



Crescita Therapeutics Inc.

Consolidated Audited Financial Statements

Fiscal years ended
December 31, 2019 and 2018

Independent auditor's report

To the Shareholders of
Crescita Therapeutics Inc.

Opinion

We have audited the consolidated financial statements of **Crescita Therapeutics Inc.** [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, 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 Company 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.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the information included in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.



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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Yannick Ouimet.

*Ernst & Young LLP*¹

Montréal, Canada
March 17, 2020

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



CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31		2019	2018
<i>(In thousands of Canadian dollars)</i>	Notes	\$	\$
Assets			
Current			
Cash and cash equivalents		9,268	8,589
Accounts receivable	25	2,433	5,087
Inventories	4, 6	3,784	2,698
Other current assets	7, 25	437	318
Total current assets		15,922	16,692
Non-current			
Contract assets	8	1,584	-
Property, plant and equipment	9	648	708
Right-of-use asset	10	533	-
Intangible assets	4, 11	7,571	8,719
Deferred tax assets	4, 23	579	1,446
Total assets		26,837	27,565
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities	25	3,935	3,788
Current portion of long-term debt	13	-	1,556
Current portion of lease obligation	12	358	-
Current portion of other obligations	15	50	300
Total current liabilities		4,343	5,644
Long-term debt	13, 16	-	1,990
Convertible debentures	14	895	863
Lease obligation	12	295	-
Other obligations	15	196	61
Total liabilities		5,729	8,558
Equity			
Common shares issued	16	58,422	59,220
Contributed surplus	19	1,948	1,120
Accumulated other comprehensive income (AOCI)		1,145	810
Deficit		(40,407)	(42,143)
Total equity		21,108	19,007
Total liabilities and equity		26,837	27,565

Commitments (Note 24)
See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31		2019	2018
<i>(In thousands of Canadian dollars, except shares and per share amounts)</i>	Notes	\$	\$
Revenues	17	22,337	16,628
Operating expenses			
Cost of goods sold	6, 21	5,801	5,573
Research and development	19, 21	1,376	1,063
Selling, general and administrative	19, 21, 28	8,463	8,883
Depreciation and amortization	21	1,729	1,146
Operating profit (loss)		4,968	(37)
Other expenses (income)			
Interest expense	13, 14, 15	679	603
Interest income		(276)	(110)
Other expenses (income)	18	1,274	(1,105)
Foreign currency loss (gain)		111	(74)
Total other expenses (income)		1,788	(686)
Income from continuing operations before income taxes		3,180	649
Deferred income tax expense (recovery)	4, 23	1,325	(1,773)
Net income from continuing operations		1,855	2,422
Net loss from discontinued operations	5	-	(26)
Net income		1,855	2,396
Other comprehensive income to be reclassified to net loss in subsequent periods			
Unrealized gain (loss) on translation of foreign operations (net of income taxes)		335	(364)
Total comprehensive income		2,190	2,032
Net income per common share from continuing operations	20		
- basic		\$0.09	\$0.12
- diluted		\$0.09	\$0.12
Weighted average number of common shares outstanding	20		
- basic		20,941,690	19,706,535
- diluted		22,496,719	19,706,535

See accompanying Notes.

CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares		Contributed Surplus	Deficit	AOCI	Total
(In thousands of Canadian dollars, except for number of shares)	000's	\$	\$	\$	\$	\$
Notes	1, 16, 19	1, 16, 19	19			
Balance, December 31, 2017	14,003,206	55,694	778	(44,539)	1,174	13,107
Net income	-	-	-	2,396	-	2,396
Rights offering, net	7,001,603	3,520	-	-	-	3,520
Share-based option exercise	11,250	6	-	-	-	6
Share-based compensation expense	-	-	342	-	-	342
Unrealized gain on translation of foreign operations (net of income tax expense of \$ (327))	-	-	-	-	(364)	(364)
Balance, December, 2018	21,016,059	59,220	1,120	(42,143)	810	19,007
First time adoption of IFRS 16 (note 3)	-	-	-	(119)	-	(119)
Net income	-	-	-	1,855	-	1,855
Class A shares purchased and cancelled (note 16)	(273,876)	(772)	523	-	-	(249)
Class A shares purchased but not cancelled (note 16)	-	(26)	18	-	-	(8)
Share-based compensation expense	-	-	287	-	-	287
Unrealized loss on translation of foreign operations (net of income tax recovery of \$ 327)	-	-	-	-	335	335
Balance, December 31, 2019	20,742,183	58,422	1,948	(40,407)	1,145	21,108

See accompanying Notes.

**CRESCITA THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31		2019	2018
<i>(In thousands of Canadian dollars)</i>	Notes	\$	\$
Operating Activities			
Net income from continuing operations		1,855	2,422
Net loss from discontinued operations	5	-	(26)
Adjustments for:			
Depreciation and amortization	9, 10, 11, 21	1,729	1,146
Share-based compensation expense	19	287	342
Inventory write-down	4, 6	252	149
Other income	18	-	(1,105)
Deferred income taxes	4, 23	1,325	(1,773)
Contract assets	8	(1,738)	-
Other		(130)	321
		3,580	1,476
Net change in non-cash working capital	22	1,726	(2,954)
Cash provided by (used in) operating activities		5,306	(1,478)
Investing Activities			
Acquisition of property, plant and equipment	9	(215)	(144)
Cash used in investing activities		(215)	(144)
Financing Activities			
Payment of lease obligation	12	(317)	-
Issuance of Class A shares under rights offering, net	16	-	3,520
Purchase of Class A shares	16	(257)	-
Cash received on exercise of options	16, 19	-	6
Payments under other obligations related to a previous acquisition by INTEGA	15	-	(40)
Repayment of long-term debt	13	(3,570)	-
Payment under other obligations related to Consideration Payable, Alyria	15	(250)	(300)
Cash provided by (used in) financing activities		(4,394)	3,186
Effect of exchange rate changes on cash		(18)	28
Net change in cash and cash equivalents during the year		679	1,592
Cash and cash equivalents, beginning of year		8,589	6,997
Cash and cash equivalents, end of year		9,268	8,589
<i>Interest paid ⁽ⁱ⁾</i>		509	419
<i>Interest received ⁽ⁱ⁾</i>		193	87

⁽ⁱ⁾ 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 shown are in thousands of Canadian dollars, unless noted otherwise.

1. CORPORATE INFORMATION

Crescita Therapeutics Inc. (“Crescita” or the “Company”) is a Canadian commercial dermatology company with in-house research & development (“R&D”) and manufacturing capabilities and a portfolio of non-prescription skincare products and early to commercial stage prescription drug products. Crescita owns multiple proprietary drug delivery platforms that support the development of patented formulations that can facilitate the delivery of active drugs into or through the skin. The Company’s corporate functions are carried out through its headquarters located at 2805, Place Louis-R-Renaud, Laval, Québec, H7V 0A3. Crescita maintains its registered office at 6733 Mississauga Road, Suite 610, Mississauga, Ontario, L5N 6J5.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The policies applied to these consolidated financial statements are based on IFRS, which have been applied consistently to all reporting periods presented, except for the adoption of new accounting standards effective January 1, 2019 (Note 3, *Summary of Significant Accounting Policies*).

These consolidated financial statements were issued and effective as at March 17, 2020, the date the Board of Directors approved these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. Items included in the financial statements of each consolidated entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, the Company’s functional currency.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company’s wholly owned Canadian, U.S. and European subsidiaries, as listed below.

	December 31, 2019	December 31, 2018
INTEGA Skin Sciences Inc. (“INTEGA”)	100%	100%
Nuvo Research America, Inc. and its subsidiaries:		
Nuvo Research US, Inc., ZARS Pharma, Inc. (“ZARS”), and ZARS (UK)		
Limited	100%	100%
Dimethaid Immunology Inc.	100%	100%
Nuvo Research AG and its subsidiary:		
Nuvo Research GmbH	100%	100%

The Company controls the subsidiaries above with the power to direct relevant activities, to govern their financial and operating policies. All significant intercompany balances and transactions have been eliminated upon consolidation.

Foreign Currency Translation

Entities included in these consolidated financial statements each determine their functional currency based on the currency of the primary economic environment in which they operate. The functional currency of the Company's corporate operations is the Canadian dollar, while the functional currencies of the Company's foreign operations are either the U.S. dollar or the euro.

Transactions denominated in a currency other than the functional currency of an entity are translated at exchange rates prevailing at the time the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the end of the reporting period. The resulting gains and losses are included in each entity's net income or loss in the reporting period in which they arise.

The Company's foreign operations are translated into the Company's presentation currency, the Canadian dollar, for inclusion in these consolidated financial statements. Foreign-denominated monetary and non-monetary assets and liabilities of foreign operations are translated at the exchange rates in effect at the end of the reporting period, while revenues and expenses are translated at the average exchange rate for the reporting period in which the transaction occurred as this is considered to be a reasonable approximation of actual rates. The resulting translation exchange gains and losses are included in other comprehensive income ("OCI"), with the cumulative gain or loss reported in accumulated other comprehensive income ("AOCI").

When the Company disposes of its entire interest in a foreign operation or loses control or influence over a foreign operation, the foreign currency gains or losses in AOCI related to the foreign operation are recognized in income or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and readily realizable short-term investments, held with investment-grade financial institutions, with maturities of twelve months or less at the acquisition date.

Inventories

Inventories include raw materials, work-in-process and finished goods. Raw materials are stated at the lower of cost and replacement cost with cost determined on a first-in, first-out basis. Manufactured inventory (finished goods and work-in-process) is valued at the lower of cost and net realizable value determined on a first-in, first-out basis. Manufactured inventory cost includes the cost of raw materials, direct labor, an allocation of overhead and the cost to acquire finished goods. The Company monitors the shelf life and expiry of finished goods to determine when inventory values are not recoverable, and a write-down is necessary.

Contract assets

Contract assets represent the present value of the minimum guaranteed sales-based royalties that are expected to be received over the life of licensing agreements that the company may enter into from time to time. Contract asset balances are reduced as the contractual minimums are realized throughout the life of the agreement.

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

Property, Plant and Equipment

Property, plant and equipment ("PP&E") is 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

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

Intangible Assets

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

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

Useful lives of the intangible assets are reviewed annually and adjusted prospectively, if appropriate.

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 the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

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

Financial Instruments

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

(i) Financial Assets

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

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

Financial assets measured as 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.

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

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

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

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

(ii) Financial liabilities

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

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

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

Currently, the Company classifies accounts payable and accrued liabilities, long-term debt, convertible debentures (debt component) and other long-term obligations as financial liabilities measured at amortized cost.

Convertible debentures

The convertible debentures are separated into their debt and equity components. The value of the debt component is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures to equity, and the attributed amount is not subsequently reviewed.

The debt component presented in the consolidated statements of financial position increases over the term of the debenture to reach to the full-face value of the outstanding debentures at maturity. The difference, that is, the accretion on convertible debentures, is presented as implicit interest expense. The resulting adjusted interest expense reflects the effective yield of the debt component of the debentures. Upon conversion of the debentures into common shares by the holders, both of the above-mentioned components are transferred to share capital. If a conversion option is not exercised at the expiry of the convertible debentures, the equity component of the convertible debentures will remain in contributed surplus.

Comprehensive Income

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

Revenue Recognition

The Company recognizes revenue from product sales, licensing and collaboration arrangements, royalties and service agreements.

Product Sales

Revenue from product sales is recognized when the terms of a contract with a customer have been satisfied. This occurs when: (i) the control over the product has been transferred to the customer; (ii) the product is received by the customer (non-prescription skincare products sales) or (iii) transfer of title to the customer occurs upon shipment (third-party contract manufactured orders). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for selling the goods and bears the risks of obsolescence and loss in relation to the goods.

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

Out-licensing revenues

Licensing and Collaboration Arrangements

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

- a) Licenses are considered to be right-to-use licenses. As such, the Company recognizes the licenses revenues at a point in time, upon granting the license or when the customer can use and benefit of the license.
- b) Milestone revenues are immediately recognized as licensing revenue when the underlying condition is met and collectability is reasonably assured. The estimated amounts are included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Royalties

Royalties are typically calculated as a percentage of net sales realized by the Company's licensees of its products (including their sub-licensees), as specifically defined in each agreement. The licensees' sales generally consist of revenues from product sales of the Company's prescription products and net sales are determined by deducting the following: estimates for chargebacks, rebates, sales incentives and allowances, returns and losses and other customary deductions in each region where the Company has licensees. For the recognition of revenue for sales-based or usage-based royalties on licenses of intellectual property, royalties received in exchange for licenses of intellectual property are recognized at the later of when:

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

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

Services Revenue

Revenues from contracted services are generally recognized as the performance obligations are satisfied over time, and the related expenditures are incurred pursuant to the terms of the agreement. Revenue is recognized for these services 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, *Disaggregated Revenue Information* – for a disaggregation of revenues by source and geographic area.

Research and Development

Research costs are charged to profit or loss 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; 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.

Net Income or Loss Per Common Share

Basic net income or loss per common share is calculated using the weighted average number of common shares outstanding during the year.

Diluted net income or 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, stock options and performance share units 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 tax 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 in-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

Under the Share Incentive Plan, there are three sub-plans: (i) the Share Option Plan (ii) the Share Purchase Plan and (iii) the Share Bonus Plan.

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

- (i) Under the Share Option Plan, the Company issues either fixed awards or performance-based options. Options vest either immediately upon grant or over a period of one to four years or upon the achievement of certain performance related measures or milestones. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest.
- (ii) Under the Share Purchase Plan, the fair value of the Company's matching contribution, determined based upon the volume weighted average price ("VWAP") of the Company's common shares, is recorded as compensation expense and is included in share-based compensation expense.
- (iii) Under the Share Bonus Plan, the fair value of the direct award of common shares, determined based upon the trading price of the Company's common shares, is recorded as compensation expense and is included in share-based compensation expense.

Issuance Costs of Equity Instruments

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

Accounting Standards Adopted

On January 1, 2019, the Company applied IFRS 16 - *Leases* ("IFRS 16") and IFRIC 23 - *Uncertainty over Income Tax Treatment* ("IFRIC 23") for the first time.

IFRS 16 - Lease

On January 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single on-balance sheet accounting model, requiring lessees to recognize assets, representing its right to use the underlying asset for the lease term, and a lease liability in relation to leases which had previously been classified as operating leases under IAS 17 *Leases*, representing its obligation to make lease payments.

The Company applied the modified retrospective approach, which required recognition of the cumulative effect on retained earnings of initially applying IFRS 16 on January 1, 2019. Currently, the Company has one operating lease for its manufacturing and office building, which qualifies as a lease under IFRS 16. The Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17. The Company recognized a right-of-use asset and a lease obligation for this lease previously classified as operating lease. The right-of-use asset was recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The lease liability was recognized based on the present value of the remaining lease payments, discounted using Crescita's incremental borrowing rate of 11% at the date of initial application.

This change in policy resulted in the recognition of a right-of-use asset and a lease liability amounting to \$837 and \$956 respectively, with \$119 recorded as an adjustment to opening deficit.

The lease liability as at January 1, 2019 can be reconciled to the operating lease commitment as of December 31, 2018 as follows:

	\$
Operating lease commitment as at January 1, 2019	1,113
Incremental borrowing rate	11%
Less:	
Discounting impact	157
Lease liabilities as at January 1, 2019	956

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

(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. Right-of-use assets are subject to impairment.

(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.

IFRIC 23 - Uncertainty over Income Tax Treatment

In June 2017, the IASB released IFRIC 23, which is effective on January 1, 2019. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The Company has concluded that IFRIC 23 has no material impact on its consolidated financial statements.

Accounting Standards Issued But Not Yet Adopted

No new standards, interpretations, amendments or improvements to existing standards were issued by the IASB but not adopted.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates and such differences could be material.

Key areas of judgements, estimations or use of managerial assumptions are as follows:

Impairment of Non-Financial Assets

The Company reviews the carrying value of non-financial assets for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test on a CGU is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. The recoverable amount has been determined by management using fair value less costs to sell model. This complex valuation process entails the use of methods, such as the discounted cash flow method which requires numerous assumptions to estimate future cash flows. The recoverable amount is impacted significantly by the discount rate used in the discounted cash flow model, as well as the quantum and timing of expected future cash flows and the growth rate used for the extrapolation.

The estimated future cash flows were based on the budget and strategic plan for the first 5 years and a terminal growth rate of 2.5% (2.5% in 2018) was applied to derive a terminal value beyond the initial 5-year period. The post-tax discount rate used to calculate the recoverable amount in 2019 and 2018 was 14%. Based on the Company's annual assessment, the recoverable amount of the INTEGA CGU using fair value less costs to sell exceeded its carrying value and accordingly, the Company did not recognize any impairment.

A 50-basis point increase in the post-tax discount rate would have resulted in an impairment charge of approximately \$500 in 2019.

A 5% decrease evenly distributed over the future periods, in the expected future net cash inflows would have resulted in an impairment charge of approximately \$600 in 2019.

Multiple elements in out-licensing agreements

The Company may enter into licensing and collaboration agreements for product development, licensing, supply and distribution for its commercial products and product. Each out-licensing agreement is not standardized and could contain specific clauses that may lead to different accounting conclusions. The terms of the agreements may include non-refundable signing and licensing fees, milestone payments and royalties on any product sales derived from collaborations. Those multiple elements, or separately identifiable components, are recognized based on their stand-alone selling price and 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 out-licensing contracts.

Inventory Valuation

The Company values its inventories on a first-in, first-out basis at the lower of cost and replacement cost for raw materials and packaging, and the lower of cost and net realizable value for finished goods. In determining net realizable value, the Company considers such factors as yield, shelf life and expiry of finished goods, turnover or aging, expected future demand and historic experience. A change in the underlying assumptions related to these factors could affect the valuation of inventory and have a corresponding effect on cost of sales.

Management reviews the carrying value of inventories at each reporting date. As part of the review, management is required to make certain assumptions when determining expected realizable values and estimates an allowance for obsolescence based on product life and historical sales. Any write downs in value may be reversed if the circumstances which caused them cease to exist. Refer to Note 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, with employees by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. In addition, cash-settled share-based payments are revalued to fair value at every reporting date.

Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of share-based payments, such as incentive stock options and share appreciation rights ("SARs"), the Company uses the Black-Scholes option pricing model.

Several assumptions are used in the underlying calculation of fair values of the Company's stock options and SARs using the Black-Scholes option pricing model, including the expected life of the option, stock price volatility and forfeiture rates. Details of the assumptions used are included in Note 19, *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. DISCONTINUED OPERATIONS

At its inception, the Company reported two operating segments: the Topical Products and Technologies Group and the Immunology Group. During the year ended December 31, 2016, the Company discontinued the operations of the Immunology Group and restated its operating results to reflect the Immunology Group as a discontinued operation.

The following table presents the effect of the discontinued operations in the consolidated statements of income and comprehensive income:

	Year ended December 31, 2018
	\$
Operating expenses	
Research and development expenses	-
Selling, general and administrative expenses	22
Total operating expenses	22
Other expenses	
Foreign currency loss (gain)	4
Net loss from discontinued operations	(26)
Net loss per common share from discontinued operations	
- basic	\$ -
- diluted	\$ -
Weighted average number of common shares outstanding	
- basic	19,706,535
- diluted	19,706,535

There were no expenses for the year ended December 31, 2019.

The following table presents the effect of the discontinued operations on the consolidated statements of cash flows:

	Year ended December 31, 2018
	\$
Cash used in operating activities	(51)
Net cash outflow	(51)

6. INVENTORIES

Inventories consisted of the following as at:

	December 31, 2019	December 31, 2018
	\$	\$
Raw materials	1,739	1,416
Work-in-process	644	758
Finished goods	1,401	524
	3,784	2,698

During the year ended December 31, 2019, inventories in the amount of \$5,117 were recognized in cost of goods sold [\$4,880 for the year ended December 31, 2018].

During the year ended December 31, 2019, \$252 of finished goods were written down [\$149 for the year ended December 31, 2018].

There were no reversals of prior write-downs during the year ended December 31, 2019 [nil - December 31, 2018].

7. OTHER CURRENT ASSETS

Other current assets consisted of the following as at:

	December 31, 2019	December 31, 2018
	\$	\$
Prepaid expenses	226	222
Deposits	61	51
Sales taxes receivable	77	45
Current portion of contract assets (Note 8)	73	-
	437	318

8. CONTRACT ASSETS

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

	\$
Balance, December 31, 2018	-
Initial recognition of contract assets	1,738
Amounts billed to customers and transferred to accounts receivable	(132)
Interest accretion	87
Foreign exchange movement	(36)
Balance, December 31, 2019	1,657
Less: current portion	73
Long-term balance	1,584

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

In consideration for the rights granted under the Agreement, the Company received upfront payments totalling \$3,721 (€2,500), of which 50% was received upon signing the Agreement and the remaining 50% was received on July 2nd, 2019, following the first commercial sale of Pliaglis in Italy, which occurred on June 10, 2019. These upfronts payments were recognized in out-licensing revenue for the twelve months ended December 31, 2019.

For the year ended December 31, 2019, the Company recognized \$1,738 as a contract asset representing the present value of the minimum guaranteed sales-based royalties relating to the Cantabria Agreement using a discount rate of 6.3%.

9. PROPERTY, PLANT AND EQUIPMENT

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

	Leasehold Improvements	Furniture and Fixtures	Computer Equipment and Software	Production Laboratory and Other Equipment	Total
Cost	\$	\$	\$	\$	\$
Balance, December 31, 2017	594	243	603	703	2,143
Additions ⁽ⁱ⁾	23	6	26	118	173
Balance, December 31, 2018	617	249	629	821	2,316
Additions ⁽ⁱ⁾	-	-	-	217	217
Balance, December 31, 2019	617	249	629	1,038	2,533
Accumulated depreciation					
Balance, December 31, 2017	313	222	365	535	1,435
Depreciation expense	53	4	87	29	173
Balance, December 31, 2018	366	226	452	564	1,608
Depreciation expense	47	11	175	44	277
Balance, December 31, 2019	413	237	627	608	1,855
Net book value as at December 31, 2018	251	23	177	257	708
Net book value as at December 31, 2019	204	12	2	430	648

⁽ⁱ⁾ As at December 31, 2019, \$2 [\$29 – December 31, 2018] of total PP&E additions were unpaid and included in accounts payable and accrued liabilities.

10. RIGHT-OF-USE ASSET

The following table presents the right-of-use asset for the Company (refer to Note 3, *Summary of Significant Accounting Policies*):

	Total right-of-use asset \$
Balance, January 1, 2019	837
Less: depreciation	304
Balance, December 31, 2019	533

11. INTANGIBLE ASSETS

Intangible assets consisted of the following as at:

	Product Brands and Formulations	Customer Relationships	Total
Cost	\$	\$	\$
Balance, December 31, 2017	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2018	7,996	3,050	11,046
Additions	-	-	-
Balance, December 31, 2019	7,996	3,050	11,046
Accumulated amortization			
Balance, December 31, 2017	947	407	1,354
Amortization	669	304	973
Balance, December 31, 2018	1,616	711	2,327
Amortization ⁽ⁱ⁾	731	417	1,148
Balance, December 31, 2019	2,347	1,128	3,475
Net book value as at December 31, 2018	6,380	2,339	8,719
Net book value as at December 31, 2019	5,649	1,922	7,571

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

12. LEASE OBLIGATION

The following table presents the movements in the lease obligation (refer to Note 3, *Summary of Significant Accounting Policies*):

	Total lease obligation \$
Balance, January 1, 2019	956
Increase of lease payments	14
Less: lease principal payments	(317)
Balance, December 31, 2019	653
Less: current portion	358
Long-term balance	295

Interest expense on the lease obligation for the year ended December 31, 2019, was \$90.

13. LONG-TERM DEBT

Long-term debt consisted of the following as at:

	December 31, 2019	December 31, 2018
	\$	\$
Knight loan – principal	-	3,639
Knight loan – unamortized discount	-	(93)
	-	3,546
Less current portion	-	1,556
Long-term balance	-	1,990

In December 2019, the Company repaid the Knight loan in full and the unamortized discount of \$69 was recorded in interest expense.

On September 1, 2016, in connection with the acquisition of INTEGA, the Company entered into a restated and amended loan agreement with Knight Therapeutics Inc. (“Knight” and the “First Amended Loan Agreement”) which amended the terms of the original loan agreement dated January 21, 2016.

The terms of the loan were further amended on August 14, 2017 and on March 29, 2019, resulting in the Company entering into the second amended and restated loan agreement (the “Second Amended Loan Agreement”) and the third amended and restated loan agreement (the “Third Amended and Restated Loan Agreement”), respectively.

Under the terms of the Third Amended and Restated Loan Agreement, the maturity date was deferred from January 22, 2022 to June 30, 2022. The terms of the loan also allowed the Company to prepay all or any portion of the outstanding principal on the loan at any time up to December 31, 2019, together with all accrued and unpaid interest, without penalty. The loan continued to bear interest at 9% per annum. In addition, under the terms of the Third Amended and Restated Loan Agreement, the Company and Knight agreed to enter into a license and supply agreement related to the Israeli rights for Pliaglis®, following the Company’s reacquisition of the rest-of-world (ROW) rights for Pliaglis from Galderma S.A. (Galderma), refer to Note 18, *Other Expenses (Income)*.

During the year ended December 31, 2018, the Company received an irrevocable waiver from Knight of the cash sweep provision of Second Amended Loan Agreement in connection with its Rights Offering (the “Offering”), allowing Crescita to benefit from 100% of the net proceeds of the Offering - refer to Note 16⁽ⁱ⁾, *Share Capital*, as well as a similar waiver in connection with revenue received under the out-licensing agreement with Taro – refer to Note 17⁽ⁱ⁾, *Disaggregated Revenue Information* for further details.

14. CONVERTIBLE DEBENTURES

On August 28, 2017, the Company completed a \$1,000 convertible debenture financing with Bloom Burton Healthcare Lending Trust and Bloom Burton Healthcare Lending Trust II (together the “Bloom Burton Funds”). The debentures issued to Bloom Burton Funds (the “Debentures”) bear interest at 9% payable in cash on a quarterly basis, have a maturity date of June 30, 2022 and are convertible into common shares at the option of the holder at a conversion price of \$1.00 per share. Commencing after the second anniversary of the issue date, the Company has the option to force conversion if the closing price of its common shares exceeds 150% of the conversion price on 20 trading days in any 30-day period. The outstanding Debentures are secured by assets of the Company, ranking in priority behind a Canadian Chartered Bank. Refer to Note 29, *Subsequent Event*.

Management estimated the fair value of the debt using a discount rate of 14% and allocated \$827 to the debenture, \$40 to the issuance of warrants and \$133 to the conversion feature. The Debentures are being accreted to the face value of the debt plus interest to maturity. The Company also issued an additional 100,000 common share warrants to Bloom Burton Funds at an exercise price of \$0.75 per share for a period of six years (refer to Note 19, *Share-Based Compensation and other Share-Based Payments*).

The following table reconciles the recorded value of the liability and the equity components of the Debentures:

	Liability	Equity ⁽ⁱ⁾	Total
	\$	\$	\$
Balance, December 31, 2017	834	173	1,007
Accretion	29	-	29
Balance, December 31, 2018	863	173	1,036
Accretion	32	-	32
Balance, December 31, 2019	895	173	1,068

⁽ⁱ⁾ The equity component was recorded in contributed surplus.

15. OTHER OBLIGATIONS

Other obligations consisted of the following as at:

	December 31, 2019	December 31, 2018
	\$	\$
Consideration payable relating to Alyria Acquisition ⁽ⁱ⁾	226	341
Contingent payments relating to Alyria Acquisition ⁽ⁱ⁾	20	20
	246	361
Less current portion	50	300
Long-term balance	196	61

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

16. SHARE CAPITAL

Authorized

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

Issued and Outstanding

The following table summarizes Crescita's outstanding common shares:

	Number 000s	Amount \$
Balance, December 31, 2017	14,003	55,694
Issued through Rights Offering, net ⁽ⁱ⁾	7,002	3,520
Issued through employee plans ⁽ⁱⁱ⁾	11	6
Balance, December 31, 2018	21,016	59,220
Shares purchased and cancelled ⁽ⁱⁱⁱ⁾	(274)	(772)
Shares purchased ⁽ⁱⁱⁱ⁾	-	(26)
Balance, December 31, 2019	20,742	58,422

⁽ⁱ⁾ On March 9th, 2018, the Company completed its Rights Offering upon which 7,001,603 Class A common shares were issued at a price of \$0.53 per share for gross proceeds of \$3,710, with issuance costs of \$190. Crescita obtained an irrevocable waiver from Knight of certain provisions of the Amended and Restated Loan Agreement, allowing Crescita to benefit from 100% of the net proceeds of The Offering.

⁽ⁱⁱ⁾ On June 15th, 2018, 11,250 shares were issued from treasury following the exercise of stock options by an employee.

⁽ⁱⁱⁱ⁾ On June 26, 2019, the Company announced that the TSX approved the Company's intention to make a normal course issuer bid (the "NCIB") for a portion of its Class A common shares ("common shares") as appropriate opportunities arise from time to time. The NCIB enables the Company to purchase through the facilities of the TSX, up to 1,000,000 Common Shares for cancellation on the open market. The Common Shares may be purchased under the NCIB commencing June 28, 2019, and ending no later than June 27, 2020, or on such earlier date when the Company completes its purchases or elects to terminate the bid. The Company may terminate the NCIB provided that the insiders of the Company are not in a trading blackout and the Company is not otherwise in possession of any material undisclosed information about its business.

During the year ended December 31, 2019, the Company purchased for cancellation 283,423 common shares, with a carrying value of \$798 for a cash consideration of \$257. The excess of the carrying value over the purchase price in the amount of \$541 was recorded to contributed surplus. Of the common shares purchased, 9,547 common shares with a carrying value of \$26 and a purchase value of \$8 were held by the Company and cancelled subsequent to December 31, 2019.

17. DISAGGREGATED REVENUE INFORMATION

The following table presents revenues, net of sales taxes, disaggregated by revenue source and geographic areas (based on billing address of the customers):

	For the years ended December 31,							
	Canada		U.S.		ROW		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Product Sales	6,411	6,349	2,408	2,107	1,347	626	10,166	9,082
Out-licensing Revenue	6,260	7,355	-	-	5,799	163	12,059	7,518
Service Revenue	89	28	23	-	-	-	112	28
Balance, December 31	12,760	13,732	2,431	2,107	7,146	789	22,337	16,628

Major Customers

Under IFRS 8 *Operating Segments* (IFRS 8), major customers are those that account for greater than 10% of the Company's consolidated revenues. For the year ended December 31, 2019, the Company had two major customers that accounted for 53% of the Company's total revenue [44% of revenues for the year ended December 31, 2018].

18. OTHER EXPENSES (INCOME)

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

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Termination fees and other costs ⁽ⁱ⁾	1,274	-
Gain on settlement ⁽ⁱⁱ⁾	-	(650)
Other income ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	-	(455)
	1,274	(1,105)

⁽ⁱ⁾ Effective April 1, 2019, the Company terminated its out-licensing agreement with Galderma. The termination fees include the costs incurred to re-acquire the Pliaglis ROW rights and other transaction related costs.

⁽ⁱⁱ⁾ The Company entered into an agreement relating to a \$1,000 historical liability owing under a previous acquisition concluded in 2016. Pursuant to the terms of the agreement, in consideration for INTEGA releasing the counterparty from any potential future claims under the agreement and the counterparty releasing INTEGA from the payment of virtually all of the historical liability, the Company recognized (a) a gain on settlement of \$650 and (b) other income of \$275 relating to planned facility upgrades and reimbursement of costs incurred in connection with previous contract manufacturing services.

⁽ⁱⁱⁱ⁾ Other income includes a gain of \$180 related to the revaluation of a contingent consideration receivable in connection with the Alyria Acquisition.

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

The following is a summary of share-based compensation activity for the years ended December 31, 2019 and 2018.

Share Incentive Plan

Under the Company's Share Incentive Plan, there are three sub-plans: (i) the Share Option Plan, (ii) the Share Purchase Plan and the (iii) Share Bonus Plan. The maximum number of common shares that may be issued under the Share Incentive Plan is 15% of the total number of outstanding common shares from time-to-time. The common shares that may be issued under the plan are allocated to the three sub-plans as determined by the Board of Directors (or a committee thereof) from time-to-time (provided that 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).

As the Share Incentive Plan is a "rolling plan", the TSX requires that it, 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 approved at Crescita's last Annual General and Special Meeting of Shareholders on May 14, 2019. As at December 31, 2019, the number of common shares available for issuance under the Share Incentive Plan was 447,589.

(i) Share Option Plan

Under the Share Option Plan, the Company may grant options to purchase common shares to officers, directors, employees or consultants of the Company or its affiliates. Options issued under the Share Option Plan are granted for a term not exceeding ten years from the date of grant. All options issued to-date have a life of ten years. In general, options have vested either immediately upon grant or over a period of one to four years or upon the achievement of certain performance-related measures or milestones. Under the provisions of the Share Option Plan, the exercise price of all stock options shall not be less than the closing price of the common shares on the last trading date immediately preceding the grant date of the option.

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

	Number of Options 000's	Range of Exercise Price \$	Weighted Average Exercise Price \$
Balance, December 31, 2017	1,783	0.43 - 3.12	1.14
Granted	465	0.48 - 0.49	0.49
Forfeited	(40)	0.65	0.65
Expired	(35)	1.21 - 1.77	1.54
Exercised	(11)	0.43	0.43
Balance, December 31, 2018	2,162	0.43 - 3.12	1.00
Granted	560	0.46 - 0.78	0.52
Forfeited	(46)	0.65 - 3.12	1.57
Balance, December 31, 2019	2,676	0.43 - 3.12	0.89

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, 2018 - 7.0%], and the remaining model inputs for options granted during the year ended December 31, 2019 were:

Options 000's	Grant Date	Share Price \$	Exercise Price \$	Risk-free Interest Rate %	Expected Life years	Volatility Factor %	Fair Values \$
450	January 4, 2019	0.46	.46	1.93%	5	99%	0.38
110	May 21, 2019	0.78	.78	1.50%	5	97%	0.60

The following table summarizes the outstanding and exercisable Crescita options held by directors, officers, employees and consultants as at December 31, 2019:

Exercise Price Range	<u>Outstanding</u>			<u>Exercisable</u>	
	Number of Options	Remaining Contractual Life	Weighted Average Exercise Price	Vested Options	Weighted Average Exercise Price
\$	000's	years	\$	000's	\$
0.43 - 0.74	1,881	7.71	0.57	827	0.63
1.21 - 1.42	135	2.07	1.36	135	1.36
1.63 - 1.91	623	6.39	1.63	548	1.63
3.12	37	0.46	3.12	37	3.12
	2,676	7.02	0.89	1,547	1.11

(ii) Share Purchase Plan

Under the Share Purchase Plan, eligible officers, employees or consultants of Crescita or its affiliates may contribute up to 10% of their annual base salary to the plan to purchase Crescita common shares. Crescita matches each participant's contribution by issuing Crescita common shares having a value equal to the aggregate amount contributed by each participating employee.

During 2019, Crescita's employees made contributions of \$nil [2018 - \$nil] to the Share Purchase Plan.

(iii) Share Bonus Plan

Under the Share Bonus Plan, the Company may issue common shares as a discretionary bonus to the officers, certain employees, directors as well as designated affiliates. Persons who perform services for the Company are also eligible to receive shares in lieu of cash compensation.

During 2019, no shares were issued under the plan [2018 - nil].

Warrants

During fiscal 2017, the Company issued 496,000 common share purchase warrants. Of these, 396,000 were issued to Knight of which 216,000 are exercisable at a price of \$0.75 per share and the other 180,000 are exercisable at a price of \$1.00 per share, in each case for a period of six years from August 14, 2017, the date the Warrants were issued. Concurrent with the issuance of those warrants, Knight surrendered and cancelled the 293,163 common share purchase warrants it previously held. On August 28, 2017, an additional 100,000 common share warrants were issued to Bloom Burton Funds at an exercise price of \$0.75 per share for a period of six years from that date.

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

	Number of Warrants	Range of Exercise Price	Weighted Average Exercise Price
	000's	\$	\$
Balance, December 31, 2017 and December 31, 2018	661	0.75 – 2.44	1.24
Issued	-	-	-
Cancelled	(165)	2.44	2.44
Balance, December 31, 2019	496	0.75 – 1.00	0.84

Summary of Share-based Compensation

Share-based compensation expense is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Stock option compensation expense	287	342
SARs compensation expense	-	(1)
Share-based compensation expense	287	341
<i>Recorded in the consolidated statements of income and comprehensive income as follows:</i>		
Research and development expenses	38	31
Selling, general and administrative expenses	249	310
Share-based compensation expense	287	341

20. NET INCOME PER COMMON SHARE

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

	Year ended December 31, 2019	Year ended December 31, 2018
Net income attributable to equity holders	1,855	2,396
Interest on convertible debentures, net of income taxes	91	-
Dilutive net income attributable to common equity holders	1,946	2,396
Weighted-average number of common shares outstanding	20,941,690	19,706,535
Net effect of dilutive stock options, warrants and convertible debentures	1,555,029	-
Weighted-average number of diluted common shares	22,496,719	19,706,535
EPS		
Basic	\$ 0.09	\$0.12
Diluted	\$ 0.09	\$0.12

The following table presents the maximum number of shares that would be outstanding if all dilutive and potentially dilutive instruments were exercised or converted as at:

	Year ended December 31, 2019	Year ended December 31, 2018
Common shares issued and outstanding (Note 16)	20,742,183	21,016,059
Stock options outstanding (Note 19)	2,676,002	2,162,060
Convertible debentures (Note 14)	1,000,000	1,000,000
SARs liability ⁽ⁱ⁾ (Note 19)	-	51,680
Warrants (Note 19)	496,000	660,823
	24,914,185	24,890,622

⁽ⁱ⁾ The 51,860 units outstanding at December 31, 2018 expired on January 1, 2019 with a fair value of nil.

21. EXPENSES BY NATURE

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

(a) Employee costs:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Short-term employee wages, bonuses and benefits	6,445	6,511
Share-based payments (Note 19)	199	265
Termination benefits	15	51
Total employee costs	6,659	6,827
Included in:		
Cost of goods sold	1,344	1,143
Research and development expenses	795	934
Selling, general and administrative expenses	4,520	4,750
Total employee costs	6,659	6,827

(b) Depreciation and amortization:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Depreciation included in cost of goods sold	498	129
Depreciation and amortization included in selling, general and administrative expenses ⁽ⁱ⁾	1,231	1,017
Total depreciation and amortization	1,729	1,146

⁽ⁱ⁾ Selling, general and administrative expenses included \$1,148 of amortization of intangible assets and \$83 of depreciation of tangible assets for the year ended December 31, 2019 [\$973 and \$44 respectively for the year ended December 31, 2018].

22. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Accounts receivable	2,809	(3,883)
Inventories	(1,338)	318
Other current assets	92	101
Accounts payable and accrued liabilities	163	510
Net change in non-cash working capital	1,726	(2,954)

23. INCOME TAXES

Deferred Tax Assets and Liabilities

(a) Recognized deferred tax assets (liabilities)

	As at December 31, 2018	Recognized in income	Recognized in other comprehensive income	Other	As at December 31, 2019
	\$	\$	\$	\$	\$
Canadian non-capital loss carryforwards	2,998	(1,347)	-	-	1,651
Canadian property plant and equipment	205	37	-	-	242
Convertible debenture	(36)	8	-	-	(28)
Right-of-use-asset	-	32	-	-	32
Contract assets	-	(439)	-	-	(439)
Share Issuance costs and unamortized discount on long-term debt	88	(25)	-	-	63
Income tax credit carryforward	-	-	-	131	131
Unrealized foreign exchange gain	(327)	-	327	-	-
Provisions and other accruals	(58)	158	-	-	100
Intangible assets	(1,424)	251	-	-	(1,173)
Net deferred tax assets	1,446	(1,325)	327	131	579

Net deferred tax assets of \$579 were recognized as at December 31, 2019 in respect of temporary differences that have arisen in jurisdictions where the Company has a history of recent losses. Based on projections for future taxable income, management believes it is probable the Company will realize the benefits of these deductible differences and operating tax losses carry forward.

The Canadian legal entities comprising Crescita have investment tax credits in the amount of \$131 available for carryforward to reduce future years' income tax payable. These tax credits expire in 2036.

The Company has approximately \$896 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 represents deductible temporary differences that have not been recognized in these consolidated financial statements:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
U.S. non-capital loss carryforwards	76,835	82,518
U.S. federal and state research and development credits	4,452	4,676
Canadian unrealized foreign exchange loss on account of capital	1,229	-
Canadian non-capital loss carryforwards	8,531	6,262
U.S. Tax basis of property, plant and equipment and intangible assets in excess of (less than) accounting value	1,111	1,750
Deductible temporary differences not recognized	92,158	95,206

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

	Year ended December 31, 2019	Year ended December 31, 2018
	%	%
Statutory rate	26.6	26.5
Non-deductible expense, non-taxable income and other items	2.5	12.8
Impact of foreign income tax rate differential	(1.4)	1.2
Recognition of previously unrecognized temporary differences	-	(367.5)
Unrecognized temporary differences	17.2	53.8
Other	(3.2)	-
	41.7	(273.2)

Loss Carryforwards

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

	Expiry Period	Non-capital losses
		\$
United States ⁽ⁱ⁾	2023 to 2029	43,339
United States	2025 to 2038	33,496
Canada	2033 to 2038	16,959
		93,794

⁽ⁱ⁾ These U.S. losses carried forward were acquired with the purchase of ZARS in 2011. The use of US\$34,300 of these losses is subject to restrictions under the U.S. change of ownership rules.

24. 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.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring fair value measurements						
Contingent consideration – royalty earn-out	-	-	(20)	-	-	(20)

Valuation Methods and Assumptions

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

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

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

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

The fair value of contract assets, which are presented at amortized cost using the effective interest method, has been determined by discounting the future cash flows using observable inputs, such as interest rate yield curves or credit spreads. The fair value of the contract asset approximates its carrying value as it is related to the license agreement signed with Cantabria in April 2019.

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 and the revenue it expects to generate from product sales and upfront and milestone payments related to out-licensing its products, in addition to royalty payments on the global net sales of Pliaglis will fund Crescita's operations as currently planned for 2020 and beyond. Additional funding may be required for the development of new products and/or for future acquisitions.

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

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that may be subject the Company to credit risk consist of cash and amounts receivable from global customers. The Company manages its exposure to credit risk by holding cash on deposit in major financial institutions. The 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 due to potentially higher risks of enforceability and collectability.

As at December 31, 2019, 14% of accounts receivables related to customers outside North America and the E.U. [December 31, 2018 - 3%].

The contract assets in the amount of \$1,657 is related to Cantabria and is denominated in euros.

As at December 31, 2019, the Company had three customers that accounted for approximately 67% [two customers that accounted for approximately 86% as at December 31, 2018] of the total accounts receivables.

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

	December 31, 2019	December 31, 2018
	\$	\$
Current	1,931	4,775
0-30 days past due	197	197
31-60 days past due	248	137
61-90 days past due	5	8
Over 90 days past due	121	21
	2,502	5,138
Allowance for doubtful accounts	(69)	(51)
	2,433	5,087

Interest Rate Risk

The Company was not exposed to interest rate variability as debt instruments bore interest at a rate of 9% per year, compounded on a monthly basis.

Currency Risk

The Company operates globally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar and euro, but also transacts in other foreign currencies. The Company currently does not use financial instruments to hedge these risks. The significant balances in foreign currencies were as follows:

	Euros		U.S. Dollars	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	€	€	\$	\$
Cash and cash equivalents	29	51	1,025	194
Accounts receivable	52	-	1,028	3,334
Other current assets	82	38	3	30
Contract assets	1,086	-	-	-
Accounts payable and accrued liabilities	(91)	(93)	(1,130)	(843)
	1,158	(4)	926	2,715

Based on the aforementioned net exposure as at December 31, 2019, 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 \$120 on total comprehensive income and a 10% appreciation or depreciation of the Canadian dollar against the euro would have an effect of \$170 on total comprehensive income.

In terms of the euro, the Company has four significant exposures: (i) its euro-denominated cash held in its Canadian operations; (ii) the cost of purchasing raw materials and packaging materials priced in euros or sourced from European suppliers that are needed for production at the Canadian manufacturing facility; (iii) royalties and milestones from licensing agreements regarding Pliaglis; and (iv) its net investment and net cash flows in its European operations (refer to Note 5, *Discontinued Operations*). In terms of the U.S. dollar, the Company has five significant exposures: (i) its U.S. dollar-denominated cash held in its Canadian operations; (ii) the cost of purchasing raw materials and packaging materials priced in U.S. dollars or sourced from U.S. suppliers that are needed for productions at the Canadian manufacturing facility; (iii) royalties and milestones from licensing agreements regarding 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.

The Company does not actively hedge any of its foreign currency exposures given the relative risk of currency versus other risks the Company faces and the cost of establishing the necessary credit facilities and purchasing financial instruments to mitigate or hedge these exposures. As a result, the Company does not attempt to hedge its net investments in foreign subsidiaries.

26. SEGMENTED INFORMATION

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

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

27. CAPITAL MANAGEMENT

The Company's managed capital is comprised of cash, 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 new common shares from time to time. Historically, the Company relied on cash on hand, issuance of new shares and debt financing to finance growth initiatives.

28. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors. Key management includes three executive officers and five non-employee directors. Compensation for the Company's key management personnel was as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$
Short-term wages, bonuses and benefits	1,498	1,711
Share-based payments	162	237
Total key management compensation	1,660	1,948
<i>Included in:</i>		
General and administrative expenses	1,660	1,948
Total key management compensation	1,660	1,948

29. SUBSEQUENT EVENT

Line of Credit

On February 26, 2020, the Company completed a credit agreement with a Canadian Chartered Bank (the "Bank"), consisting of a revolving line of credit facility (the "Facility") for an authorized amount up to \$3.5 million. Drawings after the first \$1.0 million are limited to a percentage of the Company's outstanding accounts receivable and inventory.

The Facility bears interest at the Bank's Prime rate plus 0.25%. 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.