Acerus Pharmaceuticals Corporation

Audited Consolidated Financial Statements

December 31, 2019

(expressed in thousands of U.S. dollars except per share amounts and unless otherwise stated)

Independent auditor's report

To the Shareholders of Acerus Pharmaceuticals Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Acerus Pharmaceuticals Corporation and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 3, 2020

Acerus Pharmaceuticals Corporation
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(expressed in thousands of U.S. dollars)

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		$ 5,860	$ 3,829
Trade and other receivables	6	171	1,113
Contract asset	7	473	-
Inventory	8	1,494	2,506
Prepaid and other assets	9	1,237	176
Total current assets		9,235	7,624
Property and equipment, net	10	1,051	1,267
Right of use asset	11	263	-
Intangible assets, net	12	4,891	7,933
Total assets		$ 15,440	$ 16,824
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable and accrued liabilities	13	$ 7,408	$ 5,619
Current portion of deferred lease inducement	3(b)	-	46
Current portion of lease liability	11	101	-
Total current liabilities		7,509	5,665
Accrued liabilities	13	-	2,462
Deferred lease inducement	3(b)	-	254
Lease liability	11	510	-
Long-term debt	14	19,990	8,287
Derivative financial instruments	15	262	227
Total liabilities		28,271	16,895
Shareholders' (deficit)			
Share capital	16	$ 158,402	$ 154,737
Warrants	16	1,420	1,420
Contributed surplus		11,361	11,500
Accumulated other comprehensive loss		(13,949)	(13,851)
Deficit		(170,065)	(153,877)
Total shareholders'(deficit)		(12,831)	(71)
Total liabilities & shareholders' (deficit)		$ 15,440	$ 16,824

The accompanying notes are an integral part of these consolidated financial statements.
Going concern (note 1)
Commitments and contingincies (note 23)
These consolidated financial statements were authorized for issue by the Board of Directors on March 3, 2020.

Acerus Pharmaceuticals Corporation
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2019 and 2018
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	December 31, 2019	December 31, 2018
Revenue			
Product revenue		$ 3,575	$ 7,043
Licensing and other revenue		193	334
		3,768	7,377
Cost of goods sold	17	2,199	3,644
Royalty buyout	5(a)	-	6,680
Gross margin		1,569	(2,947)
Expenses			
Research and development	17	2,829	2,398
Selling, general and administrative	17	12,776	11,197
Total operating expenses		15,605	13,595
Operating loss		(14,036)	(16,542)
Other expenses/(income)			
Interest on long-term debt and other financing costs	18	2,532	1,773
Interest income		(17)	(12)
Foreign exchange (gain)/loss		(261)	1,029
Change in fair value of derivative financial instruments	15	(161)	(380)
Gain on extinguishment of payables		-	(195)
Total other expenses		2,093	2,215
Loss for the year before income taxes		(16,129)	(18,757)
Income tax expense		-	29
Net loss for the year		$ (16,129)	$ (18,786)
Other comprehensive income, net of income tax			
Foreign currency translation adjustment		(98)	201
Total comprehensive loss for the year		$ (16,227)	$ (18,585)
Loss per common share			
Basic and diluted net loss per common share	20	$ (0.06)	$ (0.08)
Weighted average common shares outstanding			
Basic and diluted	20	255,002,276	224,436,840
Diluted	20	255,002,276	224,436,840

The accompanying notes are an integral part of these consolidated financial statements.

Acerus Pharmaceuticals Corporation
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the years ended December 31, 2019 and 2018
(expressed in thousands of U.S. dollars)

	Note	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2018		$ 151,766	$ -	$ 11,066	$ (14,052)	$ (135,091)	$ 13,689
Net loss for the year		-	-	-	-	(18,786)	(18,786)
Foreign currency translation adjustment		-	-	-	201	-	201
Total comprehensive loss for the year		-	-	-	201	(18,786)	(18,585)
Issuance of common shares, net of costs		2,937	-	-	-	-	2,937
Issuance of warrants, net of costs		-	1,420	-	-	-	1,420
Exercise of stock options		34	-	(15)	-	-	19
Share based compensation	21	-	-	449	-	-	449
Balance as at December 31, 2018		$ 154,737	$ 1,420	$ 11,500	$ (13,851)	$ (153,877)	$ (71)
Balance as at January 1, 2019		$ 154,737	$ 1,420	$ 11,500	$ (13,851)	$ (153,877)	$ (71)
Adjustment for IFRS 16: Leases	3(c)	-			-	(59)	(59)
Adjusted Balance as at January 1, 2019		154,737	1,420	11,500	(13,851)	(153,936)	(130)
Net loss for the year		-	-	-	-	(16,129)	(16,129)
Foreign currency translation adjustment		-	-	-	(98)	-	(98)
Total comprehensive loss for the year		-	-	-	(98)	(16,129)	(16,227)
Issuance of common shares, net of costs	16	3,350					3,350
Exercise of stock options	16	315		(315)			-
Share based compensation	21	-	-	176	-	-	176
Balance as at December 31, 2019		$ 158,402	$ 1,420	$ 11,361	$ (13,949)	$ (170,065)	$ (12,831)

The accompanying notes are an integral part of these consolidated financial statements.

Acerus Pharmaceuticals Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(expressed in thousands of U.S. dollars)

	Note	December 31, 2019	December 31, 2018
Operating activities:			
Net loss for the year		$ (16,129)	$ (18,786)
Items not affecting cash:			
Adjustment for unrealized foreign exchange (gain)/loss		(485)	560
Amortization of intangible assets	12	818	1,694
Depreciation of property and equipment	10	254	256
Depreciation of right of use asset	11	47	-
Amortization of deferred leasehold inducement		-	(47)
Interest on long-term debt and other financing costs	18	2,532	1,773
Change in fair value of derivative financial instruments	15	(161)	(380)
Share based compensation	21	176	449
(Gain)/loss on disposal of property and equipment	10	(5)	1
Impairment on intangible asset	12	2,536	2,641
Gain on extinguishment of payables		-	(195)
Inventory impairment	17	316	-
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		986	325
Contract asset	7	(473)	-
Inventory		720	248
Prepaids and other assets		(1,044)	38
Accounts payable and accrued liabilities		(1,471)	4,992
Licensing fee receivable		-	300
Net cash used in operating activities		(11,383)	(6,131)
Financing activities			
Interest and financing fees paid	14	(1,474)	(692)
Proceeds from issuance of common shares, net of financing costs	16	3,350	4,376
Payment of long-term debt		-	(6,564)
Principal elements of lease payments	11	(79)	-
Proceeds from issuance of long-term debt	14	11,500	10,230
Net cash from/(used in) financing activities		13,297	7,350
Investing activities			
Proceeds from disposition of property and equipment		5	-
Acquisition of property and equipment, net of deposits	10	(13)	(87)
Acquisition of product rights	12	(100)	(158)
Net cash used in investing activities		(108)	(245)
Net increase/(decrease) in cash for the year		1,806	974
Exchange gain/(loss) on cash		225	(301)
Cash, beginning of year		3,829	3,156
Cash, end of year		$ 5,860	$ 3,829

The accompanying notes are an integral part of these consolidated financial statements.

1. GOING CONCERN

These audited consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future.

The ability of Acerus Pharmaceuticals Corporation ("Acerus") and its subsidiaries (together, the "Company") to realize its assets and meet its obligations as they come due is dependent on successfully commercializing its existing products, bringing new products and technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company will require additional funding, either from commercial sales of its existing products, or commercial transactions with lenders or investors (notwithstanding the refinancing completed on February 20, 2020 described in note 27), to continue the development and commercialization of additional products. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Management has assessed the Company's ability to continue as a going concern and concluded that in order to complete its planned product development and commercialization programs, and meet the amended minimum threshold for consolidated unencumbered liquid assets required to be maintained by the Company, additional capital will be required. In addition, the anticipated shortage of certain strengths of Estrace® in 2020 and the manufacturing process change in Natesto® that resulted in Health Canada requiring the submission of a Supplemental New Drug Submission ("SNDS") before the product can be re-introduced to the Canadian market could result in the Company failing to meet projected revenues or other budgeted targets, which could result in the Company violating its debt financial covenants within the next twelve months. The Company's ability to accomplish its strategic plans is dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations and obtaining additional financing, and executing other strategic initiatives that could provide cash flows, or alternatively curtailing expenditures. There are no assurances that any of these initiatives will be successful. Factors within and outside the Company's control could have a significant bearing on its ability to obtain additional financing.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. DESCRIPTION OF BUSINESS

These audited consolidated financial statements represent the consolidated accounts of Acerus (incorporated in Ontario, Canada) and its wholly-owned subsidiaries, Acerus Labs Inc. ("ALI") (incorporated in Ontario), Acerus Biopharma Inc. ("ABI") (formerly named Acerus Pharmaceuticals SRL ("SRL")) (incorporated in Ontario), and Acerus Pharmaceuticals (Barbados) Inc. ("APBI") (incorporated in Barbados). On November 6, 2017, ABI migrated jurisdiction of incorporation, corporate law residence, and tax residence from Barbados to Ontario, Canada. APBI was officially dissolved on February 26, 2018. The head office, principal address and records office of the Company are located in Mississauga, Ontario, Canada. The Company's registered address is 2486 Dunwin Drive, Mississauga, Ontario, L5L 1J9.

Acerus is a Canadian-based specialty pharmaceutical company focused on the development, manufacture, marketing and distribution of branded products that improve patient experience, with a primary focus in the field of men's health. The Company commercializes its products via its own salesforce in the United States and through a global network of licensed distributors in other territories.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations assessed by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments (warrants) that are measured at fair value, as explained in the accounting policies below. The accounting policies have been consistently applied to the years presented unless otherwise stated.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

(b) Changes in accounting policy and disclosures

The following standards have been adopted on January 1, 2019:

IFRS 16 *Leases*

The Company has adopted IFRS 16 on a modified retrospective basis from January 1, 2019, with no restatement of comparatives, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments excluding renewal options as they are not reasonably certain that the options will be exercised, discounted using the Company's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.25%.

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

Total operating lease commitments disclosed at December 31, 2018	$	1,152
Variable lease payments not recognized in lease liability		(357)
Operating lease liabilities before discounting		795
Discounted using incremental borrowing rate		(135)
Total lease liabilities recognized under IFRS 16 at January 1, 2019	$	660
Of which are:		
Current lease liabilities		78
Non-current lease liabilities		582

The associated right-of-use asset for the property lease was measured on a retrospective basis as if the new rules had always been applied adjusted by the amount of any prepaid or accrued lease payments and deferred lease inducement relating to that lease recognized in the statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets to the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policy and disclosures (continued)

The recognized right-of-use asset relates to the lease on the Canadian facilities. The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- Right-of-use assets – increased by $296
- Prepaid and other assets – decreased by $26
- Lease liabilities - increased by $660
- Accrued lease rentals – decreased by $31
- Deferred lease inducement – decreased by $300

The net impact on deficit on January 1, 2019 was an increase of $59. Segment assets for December 31, 2019 increased by $263 as a result of this change in policy.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous
- elected to account for the payments for short-term leases and leases of low-value assets as an expense in the statement of loss on a straight-line basis over the lease term
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Other pronouncements

IFRIC 23 *Uncertainty over Income Tax Treatments,* became effective on January 1, 2019. It did not have a significant impact on the Company's financial results or position on adoption.

New and revised IFRSs issued but not yet effective

At the date of authorization of these financial statements, several new, but not yet effective Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company. The Company anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

(c) Consolidation

The wholly-owned subsidiaries of the Company are consolidated to produce the financial results for the consolidated Company. All intercompany transactions, balances, income and expenses on transactions between subsidiaries are fully eliminated. Profits and losses resulting from intercompany transactions that were recognized are also fully eliminated.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and the Chief Financial Officer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation

Presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollars, which in the opinion of management, is the most appropriate presentation currency as the United States dollar is used to significant effect in, or has a significant impact on, the operations of the Company and reflects the economic substance of a majority of the underlying events and circumstances relevant to the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency of the relevant entity using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in other income (expense) costs in the consolidated statement of loss/income and comprehensive loss/income.

Financial Statements

Management has determined that the functional currency of ABI is the United States dollar, and the functional currency for the Canadian parent and the remaining subsidiaries is the Canadian dollar. The Canadian dollar is the appropriate functional currency for the parent as it is the primary economic environment in which the parent operates. The results and financial statements of the parent are translated into United States dollars at the end of each reporting period as follows:

- Assets and liabilities are translated at the period-end closing rate including trade receivables from its subsidiary company;
- Management has elected that equity and shareholders' equity (deficiency), are measured in terms of the exchange rate at the date of the transaction; and
- Revenue and expenses at an average rate for the period where this rate approximates the exchange rates at the dates of the transactions.

All resulting currency translation gains or losses from translating the financial statements from the functional currency to the presentation currency are recorded in other comprehensive loss/income in the consolidated statement of loss/income and comprehensive loss/income.

(f) Trade receivables

Trade receivables are amounts due from customers for inventory sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Provisions for doubtful trade receivables are established using an expected credit loss model (ECL). The provisions are based on a forward-looking ECL, which includes possible default events on the trade receivables over the entire holding period of the trade receivable, considering the occurrence of a significant increase in credit risk. Significant financial difficulties of a customer, such as probability of bankruptcy, financial reorganization, default or delinquency in payments are considered indicators that recovery of the trade receivable is doubtful. These provisions represent the difference between the trade receivable's carrying amount in the consolidated statement of financial position and the estimated net collectible amount. Charges for doubtful trade receivables are recorded as marketing and selling costs recognized in the consolidated statement of income/(loss) within "Selling, General & Administration" expenses. As at December 31, 2019 and 2018, management determined that no provision for impairment was required.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventory

Inventories consist of raw materials, work-in-process and finished goods. Inventories are stated at the lower of cost based on first-in-first-out ("FIFO") and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is recorded as follows:

Computers	- straight-line over 3 years;
Office furniture and fixtures	- straight-line over 5 years;
Laboratory equipment	- straight-line over 5 to 10 years;
Manufacturing equipment	- straight-line over 3 to 10 years;
Leasehold improvements	- straight-line over the expected term of the lease.

Expenditures that extend the useful life of the asset are capitalized and minor repair and maintenance costs are expensed as incurred to the consolidated statement of loss/income and comprehensive loss/income. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the consolidated statement of loss/income and comprehensive loss/income.

(i) Leases

Until December 31, 2018, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Lease inducements, representing reduced rental periods and non-repayable leasehold improvement allowance received form the landlord were deferred and amortized on a straight-line basis as a reduction of rent expense over the term of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or comprehensive loss if the right-of-use asset is already reduced to zero.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Any restoration costs

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

(j) Intangible assets

Intangible assets acquired separately

Intangible assets with determinable lives are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized over their estimated useful lives using the straight-line method. Intangible assets held by the Company currently hold estimated useful lives between eight to twenty years.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the consolidated statement of loss/income and comprehensive loss/income when the asset is derecognized.

(k) Impairment of non-financial assets

The Company reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or "CGUs"). Recoverable amount is the higher of an asset's fair value less the cost of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU) as determined by management.

Any impairment losses are recognized immediately in the consolidated statement of loss/income and comprehensive loss/income. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Income taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for the differences between the tax basis and carrying amounts of assets and liabilities, for operating losses and for tax credit carry-forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates and laws.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (excluding hedging instruments)

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVPL"), at fair value through other comprehensive income (loss) ("FVOCI") or at amortized cost. The Company determines the classification of financial assets and liabilities at initial recognition. The classification of the Company's financial assets and liabilities is disclosed in note 24

(ii) Measurement

Amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value (except for trade receivables that do not contain a significant financing component which are measured at the transaction price) plus or minus transaction costs and subsequently carried at amortized cost less any impairment.

Fair value through profit and loss

Financial assets and liabilities carried at FVPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of operations and comprehensive loss. Derivatives are included in this category unless designated as hedges. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVPL are included in the consolidated statements of operations and comprehensive loss within other gains and losses in the period in which they arise.

Fair value through other comprehensive income

Financial assets carried at FVOCI are measured at fair value. Interest, dividends and impairment gains and losses are recognized in the consolidated statement of operations on the same basis as for amortized cost assets. Changes in fair value are recognized initially in other comprehensive income. When the assets are derecognized or reclassified the cumulative changes in fair value are reclassified to the consolidated statement of operations (except where they relate to investments in equity instruments). The Company has no financial instruments measured at fair value through other comprehensive loss.

(iii) Impairment of financial assets at amortized cost

For trade receivables and contract assets, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables and contract assets based on the Company's historical default rates over the expected life of the trade receivables adjusted for forward-looking estimates (see notes 6 and 24).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (excluding hedging instruments) (continued)

(iv) Derecognition

i. Financial assets - The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of operations and comprehensive loss.

ii. ii. Financial liabilities - The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of operations and comprehensive loss.

Financial liabilities and equity instruments

Classification as debt or equity

Instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Proceeds received on issuance of units, consisting of common shares and warrants, are allocated to those two instruments based on their relative fair values. Transaction costs are also allocated to the common shares and warrants in proportion to the allocation of proceeds.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Compound financial instruments

Compound financial instruments contain both a liability and an embedded derivative in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the interest rate applied by the market for similar debt instruments. The liability is subsequently measured on an amortized cost basis using the effective interest method over the expected life. The embedded derivative is initially recorded at fair value using pricing model techniques. It is recognized and presented together with the liability in the consolidated statement of financial position and is subsequently re-measured at fair value through profit and loss.

(n) Derivative financial instruments

Warrants issued as part of a financing arrangement and not in exchange for goods or services are accounted for within the scope of IAS 32 and IFRS9. The accounting under IAS 32, depends on the terms and conditions of the warrants and whether the warrants have characteristics of: (i) a derivative financial liability ("financial liability") that is measured at fair value, with changes in value recorded in profit or loss; or (ii) an equity instrument. Equity classification applies to instruments where a fixed amount of cash (or liability), denominated in the issuer's functional currency, is exchanged for a fixed number of shares. Warrants that fail to meet equity classification are accounted for as financial liabilities.

Acerus has issued warrants as part of financing arrangement that have a cashless exercise option. These are treated as a derivative liability and therefore measured at fair value. Gains and losses on re-measurement are presented separately in the consolidated statement of loss/income and comprehensive loss/income. These instruments are classified as non-current based on their expected life.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derivative financial instruments (continued)

Transaction costs that are directly attributable to the long-term debt and the joint issuance of these warrants have been allocated to long term debt and to the warrants based on their relative fair value.

In addition to the above, the Company also has an embedded derivative of nominal value related to long-term debt (interest floor and prepayment option) and an embedded derivative related to the license, development and supply agreement for the sale of Natesto® (fixed price contract denominated in a currency other than the entity's functional currency).

Derivatives embedded in non-derivative host contracts are separated from the host contract when their economic risk and characteristics are not closely related to those of the host contract and the compound instrument is not measured at FVTPL.

(o) Revenue

Revenue from the sale of goods, which is recorded as "Product revenue" in the consolidated statement of income/(loss), is recognized when a contractual promise to a customer (the performance obligation) has been fulfilled by transferring control over the promised goods and services to the customer. The amount of revenue to be recognized is based on the consideration the Company expects to receive in exchange for its goods and services. If the contract contains more than one performance obligation, the consideration is allocated based on relative standalone selling price of each performance obligation.

Consideration the Company receives in exchange for its goods or services may be fixed or variable. Variable consideration is only recognized when it is highly probable that a significant reversal will not occur. The most common elements of variable considerations are listed below:

- Discounts granted to customers are provisioned and recorded as a deduction from revenue at the time the related revenue are recorded or when the incentives are offered. They are calculated on the basis of historical experience and the specific terms in the individual agreements.
- Sales returns provisions are recognized and recorded as revenue deductions when there is historical experience of the Company agreeing to customer returns and the Company can reasonably estimate expected future returns. In doing so, the estimated rate of return is applied, determined based on historical experience of customer returns and considering any other relevant factors. The provisions are applied to the amounts invoiced, taking into consideration the number of returned products to be destroyed versus products that can be placed back in inventory for resale.
- Revenues for certain of our partners are earned in two steps: 1) at a contractual supply price when the product is delivered to the marketing partner; and 2) an additional top-up amount is earned based on a net pricing schedule when the marketing partner recognizes sales of the product. As of January 1, 2019, the Company commenced recognizing revenue for their U.S. partner on delivery of the product as the sum of two items: 1) the contractual supply price when the product is delivered; 2) an estimate of the top-up revenue that is highly probably will not result in a significant reversal in the amount of cumulative revenue earned when the marketing partner recognizes the sale of the product. An adjustment is made, if required, to the actual top-up revenue earned when the marketing partner recognizes the sale of the product (in prior years the contractual supply price was recognized as revenue at the time of delivery and additional top-up amount was recognized as revenue when the marketing partner sold the product).

Provisions for revenue deductions are adjusted to actual amounts as discounts and returns are processed. The provision represents estimates of the related obligations, requiring the use of judgement when estimating the effect of these sales deductions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue (continued)

License and other revenue mainly consist of upfront payments and milestone payments received from license and supply agreements. License and supply agreements may contain multiple elements. The individual elements of each agreement are divided into separate units of accounting if certain criteria are met. The applicable revenue recognition approach is then applied to each unit. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

Upfront payments are considerations received for the right to use the Company's intellectual property. Revenues from upfront payments in license and supply agreements are recognized when control transfers to the licensee and the license period begins. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria is met, and the risk of reversal of revenue recognition is remote.

(p) Cost of sales

Costs of sales comprise the cost of inventory sold during the year, royalty expenses, depreciation, amortization charges and distribution costs.

(q) Share-based compensation

The Company has a stock option plan as described in note 21 that allows for the issuance of stock options to employees, directors, officers, consultants and others as determined by the Board of Directors. Under IFRS, each option installment is treated as a separate option grant with graded-vesting features, forfeitures are estimated at the time of grant and revised if actual forfeitures are likely to differ from previous estimates, and options granted to parties other than employees are measured at their fair value on the date goods or services are received. The fair value of the goods and services received are determined indirectly by reference to the fair value of the instrument granted, unless the fair value of the goods and services received is readily apparent.

Over the vesting period of the option grants, the fair value is recognized as compensation expense and a related credit is recorded as contributed surplus. The contributed surplus is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

(r) Investment tax credits

Investment tax credits, which are earned as a result of incurring qualifying research and development expenditures, are treated either as a reduction of the relevant asset account or research and development expenses in the period that the credits become available and there is reasonable assurance that they will be realized.

(s) Loss/income per share

Basic loss/income per share is calculated by dividing the net loss/income by the weighted average number of common shares outstanding during the year. Diluted loss/income per share is calculated by dividing the applicable net loss/income by the sum of the weighted average number of shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions regarding recognition and measurement of assets, liabilities, income and expenses. Information about the judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical accounting estimates and judgments

Revenue recognition

Product revenue is recorded at the invoiced amount less estimated accruals for product returns, discounts, chargebacks and other price adjustments. These provisions with respect to product revenues are presently based on historical levels and are recognized as a reduction of revenue. While such experience has allowed for reasonable estimates in the past, history may not always be an accurate indicator of future events. Management will monitor these provisions and make adjustments when it believes actual results may differ from established reserves.

Revenues for certain of our partners are earned in two steps: 1) at a contractual supply price when the product is delivered to the marketing partner; and 2) an additional top-up amount is earned based on a net pricing schedule when the marketing partner recognizes sales of the product. In estimating the total transaction price to be recorded as revenue at the time control passes (on shipment of the products to the marketing partner), management is required to estimate the portion of the additional top-up amount (variable consideration) that is highly probable will not result in a significant reversal in the amount of cumulative revenue once the marketing partner has sold the product and their net pricing schedule is known. Management's assessment of the estimated future net pricing schedules takes into consideration both historical experience as well as our expectations of the future gross to net revenue deductions required by our marketing partners in order to commercialize the sale of our products to meet our collective strategic objectives. See note 7 for further details.

Impairment of non-financial assets

Management is required to assess at the end of each reporting period whether there is any indication that its intangible assets may be impaired. If any such indication exists, management is required to estimate the recoverable amount of the intangible asset. Where an impairment exists the asset is written down to its recoverable amount. Management assessed that the anticipated shortage of certain doses of Estrace® as a result of being informed by its contract manufacturing partner of further delays in lifting their license suspension was an indicator that this product right intangible asset may be further impaired. The most critical assumptions in determining the recoverable amount of this asset is in estimating when replacement product will be available and the impact that the current product shortage will have on the Company's sales levels in both the short and longer term due to the presence of the third party generic. Other key assumptions include estimating an appropriate pre tax discount rate reflecting current market assessments of the risks specific to this asset for which future cash flow estimates have not been adjusted, declining revenue growth rates, projected costs of goods sold using an alternative contract manufacturer and working capital requirements. See note 12 for further details.

Fair value of derivative financial instruments

The fair values of derivative financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Additional information is disclosed in note 15.

Lease liability

In determining the lease term, management considers all the facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The extension option is only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within management's control.

The lease payments are discounted using the interest rate implicit in the lease. As that rate could not be determined, management estimated the Company's incremental borrowing rate, being the rate it would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical accounting estimates and judgments (continued)

Clinical trial expenses

Clinical trial expenses are accrued based on estimates of the services received and efforts expended pursuant to contracts with clinical research organizations (CROs), consultants and other vendors. In the normal course of business, the Company contracts third parties to perform various clinical trial activities in the ongoing development of potential products. The financial terms of these agreements vary from contract to contract, are subject to negotiation and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrolment of patients or the completion of portions of the clinical trial or similar conditions. The Company accrues and expenses clinical trial activities based upon estimates of the proportion of work completed over the life of the individual clinical trial and patient enrolment rates in accordance with agreements established with CROs and clinical trial sites. The Company determines the estimates by reviewing contracts, vendor agreements and purchase orders, and through discussions with internal personnel and external service providers as to the progress or stage of completion of trials or services and the agreed-upon fee to be paid for such services. However, actual costs and timing of clinical trials are highly uncertain, subject to risks and may change depending upon a number of factors, including the Company's clinical development plan.

Share based payments

The compensation expense related to share-based payments is determined using the Black-Scholes option pricing model. The significant variables and estimates used in the model are the volatility, dividend yield, expected option life, and risk-free interest rate. In addition, management also applies an estimated forfeiture rate. Additional information is disclosed in note 21.

Income taxes

The Company is subject to income taxes in different jurisdictions and therefore uses judgment to determine the provision for income taxes. Management makes estimates and takes tax filing positions and it is uncertain whether certain estimates and tax filing positions will be sustained upon examination by applicable tax authorities. Provisions for uncertain tax positions are recorded based on management's estimate of the most likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS

(a) Bio-adhesive gel technology

In May 2009 (and in accordance with certain subsequent contractual amendments), ABI acquired certain rights from M&P Patent AG (since renamed Mattern Pharma) to use certain technology to develop, apply for and obtain regulatory approval, and to manufacture and sell four product candidates pursuant to an Intellectual Property Rights and Product Development Agreement ("IP Agreement") in exchange for milestones, royalties based on the Company's gross margin, and other payments depending on the achievement of specified goals for Natesto® and Tefina™.

On May 17, 2018, the Company entered into an agreement with Mattern Pharma AG (Mattern) to buy out all of its obligations (the "Buyout") under the Amended and Restated Intellectual Property Rights and Product Development Agreement, dated December 21, 2013 (as amended) ("License Agreement"), including all of its future royalty payment obligations.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

(a) Bio-adhesive gel technology (continued)

Under the License Agreement, Acerus owed royalties on upfronts, milestones and revenues from products, including Natesto®, covered by the License Agreement, including minimum annual royalties of $5,000 if gross product sales are $75,000 or greater or $2,500 if gross product sales are below $75,000 starting in fiscal 2018 and ending in 2024. Pursuant to the Buyout, with the payment of $7,500, all of Acerus' material obligations owed to Mattern are suspended, but Mattern's obligations to Acerus remain in force. Under the Buyout, among other rights, Acerus receives a perpetual, fully-paid, irrevocable license to all of Mattern's patents and know-how for the products covered by the License Agreement.

Acerus will pay the $7,500 in the following instalments: $750 was paid in July 2018, $1,750 was paid in September 2018, $625 was paid in January 2019, $2,025 was paid in April 2019 which includes a deferral fee of $150, and $625 was paid in January 2020, with the remaining $1,875 and a deferral fee of $150 due by April 20, 2020. The Company recorded an expense of $6,680 in the year ended December 31, 2018, representing the fair value of the $7,500 obligation under the Buyout. The fair value was estimated by discounting the payments using a rate of 14.75%.

The Buyout also includes a covenant not to sue and a waiver from Mattern, which will become irrevocable upon payment of the last instalment to Mattern. The Buyout will remain in full force and effect as long as the License Agreement is in force. In the event of a payment default, following a grace period, the Buyout automatically terminates and the License Agreement's obligations become binding on Acerus again. In such an eventuality, all monies paid by Acerus pursuant to the Buyout, with the exception of the first instalment, can be offset against monies that would otherwise be owed to Mattern under the License Agreement.

(b) Pulmonary and nasal dry powder delivery technology

On November 30, 2009, ABI entered into an asset purchase agreement with Keldmann Healthcare A/S ("Keldmann"), a privately-held Denmark-based technology company.

Pursuant to the terms of the asset purchase agreement, ABI paid $4,500 to Keldmann to acquire the Direct Haler technology platform (TriVair) for pulmonary and nasal delivery of pharmaceutical medications. This acquisition was accounted for as a purchase of identifiable intangible and tangible assets.

As part of this transaction with Keldmann, and pursuant to an Amended Product Development Agreement dated December 30, 2009, ABI may collaborate with Keldmann on the development of certain product candidates in exchange for consulting fees and will make milestone, royalty and other payments depending on achievement of specified development and other goals.

There is a milestone payment of $2,000 due upon Food and Drug Administration ("FDA") approval for each product to a maximum of $8,000 for products ABI files itself. As well, there is a cap on royalty payments of $25,000 per product.

In October 2015, the Company entered into a five year intellectual property right and product development agreement with a third party to exclusive worldwide rights to develop, manufacture and market nasal and pulmonary inhalation devices developed or manufactured using the TriVair technology. In return the Company was to receive 25% of any upfront fees, payments, or milestone payments on partnering transactions entered into by this third party and 15% of all revenues received by this third party in connection with the sale of products developed using the technology to other parties. The third party has the option to extend this agreement by a further five years from the expiry of the term if the total amounts received by the Company during the initial term are at least $500.

In February 2020 this agreement was amended to change the amount that the Company will receive to 37% of any upfront fees, payments, or milestone payments on the first partnering transaction entered into by this third party in connection with the sale of products developed using the technology to other parties. The term of the agreement was also extended for a further five years and the contract extension option was amended to make it conditional on the Company receiving at least $2,500 during the initial term.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

(c) Estrace®

The Company acquired the Canadian rights to Estrace® from affiliates of Shire plc in July 2014. The acquisition was accounted for as a business combination. On January 11, 2019, the Corporation reported an anticipated shortage of certain doses of Estrace® on the Drug Shortages Canada website in relation to supply issues arising from the Corporation's contract manufacturer. A shortage of Estrace® may accelerate erosion of Estrace® sales due to the presence of the third-party generic.

(d) Gynoflor™

The Company entered into a license and supply agreement with Medinova AG ("Medinova"), a Swiss pharmaceutical company, granting the Company the exclusive rights to commercialize Gynoflor™ in Canada. On January 24, 2019 the Company received a Notice of Deficiency-Withdrawal Letter ("Notice") for its Gynoflor™ New Drug Submission.

On June 17, 2019, the Company terminated the license and supply agreement with Medinova.

(e) Elegant™ franchise

On December 20, 2017, the Company entered into a license, development and supply agreement with Viramal Limited ("Viramal"), a London-based specialty pharmaceutical company, granting the Company exclusive rights to commercialize the Elegant™ franchise in Canada. Under the terms of the license, development and supply agreement, the Company will pay Viramal a regulatory milestone payment upon the Company receiving marketing approval in Canada, as well as milestone payments based on achieving sales targets. Viramal will oversee the manufacturing of Elegant™ and will receive a supply price for the product.

(f) *UriVarx®*

On January 8, 2018 the Company entered into an exclusive distributor and license agreement with Innovus Pharmaceuticals, Inc. ("Innovus"), which granted Acerus the exclusive rights to commercialize UriVarx® in Canada. Under the terms of the exclusive distributor and license agreement, the Company paid an upfront payment at signing and paid milestone payments based on the Company achieving certain sales targets. Innovus oversaw the manufacturing of UriVarx® and received a supply price for the product.

The Company reached a mutual agreement with Innovus to terminate the exclusive distributor and license agreement effective June 1, 2019.

(g) avanafil (formerly identified as Stendra ®)

On March 27, 2018 the Company entered into an exclusive distributor and license agreement with Metuchen Pharmaceuticals LLC ("Metuchen"), a privately-held specialty pharmaceutical company, granting Acerus the exclusive rights to commercialize avanafil in Canada. Avanfil is a new chemical entity targeting the large and growing Erectile Dysfunction ("ED") market and is available in the U.S. under the brand name Stendra®. Under the terms of the sublicense agreement, Metuchen will receive regulatory milestone payments upon Acerus filing a New Drug Submission ("NDS") with Health Canada and upon Acerus receiving marketing approval in Canada. Metuchen will also receive milestone payments based on Acerus achieving sales targets. Metuchen will oversee the manufacturing of avanafil and will receive a supply price for the product comprised of a transfer price and royalties on net sales of the product. On March 4, 2019, the Company announced it filed a NDS for avanafil with Health Canada. The initial screening process by Health Canada was completed in June 2019. The dossier is now in active review by Health Canada.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

(h) Lidbree™

On May 29, 2018 the Company entered into an exclusive agreement with Pharmanest AB ("Pharmanest") to commercialize Short Acting Lidocaine Product ("Lidbree™" formerly referred to as "Shact™"), a pain relief drug device combination in Canada. Under the terms of the license agreement, Pharmanest will receive an upfront and regulatory milestone payments upon the Company receiving marketing approval in Canada. Pharmanest will also receive milestone payments based on the Company achieving sales targets. Pharmanest will oversee the manufacturing of Lidbree™ and will receive a tiered supply price for the product comprised of a percentage on net sales of the product.

6. TRADE AND OTHER RECEIVABLES

		December 31, 2019		December 31, 2018
Trade receivables	$	81	$	996
Commodity tax receivable		90		117
Total trade and other receivables	$	171	$	1,113

Allowance for doubtful accounts are recognized based on estimated irrecoverable amounts determined by reference historical default experience of the counterparty and an analysis of the counterparty's current financial position. As at December 31, 2019 the Company has recognized $nil in allowance for doubtful accounts ($nil as at December 31, 2018).

Trade and other receivables disclosed above include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful accounts as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Age of receivables that are past due but not impaired:

		December 31, 2019		December 31, 2018
60 - 90 days	$	1	$	20
Greater than 90 days		40		3
	$	41	$	23

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security. Of the amount past due at year end, $19 was collected subsequent to year end.

7. CONTRACT ASSET

Historically, the Company recognized revenue for certain partners in two steps: 1) at a contractual supply price when the product is delivered to the marketing partner; and 2) an additional top-up amount is earned based on a pricing schedule when the marketing partner recognizes sales of the product. Variable additional top-up amounts are calculated based on the partners' reported net sales for the period. The Company previously only recognized the top-up revenue when the partner sold the product as it was unable to reliably estimate its portion of revenue due to limited historical experience an uncertainty in estimating the amount of its partners' gross to net revenue deductions. While the Company still does this for its South Korean partner, the Company now believes there are sufficient stable historical results to estimate the top-up revenue earned per unit that is highly probable of not resulting in a significant reversal of cumulative revenue in the future for its U.S. partner. As of January 1, 2019, the Company commenced recognizing revenue for this partner on delivery of the product as the sum of two items: 1) the contractual supply price when the product is delivered; 2) an estimate of the top-up revenue that is highly probable will be earned when the marketing partner recognizes sale of the product. An adjustment is made, if required, to the actual top-up revenue earned when the marketing partner recognizes sale of the product.

7. CONTRACT ASSET (continued)

As this change was done in 2019 the Company made a one-time adjustment to revenue of $694 in March 2019 to recognize top-up revenue for the units the marketing partner currently had on hand. Top-up revenues recognized relating to products delivered in prior periods amount to $729 for the year ended December 31, 2019 ($429 for the year ended December 31, 2018). Of this amount $221 was previously recognized as part of the one-time adjustment made in Q1 2019 for inventory units held by the marketing partner. The remaining $508 was recognized in revenue for the year ended December 31, 2019.

Balance, December 31, 2018	$	-
Estimated top-up revenue recognized on inventory previously sold		694
True up adjustment relating to actual units sold		(221)
Balance, December 31, 2019	$	473

8. INVENTORY

		December 31, 2019		December 31, 2018
Raw materials	$	1,332	$	1,665
Work in progress		133		22
Finished goods		29		819
Total inventory	$	1,494	$	2,506

The cost of finished goods recognized as an expense and included in cost of sales amounted to $514 for the year ended December 31, 2019 ($1,522 for the year ended December 31, 2018).

9. PREPAIDS AND OTHER ASSETS

		December 31, 2019		December 31, 2018
Deposits with vendors	$	1,165	$	119
Other		72		57
Total prepaid and other assets	$	1,237	$	176

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

		Computers		Office, furniture and fixtures		Manufacturing and laboratory equipment		Leasehold improvements		Total
Costs										
Balance, January 1, 2019	$	-	$	116	$	3,048	$	703	$	3,867
Additions		-		-		13		-		13
Disposals		-		-		-		-		-
Effect of foreign currency exchange difference		-		6		78		35		119
Balance, December 31, 2019	$	-	$	122	$	3,139	$	738	$	3,999
Accumulated depreciation										
Balance, January 1, 2019	$	-	$	83	$	2,269	$	248	$	2,600
Depreciation		-		21		158		75		254
Disposals		-		-		-		-		-
Effect of foreign currency exchange difference		-		4		77		13		94
Balance, December 31, 2019	$	-	$	108	$	2,504	$	336	$	2,948
Net book value										
December 31, 2019	$	-	$	14	$	635	$	402	$	1,051

10. PROPERTY AND EQUIPMENT (continued)

	Computers	Office, furniture and fixtures	Manufacturing and laboratory equipment	Leasehold improvements	Total
Costs					
Balance, January 1, 2018	$ 2	$ 126	$ 3,094	$ 764	$ 3,986
Additions	-	-	87	-	87
Disposals	(2)	-	-	-	(2)
Effect of foreign currency exchange difference	-	(10)	(133)	(61)	(204)
Balance, December 31, 2018	$ -	$ 116	$ 3,048	$ 703	$ 3,867
Accumulated depreciation					
Balance, January 1, 2018	$ 1	$ 65	$ 2,242	$ 191	$ 2,499
Depreciation	-	24	156	76	256
Disposals	(1)	-	-	-	(1)
Effect of foreign currency exchange difference	-	(6)	(129)	(19)	(154)
Balance, December 31, 2018	$ -	$ 83	$ 2,269	$ 248	$ 2,600
Net book value					
December 31, 2018	$ -	$ 33	$ 779	$ 455	$ 1,267

At December 31, 2019, manufacturing equipment with a net book value of $570 was held off-site with a third party ($708 at December 31, 2018). During the year, $nil of depreciation was capitalized to inventory ($16 at December 31, 2018).

11. LEASES

On adoption of IFRS 16, the Company recognized right-of-use asset and related lease liability in connection with the lease on the Canadian facilities. The right of use asset is depreciated on a straight-line basis over the term of the lease, which is expected to mature June 30, 2025. The balance sheet shows the following amount related to the lease:

Right-of-use asset:	
Balance January 1, 2019	$ 296
Depreciation of right of use asset	(47)
Effect of foreign currency exchange difference	14
Balance, December 31, 2019	$ 263
Lease liability:	
Balance January 1, 2019	$ 660
Payments	(79)
Foreign exchange effect	30
Balance, December 31, 2019	611
Current lease liabilities	101
Non-current lease liabilities	$ 510

The consolidated statement of loss and comprehensive loss shows the following amounts relating to leases for the year ended December 31, 2019:

Depreciation of right of use asset	$ 47
Interest expenses (included in interest on long-term debt and other financing costs)	38
Expense relating to leases of low-value assets (included in administrative expenses)	11
Expenses relating to variable lease payments no included in lease liabilities (included in administrative expenses)	60

11. LEASES (continued)

As at December 31, 2019, the had the following obligations to make future payments related to the lease liabilities:

		December 31, 2019
No later than 1 year	$	135
Later than 1 year and no later than 5 years		539
Later than 5 years		40
		714
Finance charges		(103)
Total lease liabilities	$	611

12. INTANGIBLE ASSETS

		Technology and patents		Product rights		Total
Costs						
Balance, January 1, 2019	$	4,400	$	29,382	$	33,782
Addition		-		100		100
Disposal		-		(73)		(73)
Effect of foreign currency exchange difference		-		1,478		1,478
Balance, December 31, 2019	$	4,400	$	30,887	$	35,287
Accumulated depreciation						
Balance, January 1, 2019	$	2,415	$	23,434	$	25,849
Amortization		110		708		818
Disposal		-		(73)		(73)
Impairment charges		-		2,536		2,536
Effect of foreign currency exchange difference		-		1,266		1,266
Balance, December 31, 2019	$	2,525	$	27,871	$	30,396
Net book value						
December 31, 2019	$	1,875	$	3,016	$	4,891

		Technology and patents		Product rights		Total
Costs						
Balance, January 1, 2018	$	4,400	$	31,484	$	35,884
Addition		-		458		458
Effect of foreign currency exchange difference		-		(2,560)		(2,560)
Balance, December 31, 2018	$	4,400	$	29,382	$	33,782
Accumulated depreciation						
Balance, January 1, 2018	$	2,305	$	21,018	$	23,323
Amortization		110		1,584		1,694
Impairment charge		-		2,641		2,641
Effect of foreign currency exchange difference		-		(1,809)		(1,809)
Balance, December 31, 2018	$	2,415	$	23,434	$	25,849
Net book value						
December 31, 2018	$	1,985	$	5,948	$	7,933

12. INTANGIBLE ASSETS (continued)

Amortization expense related to the technology and patents is computed based on the life of the existing patents and is included in the research and development expense on the consolidated statement of loss/income and comprehensive loss/income. The remaining life of the Direct Haler patents and patent applications (if issued) is 17 years and 1 month.

Amortization of $110 has been recorded for the year ended December 31, 2019 ($110 for the year ended December 31, 2018).

Product rights includes rights for Estrace®, Lidbree™, UriVarx® and Stendra®. Of the product acquisition costs, $300 was accrued but not payable as of December 31, 2019. Amortization of $670 has been recorded in cost of goods sold and $38 in research and development costs for the year ending December 31, 2019 ($1,557 in cost of goods sold and $27 in research and development for the year ending December 31, 2018).

The Company reached a mutual agreement with Innovus to terminate the exclusive distributor and license agreement for UriVarx effective June 1, 2019. As such the Company recorded an impairment charge of $65 representing the remaining balance of the UriVarx intangible asset ($73 of cost and $8 of accumulated depreciation as at that date) and recorded a disposal of this intangible asset.

On January 11, 2019, the Company reported an anticipated shortage of certain doses of Estrace® on the Drug Shortages Canada website in relation to supply issues arising from the Company's contract manufacturer. The Company was notified by its contract manufacturer of a partial manufacturing license suspension at the facility where Estrace® is being produced as a result of an audit by U.K. health authorities. Anticipating a potential shortage of certain strengths of Estrace® over the next six months, the Company impaired the related intangible asset by $2,641 at December 31, 2018. In 2019, the Company was informed of further delays in lifting the license suspension and as a result, the Company impaired the asset by a further $2,471 at March 31, 2019. An alternative manufacturer has been identified and the Company is working towards securing supply of product in fiscal 2020.

A shortage of Estrace® may accelerate erosion of Estrace® sales due to the presence of the third-party generic. The intangible asset was written down to its recoverable amount in both 2018 and 2019 using a value-in-use discounted cash flow model. The most critical assumptions in determining the recoverable amount of this asset are in estimating when replacement product will be available and the impact that the current product shortage will have on the Company's sales level in both the short and longer term due to the presence of the third party generic. Other key assumptions include estimating an appropriate pre tax discount rate reflecting current market assessments of the risks specific to this asset for which future cash flow estimates have not been adjusted, declining revenue growth rates, projected costs of goods sold using an alternative contract manufacturer and working capital requirements.

In the current years impairment model, the Company assumed it would receive more product to sell by the second quarter in fiscal 2020 (versus by September 2019 in the 2018 impairment model), annual sales would have declined at 12.5% a year absent the stock shortages, and that actual sales will recover to approximately half of the level that would be otherwise have been forecast in the absence of the product shortage by the end of the 5 year forecast period with a 12.5% declining terminal growth rate thereafter. The 2019 impairment model also reflects an increased cost of goods related to transferring the product to a different contract manufacturer. The projected cash flows have been discounted using a pre tax discount rate of 16.9%

Assuming all variables remain constant, an increase or decrease in discount rate used in the 2019 impairment model by 1% would have resulted in a $114 increase and $123 decrease in net loss respectively. Assuming all variables remain constant, an increase or decrease in estimated revenues used by 10% would have resulted in a $415 decrease and $419 increase in net loss respectively.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2019		December 31, 2018
Accounts payable	$	1,012	$	1,378
Employee salaries and benefits payable		239		925
Buyout payable (note 5a)		2,486		2,488
Interest and financing fees payable (note 14)		457		317
Accrued liabilities		1,220		300
Payables related to Natesto® US co-promote		1,060		-
Provision for returns and discounts		934		211
Total current accounts payable and accrued liabilities	$	7,408	$	5,619
Other long-term accruals		-		300
Buyout payable (note 5a)		-		2,162
Total accounts payable and accrued liabilities	$	7,408	$	8,081

On August 2, 2019, the Company announced that it would voluntarily replace certain Natesto® lots released in the Canadian and South Korean markets, which is expected to cause temporary shortages in those markets. Acerus has identified four commercial lots of Natesto® released in the Canadian and South Korean markets that were found to be non-conforming during long-term stability studies, even though such lots were fully in-specification at the time of release. This post-release non-conformity is not harmful to the patient, but may result in difficulties in dispensing.

Acerus made minor modifications to the manufacturing process that appear to have resolved the previously identified issues and has produced a batch of Natesto® (the "Revised Batch"). While Acerus believed the changes would have been classified by Health Canada as level III, thereby requiring only an annual notification update to Health Canada and allowing for product to be released in Q4-2019, Health Canada, after much deliberation, classified the modifications as level I, requiring the submission of a SNDS prior to the release of the Revised Batch in the Canadian market. In the event that Health Canada utilizes the full regulatory allotted time for reviewing a SNDS, Acerus would expect the Revised Batch to be released in the Canadian Market in Q1-2021. Acerus continues to work with Health Canada to facilitate an expeditious review of the SNDS and minimize market disruptions.

The Company currently expects the current supply of Natesto® to the United States not to be affected by this situation. Acerus is working with its South Korean partner to determine whether the Revised Batch can be released in the South Korean market and, if so, under what timeframes.

The Company impaired inventory by $316 and accrued $711 (included in the provisions for returns and discounts in the table above) related to potential refunds that would be payable if all of the affected lots estimated by management to be in the Canadian distribution channel and with patients as well as those sold to the Company's South Korean markets are returned for a full refund. Management used external third party estimated prescription data to assist in estimating the number of affected lots still in the Canadian distribution channel and the number prescribed to patients and then applied an estimated return assumption.

In December 2019, the amended and restated licensing agreement with Aytu BioScience Inc. ("Aytu") became effective. This moved the partnership from an out-license model to a co-promotion arrangement. Under the terms of the new agreement, Aytu returns the NDA for Natesto® in the U.S. back to Acerus. Going forward, Acerus will assume all regulatory and clinical responsibilities and costs for the product in the U.S. Acerus will take on a more expansive role in matters such as U.S. marketing, reimbursement and medical strategy as part of the companies' joint commercialization committee, and will launch a specialist sales force focused on urologists and endocrinologists (Acerus Sales Channel). Aytu will retain its primary care sales force (Aytu Sales Channel) and will continue to book all product net revenue while serving as the exclusive U.S. supplier of Natesto® to wholesalers, pharmacies and other customers that receive a direct shipment. Financial payments will be based upon a tiered level of net revenue, post cost of goods sold (COGS), based on annual sales performance in the respective Acerus and Aytu Sales Channels. Payables related to Natesto® US co-promote in the table above are for expenses related to Acerus' more expansive role in the U.S.

14. LONG-TERM DEBT

	Promissory Note	Quantius Debt	SWK Facility	First Generation Loan	Total
Balance, January 1, 2018	$ 2,357	$ 2,212	$ -	$ -	$ 4,569
Accrued royalty payable	-	306	-	-	306
Amortization of deferred financing costs	-	180	60	-	240
Transaction costs	-	-	(773)	-	(773)
Debt issuance	-	1,571	9,000	-	10,571
Repayment of principal and royalty payable	(2,357)	(4,207)	-	-	(6,564)
Effect of foreign currency exchange difference	-	(62)	-	-	(62)
Balance, December 31, 2018	$ -	$ -	$ 8,287	$ -	$ 8,287
Current portion at December 31, 2018	-	-	-	-	-
Long-term portion at December 31, 2018	$ -	$ -	$ 8,287	$ -	$ 8,287
Balance, January 1, 2019	$ -	$ -	$ 8,287	$ -	$ 8,287
Amortization of deferred financing costs	-	-	353	-	353
Transaction costs	-	-	15	-	15
Warrant modification/issuance	-	-	(109)	-	(109)
Debt issuance	-	-	-	11,500	11,500
Repayment of principal and royalty payable	-	-	-	-	-
Effect of foreign currency exchange difference	-	-	(56)	-	(56)
Balance, December 31, 2019	$ -	$ -	$ 8,490	$ 11,500	$ 19,990
Current portion at December 31, 2019	-	-	-	-	-
Long-term portion at December 31, 2019	$ -	$ -	$ 8,490	$ 11,500	$ 19,990

Endo – Promissory note

Pursuant to the transition agreement between Acerus and an affiliate of Endo International plc ("Endo"), parties entered into an agreement related to the unused customer deposit (pre-paid inventory) owed to Endo following the termination of the Natesto® license agreement in 2016. A $500 cash payment was paid to Endo in July 2016 and $3,800 of the remaining principal amount was subject to a promissory note, of which $500 was paid in December 2016 and the remaining amounts was payable in equal quarterly installments of $236 with the final payment and maturity date of June 30, 2020. The promissory note was unsecured and bore interest at a rate of London Inter-Bank Offered Rate ("LIBOR") + 9.5% per annum with a LIBOR floor rate of 1%.

On March 15, 2018, the promissory note was amended such that principal repayments under the promissory note would now be made annually on the last business day of December of each year instead of quarterly. Payments of interest were to continue to be made quarterly.

On July 5, 2018, the promissory note was amended such that Endo accepted a prepayment of $1,500 in full satisfaction of the Company's obligation to prepay a portion of the promissory note from 50% of the net proceeds of the equity financing closed on June 28, 2018. Under the amended promissory note, the remaining balance and all interest accrued and unpaid would be paid the earlier of (i) the next equity financing completed by the Company; and (ii) June 30, 2019 unless another pre-payment obligation under the promissory note is triggered.

On October 11, 2018, the promissory note and outstanding accrued interest was repaid in full and the note was extinguished.

Quantius Inc. credit facility

On December 6, 2017, Acerus entered into a senior secured term credit facility with Quantius Inc. ("Quantius") for up to CDN$5,000 of which CDN$3,000 was available at closing, with the remaining CDN$2,000 received on April 20, 2018 following the satisfaction of certain conditions, including 1) Aytu achieving a pre-determined number of prescriptions per month for Natesto® in the U.S., and 2) maintaining Estrace® sales at a pre-determined minimum level. For the year ended December 31, 2018, the proceeds from the Quantius credit facility, net of financing costs paid amounted to $1,571.

14. LONG-TERM DEBT (continued)

Quantius Inc. credit facility (continued)

The credit facility bore interest at a rate equivalent to the Bank of Canada prime plus 11.05% and was due to mature on December 1, 2019. The credit facility was repayable in monthly instalments of 1/48 of the balance owing commencing December 1, 2018 with the remaining balance due at maturity. As part of the transaction, Quantius received an underwriting fee representing low single digit percentage of the maximum facility amount and received a royalty fee representing low single digit percentage of revenues over the term of the facility, capped at a high single digit percentage of the borrowed amount. Under terms of the agreement, the Company had the option to prepay the credit facility with the payment of low single digit prepayment penalties depending on the timing of pre-payment. The prepayment penalties could be fully offset against the royalty fee payable at maturity. The terms of the agreement also contained customary financial covenants.

The credit facility was subsequently extinguished on October 12, 2018 with payment of principal, accrued interest pre-payment penalty and royalty retirement fee.

SWK credit facility

On October 12, 2018, the Company entered into a senior secured term loan credit facility with SWK Funding LLC ("SWK") for up to $11,000 ("New Facility"). An initial tranche of $9,000 of the New Facility was received at closing, with the remaining $2,000 of the New Facility becoming available on or before March 31, 2019, upon satisfaction of certain future conditions. As the conditions were not satisfied, the Company was not able to draw on the additional $2,000 on March 31, 2019.

The New Facility bears interest at a rate per annum equal to the greater of (a) the three- LIBOR, or (b) 1.50%, with such base rate being capped at no greater than 4.25%, plus an applicable margin of 10.50%. The New Facility matures on October 11, 2023 and is interest-only for the first two years of the term. Principal payments thereafter will be based on a tiered percentage of net revenue with a cap of $600 per quarter.

As part of the transaction, SWK received an origination fee representing a low single digit percentage of the maximum facility amount, and will receive a final payment on maturity representing a single digit percentage of the principal amount actually advanced under the facility. Acerus has also issued 5,331,563 common share purchase warrants (the "Original Warrants") to SWK as partial consideration for the New Facility. Each Warrant entitles SWK to purchase one common share of Acerus at an exercise price of CDN$0.40 per common share, expires on October 11, 2023 and has a cashless exercise feature. Following the second anniversary of the issuance of the Warrants, the Company can cause SWK to exercise the Warrants prior to their expiry date if the closing price of the Company's common shares on the TSX trades at or above CDN$0.80 per share for a period of at least 21 consecutive trading days.

The proceeds from the New Facility was used primarily to (i) repay the amount outstanding under the Quantius Facility, including a prepayment penalty and royalty retirement fee; (ii) retire the Endo promissory note; and (iii) for ongoing general working capital.

Under the terms of the agreement, the Company will have the option to prepay the loan prior to the maturity date subject to the payment of certain prepayment fees. The terms of the agreement also contain customary financial covenants some of which were amended on June 28, 2019.

14. LONG-TERM DEBT (continued)

SWK credit facility (continued)

The Company also amended the debt agreement in September 2019 to set the minimum threshold for Consolidated Unencumbered Liquid Assets required to be maintained by the Company. This amount is defined in the agreement as cash adjusted for a certain portion of accounts receivable and payable. This level was set at (i) $1,000 at September 30, 2019; (ii) $5,000 at December 15, 2019; (iii) $4,000 at December 31, 2019; (iv) $2,000 at January 31, 2020, and (v) $1,000 at all times after January 31, 2020. The Company was in compliance with this covenant at December 31, 2019.

In connection with the amendment, the Company agreed to reprice the 5,331,563 Original Warrants from CDN$0.40 to CDN$0.11. In addition, the Original Warrants' expiry date was extended from October 11, 2023 to September 30, 2024. No other changes were made to the term of the Original Warrants. On October 3, 2019, the Company issued 1,361,544 common share purchase warrants (the "new Warrants") to SWK in connection with the amendment. Each New Warrant entitled SWK to purchase one common share of Acerus at an exercise price of CDN$0.11 per common share and expired on September 30, 2024. The terms of the New Warrants were otherwise identical to those of the Original Warrants. As such, in certain circumstances, the Company can cause SWK to exercise the New Warrants prior to their expiry date if the closing price of the Company's common shares on the TSX exceeds CDN$0.80 per share for a period of at least 21 consecutive trading days. The obligation to issue these share purchase warrants are recorded as a warrant derivative liability on the balance sheet (note 15).

On December 16, 2019, the Company received a waiver letter from SWK ("SWK Waiver") waiving the requirement to comply with the Adjusted EBITDA and Aggregate Revenue covenants as at December 31, 2019 contained in the credit agreement. The amendment agreement also changed the set minimum threshold for Consolidated Unencumbered Liquid Assets required to be maintained by the Company from $1,000 at all times after January 31, 2020 to $2,000.

The waiver of the covenants was contingent on Acerus raising an additional $6,500 prior to December 23, 2019. In connection therewith, Acerus obtained a commitment letter from First Generation Capital Inc. ("First Generation"), a company affiliated with the Chairman of the Board of Directors of Acerus, to amend and restate the $5,000 subordinated secured term loan facility previously entered into on July 19, 2019 between Acerus and First Generation to (i) increase the borrowed amount to $11,500, (ii) extend the maturity date to June 30, 2021 and (iii) cap the total amount of interest payable to First Generation under the amended loan (including interest paid from the closing of the original $5,000 subordinated secured term loan facility) to an amount equal to 9.99% of the market capitalization of Acerus at the time of closing.

As of December 31, 2019, the Company had $9,000 outstanding on the credit facility.

Please see subsequent events (note 27) for details on the amendments to the loan and warrants issued.

First Generation Loan

On July 18, 2019, the Company entered into a $5,000 subordinated secured term loan facility ("the Loan") with First Generation.

The Loan is subordinated to the existing $9,000 facility with SWK and bears interest at a rate per annum equal to the three-month LIBOR, plus an applicable margin of 10.50%. Subject to the terms of the subordination and intercreditor agreement between First Generation and SWK, the Loan is repayable in full on December 31, 2020, is interest-only until maturity with regularly scheduled payments of interest to First Generation being permitted subject to certain conditions related to Acerus' market capitalization and aggregate annual revenue, and can be prepaid in full or in part without penalty following repayment in full of indebtedness owing to SWK.

On December 18, 2019 the Company announced that it had amended the Loan to (i) increase the borrowed amount to $11,500 ("the A&R Loan"), (ii) extend the maturity date to June 30, 2021 and (iii) cap the total amount of interest payable to First Generation under the A&R Loan (including interest paid from the closing of the original $5,000 subordinated secured term loan facility) to an amount equal to CDN$1,696.

14. LONG-TERM DEBT (continued)

First Generation Loan (continued)

The other terms of the A&R Loan remain unchanged from the original facility. The A&R Loan will continue to be subordinated to the existing $9,000 facility with SWK and, subject to the cap on the total interest payable described above, will bear interest at a rate per annum equal to the three-month LIBOR, plus an applicable margin of 10.50%. Subject to the terms of the subordination and intercreditor agreement between First Generation and SWK, the A&R Loan will be repayable in full on June 30, 2021, will continue to be interest-only until maturity with regularly scheduled payments of interest to First Generation being permitted subject to certain conditions related to Acerus' market capitalization and aggregate annual revenue, and can be prepaid in full or in part without penalty following repayment in full of indebtedness owing to SWK. The proceeds from the A&R Loan will be used for ongoing general working capital.

As of December 31, 2019, the Company had $11,500 outstanding on the credit facility. Please see subsequent events (note 27) for details on the amendments to the loan.

Interest and financing costs

Interest and finance expense on long-term debt was $1,654 for the year ended December 31, 2019 ($1,063 for December 31, 2018).

Accrued interest & financing costs		
Balance, January 1, 2018	$	99
Interest and financing fees		1,773
Transaction costs		505
Amortization of deferred financing fees		(240)
Prepayment penalty and royalty retirement fee		(312)
Accretion of Buyout payable		(470)
Transaction costs paid		(341)
Interest and financing fees paid		(692)
Effect of foreign currency exchange difference		(5)
Balance, December 31, 2018	$	317
Balance, January 1, 2019	$	317
Interest and financing fees		2,532
Transaction costs		(15)
Amortization of deferred financing fees		(353)
Accretion of Buyout payable		(485)
Interest and financing fees paid		(1,157)
Interest and financing fees paid related to 2018 accruals		(317)
SWK warrant modification and issuance		(79)
Effect of foreign currency exchange difference		14
Balance, December 31, 2019	$	457

Future principal and interest payments

The Company has the following future payments of principal and interest concerning the debt:

		December 31, 2019
No later than 1 year	$	1,144
Later than 1 year and no later than 5 years		24,399
		25,543
Interest and exit fee		5,043
Total principal portion of debt	$	20,500

15. DERIVATIVE FINANCIAL INSTRUMENT

The change in the Company's derivative financial instrument can be summarized as follows:

	December 31, 2019	December 31, 2018
Balance of warrants, January 1,	227	307
Addition/modification of derivative liability	186	325
Change in fair value of the derivative financial instruments	(161)	(380)
Effect of foreign currency exchange difference	10	(25)
Balance of warrants	$ 262	$ 227

MidCap Financial V, LLC warrants

In accordance with the senior financing with MidCap entered into on July 16, 2014, the lenders have been issued warrants exercisable for an aggregate of 3,034,814 common shares of the Company. The warrants are exercisable for a period of seven years at an exercise price of CDN$0.7095, which was calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of five days ending immediately prior to the closing date of the senior financing. The warrant holder may also choose a cashless exercise, in which case the settlement price will then be calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of five days ending immediately prior to the date of exercise.

A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values as at December 31, 2019 were as follows: a share price of CDN$0.08; an expected life of 1.5 years; a risk-free rate of 1.69%; a volatility of 72%; and an exercise price of CDN$0.7095 (a share price of CDN$0.1159; an expected life of 2.5 years; a risk-free rate of 1.91%; a volatility of 81.5%; an exercise price of CDN$0.7095 was used to compute the values at December 31, 2018). At December 31, 2019, the warrants had an average fair value of CDN$0.001 per warrant (CDN$0.01 per warrant at December 31, 2018).

SWK warrants

Acerus has also issued 5,331,563 Original Warrants to SWK as partial consideration for the New Facility. Each Warrant entitles SWK to purchase one common share of Acerus at an exercise price of CDN$0.40 per common share, expires on October 11, 2023 and has a cashless exercise feature. Following the second anniversary of the issuance of the Warrants, the Company can cause SWK to exercise the Warrants prior to their expiry date if the closing price of the Company's common shares on the TSX trades at or above CDN$0.80 per share for a period of at least 21 consecutive trading days.

As part of the amended debt agreement (see note 14), the Company agreed to reprice the 5,331,563 Original Warrants from CDN$0.40 to CDN$0.11. In addition, the Original Warrants' expiry date was extended from October 11, 2023 to September 30, 2024. No other changes were made to the term of the Original Warrants. On October 3, 2019, the Company issued 1,361,544 common share purchase warrants (the "New Warrants") to SWK in connection with the amendment. Each New Warrant will entitle SWK to purchase one common share of Acerus at an exercise price of CDN$0.11 per common share and will expire on September 30, 2024. The terms of the New Warrants will otherwise be identical to those of the Original Warrants. As such, in certain circumstances, the Company may cause SWK to exercise the New Warrants prior to their expiry date if the closing price of the Company's common shares on the TSX exceeds CDN$0.80 per share for a period of at least 21 consecutive trading days.

A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values as at December 31, 2019 were as follows: a share price of CDN$0.08; an expected life of 4.8 years; a risk-free rate of 1.64%; a volatility of 89.6%; and an exercise price of CDN$0.11 for 6,693,107 warrants (a share price of CDN$0.1159; an expected life of 4.8 years; a risk-free rate of 1.93%; a volatility of 86.6%; an exercise price of CDN$0.40 was used to compute the values at December 31, 2018). At December 31, 2019, the warrants had an average fair value of CDN$0.05 per warrant (CDN$0.05 per warrant as of December 31, 2018).

Please see subsequent events (note 27) for details on the amendments to the warrants issued.

15. DERIVATIVE FINANCIAL INSTRUMENT (continued)

Pre-payment option

As per note 14, under terms of the SWK Credit Facility, the Company will have the option to prepay the facility. The prepayment penalties vary depending on the time frame. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at December 31, 2019.

16. SHARE CAPITAL AND WARRANTS

Shares Issued and Outstanding

	Number of Common shares	Number of Warrants	Common shares	Warrants	Total
Balance as at January 1, 2018	213,118,645	-	$ 151,766	$ -	$ 151,766
Issuance of units, June 2018	22,041,705	23,584,624	2,937	1,420	4,357
Exercise of options	223,912	-	34	-	34
Balance as at December 31, 2018	235,384,262	23,584,624	$ 154,737	$ 1,420	$ 156,157
Balance as at January 1, 2019	235,384,262	23,584,624	$ 154,737	$ 1,420	$ 156,157
Issuance of shares, March 2019	23,230,772	-	3,350	-	3,350
Exercise of options	2,610,256	-	315	-	315
Balance as at December 31, 2019	261,225,290	23,584,624	$ 158,402	$ 1,420	$ 159,822

The Company is authorized to issue an unlimited number of common shares.

On June 28, 2018, the Company closed an offering, under which 22,041,705 units were issued at a price of CDN$0.30 per unit which included 2,875,005 units in connection with the exercise in full of the over-allotment option granted to the Underwriter of the offering. Each unit was comprised of one common share of the Company and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one additional common share of the Company at an exercise price of CDN$0.40 at any time up to 24 months following closing of the offering. On closing, the Underwriter received cash commission equal to 7% of the gross proceeds from the sale of Units and compensation warrants entitling it to purchase 1,542,919 common shares at a price of CDN$0.30 within 24 months of closing.

The gross proceeds were segregated into their common share and warrant components based on their relative fair values of CDN$4,597 and CDN$2,016 respectively. The common share and warrant components are shown net of transaction costs of CDN$693 and CDN$304 respectively. The fair value of the warrants was based on a Black-Scholes model, with the residual amounts of the net proceeds being allocated to the value of the common shares. The fair value of the warrants, CDN$0.09 per warrant, was based on a Black-Scholes model using the following variables: an expected life of 2 years; a risk-free rate of 1.95%; a volatility rate of 86%; and an exercise price of CDN$0.40. The fair value of the broker warrants, CDN$0.11 per warrant, was based on a Black-Scholes model using the following variables: an expected life of 2 years; a risk-free rate of 1.95%; a volatility rate of 86%; and an exercise price of CDN$0.30.

On March 29, 2019 the Company closed a non-brokered private placement of 23,230,772 common shares to certain directors and officers at a price of CDN$0.195 per common share for gross proceeds of CDN$4,530.

In addition to the warrants in the table above, there are 9,727,921 (December 31, 2018 – 8,366,377) warrants issued that have been classified as a derivative financial instrument and classified under long-term liabilities.

During the year 5,225,000 options were excised using the cashless exercise feature resulting in the Company issuing 2,610, 256 new shares (2018 – 223,912 options were exercised for cash proceeds of $19).

17. NATURE OF EXPENSES

	For the year ended December 31, 2019			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	$ 514	$ -	$ -	$ 514
Salaries and benefits	-	732	2,554	3,286
Amortization of intangible assets	670	148	-	818
Depreciation of property and equipment	135	58	61	254
Depreciation of right of use asset	-	-	47	47
Inventory impairment	316	-	-	316
Share-based compensation	-	(9)	185	176
Research & development	-	1,900	-	1,900
Selling and marketing	-	-	4,781	4,781
General and administrative	-	-	2,612	2,612
Impairment of intangible asset	-	-	2,536	2,536
Other	564	-	-	564
	$ 2,199	$ 2,829	$ 12,776	$ 17,804

	For the year ended December 31, 2018			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	$ 1,522	$ -	$ -	$ 1,522
Royalty expense	6,680	-	-	6,680
Salaries and benefits	-	962	2,956	3,918
Amortization of intangible assets	1,557	137	-	1,694
Depreciation of property and equipment	118	26	96	240
Share-based compensation	-	69	380	449
Research & development	-	1,204	-	1,204
Selling and marketing	-	-	2,247	2,247
General and administrative	-	-	2,877	2,877
Impairment of intangible asset	-	-	2,641	2,641
Other	447	-	-	447
	$ 10,324	$ 2,398	$ 11,197	$ 23,919

During the year, $nil of depreciation was capitalized to inventory ($16 at December 31, 2018).

18. INTEREST AND OTHER FINANCING COSTS

	December 31, 2019	December 31, 2018
Interest expense on long-term debt	$ 1,694	$ 1,063
Accretion of buy-out (Note 5a)	485	470
Amortization of deferred financing fees (note 14)	353	240
	$ 2,532	$ 1,773

19. INCOME TAXES

The difference between the amount of the provision for income taxes and the amount computed by multiplying loss/income before taxes by the statutory Canadian rates are reconciled as follows:

	For the year ended December 31,	
	2019	2018
Loss before income taxes	$ (16,129)	$ (18,757)
Tax recovery at the Canadian corporate tax rate of 26.5% (2015 - 26.5%)	(4,274)	(4,971)
Benefit of previously unrecognized deferred tax asset		
Tax effect of permanent differences (Canada)	(57)	98
Unrecognized deferred tax benefit	4,404	4,908
Other	(73)	(6)
Tax (recovery) recognized for the year	**$** -	$ 29

At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgment, which includes a review of projected taxable income. The Company has not recognized the deferred tax assets, arising from accumulated losses carried forward from previous years, and the corresponding deferred tax recovery on the statements of loss/income and comprehensive loss/income.

In Canada, the Company also has a net operating loss carry forwards of $51,883 that will expire by 2039 ($3,469 in 2036, $7,015 in 2037, $18,393 in 2038 and $23,006 in 2039). The Company also has a capital loss of $20,748 that can be carried forward indefinitely.

In addition, the Company has the following deferred tax assets that are not recognized:

	As at December 31,	
	2019	2018
Property and equipment	$ 44	$ 14
Intangible assets	7,893	5,124
Financing costs	151	145
Licensing payments	-	-
R&D pools	554	447
Investment tax credits	722	609
Accruals	825	1,420
Unrealized foreign exchange	(17)	53
Capital loss carryforwards	2,749	2,617
Loss Carry forwards	13,679	8,206
Total	$ 26,600	$ 18,635

20. LOSS PER SHARE

The following table sets forth the computing of basic and diluted loss per share (share and per share amounts below are not in thousands):

	For the year ended December 31, 2019	2018
Numerator for basic and diluted (loss) per share available to common shareholders	$ (16,129)	$ (18,786)
Denominator for basic and diluted (loss) per share	255,002,276	224,436,840
Basic and diluted (loss) per share	$ (0.06)	$ (0.08)

Weighted Average Common Shares Outstanding

		Weighted Average Shares	
	Total issued	Basic	Diluted
Balance, January 1, 2018	213,118,645	213,118,645	213,118,645
Issuance of common shares, June 2018	22,041,705	11,232,211	11,232,211
Exercise of options	223,912	85,984	85,984
Balance, December 31, 2018	235,384,262	224,436,840	224,436,840
Balance, January 1, 2019	235,384,262	235,384,262	235,384,262
Private Placement, March 2019	23,230,772	17,629,928	17,629,928
Exercise of stock options	2,610,256	1,988,086	1,988,086
Balance, December 31, 2019	261,225,290	255,002,276	255,002,276

21. SHARE BASED COMPENSATION

The Company has an incentive stock option plan that permits it to, from time to time, grant options to acquire common shares to its directors, officers, employees, consultants, and others, up to the maximum number of a “rolling” amount equal to 10% of the total shares issued and outstanding (26,122,529 options available as at December 31, 2019). The option exercise price must be equal to or greater than the market price of the Company's common shares at the date of grant.

The stock option plan also provides that:

- upon the surrender, termination, expiry or exercise of any options granted under the stock option plan, common shares subject to such options shall become available to satisfy future grants of options under the stock option plan; and

- a holder of an option may, rather than exercise such option, elect a cashless exercise of such option payable in common shares equaling the amount by which the value of an underlying share at that time exceeds the exercise price of such option or warrant to acquire such common share.

21. SHARE BASED COMPENSATION (continued)

The Company uses the Black-Scholes option pricing model to price its options, which requires certain assumptions including the stock price volatility for a publicly held corporation. Details of the options issued in 2018 and 2019 are set out below:

						Black-scholes model variables			
Grant date	Number granted	Granted to	Exercise price (CDN$)	Life (Years)	Vesting periods (Years)	Risk free rate	Expected volatility	Expected dividend rate	Fair value per options (CDN$)
Mar 23, 2018	1,948,331	Employees & directors	$0.27	5	1-3	2.1%	90.0%	nil	$0.20
Mar 23, 2018	100,000	Director	$0.27	3	0	2.0%	95.6%	nil	$0.17
Aug 15, 2018	1,050,000	Employees	$0.21	5	3	2.2%	89.8%	nil	$0.14
Aug 29, 2018	214,286	Consultant	$0.28	3	1	2.2%	98.0%	nil	$0.18
Nov 19, 2018	750,000	Employee	$0.17	5	3	2.4%	86.5%	nil	$0.10
Mar 06, 2019	1,050,000	Directors	$0.13	5	1-3	1.8%	86.4%	nil	$0.09
Aug 08, 2019	1,965,686	Employees	$0.13	5	3	1.5%	86.9%	nil	$0.08

A forfeiture rate of 3% was used to estimate option expenses during the year. The Company recognized total share-based compensation expense of $176 for the year ended December 31, 2019 ($449 for the year ended December 31, 2018).

The following table summarizes the activity under the Company's stock option plan (amounts in chart below are not in thousands):

	December 31, 2019					
	2019			2018		
	Number		Weighted average exercise price (CDN)	Number		Weighted average exercise price (CDN)
Balance at January 1,	17,763,346	$	0.18	17,316,200	$	0.23
Granted	3,015,686		0.13	4,062,617		0.24
Exercised	(5,225,000)		0.11	(223,912)		0.12
Cancelled	-		-	(1,237,858)		0.14
Forfeited	(2,252,040)		0.16	(227,501)		0.12
Expired	(435,000)		0.82	(1,926,200)		0.80
Balance at December 31,	12,866,992	$	0.17	17,763,346	$	0.18
Options exercisable at December 31,	8,165,392	$	0.18	9,203,032	$	0.18

	Canadian Dollar Options outstanding as at December 31, 2019		
Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$0.09 to $0.11	2,538,334	1.5	2,493,331
$0.12 to $0.18	8,050,304	3.3	3,921,622
$0.21 to $0.36	1,893,354	2.8	1,365,439
$0.37 to $0.75	385,000	0.2	385,000
	12,866,992	2.8	8,165,392

22. RELATED PARTY TRANSACTIONS

Details of the transactions between the Company, key management and other related parties are disclosed below:

Key management includes the Company's directors and executive officers. The remuneration of directors and key members of management and professional fees paid or payable to firms affiliated with the current directors and interim CEO for the year ended December 31, 2019 and 2018 were as follows:

		For the year ended December 31, 2019		2018
Short-term compensation of key management and directors	$	909	$	1,512
Termination benefits		363		366
Share-based compensation		155		370
Interest accrued (note 14)		314		-
Professional fees paid or payable to firms affiliated with directors & officers		-		189
	$	1,741	$	2,437

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $1,339 if all are terminated as a result of a change in control, $1,314 if all are terminated without cause, and $nil if all are terminated with cause.

As at December 31, 2019, Acerus had a $6,230 receivable ($2,073 receivable as at December 31, 2018) to its wholly owned subsidiary ABI. The receivable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange loss of $89 for the year ended December 31, 2019 (gain of $152 for the year ended December 31, 2018) that has been recorded in the consolidated statement of loss.

As of December 31, 2019, the Company had $11,500 outstanding on a subordinated secured term loan facility with First Generation, a company affiliated with the Chairman of the Board of Directors of Acerus. At December 31, 2019 the Company had $314 in interest payable included in accounts payable related to the loan. Please see the subsequent event note 27 for more details on agreements entered into with First Generation subsequent to year end in respect of an equity financing and debt-to-equity conversion.

23. COMMITMENTS AND CONTINGENCIES

(a) Milestone payments

Under certain research and development agreements, the Company may be required to make payments contingent upon the achievement of specific development, regulatory or commercial milestones on or before specific dates.

The Company may be required to make remaining milestone payments in the aggregate amount of $4,500 for Tefina™ and $8,000 for TriVair™ products. The Tefina™ milestone payments are due in two tranches: the first $2,000 upon the acceptance for filing by the FDA or by the European Medicines Agency of the first application for regulatory approval of the product; another $2,500 is due upon the first commercial sale of the product in the USA or in at least two major markets (whichever is earlier). With regards to the TriVair™ products, there is a milestone payment of $2,000 upon FDA approval for each product to a maximum of $8,000 for products submitted by ABI only. As well, there is a cap on royalty payments of $25,000 per product.

The Company may be required to make minimum royalty payments as disclosed in notes 5(a) and 5(b).

The Company may be required to make certain regulatory or sales based milestone payments as disclosed in notes 5(e) (g) and (h).

23. COMMITMENTS AND CONTINGENCIES (continued)

(b) Guarantees

All directors and/or officers of the Company, and each of its various subsidiary entities, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions to the directors and officers. The term of the indemnification is not explicitly defined but is limited to events for the period during which the indemnified party served as a director or officer of the applicable Acerus entity. The maximum amount of any potential future payment required to be made by the Company cannot be reasonably estimated but could have a material adverse effect on the Company.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product and service agreements. These indemnification arrangements may require the applicable Acerus entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the particular Acerus entity or as a result of litigation or other third-party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. The applicable Acerus entity, whenever possible, tries to limit this potential liability within the particular agreement or contract, but due to the unpredictability of future events the maximum amount of any potential reimbursement required to be made by the Company or its subsidiary entities cannot be reasonably estimated, but could have a material adverse effect on the Company.

(c) Litigation

Schenk Litigation

Valeant Pharmaceuticals International, Inc. and Valeant International Bermuda ("Valeant") are defendants in Ontario Superior Court of Justice Action No. CV-11-438382, which claims a declaration that Valeant is contractually obligated to compensate the plaintiff, Reiner Schenk ("Schenk") pursuant to the terms of a contract between Schenk and Biovail Corporation. The main action was commenced by Notice of Action issued on October 31, 2011 and a Statement of Claim was issued on December 14, 2011. Acerus Pharmaceuticals Corporation was named as one of the defendants in the main action, but the action was discontinued as against Acerus on December 14, 2011. On October 29, 2013, Valeant commenced a third party claim against Acerus (among others) claiming contribution, indemnity and other relief over to the full extent that Valeant may be held liable to Schenk, and damages for breach of fiduciary duty, breach of contract and intentional interference with economic relations in any amount for which Valeant is found liable to Schenk. Acerus has defended the third-party claim, denying any liability to Valeant. The parties have concluded examinations for discovery and attended a pre-trial conference in February 2020. The trial is scheduled to commence in April 2020 and is anticipated to be two weeks long. As of December 31, 2019, the Company has not accrued for any potential claims.

In the normal course of business, the Company may be the subject of litigation claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against such litigation.

24. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets (liabilities) as at December 31, 2019 and 2018 are presented below:

December 31, 2019	Financial assets at amortized costs	Assets/ (liabilities) at FVTPL	Financial liabilities at amortized costs	Total
Cash	$ 5,860	$ -	$ -	$ 5,860
Trade and other receivables	171	-	-	171
Contract asset	473	-	-	473
Accounts payable and accrued liabilities	-	-	(7,408)	(7,408)
Long-term debt payable	-	-	(19,990)	(19,990)
Derivative financial instrument	-	(262)	-	(262)
	$ 6,504	$ (262)	$ (27,398)	$ (21,156)

December 31, 2018	Financial assets at amortized costs	Assets/ (liabilities) at FVTPL	Financial liabilities at amortized costs	Total
Cash	$ 3,829	$ -	$ -	$ 3,829
Trade and other receivables	1,113	-	-	1,113
Accounts payable and accrued liabilities	-	-	(8,081)	(8,081)
Long-term debt payable	-	-	(8,287)	(8,287)
Derivative financial instrument	-	(227)	-	(227)
	$ 4,942	$ (227)	$ (16,368)	$ (11,653)

(b) Fair value of financial instruments

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted bid or ask prices in an active market. Quoted prices are not always available for over-the-counter transactions, as well as transactions in inactive or illiquid markets. In these instances, pricing models, normally with observable market-based inputs, are used to estimate fair value. Financial instruments traded in a less active market have been valued using indicative market prices, present value or other valuation techniques. Where financial instruments trade in inactive markets or when using models where observable parameters do not exist, greater management judgement is required for valuation purposes. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and therefore may not be reflective of future fair values.

At December 31, 2019 and December 31, 2018, the Company's financial instruments consisted of cash, trade and other receivables, contract assets, accounts payable and accrued liabilities, long-term debt, and derivative financial instruments. Cash, trade and other receivables, contract assets and accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their short-term nature. The derivative financial instruments are measured at fair value with any changes recognized through the consolidated statement of loss and comprehensive loss and are classified as Level 2. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model.

The long-term debt is measured at amortized cost. At December 31, 2019, the fair value of the long-term debt approximates its face value of $20,500.

24. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk.

(i) Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. and Canadian dollars. The Company, however, is exposed to currency risk though its net financial assets denominated in US dollars, Euros and Great British Pounds of the parent whose functional currency is the Canadian dollar.

	December 31, 2019		
	USD	EUR	GBP
Cash	$ 5,550	$ -	$ -
Trade and other receivables	52	-	-
Intercompany receivable	6,188	-	-
Accounts payable and accrued liabilities	(2,381)	(34)	(15)
Long-term debt	(20,500)	-	-
	$ (11,091)	$ (34)	$ (15)

Based on the above net exposure at December 31, 2019, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the US dollar against the other currencies would have resulted in the following impact on net income:

	US Dollar			
Net income effect:	US	EUR	GBP	Total
Appreciate 5%	$ 528	$ (2)	$ (1)	$ 525
Depreciate 5%	(584)	2	1	(581)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Refer to Note 14 for details on the interest rate applicability to the SWK and First Generation credit facility.

A 0.5% appreciation in the present LIBOR rate would lead to an increase of $128 of interest payments for the life of the outstanding loans. A 0.5% depreciation in the present LIBOR rate would lead to a decrease of $128 of interest payments required for the life of the loans.

(iii) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant concentrations of credit risk consist of cash, trade and other receivables and licensing fee receivable. The Company’s investment policies are designed to mitigate the possibility of deterioration of principal, enhance the Company’s ability to meet its liquidity needs and provide high returns within those parameters. Cash is on deposit with a Canadian chartered bank located in Canada and Barbados.

Management monitors the collectability of trade and other receivable and estimates an allowance for doubtful accounts. The Company has concentration risk, as approximately 12% of its trade receivables are due from one pharmaceutical wholesalers in Canada and 30% from an out-licensing partner.

24. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management (continued)

(iii) Credit risk (continued)

As at December 31, 2019, the allowance for doubtful accounts was $nil. Management has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and all amounts are considered recoverable.

(iv) Market risk

The change in fair value of the Company's derivative liability, which is measured at FVTPL, results from the periodic "mark-to-market" revaluation. The valuation is impacted, among other inputs, by the market price of the Company's common shares. As a result, the change in fair value of the derivative liability, which is reported through the consolidated statement of loss/income and comprehensive loss/income, has been and may continue in future periods to be materially affected most notably by changes in the Company's common share price.

Assuming that all other variables remain constant, a 5% appreciation or depreciation of the Company's share price would have resulted in an $17 decrease and $17 increase in net loss respectively ($18 increase and $18 decrease in net income at December 31, 2018).

(v) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support normal operating requirements on an ongoing basis. Since inception, the Company has financed its cash requirements primarily through issuances of securities, short-term borrowings, issuances of long-term debt (including convertible debt) and interest income and upfront licensing fees.

The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. See also note 1 (Going concern).

The following table summarizes the Company's significant contractual undiscounted cash flows as at December 31, 2019 (excluding future milestones and royalties):

	Less than 3 months	3-6 months	6 months - 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 4,554	$ 2,120	$ 482	$ -	$ -	$ -	$ 7,156
Purchase commitments	517	212	-	-	-	-	729
Lease liability (principal and interest)	34	34	67	135	404	40	714
Long-term debt (principal and interest)	284	284	576	16,219	8,180	-	25,543
As at December 31, 2019	$ 5,389	$ 2,650	$ 1,125	$ 16,354	$ 8,584	$ 40	$ 34,142

25. CAPITAL MANAGEMENT

The Company's capital management objectives are to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders. The Company does this by ensuring it has sufficient cash resources to fund its research and development activities, to pursue its eventual commercialization efforts and to maintain its ongoing operations. The Company includes the long-term debt and shareholders' equity in the definition of capital.

A summary of the Company's capital structure is as follows:

		December 31, 2019		December 31, 2018
Long-term debt	$	19,990	$	8,287
Shareholders' equity		(12,831)		(71)
	$	7,159	$	8,216

The Company continually evaluates alternatives to raise additional capital. These alternatives include seeking additional capital from existing shareholders and new shareholders, from the issuance of debt and by way of monetizing its technologies or development programs through commercial or partnering arrangements.

26. SEGMENT REPORTING

The Chief Executive Officer and Chief Financial Officer are the Company's chief operating decision-makers (CODM). Management has determined that there is one operating segment based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

At December 31, 2019, the Company has inventory in Canada and Germany in the amounts of $29 and $1,465 respectively ($693, $125 and $1,688 respectively in Canada, USA and Germany for the year ended December 31, 2018). At December 31, 2018, the Company has total long-term assets in Canada and Germany in the amounts of $5,635 and $570 respectively ($8,492 and $708 respectively in Canada and Germany at December 31, 2018).

For the year ended December 31, 2019 the Company had revenues of $2,373, $1,202 and $193 from customers located in Canada, U.S. and rest of world respectively ($5,736, $1,307 and $334 from customers located in Canada, U.S. and rest of world respectively for the year ended December 31, 2018).

27. SUBSEQUENT EVENTS

Private Placement and Refinancing

On February 12, 2020 the Company announced that it has entered into agreements with First Generation in respect of an equity financing and debt-to-equity conversion by First Generation and with SWK in respect of an amendment to the Company's existing credit facility (the "SWK Facility") with SWK (the "Refinancing Transactions"). First Generation is currently the Company's largest shareholder and a lender to the Company and an entity owned and controlled by Mr. Ian Ihnatowycz, Chairman of the board of directors (the "Board") of the Company. The Refinancing Transactions have been negotiated on an arm's length basis, including under the supervision of and upon a recommendation by, a special committee of the Board (the "Special Committee") comprised of entirely independent directors unrelated to the parties involved. The Company is of the view that the Refinancing Transactions will have the effect of substantially recapitalizing Acerus and will allow it to focus on executing upon its strategic plan for the benefit of all stakeholders.

27. SUBSEQUENT EVENTS (continued)

Private Placement and Refinancing (continued)

On February 12, 2020, the Company announced that it had entered into agreements with First Generation ("FGC") in respect of an equity financing and debt-to-equity conversion by First Generation and with SWK in respect of an amendment to the New Facility (the "Refinancing Transactions"). First Generation is the Company's largest shareholder of the Company and an entity owned and controlled by Mr. Ian Ihnatowycz, Chairman of the board of directors (the "Board") of the Company. The Refinancing Transactions have been negotiated on an arm's-length basis, including under the supervision of and upon a recommendation by, a special committee of the Board (the "Special Committee") comprised of entirely independent directors unrelated to the parties involved.

The Refinancing Transactions consisted of:

- a private placement to First Generation of 449,148,891 Acerus Common Shares at an offering price of CDN$0.053269 per FGC Common Share, being a 25% discount to the five day volume weighted average price of the FGC Common Shares on the TSX as at January 31, 2020, for aggregate gross proceeds to the Company of $18,000 (the "FGC Private Placement");
- the conversion of the Company's outstanding $11,500 (plus accrued interest of $526) owing to First Generation under the A&R FGC Loan into approximately 300,081,885 Acerus Common Shares at a conversion price of CDN$0.053269 per Acerus Common Share (the "Debt Conversion"); and
- an amendment to the New Facility (the "February 2020 SWK Amendment") which would, among other things, (i) set the minimum threshold for consolidated unencumbered liquid assets required to be maintained by the Company at $1,500, (ii) reset the revenue and EBITDA covenants to better reflect the nature of the Company's business at this time compared to the time the New Facility was entered into, (iii) delay the date on which the Company must begin repaying principal from Q1-2021 to Q2-2021; (iv) require pre-payment of $750 of principal in three instalments during 2020 and a commensurate reduction in the amount used to calculate exits fees; and (v) provide flexibility to the Company to dispose of non-core assets and retain some of the proceeds of such dispositions for working capital.

As consideration for and in connection with the February 2020 SWK Amendment, the Company paid SWK an amendment fee of $80 and to amend the exercise price of the 6,693,107 outstanding SWK Warrants and New Warrants, which expire on September 30, 2024, from CDN$0.11 to CDN$0.053269.

On February 21, 2020, the Company announced the closing of the Refinancing Transactions. Acerus received $18,000 in gross proceeds from the private placement of 449,148,891 Acerus Common Shares to First Generation and converted $11,500 (plus accrued interest of US$526) owing to First Generation under the A&R FGC Loan into 300,081,885 Acerus Common Shares. In addition, the February 2020 SWK Amendment became effective. As consideration for and in connection with the SWK Amendment, the Company paid SWK an amendment fee of US$80 and amended the exercise price of the SWK Warrants and New Warrants, which expire on September 30, 2024, from CDN$0.11 to CDN$0.053269. The Company also made a prepayment of $250 of principal to SWK. This prepayment was the first of the three installments previously announced on February 12, 2020.

Upon closing of these transactions, the Company has 1,010,456,066 Acerus Common Shares issued and outstanding on a non-diluted basis.

It is expected that the Company will ask shareholders to approve a share consolidation at the Company's next annual meeting of shareholders.