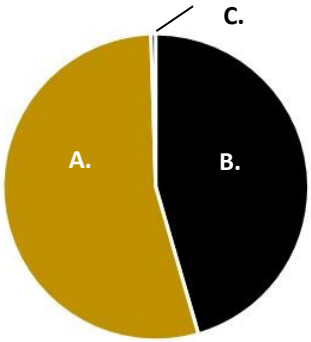
Services Revenue
Services revenue includes revenue earned under various product and formulation development agreements. For the year ended December 31, 2019, the Company earned $112, compared to $28 for the year ended December 31, 2018.

Revenue Distribution

The following charts provide additional information regarding our revenue mix for the year:



A.	Canada	57%
B.	U.S.	11%
C.	Europe	26%
D.	ROW	6%



A.	Product Sales	45%
B.	Out-licensing	54%
C.	Services	1%

Major Customers

Under IFRS 8 *Operating Segments* (“IFRS 8”), major customers are those that account for greater than 10% of the Company’s consolidated revenues. The Company had two major customers that accounted for 53% of the Company’s total revenue for the year ended December 31, 2019, and one major customer that accounted for 44% of revenues for the year ended December 31, 2018.

Operating Expenses

For the years ended December 31,	2019	2018	Change $
In thousands of CAD dollars			
Cost of goods sold	**5,801**	5,573	228
Research and development	**1,376**	1,063	313
Selling, general and administrative	**8,463**	8,883	(420)
Amortization and depreciation	**1,729**	1,146	583
Total operating expenses	**17,369**	16,665	704

Total operating expenses for the year ended December 31, 2019 were $17,369, compared to $16,665 for the year ended December 31, 2018, representing a year-over-year increase of $704 or 4.2%. The increase was driven by higher research and development expenses of $313 associated with certain investments made to advance our product candidate pipeline, as well as higher cost of goods sold of $228 in line with incremental sales, higher amortization and depreciation charges of $583, partly offset by a decrease in selling, general and administrative ("SG&A") expenses of $420.

Cost of Goods Sold

Cost of goods sold ("COGS") primarily includes: the costs associated with manufacturing and packaging our products, provisions for inventory obsolescence, the cost of products purchased from third parties, as well as the costs related to earning out-licensing revenue.

For the year ended December 31, 2019, total COGS were $5,801, compared to $5,573 for the year ended December 31, 2018, representing an increase of $228 or 4.1%. Included in total COGS for the current year was $5,369 for product sales and $432 related to out-licensing revenue, compared to $4,900 for product sales and $673 related to out-licensing revenue for the year ended December 31, 2018. The year-over-year increase in COGS for product sales of $469 was mainly due to incremental sales and obsolescence charges recorded for the year, partly offset by the reclassification to amortization of the Company's right-of-use asset related to its manufacturing and office facility following the adoption of IFRS 16. COGS related to out-licensing revenue decreased by $241 year-over-year, mainly as a result of lower revenue royalties from the net sales of Pliaglis year-over-year.

When comparing these same periods, gross margin on product sales was $4,797 or 47.2%, compared to $4,182 or 46.0% for year ended December 31, 2018. The 1.2% improvement in margin year-over-year was mainly attributable to higher production volumes, improved margins on our higher-cost CDMO business, and the impact of IFRS 16 described above, partly offset by an unfavorable product mix.

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 costs.

In the normal course of its business, the Company allocates a significant part of its R&D resources to the rejuvenation of its non-prescription skincare lines for product development and product reformulations, as well as to support its CDMO business. Such product portfolio rejuvenation and innovation activities are ongoing and are a key success factor for Crescita, allowing the Company to remain competitive in its offering. To a lesser extent, the Company also incurs formulation development costs related to our prescription product candidates. 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. In general, costs borne by Crescita are limited to pre-clinical testing costs as well as costs related to the formulations and developments of test batches.

R&D expenses for the year ended December 31, 2019 were $1,376 compared to $1,063 for the year ended December 31, 2018, representing an increase of $313 or 29.4%. The increase was mainly driven by the Company's proportionate funding of the Phase 3 clinical development of CTX-101, its lead pipeline product

candidate, and to a lesser extent, by incremental headcount and outside laboratory testing and other third-party costs as a result of a higher number of product formulation and development projects, partly offset by a Scientific Research and Experimental Development ("SR&ED") tax credit received in the fourth quarter of 2019 which related to development work performed in the past.

Selling, General and Administrative
For the year ended December 31, 2019, SG&A expenses were $8,463, compared to $8,883 for the year ended December 31, 2018. The year-over-year decrease of $420 or 4.7% was mainly driven by overall lower consulting fees and stock-based compensation.

Amortization and Depreciation
Amortization expense was $1,729 for the year ended December 31, 2019, compared to $1,146 in the prior year. The year-over-year increase of $583 or 50.9% was mainly due to the incremental amortization of the Company's right-of-use asset related to its manufacturing and office facility following the adoption of IFRS 16, and, to a lesser extent, to additions of property, plant and equipment in the normal course of business. During the year, the Company reassessed the useful lives of certain intangible assets to better reflect the Company's current competitive landscape, resulting in accelerated amortization of these intangible assets. The changes in useful lives were adjusted prospectively and resulted in an additional amortization expense of $174 in the current year.

Other Expenses (Income)

For the years ended December 31,	2019	2018	Change $
In thousands of CAD dollars			
Interest expense	**679**	603	76
Interest income	**(276)**	(110)	(166)
Foreign exchange loss (gain)	**111**	(74)	185
Termination fees and other costs	**1,274**	-	1,274
Other income	**-**	(455)	455
Gain on settlement	**-**	(650)	650
Total other expenses (income)	**1,788**	(686)	2,474

Interest
Interest expense was $679 for the year ended December 31, 2019, compared to $603 in the prior year. These amounts were primarily related to the Knight Loan net of amortization of the fair value adjustments, as well as the interest accretion on other obligations related to the acquisition of Alyria and on the convertible debentures.

Interest income was $276 for year ended December 31, 2019, compared to $110 in the prior year. The Company earns interest on its cash balances and short-term investments. In addition, the Company records accretion on the Contract Assets related to the guaranteed minimum royalties recognized under the Cantabria Agreement.

Foreign Currency Losses (Gains)
For the year ended December 31, 2019, the Company incurred a net foreign currency loss of $111, compared to a net foreign currency gain of $74 for the year ended December 31, 2018. The variance from year to year was primarily driven by the timing of payments and settlements of foreign currency denominated balances as well as the revaluation of certain items on the consolidated statement of financial position.

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.

Other Income
During the year ended December 31, 2018, the Company recorded $455 in Other Income which was mainly composed of the following: 1) consideration received relating to planned facility upgrades pursuant to deficiency claims under a previous acquisition and a reimbursement with respect to previously rendered contract manufacturing services, and 2) a gain related to a contingent consideration receivable from another previous acquisition, under the terms of which the Company is entitled to be compensated if certain sales targets and levels of inventory consumption are not achieved.

Gain on Settlement
On June 29, 2018 the Company entered into an agreement relating to a $1,000 historical liability owing under a previous acquisition concluded in 2016. Pursuant to the terms of the agreement, in consideration for INTEGA releasing the counterparty from any potential future claims under the agreement, INTEGA no longer had to pay a portion of that liability equal to $650. The resulting benefit was recorded as a Gain on Settlement included in Other Income.

Net Income and Net Income per Common Share

For the years ended December 31,	2019	2018	Change $
In thousands of CAD dollars except number of shares and per share amounts			
Income from continuing operations before income taxes	**3,180**	649	2,531
Income tax expense (recovery)	**1,325**	(1,773)	3,098
Net income from continuing operations	**1,855**	2,422	(567)
Net (loss) from discontinued operations	**-**	(26)	26
Net income	**1,855**	2,396	(541)
Weighted average number of common shares outstanding			
- basic	**20,941,690**	19,706,535	1,235,155
- diluted	**22,496,719**	19,706,535	2,790,184
Net income per common share			
- basic	**$ 0.09**	$ 0.12	$ (0.03)
- diluted	**$ 0.09**	$ 0.12	$ (0.03)

Income from Continuing Operations before Income Taxes
Income from continuing operations before income taxes was $3,180 for the year ended December 31, 2019, compared to $649 reported for the year ended December 31, 2018. The year-over-year increase of $2,531 was mainly attributable to: 1) the incremental gross margin on product sales of $615; 2) the benefit of the up-front payment and guaranteed minimum royalties under the Cantabria Agreement of $4,185, net of the Galderma contract termination fees; and 3) the benefit of the reduction in SG&A costs of $420, partly offset by 4) the lower gross margin on out-licensing revenue of $676; 5) the non-recurring benefit of other income and the gain on settlement of $1,105 recognized in fiscal 2018 which did not repeat; 6) higher R&D expenses of $313 in the current fiscal year; and 7) higher depreciation and amortization charges of $583.

Deferred Income Tax Expense (Recovery)
For the year ended December 31, 2019, the Company recognized $1,325 in deferred income tax expense related to the taxable income generated in the Crescita legal entity. For the year ended December 31, 2018, the Company had recognized an income tax recovery of $1,773, primarily in respect of previously unrecognized Canadian non-capital loss carry forwards and deductible temporary differences between the asset carrying amounts used for accounting purposes and the amounts used for tax purposes. The recognition of the income tax recovery was supported by a high probability, based on management's best estimate, that future taxable income against which to deduct the loss carry forwards and temporary differences will be available.

Net Income
Net income was $1,855 for the year ended December 31, 2019, a net decrease of $567 when compared to the $2,396 reported a year ago. The year-over-year variance was mainly driven by the same factors as identified above under the sections entitled *Income from Continuing Operations before Income Taxes,* and *Income Tax Expense (Recovery)*.

Net Income per Common Share and Weighted Average Number of Shares Outstanding
For the year ended December 31, 2019, the basic and diluted weighted average number of shares increased by 1,235,155 and 2,790,184, respectively, mainly due to the impact of the shares issued upon the completion of the Rights Offering in March 2018 and the exercise of stock options by an employee, partly offset by the shares purchased for cancellation under the NCIB during the year. The weighted average number of diluted shares outstanding for the periods is further impacted by the number of options and warrants that are "in the money", as well as the dilutive impact of convertible debentures.

EBITDA and Adjusted EBITDA Reconciliation

The following table provides a reconciliation between net income from continuing operations, as reported in accordance with IFRS, and EBITDA and Adjusted EBITDA, for the fiscal years ended December 31, 2019 and 2018.

For the years ended December 31,	2019	2018	Change $
In thousands of CAD dollars			
Net income from continuing operations	**1,855**	2,422	(567)
Add:			
Depreciation and amortization	**1,729**	1,146	583
Interest expense, net	**403**	493	(90)
Deferred income tax expense	**1,325**	-	1,325
EBITDA	**5,312**	**4,061**	**1,251**
Add:			
Equity-settled stock-based compensation	**287**	342	(55)
Foreign exchange loss	**111**	-	111
Other expense	**1,274**	-	1,274
Less:			
Other income	**-**	1,105	(1,105)
Foreign currency gain	**-**	74	(74)
Deferred income tax recovery	**-**	1,773	(1,773)
Adjusted EBITDA	**6,984**	**1,451**	**5,533**

Please refer to the section entitled *Income from Continuing Operations before Income Taxes* for details.

Liquidity and Capital Resources

Consolidated Statement of Cash Flows

For the years ended December 31,	2019	2018	Change $
In thousands of CAD dollars			
Net income from continuing operations	**1,855**	2,422	(567)
Net (loss) from discontinued operations	**-**	(26)	26
Items not involving cash flows	**1,725**	(920)	2,645
Cash from operations	**3,580**	1,476	2,104
Net change in non-cash working capital	**1,726**	(2,954)	4,680
Cash provided by (used in) operating activities	**5,306**	(1,478)	6,784
Cash (used in) investing activities	**(215)**	(144)	(71)
Cash (used in) provided by financing activities	**(4,394)**	3,186	(7,580)
Effect of foreign exchange rates on cash and cash equivalents	**(18)**	28	(46)
Net change in cash and cash equivalents during the year	**679**	1,592	(913)
Cash and cash equivalents, beginning of the year	**8,589**	6,997	1,592
Cash and cash equivalents, end of the year	**9,268**	**8,589**	**679**

Cash and Cash Equivalents
Cash and cash equivalents were $9,268 as at December 31, 2019 compared to $8,589 as at December 31, 2018.

Operating Activities
For the year ended December 31, 2019, cash provided by operating activities was $5,306, an improvement of $6,784 versus the $1,478 cash used in operating activities for the year ended December 31, 2018. The improvement was mainly driven by the increase in cash generated from operations of $2,104 versus the prior year, and the favorable movement in non-cash working capital items of $4,680 year-over-year. The improvement in cash from operations was mainly a result of the same drivers as those behind the improvement in our Adjusted EBITDA. Refer to *Income from Continuing Operations before Income Taxes* for further details.

The net change in non-cash working capital of $1,726 for the year just ended was mainly driven by a decrease in accounts receivable related to the timing of revenue collection, partly offset by an increase in inventory to meet planned demand.

For the year ended December 31, 2018, the net investment in working capital of $2,954 was mainly driven by the timing of the receivable related to Pliaglis royalty and milestone revenue. 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, 2019, the Company invested $215, mainly for the purchase of laboratory and plant equipment, compared to $144 invested for the year ended December 31, 2018. The prior year's investments were primarily related to plant equipment, computer equipment and facility upgrades.

Financing Activities
For the year ended December 31, 2019, net cash used in financing activities totaled $4,394, compared to net cash provided by financing activities of $3,186 for the year ended December 31, 2018. During fiscal 2019, the Company: 1) repaid in full the Knight Loan in the amount of $3,570; 2) paid $317 under its lease obligation for its manufacturing and office facility; 3) used $257 to pay for the purchase for cancellation of 283,423 Common Shares under the Company's normal course issuer bid; and 4) paid $250 for amounts owing in connection with the acquisition of the Alyria product line.

During fiscal 2018, the Company received $3,520 in net proceeds upon the completion of its Offering. These proceeds were partly offset by a payment of $300 related to the obligation payable in connection with the acquisition of the Alyria product line.

Commitments

The Company has commitments under a lease for the rental of its manufacturing and office facility. As a result of the Company's adoption of IFRS 16 – Leases, on January 1, 2019, this lease is now accounted for entirely on the Consolidated Statement of Financial Position. Please refer to Note 3 – *Summary of Significant Accounting Policies* in the Company's annual Consolidated Financial Statements for the years ended December 31, 2019 and 2018 for further details on the adoption of this accounting standard.

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, 2019			December 31, 2018		
In thousands of CAD dollars	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration – 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, 2019 and 2018.

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 of the Company for the contingent consideration payable for the royalty earn-out relating to the Alyria Acquisition. The fair value of the contingent consideration receivable and 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