



2023 Annual Report

Management's Discussion and Analysis

March 12, 2024

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, 2023 and 2022 (the "2023 Consolidated Financial Statements", "Fiscal 2023", and "Fiscal 2022", respectively) 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 the Company's profile on SEDAR+ at www.sedarplus.ca.

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 and statements". Refer to *Forward-looking Information and 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

Financial Highlights

Fiscal 2023 vs. Fiscal 2022	Q4-23 vs. Q4-22
<ul style="list-style-type: none">Revenue was \$17,522, down \$6,003Gross profit was \$10,364, down \$2,818Operating expenses were \$12,320, down \$333Adjusted EBITDA¹ was \$(368), down \$2,589Ending cash was \$9,385, up \$1,147	<ul style="list-style-type: none">Revenue was \$4,725, down \$1,305Gross profit was \$3,060, down \$825Operating expenses were \$3,173, down \$140Adjusted EBITDA¹ was \$245, down \$752

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.

Key Business Developments

For the year ended December 31, 2023 and up to the date of this MD&A:

Termination of Agreement with Taro Pharmaceuticals Inc.

On October 25, 2023, Taro Pharmaceuticals Inc. (“Taro”) delivered a notice to terminate the development and commercialization license agreement for Pliaglis® in the U.S. market. Our final entitlement to the annual guaranteed minimum royalties in the amount of US\$1.0 million was recognized in Q4-23, with payment expected in Q2-24. We are in the process of seeking a new partner to commercialize Pliaglis in the U.S. market. Please refer to *Significant Partnerships*.

Update on Manufacturing Segment

Certain manufacturing orders initially scheduled to be delivered in the second half of fiscal 2023 were, in part, deferred to 2024, and some cancelled, contributing to a material decrease in our manufacturing segment revenue for Q4-23 and Fiscal 2023, compared to the same periods of 2022. While our customer is reassessing commercial options for their products in key markets, we continue to have discussions regarding manufacturing opportunities to support their growth plans going forward. Please refer to *Revenue by Segment*.

Normal Course Issuer Bid

In Q3-23, the Toronto Stock Exchange (the “TSX”) approved the Company’s proposed normal course issuer bid (“NCIB”) to purchase up to a maximum of 1,821,616 common shares (“Common Shares”) for cancellation. The NCIB commenced on August 31, 2023 and is expected to terminate on August 30, 2024 or such earlier date as the Company completes its purchases pursuant to the NCIB or provides notice of termination. The Company has also entered into an automatic securities purchase plan in connection with its NCIB. Please refer to *Normal Course Issuer Bid*.

Relaunch of Alyria® as a Direct-to-Consumer Brand

In Q1-23, following rebranding and product reformulations, we relaunched Alyria as a direct-to-consumer medical-grade dermocosmetic brand in the Canadian skincare market. Alyria is primarily targeted at millennials and marketed and sold online through Amazon.ca and alyriaskincare.com. In Q2-23, Alyria was also launched in retail outlets of Familiprix, a Québec based chain of independently owned pharmacies. The relaunch of Alyria strengthens our omnichannel expansion and provides the opportunity to engage with a new consumer group.

Launch of ART FILLER®

In Q1-23, we launched ART FILLER, an exclusive collection of hyaluronic acid-based (“HA”) dermal fillers in the Canadian medical aesthetic market through our new dedicated sales force. ART FILLER is designed to smooth and fill in wrinkles and create or restore the volumes and contours of the face. Crescita is the exclusive Canadian distributor of ART FILLER and NCTF® Boost 135 HA (“NCTF”) under its distribution and promotion agreement with Laboratoires FILLMED (“FILLMED”). Please refer to *Significant Partnerships*.

Forward-looking Information

Certain statements in this MD&A constitute forward-looking statements and/or forward-looking information (collectively "forward-looking statements") within the meaning of applicable securities laws. All information in this MD&A, other than statements of current and historical fact, represents forward-looking information and is qualified by this cautionary note.

Forward-looking statements may relate to the Company's future financial outlook and anticipated events or results and may include information regarding the Company's financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans, objectives, and expectations. Such statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and allowing investors and others to get a better understanding of the Company's anticipated financial position, results of operations and operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Often, but not always, forward-looking statements can be identified by the use of forward-looking terminology such as: "outlook", "objective", "anticipate", "intend", "plan", "goal", "seek", "believe", "aim", "project", "estimate", "expect", "strategy", "future", "likely", "may", "should", "will", "growth strategy", "future", "prospects", "continue", and similar references to future periods or suggesting future outcomes or events. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking statements.

Examples of forward-looking information include, but are not limited to, statements made in this MD&A under the headings "Key Business Developments", "Outlook and Liquidity Update" and "Vision and Growth Strategy", "Strategic Focus and Business Outlook", including statements regarding the Company's objectives, plans, goals, strategies, growth, performance, operating results, financial condition, business prospects, opportunities and industry trends, and similar statements concerning anticipated future events, results, circumstances, performance or expectations.

Forward-looking statements are neither historical fact nor assurances of future performance. Instead, they reflect management's current beliefs, expectations and assumptions and are based only on information currently available to us. Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable by management of the Company as of the date of this MD&A, are inherently subject to significant business, economic, and competitive uncertainties and contingencies that are difficult to predict and many of which are outside of our control.

The Company's estimates, beliefs and assumptions, which may prove to be incorrect, include various assumptions regarding, among other things: the Company's future growth potential, results of operations, future prospects and opportunities; the Company's ability to retain and recruit, as applicable, customers, members of management and key personnel; industry trends; legislative or regulatory matters, including expected changes to laws and regulations and the effects of such changes; future levels of indebtedness; availability of capital; the Company's ability to secure additional capital and source and complete acquisitions; the Company's ability to maintain and expand its market presence and geographic scope; current economic conditions; the impact of currency exchange and interest rates; the Company's ability to maintain existing financing and insurance on acceptable terms; the Company's ability to execute on, and the impact of, its environmental, social and governance initiatives; the impact of competition; and the Company's ability to respond to changes to its industry and the global economy.

Forward-looking statements involve risks and uncertainties that could cause Crescita's actual results and financial condition to differ materially from those contemplated by such forward-looking statements. Important factors that could cause such differences include, among others:

- economic and market conditions, including factors impacting global supply chains such as pandemics and geopolitical conflicts and tensions, including the uncertainty created by the war in Ukraine and the Israel-Hamas war;
- the impact of inflation and rising interest rates together with the threats of stagflation or recession;
- the Company's ability to execute its growth strategies;
- the degree or lack of market acceptance of the Company's products;
- reliance on third parties for marketing, distribution and commercialization, and clinical trials;
- the impact of variations in the values of the Canadian dollar in relation to the U.S. dollar and Euro;
- the impact of the volatility in financial markets;
- the Company's ability to retain members of its management team and key personnel;
- 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 contractual obligations;
- the impact of 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;
- developments and changes in applicable laws and regulations, and;
- 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 most recent AIF.

If any risks or uncertainties with respect to the above materialize, or if the opinions, estimates or assumptions underlying the forward-looking statements prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking statements. This list is not exhaustive of the factors that may impact the Company's forward-looking statements. Although management has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known or that management believes are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, investors should not place undue reliance on forward-looking statements, which speak only as of the date made, and are subject to change after such date. Except as required by applicable securities laws, the Company undertakes no obligation to publicly update any forward-looking information, whether written or oral, that may be provided 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	<ul style="list-style-type: none">• EBITDA (non-IFRS) – is defined as earnings before interest, income taxes, depreciation of property, plant and equipment and amortization of right-of-use asset and intangible assets. A reconciliation of EBITDA to its closest IFRS measure can be found under the <i>EBITDA and Adjusted EBITDA Reconciliation</i> sections of this MD&A.• Adjusted EBITDA (non-IFRS) – is defined as earnings before interest, income taxes, depreciation of property, plant and equipment and amortization of right-of-use asset and intangible assets, share of (profit) losses of associates, fair value (gains) losses, share-based compensation costs, goodwill and intangible asset impairment, and foreign exchange (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 Adjusted EBITDA to its closest IFRS measure can be found under the <i>EBITDA and Adjusted EBITDA Reconciliation</i> section 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	<ul style="list-style-type: none">• 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.

Reporting Segments

We have three reportable segments: (i) Commercial Skincare; (ii) Licensing and Royalties; and (iii) Manufacturing and Services.

Commercial Skincare

The Commercial Skincare (“Skincare”) reportable segment manufactures our branded non-prescription skincare products for sale in Canada and certain international markets. It also commercializes Pliaglis®, NCTF®, ART FILLER®, and Obagi® Medical in Canada. Non-prescription products manufactured by Crescita include the following brands: Laboratoire Dr Renaud® (“LDR”), Pro-Derm® and Alyria®. These premium skincare lines provide solutions for a wide range of skin concerns such as aging, acne, hydration, pigmentation, and rosacea.

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

Licensing and Royalties

The Licensing and Royalties (“Licensing”) reportable segment primarily derives revenue from licensing the intellectual property related to Pliaglis, our lead prescription product, or to a lesser extent, for the use of our transdermal delivery technologies, Multiplexed Molecular Penetration Enhancers™ (“MMPE”) and DuraPeel™, on either an exclusive or non-exclusive basis. The Licensing segment may also leverage our in-house research and development (“R&D”) capabilities for the development of new topical products, which may combine our technologies and various selected molecules to fuel future licensing agreements in the non-prescription skincare market. The key revenue streams in the Licensing segment include upfront and pre- and post-commercialization milestone payments, royalties determined using the agreed-upon formulas as described in each respective licensing agreement, and product sales under supply agreements with the Company’s licensing partners.

Manufacturing and Services

The Manufacturing and Services (“Manufacturing”) reportable segment includes two main revenue streams: 1) revenue from the sale of topical products manufactured to client specifications under 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 topicals either under a private label or a brand name and may use a combination of Crescita’s existing formulations or novel formulations, with or without the utilization of our transdermal delivery technologies.

Refer to the *Revenue by Segment* and *Gross Profit by Segment* sections of this MD&A and to Note 5 - *Segmented Information* to our 2023 Consolidated Financial Statements.

Outlook and Liquidity Update

Our objectives when managing our liquidity and capital structure are to maintain enough cash to fund our operations, including organic growth initiatives, to pursue strategic licensing deals and acquisitions as part of our growth strategy, and to meet contractual obligations as they become due. As of December 31, 2023, Crescita had working capital (defined as current assets minus current liabilities) of \$13,623, including a cash balance of \$9,385. Our cash and other current assets at December 31, 2023 were sufficient to meet our current accounts payable, accrued liabilities, lease and other obligations. In addition, we have a revolving demand credit facility (the “Facility”) for an authorized amount, subject to margin requirements, of \$3,500. Based on our accounts receivables and inventory values at year end, the total amount available under the Facility was \$2,069. The Facility bears no financial covenants, and no amounts have yet been drawn.

Our ability to generate sufficient revenue to reach sustained profitability depends on the successful implementation of our growth strategy. 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. This exposure is discussed in more detail in the *Risks Factors* section of this MD&A.

Normal Course Issuer Bid

On August 29, 2023, we announced that the TSX approved the proposed NCIB to purchase up to a maximum of 1,821,616 Common Shares for cancellation starting August 31, 2023 and ending August 30, 2024 or such earlier date as the Company completes its purchases pursuant to the NCIB or provides notice of termination. Under our previous NCIB, ended on December 16, 2022, we repurchased and cancelled 663,600 Common Shares at a weighted average purchase price per share of \$0.66 for total consideration of \$440, of which 646,520 were cancelled during the year ended December 31, 2022.

In connection with each of these NCIBs, we adopted an automatic securities purchase plan (“ASPP”) containing strict parameters regarding how our Common Shares may be repurchased during times when we would ordinarily not be permitted to purchase Common Shares due to regulatory restrictions or self-imposed blackout periods. Such purchases are executed by the designated broker based on parameters established by the Company prior to the pre-established ASPP period.

The following table provides information on the Common Shares repurchased for cancellation during the fiscal years ended December 31, 2023 and December 31, 2022.

For the years ended December 31, <i>In 000's of CAD, except number of shares and average price</i>	2023	2022
	\$	\$
Common Shares repurchased for cancellation ¹	719,203	646,520
Weight average purchase price per share	0.55	0.66
Total purchase price	393	429

¹ The number of 719,203 Common Shares repurchased for the year ended December 31, 2023 includes 300,466 Common Shares that were cancelled after year end.

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 11, 2024
Common shares	19,541,391
Stock options ¹	2,967,587

¹ Includes 2,344,691 options which have vested.

Selected Yearly Financial Information

<i>In thousands of CAD, except per share data and number of shares</i>	2023	2022	2021
Operations	\$	\$	\$
Revenues	17,522	23,525	16,769
Cost of goods sold	7,158	10,343	6,755
Gross profit	10,364	13,182	10,014
Gross margin (%)	59.1%	56.0%	59.7%
Operating expenses	12,320	12,653	10,733
Operating profit (loss)	(1,956)	529	(719)
Interest (income) expense, net	(422)	(102)	54
Foreign exchange (gain) loss	(10)	51	244
Share of (profit) loss of an associate	(16)	57	(8)
Net loss on convertible note measured at fair value through profit or loss	22	119	-
Income (loss) before income taxes	(1,530)	404	(1,009)
Deferred income tax (recovery) expense	456	(458)	96
Net income (loss)	(1,986)	862	(1,105)
Adjusted EBITDA ¹	(368)	2,221	932
Earnings (loss) per share			
Basic	\$ (0.10)	\$ 0.04	\$ (0.05)
Diluted	\$ (0.10)	\$ 0.04	\$ (0.05)
Weighted average number of common shares outstanding			
Basic	20,255,285	20,690,875	20,755,290
Diluted	20,255,285	21,000,182	20,755,290
Balance Sheet as at December 31,			
Cash and cash equivalents	9,385	8,238	11,331
Total assets	24,598	28,484	28,923
Total non-current financial liabilities ²	912	1,331	1,672
Total liabilities	5,776	7,388	8,397
Total equity	18,822	21,096	20,526

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.

² Non-current financial liabilities are defined as the sum of the long-term portions of convertible debentures, other obligations and lease obligations. During the year ended December 31, 2022, the convertible debentures were repaid in full.

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 to facilitate the delivery of active ingredients into or through the skin.

Our non-prescription portfolio includes a variety of dermocosmetic products, skincare therapeutics and devices. To qualify as a dermocosmetic, a product must contain active ingredients whose effectiveness against a specific skin concern has been evidenced through clinical studies. Our dermocosmetic products include face creams, cleansers, exfoliants, masks, serums and suncare. Each product or group of products is formulated to address specific skin concerns and intended to be used as part of a skincare protocol to provide a personalized regimen to meet each consumer's unique needs. The portfolio is designed for preventive care to the first signs of aging, as well as for common skin concerns.

Our product portfolio serves two subsets of the Canadian aesthetic market: (i) aesthetic skincare and (ii) medical aesthetics.

- (i) Professional aestheticians use our dermocosmetic skincare products to target well-known and common skin concerns, such as mild acne, aging, dehydration, pigmentation, sensitivity, and rosacea, using non-invasive skincare protocols. Our lead dermocosmetic skincare brand is Laboratoire Dr Renaud.
- (ii) Medical aesthetics is a niche market positioned between the cosmetic market and the plastic surgery market and includes medical treatments that are focused on improving patients' cosmetic appearance. Qualified doctors and nurses typically perform both non-invasive and minimally invasive procedures or skincare treatments such as chemical peels, advanced retinol facials, microdermabrasion, hyaluronic acid and neurotoxin injections, and various laser and device treatments. Our primary medical grade dermocosmetic brand is Pro-Derm. We also distribute NCTF, ART FILLER and Obagi Medical under exclusive distribution agreements in Canada, and sell Pliaglis, our lead prescription product, in the Canadian physician-dispensed skincare market.

Our sales force calls on spas, medical aesthetic clinics and medispas across Canada. In addition, our skincare brands are sold in Malaysia and South Korea through distributors, as well as online through various platforms, while Alyria, a direct-to-consumer ("DTC") brand is also sold in select retail outlets.

Pliaglis, a topical local anesthetic cream, provides safe and effective local dermal analgesia on intact skin prior to superficial dermatological procedures. The product is currently approved by regulatory authorities in 32 countries and licensed to seven commercial partners for sale in 40 countries.

In addition, 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. Our manufacturing capabilities range from laboratory to pilot batches to scale-ups. We deliver turnkey solutions, integrating manufacturing with in-house R&D, supply chain, and quality functions. Our integrated approach aims to simplify our clients' supply chain to maximize value, ensuring timely and cost-effective product launches. We run our operations from our head office located in 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 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

Vision and Growth Strategy

Our vision is to become a Canadian 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 product portfolios, mainly through product launches and innovations and line extensions, as well as through the expansion of our distribution channels and geographic presence. Our in-house R&D and innovation function plays an important role in fueling new product development based on formulation expertise and market intelligence.

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 complementary to ours. We are continuously evaluating a variety of potential transactions and business opportunities, including potential acquisitions, that could expand our product offering and distribution channels, some of which may be material. A number of negotiations for potential transactions may be in progress at varying stages at any given time, all of which remain subject to the approval of the Board of Directors. There can be no assurance that any of these negotiations will result in a binding transaction. See *Risks Related to the Company's Business*.

Pillar 3: Strategic Out-licensing of Assets

The third growth pillar focuses on out-licensing Pliaglis, in markets where we have no commercial presence, and, to a lesser extent, licensing our patented transdermal delivery technologies to partners looking for a differentiating factor for topical product development. These technologies have already been tested with several active ingredients, and in those cases, have demonstrated increased skin permeation of the active ingredient versus the control vehicle. We believe that these technologies could be used with other molecules and could potentially increase the efficacy of certain topical products currently sold. The Company may also 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 revenue by providing customers with product development and manufacturing services using our in-house R&D and formulation expertise and excess manufacturing capacity. Increasing our plant's manufacturing volumes generates top line revenue and improves gross margins. Our fully integrated CDMO infrastructure allows Crescita to provide clients with the support activities required to bring their products to market rapidly and efficiently. We are actively seeking new customers and forging partnerships to become a third-party CDMO of choice by offering our customers high quality, cost-effective services.

Strategic Focus and Business Outlook

Our Four-Pillar Growth Strategy guides our overall strategic initiatives and resource allocation decisions. The success of the strategy depends on management's effective execution of initiatives in each of the pillars. Business development remains a key driver through all our pillars, and accretive collaborative arrangements and acquisitions continue to be critical components of our growth strategy.

The dermocosmetic industry is a mature industry and the competitive landscape has historically made the potential for organic growth modest, especially under the traditional B2B model. We continue to invest in our commercial and manufacturing infrastructures to grow organically, including digital initiatives like direct-to-consumer marketing. Our commercial focus will be in three main areas: (1) expand our presence in the medical aesthetics space to capitalize on growth trends in this market, including the higher adoption of minimally invasive and non-invasive aesthetic procedures and heightened awareness through the proliferation of social media; (2) increase our market share in the Canadian spa and medispa markets through improved sales and marketing strategies, including prospection, and brand awareness campaigns; and (3) actively pursue additional production volumes through partnerships in our Manufacturing segment.

To supplement organic growth initiatives, we are also looking at strategic acquisitions and in-licensing novel products to enhance our product offering in both the aesthetics and medical aesthetics markets, all of which will help us expand our geographic presence and enable us to better compete in our industry.

In 2024, we intend to pursue growth through the following strategic initiatives:

- (i) Grow our medical aesthetic business by increasing the market share of ART FILLER and NCTF in the Canadian medical aesthetic market;
- (ii) Acquire new B2B clients through sales prospection and market segmentation strategies to position our brands as leaders in the Canadian dermocosmetic market;
- (iii) Expand our CDMO customer base and existing customer relationships, increasing production volumes, generating revenue and improving gross margins;
- (iv) Secure a new commercial partner for Pliaglis in the U.S.;
- (v) Invest in digital initiatives, mainly in improved marketing plans for direct-to-consumer e-commerce, with targeted content, product innovations, tailored promotional offers, and loyalty incentives; and
- (vi) Expand our portfolio through strategic licensing agreements and pursue strategic acquisitions allowing us to access specific niche dermocosmetic markets, enhance product capabilities and offerings, or expand our market presence.

Non-Prescription Skincare Product Portfolio

Laboratoire Dr Renaud

Founded over 75 years ago, Laboratoire Dr Renaud is a pioneer in the Canadian cosmetics industry. The product line was founded in France in 1947 by Dr. Louis Raymond Renaud, a well-known French dermatologist and was 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 synergy between science and aesthetics. Products are designed according to the principles of biomimicry which imitate natural processes, making them compatible with our 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 Laboratoire Dr Renaud products are manufactured at our Laval facility and can be purchased either through a professional aesthetician or online.

Pro-Derm

Pro-Derm is a line of high-quality dermocosmetic products for the medical aesthetic market and is sold to medispas and medical aesthetic clinics. Pro-Derm is 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 products, Pro-Derm combines the benefits of both cosmetic and pharmaceutical ingredients. 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 our Laval facility and can be purchased at medispas, medical aesthetic clinics or online.

Alyria

Alyria is a medical grade dermocosmetic skincare line developed using scientific research to target major skincare concerns. Previously a B2B brand sold to medispas and medical aesthetic clinics, Alyria was rebranded, reformulated and re-launched as a DTC brand in the Canadian skincare market in Q1-23. Alyria's offering was built around a series of serums formulated with clinically proven active ingredients, specifically targeting skin hydration. Alyria is primarily targeted at millennials and marketed and sold online and in certain retail outlets. All Alyria products are manufactured at our Laval facility. 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.

NCTF Boost 135 HA

NCTF is a skin revitalization solution primarily used for the improvement of skin quality and fine lines. Comprising free hyaluronic acid 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 age groups, it specifically targets age-related skin changes such as dryness, dullness, uneven complexion, dilated pores and wrinkles. Since 1978, NCTF has been a leader in skin revitalization with over four million bottles sold annually by FILLMED and its partners around the world. We sell NCTF to medispas and medical aesthetic clinics across Canada under an exclusive distribution agreement with FILLMED. Refer to *Significant Partnerships*.

ART FILLER

ART FILLER is an exclusive collection of hyaluronic acid-based dermal fillers designed to smooth-out superficial to deep wrinkles and create or restore the volumes and contours of the face. Developed, manufactured and launched in 2016 by FILLMED, ART FILLER injectables benefit from the Tri-Hyal® technology, an innovation in the R&D space. The gels are made of non-animal origin hyaluronic acid and feature an optimized equilibrium between free hyaluronic acid, long chains and very long chains of hyaluronic acid. Each product of the range has been developed with consideration of a precise treatment objective. The performance and the tolerance of ART FILLER have been demonstrated through a unique study combining clinical evaluations and instrument-based measurements. We launched ART FILLER in the Canadian medical aesthetic market in Q1-23 under our exclusive distribution agreement with FILLMED. Refer to *Key Business Developments* and *Significant Partnerships*.

Obagi Medical

The Obagi Medical product line provides skincare products formulated to minimize signs of aging, address dark spots, hyperpigmentation, fine lines and wrinkles and to protect and enhance skin tone and texture. Some of the most well-known products include the Obagi Nu-Derm Fx® Systems, the Obagi-C® Fx Systems, the Obagi360® System, the CLENZIderm M.D.® Systems and the Professional-C® Collection. We sell Obagi to medispas and medical aesthetic clinics across Canada and online under an exclusive distribution agreement with Obagi Cosmeceuticals LLC.

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 (the "Application Period").

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 32 countries and licensed to seven commercial partners for sale in 40 countries. Crescita provides regulatory support to its international partners to ensure timely approval of Pliaglis in countries where the product is yet to be approved and supports commercial launch activities in the rest-of-world ("ROW") countries where Pliaglis is approved.

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 the original formulation of 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. 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 Pharmaceuticals ("Taro"), our U.S. licensee for Pliaglis, on September 21, 2020.

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 innovative and on-trend products, 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 effectively become the ambassadors of our brands. We believe that our brands offer unique, high-quality products that 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 a product to evolve from idea to market.

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 R&D and product formulation along with in-house manufacturing capabilities allow us to introduce innovation into the market quickly;
- Over 300 science-based product formulations, provide the agility to adapt to evolving customer preferences; and
- A fully integrated sales and marketing infrastructure allows for a focus 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.

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 Pliaglis faces competition from other topically applied local anesthetic drug products such as compounded anesthetic creams that are available from certain compounding pharmacies and other prescription anesthetic creams such as EMLA cream.

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/>

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 benefit provided by Pliaglis of its self-occluding properties from the utilization of the Company's proprietary *Peel* technology. Pliaglis also contains the highest concentrations of lidocaine and tetracaine 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.

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 a volatile solvent component that dries to form a self-occluding film and 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 22 countries including the U.S., with the latest expiring in 2031. In addition, a patent application is pending in the U.S. DuraPeel patents have been issued in Canada and in the U.S., with the latest expiry in 2027.

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. Australian, Mexican, U.S. and European patents (validated in Germany, France, Ireland, Spain, Italy and the United Kingdom) were issued with term to 2036. In addition, applications are pending in Canada (allowed) and New Zealand, with the latest expiry date in 2036.

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 utilizing our patented MMPE technology, CTX-101 and CTX-102 (the “Product Candidates”). 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 for CTX-101 to maintain our share of anticipated 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 reported positive topline results from two pivotal Phase 3 clinical trials for CTX-101.

However, with the current reimbursement challenges for dermatology products in the U.S., securing a licensing partner is more difficult than expected and we have no certainty as to whether any partnering discussions will be successful. While our Development Partners continue to explore licensing opportunities with pharmaceutical companies, we do not intend to dedicate any further resources on licensing CTX-101.

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, Australian Patent No. 2016427261 was issued January 19, 2023, Mexican Patent No. 386903 was issued on October 7, 2021, United States Patent No. 11,642,356 was issued May 9, 2023, and European Patent No. 3528818 was issued on September 15, 2021, and validated in Germany, France, Ireland, Spain, Italy and the United Kingdom, all with term to 2036. As well, patent applications are pending in Canada (allowed) and New Zealand, with anticipated terms 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 results of the Phase 1 VCA study were encouraging, and a successful pilot Phase 2 study was subsequently completed. The CTX-102 development program is currently on hold pending the outcome of the CTX-101 partnering discussions, and accordingly, Crescita does not intend to dedicate any further resources to this product candidate.

In addition to U.S. patent No. 8,343,962, U.S. patent No. 9,642,912, Australian Patent No. 201642726, Mexican Patent No. 386903 and European Patent No. 3528818 (validated in Germany, France, Ireland, Spain, Italy and the United Kingdom) which pertain to both CTX-101 and CTX-102, 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. Patent applications are also pending in Canada, and the U.S. with anticipated term through 2040.

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 formulations of Pliaglis (U.S.)	Local anesthesia prior to superficial dermatological procedures	Commercial	Three Orange Book listed U.S. patents covering Pliaglis and/or enhanced formulations expiring in 2031. Application pending in the U.S. through 2031.
Pliaglis and enhanced formulations of Pliaglis (ROW)	Local anesthesia prior to superficial dermatological procedures	Commercial	Patents granted for enhanced formulation in AU, BR, 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.
CTX-101 ¹	Plaque Psoriasis	Phase 3 – on hold	Patents granted in the U.S. expiring in 2027. Patents granted in AU, MX, DE, FR, IE, GB, ES, IT and the U.S. expiring in 2036. Applications pending in CA (allowed) and NZ through 2036.
CTX-102 ¹	Dermatological skin treatment	Phase 1 – on hold	Patents granted in the U.S. expiring in 2027. Patent granted in AU, MX, DE, FR, IE, GB, ES and IT expiring in 2036. Applications pending in CA (allowed), and NZ, through 2036. U.S. patent granted through 2040. Applications pending in CA and U.S. through 2040.
Dermatology products utilizing MMPE ³	Prescription treatments of skin diseases	Pre-clinical – on hold	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), Ireland (IE), 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).
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

Distribution and Promotion Agreement with Laboratoires FILLMED

In 2020, we entered into an exclusive distribution and promotion agreement with FILLMED for the distribution of NCTF and ART FILLER in Canada. FILLMED is a French aesthetic medicine company with expertise in developing aesthetic anti-ageing treatment solutions using hyaluronic acid.

The partnership with FILLMED allows Crescita to expand its product offering in the medical aesthetic field. We launched NCTF in Q2-21, and ART FILLER in Q1-23 following approval by Health Canada. We sell NCTF and ART FILLER through our dedicated sales force to medispas and medical aesthetic clinics across the country.

Licensing Agreement with Cantabria Labs

In 2019, we entered into a commercialization license agreement with Cantabria Labs Inc. (“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”).

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.

Cantabria initially completed the transfer of the manufacturing process and analytical test methods for Pliaglis to its manufacturing facility in Santander, Spain in 2020, allowing it to supply Pliaglis in Europe. In addition, the parties later agreed that Cantabria would supply Pliaglis to Crescita outside the Territories.

Cantabria is promoting Pliaglis through its field force, calling on physicians such as aesthetic doctors and dermatologists. Cantabria currently sells Pliaglis in Italy.

Licensing Agreement with Taro Pharmaceuticals Inc.

In 2017, we entered into a development and commercialization license agreement with Taro Pharmaceuticals Inc., a subsidiary of Taro Pharmaceutical Industries Ltd., as amended in July 2020, (the “Taro Agreement”). Under the terms of the Taro Agreement, Crescita granted Taro an exclusive license to sell and distribute Pliaglis and an enhanced formulation of Pliaglis in the U.S. market.

There have been no Pliaglis sales in the U.S. since the third quarter of 2020, due in part, to previously disclosed restrictive amendments to U.S. managed care. The Taro Agreement contractually entitles the Company to annual guaranteed minimum royalties in the amount of US\$1.0 million per Taro fiscal year, spanning from April 1 to March 31, in periods where Taro does not generate sales or reach sales targets. Taro can terminate the agreement without penalty, subject to a six-month notice period.

On October 25, 2023, Taro delivered a notice to terminate the Taro Agreement. Our final entitlement to the annual guaranteed minimum royalties in the amount of US\$1.0 million was recognized in Q4-23, with payment expected in Q2-24. Other than these guaranteed minimum royalties, no other royalties from Taro were recorded in Fiscal 2023. We are in the process of seeking a new partner to commercialize Pliaglis in the U.S. market.

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 may be impacted in the foreseeable future by several factors including the timing and amount of product and contract manufacturing 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 Canadian dollars, 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,	
	2023	2022	2023	2022
Average rates				
U.S. dollar	1.3619	1.3580	1.3495	1.3016
Euro	1.4657	1.3864	1.4595	1.3703
 Spot rates			As at December 31,	
U.S. dollar			2023	2022
Euro			1.3226	1.3544
			1.4626	1.4458

Revenue by Segment

For the years ended December 31,	2023		2022		Change
	<i>In thousands of CAD</i>	\$	\$	\$	
Commercial skincare	10,440		8,022		2,418
Licensing and royalties	2,030		1,800		230
Manufacturing and services	5,052		13,703		(8,651)
Total revenue	17,522		23,525		(6,003)

Commercial Skincare

Commercial Skincare sales for the year ended December 31, 2023 were \$10,440 compared to \$8,022 for the year ended December 31, 2022, representing an increase of \$2,418. The increase was mainly due to higher product sales for our core brands across all channels, primarily driven by new product launches and promotions, including the launch of ART FILLER in Q1-23.

Licensing and Royalties

For the year ended December 31, 2023, Licensing and Royalties revenue was \$2,030 compared to \$1,800 for the year ended December 31, 2022, representing an increase of \$230. Fiscal 2023 revenue of \$2,030 reflected our last entitlement to minimum guaranteed royalties under the Taro Agreement totaling \$1,343 (\$US1,000), royalties above the annual contractual minimum under the Cantabria Agreement, a regulatory milestone payment, and product sales from supplying Pliaglis to our licensing partners. Fiscal 2022 revenue of \$1,800 included \$1,359 (\$US1,000) of minimum guaranteed royalties under the Taro Agreement and \$441 in guaranteed royalties above the annual contractual minimum under the Cantabria Agreement.

Manufacturing and Services

Manufacturing and Services revenue for the year ended December 31, 2023 was \$5,052 compared to \$13,703 for the year ended December 31, 2022. The year-over-year decrease of \$8,651 was mainly due to the deferral into 2024, and the partial cancellation of purchase orders by a large customer, as well as the difference in the timing and value of orders, including the fulfillment and completion, in 2022, of a previously announced purchase order of approximately \$7.0 million.

The timing and value of third-party manufacturing purchase orders are variable from period to period depending on our clients' commercial activities and may not be recurring in nature.

Revenue Distribution

The following tables provide additional information regarding our revenue mix by geography and reportable segment for the years ended December 31, 2023 and 2022:

By Geography (based on client's billing address)

For the years ended December 31,	2023	2022
Canada	67%	42%
U.S.	24%	51%
ROW	9%	7%
	100%	100%

By Segment

For the years ended December 31,	2023	2022
Commercial Skincare	60%	34%
Licensing and Royalties	11%	8%
Manufacturing and Services	29%	58%
	100%	100%

Major Customers

Under IFRS 8 – *Operating Segments*, major customers are those that account for greater than 10% of a company's consolidated revenue. For the year ended December 31, 2023, we had one major customer in the Manufacturing segment that accounted for 21% of our total revenue, and one major customer in the Manufacturing segment that accounted for 49% of our total revenue for the year ended December 31, 2022.

Gross Profit by Segment

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, the cost of products purchased from third parties, costs for the development of formulas under our CDMO services, net of government subsidies, as applicable.

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	17,522	23,525	(6,003)
Cost of goods sold	7,158	10,343	(3,185)
Gross profit	10,364	13,182	(2,818)
<i>Gross margin %</i>	<i>59.1%</i>	56.0%	3.1%

Commercial Skincare

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	10,440	8,022	2,418
Cost of goods sold	4,498	3,540	958
Gross profit	5,942	4,482	1,460
<i>Gross margin %</i>	<i>56.9%</i>	55.9%	1.0%

For the year ended December 31, 2023, gross profit in the Commercial segment was \$5,942, representing a gross margin of 56.9%, compared to \$4,482 and 55.9% for the year ended December 31, 2022. The increases in gross profit and gross margin of \$1,460 and 1.0%, respectively, were mainly due to higher segment revenue and favorable product and channel mix, partly offset by incremental costs associated with a higher level of promotions.

Licensing and Royalties

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	2,030	1,800	230
Cost of goods sold	77	-	77
Gross profit	1,953	1,800	153
<i>Gross margin %</i>	<i>96.2%</i>	100.0%	-3.8%

For the year ended December 31, 2023, gross profit in the Licensing segment was \$1,953, representing a gross margin of 96.2%, compared to \$1,800 and 100.0% for the year ended December 31, 2022. The increase in gross profit of \$153 was mainly due to higher segment revenue, while the decrease in gross margin of 3.8% was due to the COGS impact of supplying Pliaglis to licensing partners in Fiscal 2023.

Manufacturing and Services

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	5,052	13,703	(8,651)
Cost of goods sold	2,583	6,803	(4,220)
Gross profit	2,469	6,900	(4,431)
<i>Gross margin %</i>	<i>48.9%</i>	<i>50.4%</i>	<i>-1.5%</i>

For the year ended December 31, 2023, gross profit in the Manufacturing segment was \$2,469 representing a gross margin of 48.9%, compared to \$6,900 and 50.4%, respectively, for the year ended December 31, 2022. The decreases in gross profit and gross margin of \$4,431 and 1.5%, were mainly due to the decrease in segment revenue and the resulting impact on margins of the decrease in manufacturing volumes versus the prior year.

The gross margins generated by our Manufacturing 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,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Research and development	699	609	90
Selling, general and administrative	10,115	10,573	(458)
Depreciation and amortization	1,506	1,471	35
Total operating expenses	12,320	12,653	(333)

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, we allocate a significant part of our R&D resources to the rejuvenation of our non-prescription skincare lines through product development and reformulations, as well as to support business activities in our Manufacturing and Licensing segments.

Product portfolio rejuvenation and innovation activities are ongoing and are a key success factor for Crescita because they allow us to remain competitive in our product offerings. To a lesser extent, we also incur formulation development and clinical costs related to our prescription product candidates. R&D expenditures vary depending on the stage of development of products and product candidates in our pipeline and management's allocation of internal resources to these activities and to each product specifically.

For the year ended December 31, 2023, R&D expenses were \$699 compared to \$609 for the year ended December 31, 2022. The year-over-year increase of \$90 was mainly due to higher headcount-related and software costs.

Selling, General and Administrative

For the year ended December 31, 2023, SG&A expenses were \$10,115 compared to \$10,573 for the year ended December 31, 2022, representing a decrease of \$458 year-over-year. The decrease was mainly due to lower headcount-related expenses and share-based compensation costs, partly offset by higher advertising and promotion spend.

Depreciation and Amortization

For the year ended December 31, 2023, depreciation and amortization expense was \$1,506 compared to \$1,471 for the year ended December 31, 2022. The year-over-year increase of \$35 is due to higher depreciation expense for our right-of-use asset and property, plant and equipment.

Other (Income) Expenses

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Interest expense	85	158	(73)
Interest income	(507)	(260)	(247)
Foreign exchange (gain) loss	(10)	51	(61)
Share of (profit) loss of an associate	(16)	57	(73)
Net loss on convertible note measured at fair value through profit and loss	22	119	(97)
Total other (income) expenses	(426)	125	(551)

Interest Expense (Income)

For the year ended December 31, 2023, interest expense was \$85 compared to \$158 for the year ended December 31, 2022. The year-over-year decreases of \$73 was primarily due to interest savings from the early repayment of the convertible debentures with Bloom Burton Healthcare Lending Trust and Bloom Burton Healthcare Lending Trust II in Q2-22.

For the year ended December 31, 2023, interest income was \$507 compared to \$260 for the year ended December 31, 2022, representing an increase of \$247 year-over-year mainly driven by higher market interest rates. The Company earns interest on its cash balances and short-term investments and records interest accretion on the contract asset recognized under the Cantabria Agreement and its convertible note with The Best You® ("TBY"). Refer to Note 8 – *Contract Assets* and Note 12 - *Investment in an Associate and Convertible Note* to our 2023 Consolidated Financial Statements.

Foreign Exchange (Gain) Loss

For the year ended December 31, 2023, we recorded a net foreign currency gain of \$10 compared to a net foreign currency loss of \$51 for the year ended December 31, 2022. Currency variances are mainly driven by the timing of payments and settlements of foreign currency denominated balances, and the revaluation of certain balance sheet items including the contract asset in the amount of \$1,699 related to the Cantabria Agreement denominated in euros.

Share of (Profit) Loss of an Associate

In Q3-21, we completed the acquisition of a minority interest in Akyucorp Ltd. d/b/a The Best You, a privately held network of seven medical aesthetic clinics in Ontario. Each quarter, we record our proportionate share of profit or loss from our investment in TBY. In Fiscal 2023, we recorded a profit of \$16, compared to a loss of \$57 in Fiscal 2022.

Net Loss on Convertible Note

The Company holds a convertible note receivable related to its minority interest in TBY for an initial principal amount of \$500 (the "Note"). The Company may be required to invest an additional \$750, contingent on certain events and/or financial indicators being met. This financial instrument is remeasured at fair value at each reporting period using the discounted cash flow method, adjusted to reflect the changes in relevant credit spreads and changes in risk free rates, among other inputs. As a result of the general increase in interest rates, during the year ended December 31, 2023, we recorded a fair value loss of \$22, compared to a fair value loss of \$119 in Fiscal 2022.

Net Income (Loss) and Earnings (Loss) per Share

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD, except number of shares and per share data</i>	\$	\$	\$
Income (loss) before income taxes	(1,530)	404	(1,934)
Deferred income tax (recovery) expense	456	(458)	914
Net income (loss)	(1,986)	862	(2,848)
Weighted average number of common shares outstanding			
Basic	20,255,285	20,690,875	(435,590)
Diluted	20,255,285	21,000,182	(744,897)
Earnings (loss) per share			
Basic	\$ (0.10)	\$ 0.04	\$ (0.14)
Diluted	\$ (0.10)	\$ 0.04	\$ (0.14)

Income (Loss) before Income Taxes

For the year ended December 31, 2023, loss before income taxes was \$1,530 compared to income before taxes of \$404 for the year ended December 31, 2022. The year-over-year decrease of \$1,934 was mainly driven by the net overall decrease in gross profit of \$2,818, partly offset by lower operating expenses of \$333 and higher interest income of \$247.

Deferred Income Tax (Recovery) Expense

Deferred income tax expense for the year ended December 31, 2023 was \$456, compared to deferred income tax recovery of \$458 for the year ended December 31, 2022.

Net Income (Loss)

For the year ended December 31, 2023, net loss was \$1,986 compared to net income of \$862 for the year ended December 31, 2022. The year-over-year decrease of \$2,848 was mainly caused by the same factors as identified above under the section entitled *Income (Loss) before Income Taxes*.

Weighted Average Number of Common Shares Outstanding

The basic and diluted weighted average number of Common Shares outstanding are affected by the shares purchased for cancellation under the Company's NCIB. The diluted weighted average number of Common Shares outstanding for the periods is also impacted by the number of options and warrants that are "in the money". Since the warrants expired in Q3-23, they would only potentially affect the calculation for the year ended December 31, 2022.

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, 2023 and 2022. Refer to the section entitled *Income (Loss) before Income Taxes* for details.

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Net income (loss)	(1,986)	862	(2,848)
<i>Adjust for:</i>			
Depreciation and amortization	1,506	1,471	35
Interest income, net	(422)	(102)	(320)
Deferred income tax (recovery) expense	456	(458)	914
EBITDA	(446)	1,773	(2,219)
<i>Adjust for:</i>			
Share-based compensation	82	221	(139)
Foreign exchange (gain) loss	(10)	51	(61)
Share of (profit) loss of an associate	(16)	57	(73)
Net loss on convertible note measured at fair value through profit or loss	22	119	(97)
Adjusted EBITDA	(368)	2,221	(2,589)

Liquidity and Capital Resources

Consolidated Statement of Cash Flows

For the years ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Net income (loss)	(1,986)	862	(2,848)
<i>Items not involving cash flows</i>	2,456	1,833	623
Cash from operations	470	2,695	(2,225)
Net change in non-cash working capital	1,606	(3,715)	5,321
Cash from (used in) operating activities	2,076	(1,020)	3,096
Cash used in investing activities	(133)	(290)	157
Cash used in financing activities	(782)	(1,846)	1,064
Effect of foreign exchange rates on cash and cash equivalents	(14)	63	(77)
Net change in cash and cash equivalents during the year	1,147	(3,093)	4,240
Cash and cash equivalents beginning of the year	8,238	11,331	(3,093)
Cash and cash equivalents, end of the year	9,385	8,238	1,147

Operating Activities

For the year ended December 31, 2023, cash from operating activities was \$2,076 compared to cash used in operating activities of \$1,020 for the year ended December 31, 2022. The year-over-year increase of \$3,096 was mainly driven by the favorable movement in non-cash working capital items of \$5,321, partly offset by the higher year-over-year loss position of \$2,848.

The net change in non-cash working capital of \$1,606 for the year ended December 31, 2023, was mainly driven by the decrease in accounts receivable related to the timing of collections, partly offset by lower accounts payable and higher inventories. The net investment in non-cash working capital of \$3,715 for the year ended December 31, 2022, was mainly driven by the increase in accounts receivable related to the timing of collections and higher inventories.

Investing Activities

For the year ended December 31, 2023, the Company invested \$133 compared to \$290 invested for the year ended December 31, 2022. In Fiscal 2023, the Company invested \$133 mainly for plant equipment and facility upgrades. In Fiscal 2022, the Company invested \$229 mainly for plant equipment and facility upgrades and \$61 for an additional equity interest in TBY.

Financing Activities

For the year ended December 31, 2023, cash used in financing activities totaled \$782 compared to \$1,846 for the year ended December 31, 2022. The year-over-year decrease of \$1,064 was mainly driven by the settlement of convertible debentures for \$1,000 in Q2-22.

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, 2022			December 31, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Convertible note – The Best You	-	-	436	-	-	427

Valuation Methods and Assumptions

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2023 and 2022.

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

Level 3 assets represent the convertible note receivable from TBY. The fair value of the Note is revalued at each reporting period based on management's best estimate using the discounted cash flow method. Refer to Note 12 – *Investment in Associate and Convertible Note* to our 2023 Consolidated Financial Statements.

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

Risk Factors

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

Liquidity Risk

The Company anticipates that its current cash, amount available under its revolving credit facility and the revenue it expects to generate from product and contract manufacturing sales, upfront, milestone and royalty payments related to licensing its products and/or its transdermal delivery technologies, will be sufficient to fund its committed obligations and expected level of expenses. Additional funding may be required for the development of new products and/or for future acquisitions.

The Company's exposure to liquidity risk is dependent on the sales growth and profitability of its operations which may be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk such as the level of commercial expenses including the costs associated with maintaining regulatory approvals, the acquisition costs of licenses for new products or technologies, and the timing of payments received or made under licensing arrangements.

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that may be subject the Company to credit risk consist of cash, amounts receivable from customers including contract assets, and its convertible note. The Company manages its exposure to credit risk by holding cash on deposit in major financial institutions. The Company's accounts receivables are subject to normal industry risks in each geographic region in which the Company operates. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America, including its contract asset related to the Cantabria Agreement, due to potentially higher risks of enforceability and collectability.

As at December 31, 2023, 5% of accounts receivables related to customers outside North America and the European Union (December 31, 2022 - 9%).

The contract assets totaling \$3,042 at December 31, 2023 (\$3,147 at December 31, 2022) were related to the Cantabria Agreement and the licensing agreement with Taro, and were denominated in euros and U.S. dollars, respectively. Refer to Note 8 – *Contract Assets* to our 2023 Consolidated Financial Statements.

As at December 31, 2023, the Company had two customers that accounted for approximately 27% of the total accounts receivable (one customer that accounted for approximately 80% as at December 31, 2022).

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

December 31, <i>In thousands of CAD</i>	2023	2022
	\$	\$
Current	783	606
0-30 days past due	247	1,957
31-60 days past due	14	311
61-90 days past due	9	1,728
Over 90 days past due	184	13
	1,237	4,615
Allowance for doubtful accounts	(47)	(54)
Total accounts receivable	1,190	4,561

Interest Rate Risk

The Company's practice is to minimize interest rate cash flow risk exposures on its financing. The Company is currently not exposed to interest rate variability as it had not drawn any amounts on its Facility as at December 31, 2023.

Currency Risk

The Company operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies. At December 31, 2023, the Company had a US\$1,000 foreign currency forward contract (US\$2,000 at December 31, 2022) outstanding to limit its exposure to the U.S. dollar foreign exchange risk. The contract's fair value at December 31, 2023 was nominal.

The significant balances in foreign currencies were as follows:

December 31, <i>In thousands of CAD</i>	Euro (€)		U.S Dollars	
	2023	2022	2023	2022
Cash and cash equivalents	28	179	800	235
Accounts receivable	129	80	203	2,799
Other current assets	2	2	1	8
Contract assets	1,162	1,237	1,000	1,000
Accounts payable and accrued liabilities	(41)	(311)	(1,186)	(1,486)
	1,280	1,187	818	2,556

Based on the aforementioned net exposure as at December 31, 2023, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$108 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$187 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; and (iv) its net investment and net cash flows in its European operations.

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

Commitments

We have commitments under a lease for the rental of our 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 Material Accounting Policies* and Note 14 – *Lease Obligation* to our 2023 Consolidated Financial Statements.

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, 2023.

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 and contract manufacturing sales to its customers, royalties, 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.

We believe that we have sufficient capital resources from our cash and investment accounts and 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

<i>In thousands of CAD, except per share data and number of shares</i>	2023	2022	Change
	\$	\$	\$
Operations			
Commercial skincare	2,851	2,422	429
Licensing and royalties	1,547	1,481	66
Manufacturing and services	327	2,127	(1,800)
Revenues	4,725	6,030	(1,305)
Cost of goods sold	1,665	2,145	(480)
Gross profit	3,060	3,885	(825)
Gross margin	64.8%	64.4%	0.4%
Research and development	218	160	58
Selling, general and administrative	2,576	2,776	(200)
Depreciation and amortization	379	377	2
Operating expenses	3,173	3,313	(140)
Operating profit (loss)	(113)	572	(685)
Interest income, net	(137)	(68)	(69)
Foreign exchange gain	(33)	(131)	98
Share of loss of an associate	10	27	(17)
Net loss on convertible note measured at fair value through profit or loss	-	24	(24)
Income before income taxes	47	720	(673)
Deferred income tax (recovery) expense	197	(458)	655
Net income (loss)	(150)	1,178	(1,328)
Adjusted EBITDA¹	245	997	(752)
Earnings per share			
Basic	\$ (0.01)	\$ 0.06	\$ (0.07)
Diluted	\$ (0.01)	\$ 0.06	\$ (0.07)
Weighted average number of common shares outstanding			
Basic	19,987,774	20,392,231	(404,457)
Diluted	19,987,774	20,643,129	(655,355)

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.

Results of Operations

Commercial Skincare

Commercial Skincare sales for the three months ended December 31, 2023 were \$2,851, compared to \$2,422 for the three months ended December 31, 2022. The year-over-year increase of \$429 was mainly driven by incremental sales of ART FILLER, launched in Q1-23, and higher e-commerce revenue.

Licensing and Royalties

For the three months ended December 31, 2023, Licensing and Royalties revenue was \$1,547, compared to \$1,481 for the three months ended December 31, 2022. The increase of \$66 was mainly due to incremental revenue in Q4-23 from supplying Pliaglis to a licensing partner.

Manufacturing and Services

Manufacturing and Services revenue for the three months ended December 31, 2023, was \$327 compared to \$2,127 for the three months ended December 30, 2022. The decrease of \$1,800 was mainly driven by the deferral into 2024 of purchase orders by a large customer, and to a lesser extent, by the difference in the level and timing of orders from our clients year-over-year.

Gross Profit by Segment

For the three months ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	4,725	6,030	(1,305)
Cost of goods sold	1,665	2,145	(480)
Gross profit	3,060	3,885	(825)
<i>Gross margin %</i>	64.8%	64.4%	0.4%

Commercial Skincare

For the three months ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	2,851	2,422	429
Cost of goods sold	1,384	1,101	283
Gross profit	1,467	1,321	146
<i>Gross margin %</i>	51.5%	54.5%	-3.0%

For the three months ended December 31, 2023, gross profit in the Commercial Skincare segment was \$1,467, representing a gross margin of 51.5%, compared to \$1,321 and 54.5%, respectively, for the three months ended December 31, 2022. The increase in gross profit of \$146 was mainly driven by higher segment revenue, while the decrease in gross margin of 3.0% was mainly related to incremental costs associated with a higher level of promotions.

Licensing and Royalties

For the three months ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	1,547	1,481	66
Cost of goods sold	35	-	35
Gross Profit	1,512	1,481	31
<i>Gross Margin %</i>	97.8%	100.0%	-2.2%

For the three months ended December 31, 2023, gross profit in the Licensing segment was \$1,512, representing a gross margin of 97.8%, compared to \$1,481 and 100.0% for the year ended December 31, 2022. The increase in gross profit of \$31 was mainly due to higher segment revenue, while the decrease in gross margin of 2.2% was due to the COGS impact of supplying Pliaglis to a licensing partner in Q4-23.

Manufacturing and Services

For the three months ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Revenue	327	2,127	(1,800)
Cost of goods sold	246	1,044	(798)
Gross profit	81	1,083	(1,002)
<i>Gross margin %</i>	24.7%	50.9%	-26.2%

For the three months ended December 31, 2023, gross profit in the Manufacturing and Services segment was \$81, representing a gross margin of 24.7%, compared to \$1,083 and 50.9%, respectively, for the three months

ended December 31, 2022. The decreases of \$1,002 in gross profit and 26.2% in gross margin were mainly driven by the decrease in segment revenue and the resulting decrease in manufacturing volumes versus the prior year.

Selling, General and Administrative

SG&A expenses for the three months ended December 31, 2023 were \$2,576 compared to \$2,776 for the three months ended December 31, 2022, representing a decrease of \$200. The decrease was mainly driven by lower headcount-related expenses and share-based compensation costs, partly offset by higher advertising and promotion spend.

Interest

For the three months ended December 31, 2023, net interest income was \$137, compared to net interest income of \$68 for the three months ended December 31, 2022. The net variance of \$69 was primarily related to incremental interest earned as a result of higher market interest rates.

Foreign Exchange Gain

For the three months ended December 31, 2023, we recorded a net foreign currency gain of \$33 compared to a net foreign currency gain of \$131 for the three months ended December 31, 2022. These currency variances are mainly driven by the timing of payments and settlements of foreign currency denominated balances, and the revaluation of certain balance sheet items including the contract asset in the amount of \$1,699 related to the Cantabria Agreement denominated in euros.

Income before Income Taxes

For the three months ended December 31, 2023, income before income taxes was \$47 compared to \$720 for the three months ended December 31, 2022. The decrease of \$673 was mainly attributable to the overall net decrease in gross profit across our segments of \$825 and the unfavourable movement in net foreign exchange gain of \$98 year-over-year, partly offset by lower SG&A expenses of \$200.

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 three months ended December 31, 2023 and 2022. Refer to the section entitled *Income before Income Taxes* for details.

For the three months ended December 31,	2023	2022	Change
<i>In thousands of CAD</i>	\$	\$	\$
Net income	(150)	1,178	(1,328)
Adjust for:			
Depreciation and amortization	379	377	2
Interest income, net	(137)	(68)	(69)
Deferred income tax (recovery) expense	197	(458)	655
EBITDA	289	1,029	(740)
Adjust for:			
Share-based compensation	(21)	48	(69)
Foreign exchange gain	(33)	(131)	98
Share of loss of an associate	10	27	(17)
Net loss on convertible note measured at fair value through profit or loss	-	24	(24)
Adjusted EBITDA	245	997	(752)

Consolidated Statement of Cash Flows

For the three months ended December 31, <i>In thousands of CAD</i>	2023	2022	Change
	\$	\$	\$
Net income	(150)	1,178	(1,328)
Items not involving cash flows	768	14	754
Cash from operations	618	1,192	(574)
Net change in non-cash working capital	(879)	(3,407)	2,528
Cash used in operating activities	(261)	(2,215)	1,954
Cash used in investing activities	(105)	(74)	(31)
Cash used in financing activities	(258)	(221)	(37)
Effect of foreign exchange rates on cash and cash equivalents	(12)	10	(22)
Net change in cash and cash equivalents during the period	(636)	(2,500)	1,864
Cash and cash equivalents beginning of the period	10,021	10,738	(717)
Cash and cash equivalents, end of the period	9,385	8,238	1,147

Cash used in operating activities was \$261 for the three months ended December 31, 2023, compared to \$2,215 used in the three months ended December 31, 2022. The year-over-year increase of \$1,954 was a result of the favourable movement of \$2,528 in non-cash working capital items year-over-year partly offset by the decrease in cash from operations of \$574. The net investment in non-cash working capital items was \$(879) in Q4-23, compared to a net investment of \$(3,407) in Q4-22, with the net variance primarily due to the difference year-over-year in the timing of collections of accounts receivable. Working capital inflows and outflows will always have an impact on the cash flow from operating activities.

Cash used in investing activities totaled \$105 for the three months ended December 31, 2023, compared to \$74 for the three months ended December 31, 2022. In Q4-2023, the Company invested \$105 mainly for plant equipment and facility upgrades. In Fiscal 2022, the Company invested \$13 mainly for plant equipment and facility upgrades and \$61 for an additional equity interest in TBY.

Cash used in financing activities totaled \$258 for the three months ended December 31, 2023, compared to \$221 for the three months ended December 31, 2022, representing an increase of \$37 primarily due to higher NCIB repurchases partly offset by lower payment of other obligations.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 3 – *Summary of Material Accounting Policies* to the 2023 Consolidated Financial Statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity, the accompanying disclosure of contingent assets and liabilities at the date of 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 consolidated 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 consolidated financial condition and/or results of operations. The Company's actual results could differ from these estimates and such differences could also be material. These key areas are disclosed in Note 4 - *Use of Estimates and Judgments* to the Company's 2023 Consolidated Financial Statements.

Fair Value Measurement of Convertible Note

The Company purchased a secured convertible promissory note from TBY which qualifies as a financial asset measured at FVTPL (level 3). The fair value of the convertible note is remeasured at each reporting period using a discounted cash flow model. A degree of judgment is involved in estimating inputs required to determine the fair value including, amongst others, the discount rate, forecasted product sales to TBY, TBY's value per share, the strike price and share volatility. Changes in assumptions relating to these inputs to the model could affect the reported fair value of the convertible note. Refer to Note 12 – *Investment in an Associate and Convertible* and Note 24 – *Financial Instruments and Risk Management* to the Company's 2023 Consolidated Financial Statements.

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

Inventory Valuation

The Company values inventory at the lower of cost, where cost is determined on a standard cost basis (which approximates the actual cost on a FIFO basis), and replacement cost for raw materials and packaging components, and the lower of cost and net realizable value for finished goods. In determining net realizable value, the Company considers such factors as yield, shelf life and expiry of finished goods, turnover, or aging, expected future demand and historical experience. A change in the underlying assumptions related to these factors could affect the valuation of inventory and have a corresponding effect on the cost of sales and profit or loss.

Management reviews the carrying value of inventories at each reporting date. As part of the review, management is required to make certain assumptions when determining expected realizable values and estimates an allowance for obsolescence based on product life and forecasted sales. Any write downs in value may be reversed if the circumstances which caused them cease to exist. Refer to Note 6 - *Inventories*, to our 2023 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 were 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 18 – *Share-based Compensation and Other Share-based Payments* to our 2023 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.

Eight Quarter Summary - Selected Financial Information

As at and for the three months ended,	Dec. 31, 2023	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022
<i>In thousands of CAD except per share data and number of shares</i>	\$	\$	\$	\$	\$	\$	\$	\$
Revenue by Segment								
Commercial Skincare	2,851	2,412	2,685	2,492	2,422	1,672	2,392	1,536
Licensing and Royalties	1,547	163	299	21	1,481	92	227	-
Manufacturing and Services	327	458	2,178	2,089	2,127	4,268	3,893	3,415
Revenue	4,725	3,033	5,162	4,602	6,030	6,032	6,512	4,951
Profitability								
Gross profit	3,060	1,499	3,069	2,736	3,885	2,938	3,647	2,712
Total operating expenses	3,173	2,880	3,295	2,972	3,313	2,805	3,447	3,088
Net income (loss)	(150)	(1,282)	(281)	(273)	1,178	195	(37)	(474)
Adjusted EBITDA ¹	245	(988)	214	161	997	512	646	66
Share information								
Earnings (loss) per share								
Basic	\$ (0.01)	\$ (0.06)	\$ (0.01)	\$ (0.01)	\$ 0.06	\$ 0.01	\$ (0.00)	\$ (0.02)
Diluted	\$ (0.01)	\$ (0.06)	\$ (0.01)	\$ (0.01)	\$ 0.06	\$ 0.01	\$ (0.00)	\$ (0.02)
Weighted average number of common shares outstanding								
Basic	19,988	20,368	20,334	20,334	20,392	20,627	20,814	20,937
Diluted	19,988	20,368	20,334	20,334	20,643	20,912	20,814	20,937
Financial Position								
Cash and cash equivalents	9,385	10,021	10,226	10,275	8,238	10,738	10,502	11,742
Total assets	24,598	25,371	26,529	27,841	28,484	27,711	27,793	29,415
Total non-current financial liabilities ²	912	1,033	1,134	1,233	1,331	1,406	1,495	1,583

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.

² Non-current financial liabilities are defined as the sum of the long-term portions lease obligations and other obligations.

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 their 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 ICFR, supervised by and with the participation of the CEO and the CFO as of December 31, 2023. 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. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material 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, fill its CDMO order backlog with new and existing client orders to grow organically, and 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. The successful execution of these strategies is not assured. The inability to do so may limit the overall growth of the Company's business and hinder its cash flow.

Acquisition and Integration of Complementary Assets or Businesses

The Company plans to continue pursuing and evaluating 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 targets. If an acquisition target 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 expected 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 Products

The Company relies on marketing arrangements, including joint ventures, licensing or other third-party arrangements to distribute its products in jurisdictions where it does not have 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 of commercial partners to whom the Company licenses products such as Pliaglis, as these decisions are or will be made independently by them in each of the territories they cover, when the product gains regulatory approval or is launched, if at all. There can be no assurance that the Company's partners will be able to obtain regulatory approval where the product is not yet approved. In addition, even in jurisdictions where the product does obtain regulatory approval, 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. Despite the product being approved, the Company's partners may also decide not to launch the product due to market conditions, pricing concerns and/or other factors. In most cases, contractual minimum order quantities ("MOQ"), as defined in each respective agreement would be breached, allowing the Company to either terminate the licensing agreement or continue on a non-exclusive basis. 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 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 licensing, distribution or marketing agreements, or a licensee, 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 or licensees fails to comply, this could have a material impact on the cash flows of the Company.

Revenue from a Limited Number of Licensing Agreements

The Company currently generates revenue from a limited number of licensing 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. In Fiscal 2023, the Company earned \$2,030 in licensing revenue representing 11.6% of the Company's consolidated revenue, of which \$1,343 (US\$1,000) represented the Company's final entitlement to minimum guaranteed royalties under the Taro Agreement following the notice of termination received in October 2023. Refer to *Key Business Developments* for more details. While the Company is actively exploring new licensing opportunities for Pliaglis in the U.S., consummating a new licensing agreement with a new partner and the timing and financial terms of any agreement with a new partner are uncertain. The inability to find other licensing opportunities and enter into new licensing agreements could have a material adverse effect on our growth, our business and our results of operations.

In addition, there can be no assurance that any of the Company's partners' regulatory, sales and marketing efforts will be successful, or that they will continue to allocate sufficient resources to obtain regulatory approval for Pliaglis, promote the product or that pharmacies and medical clinics will continue to purchase the product for resale to their own customers. A decrease in any of our partners' regulatory, sales or marketing efforts or the loss of any 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 into collaborations to perform some or all of 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 sales and marketing teams.

Skincare Product Sales Adversely Affected by Factors Impacting our Customers' Businesses

The Company primarily operates using a business-to-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 aesthetics industry, including the closure of customer businesses and any 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

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 social media platforms which could have an adverse effect on 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 and other skilled staff for its sales, marketing, manufacturing, scientific research and development departments and executive management teams. The loss of the services of one or more of the Company's skilled staff or senior executive officers could have a material adverse effect on the Company, its operations and its ability to execute its strategy successfully. 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 attract and retain the qualified personnel necessary for the development and growth of its business. The Company does not maintain "key-person" insurance on any of our key employees.

In addition, from time to time, Crescita may enlist the help of temporary workers through various third-party agencies in fulfilling its manufacturing agreements. Such third-party agencies may not be able to supply adequately trained manufacturing and packaging staff on a timely basis or at all, given the intense competition for such workers and the overall shortage of personnel in the current labour market. We also cannot guarantee that temporary employees are as well-trained as our permanent employees. Specifically, we may be exposed to the risk that temporary employees may not perform their assignments in a satisfactory manner or may not comply with the Company's rules and procedures in an appropriate manner, whether as a result of their lack of experience or otherwise. If such risks materialize, they could have a material adverse effect on our business and financial condition and could cause the market price of the Company's Common Shares to decline.

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 may 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 copays, requiring prior authorizations, and implementing other measures. Inadequate coverage or reimbursement could adversely affect market acceptance of Pliaglis.

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 Pliaglis. 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 or cause the cancellation of the introduction of a product to the market. In the case of Pliaglis, the Company's partners may decide not to launch the product in jurisdictions where pricing concerns do not, in the opinion of the Company's partners, allow for sufficiently profitable commercialization. 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. 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 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 Company's operations would be negatively impacted, and the business would be harmed.

In the case of Pliaglis, the Company 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.

More specifically, the Company relies on Cantabria to maintain the facilities where Pliaglis is manufactured in compliance with Therapeutic Products Directorate ("TPD"), FDA, European Medicines Agency ("EMA"), state and local regulations and other regulatory agencies. If Cantabria fails to maintain compliance with FDA, EMA or other critical regulations, Cantabria 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 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, at times, the form of tetracaine used in the product has 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 the majority of its branded products to supply its commercial skincare business, including both cosmetic (NHP) and DIN products, as well as all the products to fulfill purchase orders 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 branded products or of the fulfilment of purchase orders under any of its third-party manufacturing contracts, potentially resulting in the Company being liable for contractual damages, 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 shortages of qualified personnel. Accordingly, the Company might not be able to manufacture quantities sufficient 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 must 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, follow and document adherence to cGMPs, may lead to significant delays in the availability of products manufactured by the Company;
- 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; and
- if the Company's manufacturing facilities were required to be shut down for any reason, including fire, earthquake, pandemics or other natural disaster or civil disruption, this would cause significant disruption and expense to its business and operations.

The Company's and its CMO'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 or its CMOs 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.

Shortening Life Cycles and our Ability to Manage Inventory

The competitive nature of the aesthetics 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 historical 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, 2023, the Company had cash and cash equivalents of \$9,385, as well as up to an additional \$2,069 available under its revolving credit facility, of which no amounts were drawn at year-end. During fiscal 2024, the Company expects to continue incurring expenses and making certain strategic investments as it executes its Four-Pillar Growth Strategy. Additional funding may be required for organic growth initiatives 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 \$42,599 as at December 31, 2023. The Company has incurred losses in the past and may continue to incur losses in the future as a result of its inability to secure recurring revenue streams from its business segments, 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. The Company's inability to achieve and maintain profitability could depress the market price of its Common 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 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.

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 coronavirus ("COVID-19"), or any similar illness, could affect our business. In particular, such an outbreak could result in or continue to result in: a general or acute decline in economic activity in the regions we operate in, a decrease in the willingness of the general population to travel, staff shortages, mobility restrictions and other quarantine measures, supply shortages, increased government regulation, and the quarantine or contamination of our facilities. All of these occurrences may have a material adverse effect on our business, financial condition and results of operations.

As we experienced with COVID-19, any such outbreak, epidemic or pandemic could result in a general economic downturn and increased volatility in financial markets, which may negatively impact the market price for our securities and could create difficulty in raising capital in debt and equity markets, both of which could adversely affect our operations and financial performance. In addition, in any such circumstance, governments and central banks could implement monetary and fiscal measures intended to stabilize economic conditions which could result in adverse effects on our business, financial condition and results of operations.

Security and Cybersecurity 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 on which we rely, are vulnerable to damage from computer viruses, unauthorized access, malware, insecure coding, damage to equipment, natural disasters, terrorism, war, fire, vandalism, theft, "Acts of God", data leakage and human error and/or malfeasance (including misappropriation by departing personnel), telecommunication and electrical failures, and cyber-attacks or cyber-intrusions over the internet, and attachments to emails.

Cyber-attacks are increasing in frequency, sophistication and intensity and are made by groups and individuals with a wide range of motives and expertise. Cyber-attacks could include the deployment of harmful malware, ransomware, denial-of-service attacks, worms, social engineering, improper modification of information, fraudulent "phishing" e-mails and other means to affect service reliability or threaten data confidentiality, integrity, or availability. We have attempted to mitigate our exposure to these risks through the establishment and maintenance of technology security programs, but these mitigating activities may not be sufficient.

The failure of our information technology systems to perform as we anticipate could adversely affect our business through transaction errors, billing and invoicing errors, internal recordkeeping and reporting errors, processing inefficiencies and loss of sales, receivables collection and customers, in each case, which could

result in harm to our reputation and have an ongoing adverse impact on our business, results of operations and financial condition, including after the underlying failures have been remedied and could cause the market price of our Common Shares to decline.

Techniques used in these attacks are often highly sophisticated, change frequently and may be difficult to detect for long periods of time. Unauthorized physical access to one of the Company's facilities, cyber-attacks, 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. We are, and may in the future, expend additional resources in an effort to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities. Despite these steps, there can be no assurance that we will not suffer a data security incident, that unauthorized parties will not gain access to sensitive data stored on our systems, or that any such incident will be discovered in a timely manner. Addressing such issues could prove to be impossible or very costly and responding to resulting claims or liability could similarly involve substantial cost.

In addition, failure to comply with applicable data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties, which could harm our reputation and adversely impact our business, results of operations and financial condition. In particular, a failure to comply with Health Canada and cGMP requirements relating to data protection could result in one or more regulatory sanctions, loss of a customer contracts, disqualification of data for submissions to regulatory authorities and a mandated suspension or closing of our facilities, which in turn could have a material adverse effect on our reputation, business, financial condition, operating results, cash flows and the price of the Common Shares.

Artificial Intelligence Risks

The Company may incorporate artificial intelligence ("AI") solutions into its information technology infrastructure, and these applications may become important in our operations over time. Our competitors or other third parties may incorporate AI into their products and services more quickly or more successfully than us, which could impair our ability to compete effectively and adversely affect our results of operations. Additionally, if the content, analyses, search results or recommendations that AI applications assist in producing are, or are alleged to be, deficient, inaccurate, or biased, our business, reputation, financial condition, and results of operations could be adversely affected.

The use of AI applications may result in cybersecurity incidents which could adversely affect our reputation and results of operations. AI also presents emerging ethical issues, such as the proper use of copyrighted material with AI applications, and if our use of AI becomes controversial, we may experience brand or reputational harm, competitive harm, or legal liability. The rapid evolution of AI, including potential government regulation of AI, may require significant resources to develop, test and maintain our information technology infrastructure and systems to ensure we implement AI ethically and minimize any unintended and harmful impacts.

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 damages, which could exceed its available financial resources, and if we cannot identify other parties which we can compel to contribute to our expenses and are financially able to do so, it could have a materially adverse effect on our reputation, business, financial condition, operating results and cash flows, which could cause the market price of our Common Shares to decline.

In addition, the Company's operations and property are subject to extensive federal, provincial/territorial, state, municipal and local environmental laws and requirements relating to, among other things, air emissions, the management of contaminants including hazardous materials (including the generation, handling, storage,

transportation and disposal of such contaminants), discharges and the remediation of environmental impacts (such as the contamination of soil and water, including ground water). The Company may be required to incur significant costs to comply with such environmental laws and regulations and any amendments thereto.

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

Natural disasters or similar events, such as 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.

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;
- currency risks; and
- inflationary pressures.

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.

Impacts of Changes in Political and Governmental Conditions

The Company's operations are subject to the influences of significant political, governmental, and similar changes and our ability to respond to them, including changes in political conditions and in governmental policies, changes in and compliance with international and domestic laws and regulations, and wars, including the war in Ukraine and the Israel-Hamas war, civil unrest, acts of terrorism, and other conflicts.

Crescita has a commercialization and development license agreement for eastern Europe with Egis Pharmaceuticals PLC for the exclusive right to market Pliaglis in the following territories: Hungary, Bulgaria, Czech Republic, Slovakia, Poland, Latvia, Lithuania, and Russia. At this time, Egis has not made any regulatory submissions for Russia. As for the other territories covered in the agreement, they may be affected by supply chain and inflation concerns as a result of their proximity to the conflict area.

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 Scientific Research & Experimental Development ("SR&ED") expenditures in Canada. Various internal and external factors may have favourable or unfavorable 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.

Interest Rate and Inflation Risk

In an attempt to combat recent inflation through cooling demand, the Bank of Canada and the Federal Reserve have tightened monetary policy through 2022 and 2023 by increasing the overnight lending rate. In a rising interest rate environment, the cost of acquisitions, financing and product development, commercialization and marketing rises, which may negatively impact our business, financial condition and results of operations.

The rate of inflation impacts the general economic and business environment in which we operate. Inflationary pressures experienced domestically and globally, external supply constraints, tight labour markets and strong demand for goods and resources, together with the imposition by governments of higher interest rates or wage and price controls as a means of curbing inflationary increases, puts pressure on our acquisition, financing, operation and labour costs and could negatively impact our business, financial condition and results of operations. If inflation and interest rates continue to climb, an economic contraction is possible. Higher inflation and the prospect of moderated growth also negatively impacts the debt and equity markets in which we may seek capital, and in turn might impact our ability to obtain capital in the future on favourable terms, or at all. There can be no assurances regarding the impact of a significant economic contraction on our business, operations, and financial performance.

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.

Insurance-Related Risks

The Company attempts to limit its liability to third parties by contract where possible; however, our contractual limitations of liability may not be enforceable or may not otherwise protect us from liability for damages. Additionally, we may be subject to claims that are not explicitly covered by contract. To help to cover such claims, we maintain director and officer insurance, liability insurance, business interruption and property insurance and our insurance coverage includes deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us. In addition, we may become subject to liability hazards in circumstances where we cannot or may elect not to insure (because of high premium costs or other reasons), or for occurrences that exceed maximum coverage under our policies. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected, which could cause the market price of our Common Shares to decline.

We have no control over changing conditions and pricing in the insurance marketplace and the cost or availability of various types of insurance may change in the future.

Our business is required to register for insurance under applicable provincial and state workers' compensation legislation. In Canada, our workers' compensation premium rates are based on the relevant provincial workers compensation board's classification of our business activity into a particular rate group, based on similarity of business activities and/or relative risk, our total insurable payroll and our accident and claim cost experience.

Increases in insurance or workplace compensation premium costs could reduce future profitability of the Company. Further, the inability to obtain insurance in the future for certain types of losses may require us to limit the services we provide or the areas in which we operate thereby reducing our revenues and potentially reducing the cash available for distribution. Certain material events may also result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to accept higher deductibles or reduce the amount of coverage in response to such market changes.

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 compensatory or 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 Dermocosmetic Products

The dermocosmetic industry is highly competitive and can change rapidly due to consumer preferences and industry trends. Competition in the dermocosmetic 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, customer service, 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 dermocosmetic 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, 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 regularly rejuvenated 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 could inhibit 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 Dermocosmetic Products

There are numerous categories of non-prescription dermocosmetic 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. The Company is also subject to additional regulations covering occupational safety, manufacturing and laboratory practices, environmental protection, hazardous substance control and other 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, all of which could have a material adverse effect on the Company's business, financial condition and operational results.

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 delay or failure in obtaining regulatory approvals or maintaining compliance with relevant regulations in Canada, the U.S., the E.U. or other foreign countries, may significantly slow down the development, commercialization, and receipt of revenue from the sale of the Company's products, which could have a material adverse effect on the Company's business, financial condition and operational results.

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, which could have a material adverse effect on the Company's business, financial condition and operational results.

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, which could have a material adverse effect on the Company’s business, financial condition and operational results.

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 Controls (“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 on 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. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and operational results.

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 disclosure controls and procedures in accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators. The results of this review are reported in this MD&A. 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, Crescita 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 shareholders 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 shareholders, 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 shareholder 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 shareholders.

Risks Related to our Common Shares

Quarterly Fluctuations

The Company's quarterly and annual operating results have fluctuated in the past and 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 level and timing of CDMO orders, 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 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, could divert the time and attention of the Company's management and other resources and could have a material adverse effect on the Company's business, financial condition and operating results.

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 issue and 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.

Additional Information

Additional information relating to the Company, including our most recently filed AIF, can be found on SEDAR+ at www.sedarplus.ca.

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, 2023 and 2022, 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 material 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How our audit addresses the key audit matter
<i>Fair value measurement of convertible promissory note</i>	

As described in Note 12 of the consolidated financial statements, the Group purchased a secured convertible promissory note in 2021 from Akyucorp Ltd. d/b/a The Best You® ["The Best You"] with an initial principal amount of \$500,000 that could increase up to \$1,250,000, contingent on certain events and conditions being met. The Convertible Note bears interest at variable rates up to 12% based on the annual volume of products purchased by The Best You from the Group. The secured convertible promissory note qualifies as a financial asset measured at fair value through profit or loss ["FVTPL"], classified as Level 3 in the fair value hierarchy. The fair value of the secured convertible promissory note is remeasured at each reporting period using a discounted cash flow model. Changes in assumptions relating to these inputs to the model could affect the reported fair value of the secured convertible promissory note. As at December 31, 2023, the fair value of the secured convertible promissory note was \$436,000.

Auditing the valuation of the convertible promissory note was complex and required the application of significant auditor judgment and involvement of valuation specialists as the fair value was determined based on complex model and non-observable market inputs. The significant inputs and modeling assumptions used to determine the fair value that were subject to significant auditor judgment included, amongst others, the discount rate, forecasted product sales to The Best You, The Best You's share price, strike price and share volatility. The valuation of the secured convertible promissory note is sensitive to these inputs as they are forward-looking and could be affected by future economic and market conditions.

To test the valuation of the secured convertible promissory note, our audit procedures included, amongst others, an evaluation of the methodology and significant inputs used by the Group. We tested the reasonableness of the forecasted product sales to The Best You by comparing management's past projections to actual performance. With the assistance of our valuation specialists, we performed an independent valuation to assess the modelling assumptions and significant inputs used by the Group to estimate the fair value. We independently obtained significant inputs and assumptions from external market data in performing our independent valuation. We performed sensitivity analysis on certain key assumptions. We also evaluated the information presented in notes 4, 12 and 24 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 in this auditor's report. 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Laury Paquette.

*Ernst & Young LLP*¹

Montréal, Canada
March 12, 2024

¹ CPA auditor, public accountancy permit no. A133686

Crescita Therapeutics Inc.
Consolidated Statements of Financial Position

As at December 31		2023	2022
(In thousands of Canadian dollars)	Notes	\$	\$
Assets			
Current			
Cash and cash equivalents		9,385	8,238
Accounts receivable	24	1,190	4,561
Inventories	6	6,125	5,646
Other current assets	7, 24	223	494
Current portion of contract assets	8, 24	1,564	1,577
Total current assets		18,487	20,516
Non-current			
Contract assets	8, 24	1,478	1,570
Property, plant and equipment	9	687	791
Right-of-use asset	10	1,159	1,517
Intangible assets	11	1,993	2,866
Investment in an associate	12	358	342
Convertible note	12	436	427
Deferred tax assets	22	—	455
Total assets		24,598	28,484
Liabilities			
Current			
Accounts payable and accrued liabilities	24	4,325	5,602
Current portion of lease obligation	14	439	405
Current portion of other obligations	15	100	50
Total current liabilities		4,864	6,057
Non-current			
Lease obligation	14	815	1,208
Other obligations	15	97	123
Total liabilities		5,776	7,388
Equity			
Capital Stock	16	54,341	56,304
Contributed surplus		5,956	4,271
Accumulated other comprehensive income (AOCI)		1,124	1,134
Deficit		(42,599)	(40,613)
Total equity		18,822	21,096
Total liabilities and equity		24,598	28,484

Commitments (Note 23)
See accompanying Notes.

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

Years ended December 31 <i>(In thousands of Canadian dollars, except per share data and number of shares)</i>	Notes	2023	2022
		\$	\$
Revenues	17	17,522	23,525
Operating expenses			
Cost of goods sold	6, 20	7,158	10,343
Research and development	20	699	609
Selling, general and administrative	18, 20, 26	10,115	10,573
Depreciation and amortization	9, 10, 11, 20	1,506	1,471
Operating profit (loss)		(1,956)	529
Interest expense	14	85	158
Interest income		(507)	(260)
Foreign exchange (gain) loss		(10)	51
Share of (profit) loss of an associate	12	(16)	57
Net loss on convertible note measured at fair value through profit or loss	12	22	119
Income (loss) before income taxes		(1,530)	404
Deferred income tax (recovery) expense	22	456	(458)
Net income (loss)		(1,986)	862
Other comprehensive loss to be reclassified to net income (loss) in subsequent periods			
Unrealized loss on translation of foreign operations (net of income taxes)		(10)	(14)
Total comprehensive income (loss)		(1,996)	848
Earnings (loss) per share	19		
- Basic		\$ (0.10)	\$ 0.04
- Diluted		\$ (0.10)	\$ 0.04
Weighted average number of common shares outstanding			
- Basic		20,255,285	20,690,875
- Diluted		20,255,285	21,000,182

See accompanying Notes.

Crescita Therapeutics Inc.
Consolidated Statements of Changes in Equity

<i>(In thousands of Canadian dollars, except for number of shares)</i>	Common Shares		Contributed Surplus		Deficit	AOCI	Total
	000's	\$	\$	\$	\$	\$	\$
	Notes	16, 18	16, 18	16, 18			
Balance, December 31, 2021	20,982,752	58,084	2,769	(41,475)	1,148	20,526	
Net income	-	-	-	862	-	862	
Shares cancelled	(17,080)	-	-	-	-	-	-
Shares repurchased and cancelled	(646,520)	(1,790)	1,361	-	-	(429)	
Shares issued through options exercised	15,001	10	(4)	-	-	6	
Share-based compensation expense	-	-	145	-	-	145	
Unrealized loss on translation of foreign operations (net of income tax expense of \$3)	-	-	-	-	(14)	(14)	
Balance, December 31, 2022	20,334,153	56,304	4,271	(40,613)	1,134	21,096	
Net loss	-	-	-	(1,986)	-	(1,986)	
Shares repurchased and cancelled	(418,737)	(1,159)	883	-	-	(276)	
Shares repurchased but not cancelled	-	(832)	715	-	-	(117)	
Shares issued through options exercised	40,000	28	(9)	-	-	19	
Share-based compensation expense	-	-	96	-	-	96	
Unrealized loss on translation of foreign operations (net of income tax recovery of \$1)	-	-	-	-	(10)	(10)	
Balance, December 31, 2023	19,955,416	54,341	5,956	(42,599)	1,124	18,822	

See accompanying Notes.

Crescita Therapeutics Inc.
Consolidated Statements of Cash Flows

Years ended December 31 <i>(In thousands of Canadian dollars)</i>	Notes	2023	2022
Operating Activities			
Net income (loss)		(1,986)	862
Adjustments for:			
Depreciation and amortization	9, 10, 11, 20	1,506	1,471
Share-based compensation	18	82	221
Inventory write-down	4, 6	438	526
Deferred income taxes	4, 22	456	(458)
Interest accretion		(32)	(92)
Share of (profit) loss of an associate	12	(16)	57
Net loss on convertible note measured at fair value through profit or loss	12	22	119
Other		-	(11)
		470	2,695
Net change in non-cash working capital	21	1,606	(3,715)
Cash provided by (used in) operating activities		2,076	(1,020)
Investing Activities			
Acquisition of property, plant and equipment	9	(133)	(229)
Acquisition of additional interest in an associate	12	-	(61)
Cash used in investing activities		(133)	(290)
Financing Activities			
Cash received on exercise of options	18	19	6
Repayment of convertible debentures ⁽ⁱ⁾		-	(1,000)
Payment of principal portion of lease obligation	14	(408)	(373)
Repurchase of shares	16	(393)	(429)
Payment of other obligations	15	-	(50)
Cash used in financing activities		(782)	(1,846)
Effect of exchange rate changes on cash		(14)	63
Net change in cash and cash equivalents during the year		1,147	(3,093)
Cash and cash equivalents, beginning of year		8,238	11,331
Cash and cash equivalents, end of year		9,385	8,238
Supplemental Cash Flow Information			
<i>Interest paid</i> ⁽ⁱⁱ⁾		61	107
<i>Interest received</i> ⁽ⁱⁱ⁾		283	119

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

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

See accompanying Notes.

Crescita Therapeutics Inc.
Notes to the Consolidated Financial Statements

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

1. Corporate Information

Crescita Therapeutics Inc. ("Crescita" or the "Company") is a publicly traded Canadian commercial dermatology company with in-house research & development ("R&D") and manufacturing capabilities. The Company offers a portfolio of high-quality, science-based non-prescription skincare products and early to commercial stage prescription products. Crescita owns multiple proprietary transdermal delivery platforms that support the development of patented formulations to facilitate the delivery of active ingredients into or through the skin. The Company's corporate functions are carried out from its headquarters located at 2805, Place Louis-R-Renaud, Laval, Québec, H7V 0A3. Crescita maintains its registered office at 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

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, 2023 and 2022 were authorized for issue by the board of directors on March 12, 2024.

3. Summary of Material Accounting Policies

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which have been measured at fair value. Refer to *Financial Instruments* below and to Note 24 – *Financial Instruments and Risk Management*. These consolidated financial statements are presented in Canadian dollars.

Basis of Consolidation

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

December 31,	2023	2022
Crescita Skin Sciences Inc. previously "INTEGA Skin Sciences Inc."	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 ⁽ⁱ⁾	-	100%

⁽ⁱ⁾ During the year ended December 31, 2023, Nuvo Research GmbH was wound up.

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

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

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

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

Translation of Foreign Currencies

The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. Each entity in the company group included in these consolidated financial statements determines its functional currency based on the currency of the primary economic environment in which they operate. The functional currencies of the Company's foreign operations are either the U.S. dollar ("US\$") 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 (loss) ("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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories include raw materials, work-in-process and finished goods. Raw materials are stated at the lower of cost and replacement cost, where cost is determined on a standard cost basis (which approximates the actual cost on a first-in, first-out basis ("FIFO")). Manufactured inventory, which includes finished goods and work-in-process, is valued at the lower of cost and net realizable value, where cost is determined on a standard cost basis (which approximates the actual cost on a FIFO basis). Manufactured inventory cost includes the cost of raw materials including packaging components, freight-in, direct labor, an allocation of overhead, and other costs to the extent they are incurred in bringing the inventories to their present location and condition. The Company monitors the shelf life and expiry of finished goods to determine when inventory values are not recoverable, and a write-down is necessary.

Contract assets

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

Contract liabilities

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

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are recorded at cost. The Company allocates the amount initially recognized in respect of an item of PP&E to its significant parts and amortizes separately each such part.

Depreciation of PP&E is provided for over the estimated useful lives from the date the assets become available for use as follows:

Leasehold improvements	Term of lease	Straight line
Furniture and fixtures	5 years	Straight line
Computer equipment and software	1 to 3 years	Straight line
Production, laboratory and other equipment	3 to 5 years	Straight line

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

Leases

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

(i) Right-of-use assets

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

(ii) Lease Obligations

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

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

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

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

Intangible Assets

Intangible assets acquired in a business combination are recognized separately from goodwill at their fair value at the date of acquisition, which is considered to be the cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization commences when the intangible asset is available for use and, for patented assets, is computed on a straight-line basis over the intangible asset's estimated useful life, which cannot exceed the lesser of the remaining patent life and 20 years. Useful lives of the intangible assets are reviewed annually and adjusted prospectively, if appropriate. The estimated useful lives are as follows:

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

Investment in an Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company determined that it has significant influence over its associate, Akyucorp Ltd. d/b/a The Best You® ("TBY"), based on its representation on the board of directors and participation in decisions over relevant activities. The Company's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. The consolidated statements of income (loss) reflect the Company's share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. Refer to Note 12 – *Investment in an Associate and Convertible Note*.

Impairment of Non-Financial Assets

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are largely independent cash flows. For all individual assets or cash generating units ("CGU"), the Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, representing the present value of the expected future cash flows of the relevant asset or CGU. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

Except for goodwill, a previously recognized impairment loss is reversed if there are indications that the impairment loss may no longer exist. If this is the case, the carrying amount of the asset is increased to its recoverable amount but cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. An impairment reversal is recognized as other income.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual obligations of the instrument.

(i) Financial Assets

On initial recognition, the Company's financial assets are recognized at fair value. Subsequent to initial recognition, financial assets are measured according to the category to which they are classified. These categories are amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). Financial assets are subsequently measured at amortized cost, unless they are classified as FVOCI or FVTPL, in which case they are subsequently measured at fair value.

The classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial assets measured at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified, or impaired.

Financial assets measured at FVOCI are subsequently measured at fair value. The fair value changes are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial assets measured at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in the consolidated statements of income (loss).

Classifications are not changed subsequent to initial recognition unless the Company changes its business model for managing its financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which it neither transfers or retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company records expected credit losses ("ECL") on the entire accounts receivable balance. The Company has applied the simplified approach and has calculated the lifetime ECLs based on an established provision matrix that considers the Company's historical credit loss experience adjusted for forward-looking factors specific to the Company's customers and the economic environment.

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

(ii) Financial liabilities

On initial recognition, the Company's financial liabilities are measured at fair value and are classified as amortized cost or FVTPL. A financial liability is classified as amortized cost at initial recognition unless it is classified as held-for-trading, is a derivative instrument or is specifically designated as FVTPL. Financial liabilities classified as amortized cost are subsequently measured using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statements of income (loss) in the reporting period in which such changes arise. Financial liabilities at FVTPL are subsequently measured at fair value with changes in fair value recognized in the consolidated statements of income (loss) in the period in which such changes arise.

Financing costs associated with the issuance of debt are netted against the related debt and are deferred and amortized over the term of the related debt using the effective interest method.

A financial liability is derecognized when its contractual obligations are discharged, cancelled, or expired. When an existing liability is replaced by another from the same creditor on substantially different terms, or the terms of the liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized as a gain or loss in the consolidated statements of income (loss).

The Company classifies accounts payable and accrued liabilities (excluding liabilities pertaining to share appreciation rights and deferred share units measured at FVTPL), and other obligations as financial liabilities measured at amortized cost.

Comprehensive Income

Comprehensive income is the change in equity from transactions and other events and circumstances from non-shareholder sources. OCI refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with IFRS. The resulting changes from translating the financial statements of foreign operations to the Company's presentation currency, the Canadian dollar, are recognized in comprehensive income for the reporting period.

Revenue Recognition

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

Product Sales

Performance obligations for product sales are primarily satisfied upon delivery of products to the Company's customers, however, in some instances, it may be upon shipment depending on the terms of the contract with the customer. For the sale of non-prescription skincare products, performance obligations are satisfied when the product is delivered to the customer and control over the product has been transferred. In the fulfillment of third-party contract manufacturing orders, revenue is recognized upon shipment, when title is transferred to the customer. Following delivery, the customer has full discretion over the channel of distribution and price at which to sell the goods, it also has the primary responsibility for selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Revenue from customer contracts is measured based on the negotiated price, net of reserves for estimated sales discounts and allowances, returns, rebates and chargebacks as applicable. A receivable is recognized by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Licensing Revenue

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

(i) Licensing and Collaboration Arrangements

The Company may enter into licensing and collaboration arrangements for product development, licensing, supply and distribution of its commercial products, patented technologies, and pipeline products. The terms of the agreements may include non-refundable upfront and licensing fees, milestone payments, royalties and minimum future royalties on any future product sales derived from such collaborations. Agreements are analyzed to identify all performance obligations forming part of the contracts based on which the transaction price of the contract is determined. The transaction price is then allocated between all performance obligations on a relative stand-alone selling price basis. The stand-alone selling price per performance obligation is estimated based on the comparable market prices, expected cost plus margin and the Company's historical experience with similar agreements.

- a) Licenses are considered to be right-to-use licenses. As such, the Company recognizes licensing revenue at a point in time, upon granting the license or when the customer can use and benefit from the license.
- b) Pre-commercialization milestone payments are a type of variable consideration. The estimated amounts are included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Due to the significant uncertainty associated with achievement of certain conditions, pre-commercialization milestone payments related to licensing and collaboration agreements are generally not recognized until the uncertainty related to the condition has been resolved.
- c) Post-commercialization milestone payments are a type of variable consideration. Post-commercialization milestones are based on the licensing partners' subsequent sales and represent variable consideration because it is contingent on the licensing partners' sales reaching certain thresholds. The Company accounts for post-commercialization milestone payments in accordance with the royalty recognition constraint and only recognizes revenue for the post-commercialization payment once the licensing partners' sales reach contractual thresholds.

- d) Revenue from product sales under agreements where the Company supplies the products to its licensing partners is recognized upon transfer of control to the Company's licensees, which generally occurs upon shipment of the products. Although the products are manufactured by a third party, the Company has control over them. It therefore acts as principal and records revenue on a gross basis.

(ii) Royalties

Royalty revenue is recognized in the period in which the Company earns the royalty and is based on the net sales reported by the Company's licensing partners. Royalties are typically calculated as a percentage of product sales realized by the Company's licensing partners, as specifically defined in each agreement. Net sales are determined by deducting estimates for chargebacks, rebates, sales incentives and allowances, returns and losses and other customary deductions in each region where the Company has licensees. For the recognition of sales-based or usage-based royalty revenue on licenses of intellectual property, royalties received in exchange for licenses of intellectual property are recognized at the later of when:

- a) The subsequent sale or usage occurs;
- b) The performance obligation to which some or all the sales-based or usage-based royalty has been allocated is satisfied, or partially satisfied.

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

Service Revenue

Revenues from contracted services are generally recognized as the performance obligations are satisfied over time, and the related expenditures are incurred pursuant to the terms of the agreement. Revenue from product development services is recognized based on the stage of completion of the contract. The Company determines the stage of completion as the time expended as a proportion of the total time expected as at the end of the reporting period is an appropriate measure of progress towards the completion of these performance obligations. Where payment for services is not due from the customer until the services are complete, a contract asset would be recognized over the period in which the services are performed representing the Company's right to consideration for the services performed to date.

Refer to Note 17 – Revenues for a disaggregation of revenues by reportable segment, revenue source and geographic area.

Research and Development

Research costs are charged to net income as incurred. Expenditures on internally developed products are capitalized if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Development expenses are charged to profit or loss as incurred unless such costs meet the criteria for deferral and amortization. No development costs have been deferred to date.

Government Assistance

Government assistance received under incentive programs is accounted for using the cost reduction method in accordance with IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance* (“IAS 20”); whereby, the assistance is netted against the related expense or capital expenditure to which it relates when there is reasonable assurance that the credits will be realized.

Government assistance received under reimbursement or funding programs are accounted for using the cost reduction method whereby a receivable is set up as the costs are incurred based on the terms of reimbursement or funding program and the expected recoveries are netted against the related expense.

Earnings (Loss) per Share

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

Diluted earnings (loss) per common share is calculated assuming the weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury-stock method. The treasury-stock method assumes that the proceeds from the exercise of warrants and options are used to purchase common shares at the volume weighted average market price during the reporting period. The dilutive effect of convertible securities is determined using the “if-converted” method. The “if-converted” method assumes that the convertible securities are converted into common shares at the beginning of the period and all income charges related to the convertible securities are added back to income.

Income Taxes

Income taxes on income or loss include current and deferred taxes. Income taxes are recognized in income or loss except to the extent that they relate to business combinations or items recognized directly in equity or in OCI. Current taxes are expected taxes payable or receivable on the taxable income or loss for the reporting period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to taxes payable in respect of previous years. The Company is subject to withholding taxes on certain forms of income earned under its licensing agreements from foreign jurisdictions.

Deferred tax is generally recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted in the relevant jurisdiction by the reporting date. Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the consolidated statements of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries, branches and associates, and interests in joint ventures where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized.

Share-based Compensation and Other Share-based Payments

The Company offers both equity-settled and cash-settled share-based arrangements under the following plans: the Share Incentive Plan, the Share Appreciation Rights Plan (“SARs” and the “SARs Plan”) and the Deferred Share Unit Plan (“DSU” and the “DSU Plan”).

Share Incentive Plan

The Share Incentive Plan (“SIP”) is comprised of three equity-settled sub-plans: (i) the Share Option Plan, (ii) the Share Purchase Plan and (iii) the Share Bonus Plan. The maximum number of Common Shares that may be issued under the Share Incentive Plan is 15% of the total number of outstanding common shares from time to time. The common shares that may be issued under the plan are allocated to the three sub-plans as determined by the board of directors (or a committee thereof) from time to time. The maximum number of common shares that may be issued under the Share Bonus Plan shall not exceed a fixed number of common shares equal to 3% of the number of common shares outstanding immediately following the Arrangement, which is 344,615.

The Company’s Share Incentive Plan is a “rolling plan”, as defined by the TSX’s *Guide to Security-based Compensation Arrangements*. A rolling plan is a plan whereby the maximum number of securities issuable is set as a fixed percentage of the listed issuer’s issued and outstanding securities from time to time rather than as of a specific date. Under its rules, the TSX requires that the plan, along with any unallocated options, rights, or other entitlements, receive shareholder approval at the Company’s annual shareholders meeting every three years. The continuance of the Share Incentive Plan was last approved at Crescita’s Annual General and Special Meeting of Shareholders held on May 11, 2021 and will be considered for ratification at its 2024 Annual General and Special Meeting of Shareholders. As at December 31, 2023, the number of common shares available for issuance under the Share Incentive Plan was 19,125.

The Company measures and recognizes compensation expense for the SIP based on the fair value of the Company’s common shares (the “Common Shares”) or options (the “Options”) issued as follows:

- (i) Under the Share Option Plan, the Company may grant options to purchase common shares to officers, directors, employees or consultants of the Company or its affiliates. Options issued under the Share Option Plan are granted for a term not exceeding ten years from the date of grant. All options issued to date have a term of ten years. In general, options vest over a period of four years or upon the achievement of certain performance-related measures or milestones. Under the provisions of the Share Option Plan, the exercise price of all stock options shall not be less than the closing price of the common shares on the last trading date immediately preceding the grant date of the option. 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, 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. The fair value of the Company’s matching contribution, determined based upon the volume weighted average price of the Common Shares, is recorded as compensation expense and is included in share-based compensation expense.
- (iii) 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. The fair value of the direct award of common shares, determined based upon the trading price of the Common Shares, is recorded as compensation expense and is included in share-based compensation expense.

Share Appreciation Rights Plan

The SARs Plan is a cash-settled plan. Under the SARs Plan, SARs are issued to directors, officers, employees, or designated affiliates to provide incentive compensation based on the appreciation in value of the Common Shares.

SARs vest in tranches prescribed at the grant date, and each tranche is considered a separate award with its own vesting period and fair value. Until SARs vest, compensation expense is measured based on the fair value of the SARs at the end of each reporting period, using the Black-Scholes option pricing model. The fair value of the liability is remeasured at the end of each reporting period and adjusted at the settlement date when the intrinsic value is realized.

Participants receive, upon vesting, a cash amount equal to the difference between the SARs' settlement value and the grant price value, net of any applicable taxes and withholdings. At the settlement date, the settlement value is determined using the closing price of the Common Shares on the Toronto Stock Exchange ("TSX") on the last trading day preceding the applicable vesting date.

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

Deferred Share Unit Plan

The DSU Plan is a cash-settled plan. Under the DSU Plan, DSUs are issued exclusively to directors who are entitled to an annual grant and may also elect to receive a part of or all their cash fees as DSUs.

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

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

The Company's board of directors approved the DSU Plan on May 10, 2021.

Issuance Costs of Equity Instruments

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

4. Use of Estimates and Judgments

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

Management has identified key areas of judgments, estimates or use of managerial assumptions that it believes are most critical to understanding these consolidated financial statements. These accounting estimates are considered critical because they require management to make subjective and/or complex judgments that are inherently uncertain and because they could have a material impact on the presentation of the Company's consolidated financial condition and/or results of operations. The Company's actual results could differ from these estimates and such differences could also be material. These key areas are:

Fair Value Measurement of Convertible Note

The Company purchased a secured convertible promissory note from TBY which qualifies as a financial asset measured at FVTPL (level 3). The fair value of the convertible note is remeasured at each reporting period using a discounted cash flow model. A degree of judgment is involved in estimating inputs required to determine the fair value including, amongst others, the discount rate, forecasted product sales to TBY, TBY's value per share, the strike price and share volatility. Changes in assumptions relating to these inputs to the model could affect the reported fair value of the convertible note. Refer to Note 12 – *Investment in an Associate and Convertible Note* and Note 24 – *Financial Instruments and Risk Management*.

Multiple Elements Licensing and Collaboration Agreements

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

Inventory Valuation

The Company values inventory at the lower of cost, where cost is determined on a standard cost basis (which approximates the actual cost on a FIFO basis), and replacement cost for raw materials and packaging components, and the lower of cost and net realizable value for finished goods. In determining net realizable value, the Company considers such factors as yield, shelf life and expiry of finished goods, turnover, or aging, expected future demand and historical experience. A change in the underlying assumptions related to these factors could affect the valuation of inventory and have a corresponding effect on the cost of sales and profit or loss.

Management reviews the carrying value of inventories at each reporting date. As part of the review, management is required to make certain assumptions when determining expected realizable values and estimates an allowance for obsolescence based on product life and forecasted sales. Any write-downs in value may be reversed if the circumstances which caused them cease to exist. Refer to Note 6 – *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 were 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 18 – *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.

5. Segmented Information

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

Commercial Skincare

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

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

Licensing & Royalties

The Licensing and Royalties ("Licensing") reportable segment primarily derives revenue from licensing the intellectual property related to Pliaglis, the Company's lead prescription product, or to a lesser extent, for the use of its transdermal delivery technologies, Multiplexed Molecular Penetration Enhancers™ ("MMPE") and DuraPeel™, on either an exclusive or non-exclusive basis. The Licensing segment may also leverage the Company's in-house R&D capabilities for the development of new topical products, which may combine its technologies and various selected molecules to fuel future licensing agreements in the non-prescription skincare market. The key revenue streams in the Licensing segment include upfront and pre- and post-commercialization milestone payments, royalties determined using the agreed-upon formulas as described in each respective licensing agreement, and product sales under supply agreements with the Company's licensing partners.

Manufacturing and Services

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

Corporate and Other

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

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Year ended December 31, 2023	\$ 10,440	\$ 2,030	\$ 5,052	\$ -	\$ 17,522
Revenue	10,440	2,030	5,052	-	17,522
Cost of goods sold	4,498	77	2,583	-	7,158
	5,942	1,953	2,469	-	10,364
Research and development	-	-	-	699	699
Selling, general and administrative	-	-	-	10,115	10,115
Depreciation and amortization	-	-	-	1,506	1,506
Other income, net	-	-	-	(426)	(426)
Deferred income tax expense	-	-	-	456	456
Total expenses	-	-	-	12,350	12,350
	5,942	1,953	2,469	(12,350)	(1,986)

	Commercial Skincare	Licensing & Royalties	Manufacturing and Services	Corporate and Other	Total
Year ended December 31, 2022	\$ 8,022	\$ 1,800	\$ 13,703	\$ -	\$ 23,525
Revenue	8,022	1,800	13,703	-	23,525
Cost of goods sold	3,540	-	6,803	-	10,343
	4,482	1,800	6,900	-	13,182
Research and development	-	-	-	609	609
Selling, general and administrative	-	-	-	10,573	10,573
Depreciation and amortization	-	-	-	1,471	1,471
Other expenses, net	-	-	-	125	125
Deferred income tax recovery	-	-	-	(458)	(458)
Total expenses	-	-	-	12,320	12,320
	4,482	1,800	6,900	(12,320)	862

6. Inventories

Inventories consisted of the following as at:

December 31,	2023	2022
	\$	\$
Raw materials	2,500	2,936
Work-in-process	589	512
Finished goods	3,036	2,198
	6,125	5,646

During the year ended December 31, 2023, inventories in the amount of \$6,720 were recognized in cost of goods sold (\$9,817 for the year ended December 31, 2022).

During the year ended December 31, 2023, \$438 of finished goods were written down (\$526 for the year ended December 31, 2022).

There were no reversals of prior write-downs during the year ended December 31, 2023 (\$nil - December 31, 2022).

7. Other Current Assets

Other current assets consisted of the following as at:

December 31,	2023	2022
	\$	\$
Prepaid expenses	199	321
Deposits	3	72
Sales taxes receivable	21	101
	223	494

8. Contract Assets

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

December 31,	2023	2022
	\$	\$
Balance, beginning of year	3,147	3,159
Additions to contract assets	1,343	1,359
Amounts billed to customers and transferred to accounts receivable	(1,577)	(1,491)
Interest accretion	109	109
Foreign exchange movement	20	11
Balance, end of year	3,042	3,147
Less: current portion, end of year	1,564	1,577
Long-term balance, end of year	1,478	1,570

Included in total contract assets at December 31, 2023 is a balance of \$1,699 (\$1,788 – December 31, 2022) related to the Company's licensing agreement with Cantabria Labs for the sale of Pliaglis in Italy, Portugal, France and Spain (the "Cantabria Agreement"), and a balance of \$1,343 (\$1,359 – December 31, 2022) under its U.S. licensing agreement with Taro Pharmaceuticals Inc. ("Taro"). These balances represent future guaranteed minimum royalties not yet billed. They are denominated in euros and U.S. dollars, respectively. Refer to Note 24 – *Financial Instruments and Risk Management*.

9. Property, Plant and Equipment

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

	Leasehold Improvements	Furniture and Fixtures	Computer Equipment and Software	Production, Laboratory and Other Equipment ⁽ⁱⁱ⁾	Total
Cost	\$	\$	\$	\$	\$
Balance, December 31, 2021	617	249	629	1,446	2,941
Additions ⁽ⁱ⁾	-	13	-	222	235
Balance, December 31, 2022	617	262	629	1,668	3,176
Additions ⁽ⁱ⁾	-	-	-	122	122
Balance, December 31, 2023	617	262	629	1,790	3,298
Accumulated depreciation					
Balance, December 31, 2021	453	246	629	847	2,175
Depreciation expense	19	1	-	190	210
Balance, December 31, 2022	472	247	629	1,037	2,385
Depreciation expense	20	-	-	206	226
Balance, December 31, 2023	492	247	629	1,243	2,611
Net book value as at December 31, 2022	145	15	-	631	791
Net book value as at December 31, 2023	125	15	-	547	687

⁽ⁱ⁾ As at December 31, 2023, \$nil of total PP&E additions were unpaid and included in accounts payable and accrued liabilities (\$11 – December 31, 2022).

⁽ⁱⁱ⁾ As at December 31, 2023, total Production, Laboratory and Other Equipment included \$94 of capital assets that were not yet in service and therefore not amortized (\$nil – December 31, 2022).

10. Right-of-Use Asset

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

	Right-of-Use Asset \$
Balance, January 1, 2022	1,810
Add: increase in lease payments	94
Less: amortization	(387)
Balance, December 31, 2022	1,517
Add: increase in lease payments	49
Less: amortization	(407)
Balance, December 31, 2023	1,159

11. Intangible Assets

Intangible assets consisted of the following:

	Product Brands and Formulations	Customer Relationships	Total
Cost	\$	\$	\$
Balance, December 31, 2021	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2022	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2023	7,996	3,050	11,046
Accumulated amortization			
Balance, December 31, 2021	4,993	2,313	7,306
Amortization	546	328	874
Balance, December 31, 2022	5,539	2,641	8,180
Amortization	545	328	873
Balance, December 31, 2023	6,084	2,969	9,053
Net book value as at December 31, 2022	2,457	409	2,866
Net book value as at December 31, 2023	1,912	81	1,993

12. Investment in an Associate and Convertible Note

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

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

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

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

13. Credit Facility

The Company has a revolving demand credit facility (the "Facility") with a Canadian chartered bank (the "Bank") for an authorized amount, subject to margin requirements, of \$3,500. Loans drawn on the Facility are secured by a first-ranking charge in favour of the Bank over the Company's accounts receivable and inventories. Drawings in excess of the first \$1,000 are limited to a percentage of the Company's outstanding accounts receivable and inventory, resulting in a total amount available under the Facility of \$2,069 at December 31, 2023 (\$3,500 at December 31, 2022). The Facility bears interest at the Bank's prime rate (7.20% as at December 31, 2023) plus 0.25% and does not have any financial covenants. No amounts had been drawn from the Facility as at December 31, 2023.

14. Lease Obligation

The Company last amended the lease for its manufacturing and office facility on March 15, 2021, extending the lease term for a period of five years until September 30, 2026 and adding a renewal option in favour of the Company for an additional period of five years until September 30, 2031. The lease obligation at December 31, 2023 and December 31, 2022 reflects the net present value of the remaining lease payments until September 30, 2026, discounted using Crescita's incremental borrowing rate of 4.25% at the time of the last amendment.

The following table presents the movements in the lease obligation:

December 31,	2023	2022
	\$	\$
Balance, beginning of year	1,613	1,892
Add: increase of lease payments	49	94
Add: interest expense	61	74
Less: lease payments	469	447
Balance, end of year	1,254	1,613
Less: current portion, end of year	439	405
Long-term balance, end of year	815	1,208

15. Other Obligations

Other obligations consisted of the following as at:

December 31,	2023	2022
	\$	\$
Consideration payable relating to Alyria Acquisition ⁽ⁱ⁾	197	173
Balance, end of year	197	173
Less: current portion, end of year	100	50
Long-term balance, end of year	97	123

⁽ⁱ⁾ In August 2017, the Company's wholly owned subsidiary, Crescita Skin Sciences Inc., acquired the Alyria® skincare product line ("Alyria Acquisition").

16. Capital Stock

Authorized

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

Issued and Outstanding

The following table summarizes Crescita's outstanding common shares:

	Number of Shares	\$
Balance, December 31, 2021	20,982,752	58,084
Shares cancelled	(17,080)	-
Shares repurchased and cancelled	(646,520)	(1,790)
Shares issued through options exercised (Note 18)	15,001	10
Balance, December 31, 2022	20,334,153	56,304
Shares repurchased and cancelled	(418,737)	(1,159)
Shares repurchased but not cancelled	-	(832)
Shares issued through options exercised (Note 18)	40,000	28
Balance, December 31, 2023	19,955,416	54,341

On August 29, 2023, the Company announced that the Toronto Stock Exchange ("TSX") approved its proposed normal course issuer bid ("NCIB") to purchase up to a maximum of 1,821,616 Common Shares for cancellation starting August 31, 2023 and ending August 30, 2024 or such earlier date as the Company completes its purchases pursuant to the NCIB or provides notice of termination. In connection with the NCIB, the Company entered into an automatic securities purchase plan ("ASPP") that contains strict parameters regarding how its Common Shares may be repurchased during times when it would ordinarily not be permitted to purchase Common Shares due to regulatory restrictions or self-imposed blackout periods. Such purchases are executed by the broker on parameters established by the Company prior to the pre-established ASPP period. The Company may terminate the NCIB provided that the insiders of the Company are not then in a trading blackout and the Company is not otherwise in possession of any material undisclosed information about its business.

During the year ended December 31, 2023, 719,203 Common Shares with a carrying value of \$1,991 were repurchased for cancellation under the Company's NCIB for cash consideration of \$393. The excess of the carrying value over the purchase price in the amount of \$1,598 was recorded to Contributed Surplus. Of the 719,203 Common Shares repurchased, 300,466 Common Shares were cancelled subsequent to December 31, 2023.

17. 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, 2023 and 2022:

	For the years ended December 31,							
	Canada		U.S.		Rest-of-World		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$	\$	\$
Commercial Skincare								
Product Sales	9,868	7,442	44	48	528	532	10,440	8,022
Licensing and Royalties								
Licensing Revenue	1,343	1,359	-	-	559	441	1,902	1,800
Product Sales	-	-	-	-	128	-	128	-
	1,343	1,359	-	-	687	441	2,030	1,800
Manufacturing and Services								
Product Sales	510	991	4,129	12,074	383	585	5,022	13,650
Service Revenue	4	-	4	13	22	40	30	53
	514	991	4,133	12,087	405	625	5,052	13,703
	11,725	9,792	4,177	12,135	1,620	1,598	17,522	23,525

Development and Commercialization Agreement with Taro

During the year ended December 31, 2023, the Company recorded minimum guaranteed royalties of \$1,343 (US\$1,000) in accordance with the terms of its U.S. licensing agreement with Taro which provides for a mitigation mechanism in favour of Crescita in periods where Taro does not reach sales targets. The amount of \$1,343 (US\$1,000) represents Crescita's final entitlement to the annual minimum guaranteed royalties, as Taro delivered a notice of termination on October 25, 2023.

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, 2023, the Company had one major customer reported in the Manufacturing segment that accounted for 21% of the Company's total revenue (one major customer reported in the Manufacturing segment that accounted for 49% of revenues for the year ended December 31, 2022).

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

The following is a summary of share-based compensation activity for the years ended December 31, 2023 and 2022.

Share Incentive Plan

(i) Share Option Plan

The following is a schedule of Crescita's options outstanding:

	Number of Options 000's	Range of Exercise Price	Weighted Average Exercise Price
Balance, December 31, 2021	2,821	0.43 – 1.65	0.80
Granted	286	0.65	0.65
Forfeited	(27)	0.60 – 0.65	0.64
Expired	(98)	1.42	1.42
Exercised	(15)	0.43	0.43
Balance, December 31, 2022	2,967	0.43 – 1.65	0.77
Granted	408	0.46 – 0.66	0.60
Forfeited	(344)	0.60 – 1.65	0.98
Expired	(17)	0.43	0.43
Exercised	(40)	0.46 – 0.49	0.48
Balance, December 31, 2023	2,974	0.46 – 1.63	0.73

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, 2022 - 7.0%), and the remaining model inputs for options granted during the years ended December 31, 2023 and 2022 were:

Options 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Value \$
175	June 20, 2023	0.65	0.65	3.56	5	59	0.35
125	August 31, 2023	0.66	0.66	3.96	5	56	0.34
108	December 28, 2023	0.46	0.46	3.67	5	57	0.23

Options 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
276	January 3, 2022	0.65	0.65	1.46	5	68	0.37
10	June 15, 2022	0.65	0.65	2.58	5	67	0.37

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at December 31, 2023:

Exercise Price Range	Outstanding			Exercisable		
	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested Options	Weighted Average Exercise Price	
\$	000's	years	\$	000's	\$	
0.46 - 0.58	948	5.22	0.48	840	0.48	
0.60 - 0.81	1,624	6.02	0.66	1,003	0.66	
1.63	402	2.38	1.63	402	1.63	
	2,974	5.27	0.73	2,245	0.77	

(ii) Share Purchase Plan

During 2023, Crescita's employees made no contributions to the Share Purchase Plan (2022 - \$nil).

(iii) Share Bonus Plan

During 2023, no shares were issued under the Share Bonus Plan (2022 - nil).

Share Appreciation Rights Plan

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

	Number of SARs	Range of Grant Price	Weighted Average Grant Price		
			000's	\$	\$
Balance, December 31, 2021	263	0.70	0.70	0.22	20
Granted	276	0.65	0.65	0.28	6
Forfeited	(12)	0.65	0.65	0.28	-
Adjustment to market value	-	-	-	-	5
Balance, December 31, 2022	527	0.65 – 0.70	0.67	0.10 – 0.18	31
Granted	475	0.46	0.46	0.15	-
Forfeited	(24)	0.65	0.65	0.28	(1)
Adjustment to market value	-	-	-	-	(21)
Balance, December 31, 2023	978	0.46 – 0.70	0.57	0.00 – 0.18	9

The fair value of each tranche issued and outstanding is remeasured at each reporting date using the Black-Scholes option pricing model. SARs are valued with a calculated forfeiture rate of 7.0% (December 31, 2022 – 7.0%), and the remaining model inputs for measurement at December 31, 2023 and 2022 were:

SARs 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Value \$
263	January 1, 2021	0.49	0.70	4.18	3	51	-
240	January 3, 2022	0.49	0.65	4.18	3	51	0.06
475	December 28, 2023	0.49	0.46	4.18	3	45	0.18

SARs 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Value \$
264	January 3, 2022	0.66	0.65	3.86	3	43	0.18
263	January 1, 2021	0.66	0.70	3.86	3	40	0.10

Deferred Share Unit Plan

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

	Number of DSUs 000's	Fair Value \$	Accrual \$
Balance, December 31, 2021	131	0.65	85
Granted	97	0.73	71
Adjustment to market value	-	-	(6)
Balance, December 31, 2022	228	0.66	150
Granted	72	0.65	47
Paid out	(67)	0.65	(44)
Adjustment to market value	-	-	(39)
Balance, December 31, 2023	233	0.49	114

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 were exercisable at a price of \$0.75 per share and the other 180,000 were exercisable at a price of \$1.00 per share, in each case for a period of six years from August 14, 2017, the date the Warrants were issued. On August 28, 2017, an additional 100,000 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 496,000 Warrants issued in 2017 all expired in August 2023.

The following is a schedule of Crescita's warrants outstanding:

	Number of Warrants 000's	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, December 31, 2021	496	0.75 – 1.00	0.84
Issued	-	-	-
Expired	-	-	-
Balance, December 31, 2022	496	0.75 – 1.00	0.84
Issued	-	-	-
Expired	(496)	0.75 – 1.00	0.84
Balance, December 31, 2023	-	-	-

Summary of Share-based Compensation

Share-based compensation expense is as follows:

Years ended December 31,	2023	2022
	\$	\$
Share Option Plan	96	145
Share Appreciation Rights Plan	(22)	11
Deferred Share Unit Plan	8	65
Share-based compensation expense	82	221

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

Selling, general and administrative expenses	82	221
Share-based compensation expense	82	221

19. Earnings (Loss) per Share

Basic and diluted earnings (loss) per share were computed as follows:

Years ended December 31,	2023	2022
	\$	\$
Net income (loss) attributable to equity holders	(1,986)	862
Dilutive net income (loss) attributable to common equity holders ⁽ⁱ⁾	(1,986)	862
Weighted-average number of common shares outstanding	20,255,285	20,690,875
Net effect of dilutive stock options, warrants and convertible debentures ⁽ⁱ⁾	-	309,307
Weighted-average number of diluted common shares	20,255,285	21,000,182
Earnings (loss) per share		
Basic	\$ (0.10)	\$ 0.04
Diluted	\$ (0.10)	\$ 0.04

⁽ⁱ⁾ The impact of stock options and warrants is excluded from the calculation of diluted earnings (loss) per share when such impact is antidilutive. Since the warrants expired in August 2023, they would only potentially affect the calculation for the year ended December 31, 2022.

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:

December 31,	2023	2022
Common shares issued and outstanding (Note 16)	19,955,416	20,334,153
Stock options outstanding (Note 18)	2,974,187	2,967,464
Warrants (Note 18)	-	496,000
	22,929,603	23,797,617

20. Expenses by Nature

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

(a) Employee costs:

Years ended December 31,	2023	2022
	\$	\$
Short-term employee wages, bonuses and benefits	7,840	8,722
Share-based payments ⁽ⁱ⁾ (Note 18)	71	144
Total employee costs	7,911	8,866
Included in:		
Cost of goods sold	2,175	2,400
Research and development expenses (R&D)	583	541
Selling, general and administrative expenses (SG&A)	5,153	5,925
Total employee costs	7,911	8,866

⁽ⁱ⁾ Excludes share-based payments to directors.

(b) Depreciation and amortization:

Years ended December 31,	2023	2022
	\$	\$
Cost of goods sold	548	517
Selling, general and administrative expenses ⁽ⁱⁱ⁾	958	954
Total depreciation and amortization	1,506	1,471

⁽ⁱⁱ⁾ Includes \$873 of amortization of intangible assets and \$85 of depreciation of tangible assets for the year ended December 31, 2023 (\$874 and \$80 respectively for the year ended December 31, 2022).

21. Net Change in Non-Cash Working Capital

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

Years ended December 31,	2023	2022
	\$	\$
Accounts receivable	3,305	(2,572)
Inventories	(917)	(1,780)
Other current assets	271	273
Contract assets	234	132
Accounts payable and accrued liabilities	(1,287)	232
Net change in non-cash working capital	1,606	(3,715)

22. Income Taxes

Deferred Tax Assets and Liabilities

(a) Recognized deferred tax assets (liabilities)

	As at December 31, 2022	Recognized in Income	Recognized in OCI	As at December 31, 2023
	\$	\$	\$	\$
Canadian non-capital loss carryforwards	699	(662)	-	37
Canadian property plant and equipment	78	(27)	-	51
Right-of-use asset	(402)	95	-	(307)
Lease obligation	427	(95)	-	332
Contract assets	(564)	25	-	(539)
Income tax credit carryforward	131	-	-	131
Unrealized foreign exchange loss	(3)	-	1	(2)
Provisions and other accruals	154	52	-	206
Capital losses	3	(1)	-	2
Intangible assets	(68)	157	-	89
Net deferred tax assets	455	(456)	1	-

The Canadian legal entities comprising Crescita have investment tax credits in the amount of \$131 as at December 31, 2023 (\$131 as at December 31, 2022) 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, 2023 (\$896 as at December 31, 2022) 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 4 – *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 are deductible temporary differences that have not been recognized in these consolidated financial statements:

Years ended December 31,	2023	2022
	\$	\$
U.S. non-capital loss carryforwards	57,428	58,828
U.S. federal and state research and development credits	3,853	4,643
Canadian intangible assets	124	-
Canadian unrealized foreign exchange loss on account of capital	168	-
Canadian non-capital loss carryforwards	10,682	7,956
Deductible temporary differences not recognized	72,255	71,427

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

Years ended December 31,	2023	2022
	%	%
Statutory rate	26.5	26.5
Non-deductible expense, non-taxable income and other items	(4.7)	13.9
Unrecognized temporary differences	(51.4)	211.6
Recognition of previously unrecognized temporary differences	-	(371.0)
Other	(0.2)	5.6
	(29.8)	(113.4)

Loss Carryforwards

The legal entities comprising Crescita have non-capital losses available for carryforward to reduce future years' taxable income. These losses by jurisdiction are as follows:

	Expiry Period	Non-capital Losses
		\$
Canada	2036 to 2043	10,822
United States	No expiry	1,663
United States ⁽ⁱ⁾	2023 to 2029	22,231
United States	2026 to 2038	33,534
		68,250

⁽ⁱ⁾ These U.S. losses carried forward relate to losses acquired upon the purchase of ZARS in 2011. The use of US\$16,800 of these losses is subject to restrictions under the U.S. change of ownership rules.

23. 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.

24. 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, 2023			December 31, 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
Recurring fair value measurements						
Convertible note – TBY (Note 12)	-	-	436	-	-	427

Valuation Methods and Assumptions

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2023 and 2022.

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

Level 3 assets represent the convertible note receivable from TBY. The fair value of the convertible note is revalued at each reporting period based on management's best estimate using the discounted cash flow method. Refer to Note 12 – *Investment in an Associate and Convertible Note*.

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

Risk Factors

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

Liquidity Risk

The Company anticipates that its current cash, amount available under its revolving credit facility and the revenue it expects to generate from product and contract manufacturing sales, upfront, milestone and royalty payments related to licensing its products and/or its transdermal delivery technologies, will be sufficient to fund its committed obligations and expected level of expenses. Additional funding may be required for the development of new products and/or for future acquisitions.

The Company's exposure to liquidity risk is dependent on the sales growth and profitability of its operations which may be impacted by the status of competitive products and the success of the Company in developing and maintaining markets for its products. In addition, a number of other factors will have an impact on liquidity risk such as the level of commercial expenses including the costs associated with maintaining regulatory approvals, the acquisition costs of licenses for new products or technologies, and the timing of payments received or made under licensing arrangements.

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that may be subject the Company to credit risk consist of cash, amounts receivable from customers including contract assets, and its convertible note. The Company manages its exposure to credit risk by holding cash on deposit in major financial institutions. The Company's accounts receivables are subject to normal industry risks in each geographic region in which the Company operates. In addition, the Company is exposed to credit-related losses on sales to its customers outside North America, including its contract asset related to the Cantabria Agreement, due to potentially higher risks of enforceability and collectability.

As at December 31, 2023, 5% of accounts receivable related to customers outside North America and the European Union (December 31, 2022 - 9%).

The contract assets totaling \$3,042 at December 31, 2023 (\$3,147 at December 31, 2022) were related to the Cantabria Agreement and the licensing agreement with Taro, and were denominated in euros and U.S. dollars, respectively. Refer to Note 8 – *Contract Assets*.

As at December 31, 2023, the Company had two customers that accounted for approximately 27% of the total accounts receivable (one customer that accounted for approximately 80% as at December 31, 2022).

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

December 31,	2023	2022
	\$	\$
Current	783	606
0-30 days past due	247	1,957
31-60 days past due	14	311
61-90 days past due	9	1,728
Over 90 days past due	184	13
	1,237	4,615
Allowance for doubtful accounts	(47)	(54)
	1,190	4,561

Interest Rate Risk

The Company's practice is to minimize interest rate cash flow risk exposures on its financing. The Company is currently not exposed to interest rate variability as it had not drawn any amounts on its Facility as at December 31, 2023.

Currency Risk

The Company operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies. At December 31, 2023, the Company had a US\$1,000 foreign currency forward contract (US\$2,000 at December 31, 2022) outstanding to limit its exposure to the U.S. dollar foreign exchange risk. The contract's fair value at December 31, 2023 was nominal.

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

December 31,	Euros		U.S. Dollars	
	2023	2022	2023	2022
	€	€	\$	\$
Cash and cash equivalents	28	179	800	235
Accounts receivable	129	80	203	2,799
Other current assets	2	2	1	8
Contract assets	1,162	1,237	1,000	1,000
Accounts payable and accrued liabilities	(41)	(311)	(1,186)	(1,486)
	1,280	1,187	818	2,556

Based on the aforementioned net exposure as at December 31, 2023, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would have an effect of \$108 on total comprehensive income (loss) and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$187 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; and (iv) its net investment and net cash flows in its European operations.

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

25. 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 \$3,500 (refer to Note 13 – *Credit Facility*) under its revolving demand credit facility, subject to margin requirements. The Facility bears no financial covenants and no amounts have yet been drawn.

26. 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 at December 31, 2023 included the Company's Chief Executive Officer (also a director since June 2023), Chief Financial Officer, and four non-employee directors. Key management at December 31, 2022 included the Company's Chief Executive Officer, Chief Financial Officer, Executive Vice-President and General Manager, and six non-employee directors.

The compensation paid or payable to the Company's key management personnel for services rendered was as follows:

Years ended December 31,	2023	2022
	\$	\$
Short-term wages, bonuses and benefits	1,200	1,708
Share-based payments	60	184
Total key management compensation	1,260	1,892
<i>Included in:</i>		
Selling, general and administrative expenses	1,260	1,892
Total key management compensation	1,260	1,892

Corporate Information

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CORPORATE HEAD OFFICE

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AUDITORS

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

LEGAL COUNSEL

Goodmans LLP
Toronto, Ontario, Canada

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: CTX

INVESTOR RELATIONS

Email: ir@crescitatx.com

TRANSFER AGENT/REGISTRAR

Common Shares

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or outside Canada and U.S. 416-682-3860
Fax: 1-888-249-6189
or outside Canada and U.S. 514-985-8843
Email: shareholderinquiries@tmx.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
Chairman of the Board

Anthony E. Dobranowski, BSc, MBA, CPA, CA
Lead Director
Chair of the Audit Committee

Serge Verreault, BA, MBA
President and Chief Executive Officer
Director

John C. London, LLB, LLM
Chair of the Compensation, Corporate Governance and Nominating Committee

Jose DaRocha, CPA, CA
Chief Financial Officer

Deborah Shannon-Trudeau
Director