Acerus Pharmaceuticals Corporation

Unaudited Condensed Interim Consolidated Financial Statements

June 30, 2019

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

Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statement of Financial Position
As at June 30, 2019 and December 31, 2018
Unaudited
(expressed in thousands of U.S. dollars)

	Notes	June 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		$ 1,231	$ 3,829
Trade and other receivables		863	1,113
Contract asset	3(b)	601	-
Inventory		1,596	2,506
Prepaid and other assets		727	176
Total current assets		5,018	7,624
Property and equipment, net		1,167	1,267
Right of use asset	3(c)	285	-
Intangible assets, net	6	5,224	7,933
Total assets		$ 11,694	$ 16,824
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 6,687	$ 5,619
Current portion of deferred lease inducement		-	46
Current portion of lease liability	3(c)	90	-
Total current liabilities		6,777	5,665
Accrued liabilities	7	-	2,462
Deferred lease inducement		-	254
Lease liability	3(c)	557	-
Long-term debt	8	8,427	8,287
Derivative financial instruments		197	227
Total liabilities		15,958	16,895
Shareholders' (deficit)			
Share capital	9	$ 158,402	$ 154,737
Warrants	9	1,420	1,420
Contributed surplus		11,291	11,500
Accumulated other comprehensive loss		(13,807)	(13,851)
Deficit		(161,570)	(153,877)
Total shareholders'(deficit)		(4,264)	(71)
Total liabilities & shareholders' (deficit)		$ 11,694	$ 16,824

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.
Going concern (note 1)
These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 6, 2019.

Acerus Pharmaceuticals Corporation
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss
For the three and six months ended June 30, 2019 and 2018
Unaudited
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	For the three months ended, June 30, 2019	2018	For the six months ended, June 30, 2019	2018
Revenue					
Product revenue		$ 1,256	$ 1,952	$ 3,421	$ 3,576
Licensing and other revenue		-	150	-	150
		1,256	2,102	3,421	3,726
Cost of goods sold	10	1,339	1,029	1,971	2,056
Royalty buyout		-	4,266	-	6,680
Gross margin		(83)	(3,193)	1,450	(5,010)
Expenses					
Research and development	10	647	604	1,685	1,076
Selling, general and administrative	10	2,220	2,231	6,458	4,014
Total operating expenses		2,867	2,835	8,143	5,090
Operating loss		(2,950)	(6,028)	(6,693)	(10,100)
Other expenses/(income)					
Interest on long-term debt and other financing costs	8	519	367	1,166	558
Interest income		-	(4)	(1)	(9)
Foreign exchange (gain)/loss		(95)	70	(185)	305
Change in fair value of derivative financial instruments		(171)	(51)	(39)	(90)
Total other expenses		253	382	941	764
Net loss for the period		(3,203)	(6,410)	$ (7,634)	$ (10,864)
Other comprehensive income, net of income tax					
Foreign currency translation adjustment		(12)	1	44	91
Total comprehensive loss for the period		(3,215)	(6,409)	$ (7,590)	$ (10,773)
Loss per common share					
Basic and diluted net loss per common share	11	$ (0.01)	$ (0.03)	$ (0.03)	$ (0.05)
Weighted average common shares outstanding					
Basic	11	260,881,081	213,678,075	248,459,798	213,404,959
Diluted	11	260,881,081	213,678,075	248,459,798	213,404,959

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

Acerus Pharmaceuticals Corporation
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity (Deficit)
For the six months ended June 30, 2019 and 2018
Unaudited
(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 period		-	-	-	-	(10,864)	(10,864)
Foreign currency translation adjustment		-	-	-	91	-	91
Total comprehensive loss for the period		-	-	-	91	(10,864)	(10,773)
Issuance of common shares, net of costs		2,943	-	-	-	-	2,943
Issuance of warrants, net of costs		-	1,420	-	-	-	1,420
Exercise of stock options		6	-	-	-	-	6
Share based compensation	12	-	-	226	-	-	226
Balance as at June 30, 2018		$ 154,715	$ 1,420	$ 11,292	$ (13,961)	$ (145,955)	$ 7,511
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 period		-	-	-	-	(7,634)	(7,634)
Foreign currency translation adjustment		-	-	-	44	-	44
Total comprehensive loss for the period		-	-	-	44	(7,634)	(7,590)
Issuance of common shares, net of costs	9	3,350					3,350
Exercise of stock options		315		(315)			-
Share based compensation	12	-	-	106	-	-	106
Balance as at June 30, 2019		$ 158,402	$ 1,420	$ 11,291	$ (13,807)	$ (161,570)	$ (4,264)

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

Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statement of Cash Flows
For the six months ended June 30, 2019 and 2018
Unaudited
(expressed in thousands of U.S. dollars)

	Note	June 30, 2019	June 30, 2018
Operating activities:			
Net loss for the period		$ (7,634)	$ (10,864)
Items not affecting cash:			
Adjustment for unrealized foreign exchange (gain)/loss		(211)	360
Amortization of intangible assets	6	465	853
Depreciation of property and equipment	10	127	129
Depreciation of right of use asset	10	23	-
Amortization of deferred leasehold inducement		-	(25)
Interest on long-term debt and other financing costs	8	1,166	558
Change in fair value of derivative financial instruments		(39)	(90)
Share based compensation	10, 12	106	226
Gain on disposal of property and equipment		(5)	-
Impairment on intangible asset	6	2,536	-
Inventory impairment	7	339	-
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		395	(117)
Contract asset	3(b)	(694)	-
Inventory		593	73
Prepaids and other assets		(543)	96
Accounts payable and accrued liabilities		(1,764)	6,277
Licensing fee receivable		-	300
Net cash used in operating activities		(5,140)	(2,224)
Financing activities			
Interest and financing fees paid	8	(774)	(390)
Proceeds from issuance of common shares, net of financing costs	9	3,350	4,369
Principal elements of lease payments		(39)	-
Proceeds from issuance of long-term debt		-	1,571
Net cash from/(used in) financing activities		2,537	5,550
Investing activities			
Proceeds from disposition of property and equipment		5	-
Acquisition of property and equipment, net of deposits		(4)	(60)
Acquisition of product rights	6	(100)	(156)
Net cash used in investing activities		(99)	(216)
Net increase/(decrease) in cash for the period		(2,702)	3,110
Exchange gain/(loss) on cash		104	(230)
Cash, beginning of period		3,829	3,156
Cash, end of period		$ 1,231	$ 6,036

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

1. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") 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, 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, additional capital will be required. In addition, the anticipated shortage of certain strengths of Estrace® in 2019 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 this year. 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 unaudited condensed interim 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 unaudited condensed interim 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") (incorporated in Ontario), and Acerus Pharmaceuticals (Barbados) Inc. ("APBI") (incorporated in Barbados). APBI was 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 and women's health. The Company commercializes its products via its own salesforce in Canada, and through a global network of licensed distributors in the U.S. and other territories.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2018 except for the adoption of IFRS 16 *Leases* starting January 1, 2019.

(a) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

(b) Revenue estimate

Historically, the Company recognized revenue for a certain partner 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 were estimated based on the partner's 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. However, 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. 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. 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. For the three months ending June 30, 2019, Acerus earned a total of $217 in Tier 2 revenue from its marketing partner. Of this amount, $93 was previously recognized as part of the one-time adjustment made in Q1 2019 for inventory units held by the marketing partner. The remaining $124 was recognized in revenue in the current quarter.

(c) New and amended standards

A number of new or amended standards became applicable for the current reporting period, and the Company had to change its accounting policies and make adjustments as a result of adopting IFRS 16 *Leases.* The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

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 expected to 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%.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New and amended standards (continued)

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.

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 June 30, 2019 increased by $285 as a result of the change in accounting 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.

For the three and six months ending June 30, 2019 depreciation of the right of use asset was $11 and $23 respectively. The right of use asset is depreciated on a straight-line basis over the term of the lease.

Right of use asset, January 1, 2019	$	296
Depreciation of right of use asset		(23)
Foreign exchange effect		12
Right of use asset, June 30, 2019	$	285

(All amounts expressed in thousands of U.S. dollars except per share amounts
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New and amended standards (continued)

For the three and six months ending June 30, 2019 finance charges on the lease liability were $9 and $19 respectively (included in Interest on long-term debt and other financing costs in the consolidated statement of loss and comprehensive loss) and the expense related to variable lease payments not included in the measurement of lease liabilities was $13 and $34 respectively (included in Selling, general & administrative expenses in the consolidated statement of loss and comprehensive loss). The lease term matures on June 30, 2025.

Lease liabilities, January 1, 2019	$	660
Payments		(39)
Foreign exchange effect		26
Lease liabilities, June 30, 2019		647
Current lease liabilities		90
Non-current lease liabilities	$	557

As at June 30, 2019, the Company has the following obligations to make future payments related to the lease liabilities:

		June 30, 2019
No later than 1 year	$	126
Later than 1 year and no later than 5 years		535
Later than 5 years		106
		767
Finance charges		(120)
Total lease liabilities	$	647

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New and amended standards (continued)

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

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.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Company's unaudited condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the unaudited condensed interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates. In preparing the unaudited condensed interim consolidated financial statements, the significant estimates made by management include those that applied to and are disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2018 and the items listed below:

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 used 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.

5. PRODUCT RIGHTS

(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

(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 $2,500 by January 20, 2020 (subject to deferral rights). 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.

(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.

5. PRODUCT RIGHTS (continued)

(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"), granting 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 will pay milestone payments based on the Company achieving certain sales targets. Innovus will oversee the manufacturing of UriVarx® and will receive 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.

(f) 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.

(g) 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.

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

6. 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	-	1,244	1,244
Balance,June 30, 2019	$ 4,400	$ 30,653	$ 35,053
Accumulated depreciation			
Balance, January 1, 2019	$ 2,415	$ 23,434	$ 25,849
Amortization	55	410	465
Disposal	-	(73)	(73)
Impairment charges	-	2,536	2,536
Effect of foreign currency exchange difference	-	1,052	1,052
Balance, June 30, 2019	$ 2,470	$ 27,359	$ 29,829
Net book value			
June 30, 2019	$ 1,930	$ 3,294	$ 5,224

	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

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 interim consolidated statement of loss and comprehensive loss. The remaining life of the Direct Haler patents and patent applications (if issued) is 17 years and 7 months. Amortization of $28 and $55 has been recorded for the three and six months ended June 30, 2019 ($26 and $55 for the three and six months ended June 30, 2018).

Product rights includes rights for Estrace®, Lidbree™, UriVarx® and avanafil. Of the product acquisition costs, $300 was accrued but not payable as of June 30, 2019. Amortization of $139 and $391 has been recorded in cost of goods sold and $9 and $19 in research and development costs for the three and six months ending June 30, 2019 ($402 and $798 in cost of goods sold and $nil and $nil in research and development costs for the three and six months ending June 30, 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 wrote off a net of $65 ($73 of cost and $8 of accumulated depreciation) representing the remaining balance of the UriVarx intangible asset.

(All amounts expressed in thousands of U.S. dollars except per share amounts
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6. INTANGIBLE ASSETS (continued)

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. The Company is currently looking at various strategies to accelerate delivery timelines. An alternative manufacturer has been identified and the Company is working towards a final agreement.

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. Key assumptions included a pre-tax discount rate of 16.9%, estimated cash flows, projected declines in revenue and for the 2019 model an increased cost of goods related to transferring the product to a different contract manufacturer. In the model, the Company assumed it would receive product by the second quarter in fiscal 2020 (versus by September 2019 in the 2018 impairment model). 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.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2019		December 31, 2018
Accounts payable	$	1,793	$	1,378
Employee salaries and benefits payable		914		925
Buyout payable (note 5a)		2,353		2,488
Interest and financing fees payable		161		317
Accrued liabilities		977		300
Provision for returns and discounts		489		211
Total current accounts payable and accrued liabilities	$	6,687	$	5,619
Other long-term accruals		-		300
Buyout payable (note 5a)		-		2,162
Total accounts payable and accrued liabilities	$	6,687	$	8,081

On August 2, 2019, the Company announced that it will 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. The temporary shortage of the product in the Canadian and South Korean markets is expected to continue until the end of October 2019. Acerus has noted this shortage on the Drug Shortages Canada website and will continue to dialogue with Health Canada to identify solutions to try to minimize the disruption to patients in the affected markets.

Due to the issue described above the Company impaired inventory by $339 and accrued $453 related to replacing products and potential returns for the three and six months ended June 30, 2019. Included in this amount, the Company has accrued $80 in additional discount provisions to encourage wholesalers and pharmacies to accept replacement product which is expected to be available in October 2019 and $373 related to cost to either replace or refund the product. Should all the wholesalers and pharmacies elect to receive a refund instead of a replacement, the total accrual would increase by $310.

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8. LONG-TERM DEBT

	Promissory Note	Quantius Debt	SWK facility	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	-	-	176	176
Transaction costs	-	-	(15)	(15)
Effect of foreign currency exchange difference	-	-	(21)	(21)
Balance, June 30, 2019	$ -	$ -	$ 8,427	$ 8,427
Current portion at June 30, 2019	-	-	-	-
Long-term portion at June 30, 2019	$ -	$ -	$ 8,427	$ 8,427

Endo – Promissory note

Pursuant to the transition agreement between Acerus and an affiliate of Endo International plc ("Endo"), the 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 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.

8. 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-month London Inter-Bank Offered Rate ("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.

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. As of June 30, 2019 the Company was in compliance with those covenants. 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.

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 "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 of June 30, 2019, the Company had $9,000 outstanding on the credit facility.

(All amounts expressed in thousands of U.S. dollars except per share amounts
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8. LONG-TERM DEBT (continued)

Interest and financing costs

Interest expense on long-term debt was $323 and $619 for the three and six months ended June 30, 2019 ($238 and $413 for the three and six months ended June 30, 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	1,166
Transaction costs	(15)
Amortization of deferred financing fees	(176)
Accretion of Buyout payable	(353)
Interest and financing fees paid	(774)
Effect of foreign currency exchange difference	(4)
Balance, June 30, 2019	$ 161

9. 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 June 30, 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 options entitling it to purchase 1,542,919 common shares at a price of CDN$0.30 within 24 months of closing.

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9. SHARE CAPITAL AND WARRANTS (continued)

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 8,366,377 (December 31, 2018 – 8,366,377) warrants issued that have been classified as a derivative financial instrument and classified under long-term liabilities.

10. NATURE OF EXPENSES

	For the three months ended June 30, 2019			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	$ 758	$ -	$ -	$ 758
Salaries and benefits	-	235	1,073	1,308
Amortization of intangible assets	139	37	-	176
Depreciation of property and equipment	34	8	21	63
Depreciation of right of use asset	-	-	11	11
Inventory impairment	339	-	-	339
Share-based compensation	-	6	20	26
Research & development	-	361	-	361
Selling and marketing	-	-	501	501
General and administrative	-	-	529	529
Impairment of intangible asset	-	-	65	65
Other	69	-	-	69
	$ 1,339	$ 647	$ 2,220	$ 4,206

	For the three months ended June 30, 2018			
Cost of finished goods	$ 465	$ -	$ -	$ 465
Royalty expense	4,266	-	-	4,266
Salaries and benefits	-	261	639	900
Amortization of intangible assets	402	26	-	428
Depreciation of property and equipment	33	6	25	64
Share-based compensation	-	16	69	85
Research & development	-	295	-	295
Selling and marketing	-	-	707	707
General and administrative	-	-	791	791
Other	129	-	-	129
	$ 5,295	$ 604	$ 2,231	$ 8,130

10. NATURE OF EXPENSES (continued)

	For the six months ended June 30, 2019			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	$ 1,026	$ -	$ -	$ 1,026
Salaries and benefits	-	435	1,699	2,134
Amortization of intangible assets	391	74	-	465
Depreciation of property and equipment	68	20	39	127
Depreciation of right of use asset	-	-	23	23
Inventory impairment	339	-	-	339
Share-based compensation	-	17	89	106
Research & development	-	1,139	-	1,139
Selling and marketing	-	-	910	910
General and administrative	-	-	1,162	1,162
Impairment of intangible asset	-	-	2,536	2,536
Other	147	-	-	147
	$ 1,971	$ 1,685	$ 6,458	$ 10,114

	For the six months ended June 30, 2018			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	$ 962	$ -	$ -	$ 962
Royalty expense	6,680	-	-	6,680
Salaries and benefits	-	519	1,200	1,719
Amortization of intangible assets	798	55	-	853
Depreciation of property and equipment	67	12	50	129
Share-based compensation	-	45	181	226
Research & development	-	445	-	445
Selling and marketing	-	-	1,107	1,107
General and administrative	-	-	1,476	1,476
Other	229	-	-	229
	$ 8,736	$ 1,076	$ 4,014	$ 13,826

11. 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 three months ended June 30,	
	2019	2018
Numerator for basic and diluted (loss) per share available to common shareholders	$ (3,203)	$ (6,410)
Denominator for basic (loss) per share	260,881,081	213,678,075
Denominator for diluted (loss) per share	260,881,081	213,678,075
Basic and diluted (loss) per share	$ (0.01)	$ (0.03)

	For the six months ended June 30,	
	2019	2018
Numerator for basic and diluted (loss) per share available to common shareholders	$ (7,634)	$ (10,864)
Denominator for basic (loss) per share	248,459,798	213,404,959
Denominator for diluted (loss) per share	248,459,798	213,404,959
Basic and diluted (loss) per share	$ (0.03)	$ (0.05)

(All amounts expressed in thousands of U.S. dollars except per share amounts
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11. (LOSS) PER SHARE (continued)

For the three and six months ended June 30, 2019, the computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect on the stock options and warrants.

For the three months ended June 30, 2019:

		Weighted Average Shares	
	Total issued	Basic	Diluted
Balance, April 1, 2018	213,193,642	213,193,642	213,193,642
Issuance of common shares, June 2018	22,041,705	484,433	484,433
Balance, June 30, 2018	235,235,347	213,678,075	213,678,075
Balance, April 1, 2019	258,615,034	258,615,034	258,615,034
Exercise of stock options	2,610,256	2,266,047	2,266,047
Balance, June 30, 2019	261,225,290	260,881,081	260,881,081

For the six months ended June 30, 2019:

		Weighted Average Shares	
	Total issued	Basic	Diluted
Balance, January 1, 2018	213,118,645	213,118,645	213,118,645
Exercise of options, March 2018	74,997	41,406	41,406
Issuance of common shares, June 2018	22,041,705	244,908	244,908
Balance, June 30, 2018	235,235,347	213,404,959	213,404,959
Balance, January 1, 2019	235,384,262	235,384,262	235,384,262
Private Placement, March 2019	23,230,772	11,936,253	11,936,253
Exercise of stock options	2,610,256	1,139,283	1,139,283
Balance, June 30, 2019	261,225,290	248,459,798	248,459,798

12. 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 June 30, 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.

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.

12. SHARE BASED COMPENSATION (continued)

The following table presents the Black-Scholes variables used to calculate the fair value of the options granted in fiscal 2019 and 2018:

						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 and employee	$0.13	5	1-3	1.8%	86.4%	nil	$0.09

In March 2019, a cashless exercise of 5,225,000 options was initiated for 2,610,256 common shares. The common shares were issued on April 12, 2019.

A forfeiture rate of 3% was used to estimate option expenses during the period. The Company recognized total share-based compensation expense of $26 and $106 for the three and six months ended June 30, 2019 ($85 and $226 for the three and six months ended June 30, 2018).

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

	June 30,			
	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	1,050,000	0.13	2,048,331	0.27
Exercised	(5,225,000)	0.11	(74,997)	0.11
Cancelled	-	-	(861,875)	0.12
Forfeited	(490,242)	0.21	(1,792,700)	0.73
Expired	(435,000)	0.82	(256,000)	0.87
Balance at June 30,	12,663,104	$ 0.17	16,378,959	$ 0.18
Options exercisable at June 30,	8,591,847	$ 0.17	8,936,620	$ 0.18

	Canadian Dollar Options outstanding as at June 30, 2019		
Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$0.09 to $0.11	2,708,335	2.1	2,398,331
$0.12 to $0.18	6,456,460	3.3	4,316,457
$0.21 to $0.36	3,113,309	3.6	1,492,059
$0.41 to $0.75	385,000	0.7	385,000
	12,663,104	3.0	8,591,847

(All amounts expressed in thousands of U.S. dollars except per share amounts
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13. 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 for the three and six months ended June 30, 2019 and 2018 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Short-term compensation of key management and directors	$ 381	$ 390	$ 560	$ 612
Termination benefits	363	-	363	$ -
Share-based compensation	20	72	90	170
Professional fees paid or payable to firms affiliated with directors & officers	-	36	-	189
	$ 764	$ 498	$ 1,013	$ 971

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $1,267 if a change in control occurs, $1,239 if all are terminated without cause, and $nil if all are terminated with cause.

As at June 30, 2019, Acerus had a $5,962 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 $143 and $178 for the three and six months ended June 30, 2019 (loss of $140 and $319 for the three and six months ended June 30, 2018) that has been recorded in the consolidated statement of loss.

14. LITIGATION

Shenk 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 are scheduled to attend 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 June 30, 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.

15. 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 June 30, 2019 and December 31, 2018, the Company's financial instruments consisted of cash, trade and other receivables, accounts payable and accrued liabilities, long-term debt, and derivative financial instruments. Cash, trade and other receivables 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 income/(loss) and comprehensive income/(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 June 30, 2019, the fair value of the long-term debt approximates its face value of $9,000. The fair values are based on cash flows discounted using a rate based on the borrowing rate and are within Level 3 of the fair value hierarchy.

16. 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 June 30, 2019, the Company has total long-term assets in Canada and Germany in the amounts of $6,037 and $639 respectively ($8,492 and $708 respectively in Canada and Germany at December 31, 2018).

For the three months ended June 30, 2019 the Company had revenues of $855, $124 and $277 from customers located in Canada, U.S. and rest of world respectively ($1,553, $399 and $150 from customers in Canada, U.S. and rest of world respectively for the three months ended June 30, 2018). For the six months ended June 30, 2019 the Company had revenues of $2,059, $1,066 and $296 from customers located in Canada, U.S. and rest of world respectively ($2,690, $886 and $150 from customers in Canada, U.S. and rest of world respectively for the six months ended June 30, 2018).

17. SUBSEQUENT EVENT

$5,000 Secured Term Loan

On July 18, 2019, the Company entered into a $5,000 subordinated secured term loan facility ("the Loan") with First Generation Capital Inc. ("First Generation"), a company affiliated with the Chairman of the Board of Directors of Acerus.

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.

17. SUBSEQUENT EVENT (continued)

Co-promote Natesto® in the U.S.

The Company has entered into an amended and restated licensing agreement with Aytu in July 2019, which, upon closing, will move 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.

As part of the amended and restated partnership agreement, Acerus did not pay Aytu to regain the marketing authorization for Natesto® in the U.S. The royalty structure currently in place will be replaced with a pay-for-performance incentive structure intended to drive Natesto® revenue growth in both Sales Channels. The revised agreement extends the partnership to the later of 2027, the launch of an FDA approved, AB-rated generic equivalent to Natesto®, or the expiration or invalidation of the last to expire Natesto® patent.

Aytu will now pay Acerus a variable rate commission for sales made in the Acerus Channel as per the following schedule:

- Up to the current status quo of Natesto® net sales ($0 - $5,500), Acerus will receive a commission equivalent to 25% of net revenue generated;
- For the next $4,500 in net revenue ($5,500 - $10,000), Acerus will receive a commission equivalent to 50% of net revenue generated; and
- Above $10,000 in net revenue, Acerus receives a commission equivalent to the combination of 90% of urologists and endocrinologists related net revenues and 10% of Aytu's sales channel net revenue generated.

Closing is conditioned upon Acerus raising capital, whether by way of equity or debt, of at least $10,000 on or before January 29, 2020.

Temporary unavailability of Natesto® in Canada and South Korea

On August 2, 2019, the Company announced that it will 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. The temporary shortage of the product in the Canadian and South Korean markets is expected to continue until the end of October 2019. Acerus has noted this shortage on the Drug Shortages Canada website and will continue to dialogue with Health Canada to identify solutions to try to minimize the disruption to patients in the affected markets.

Due to the issue described above the Company impaired inventory by $339 and accrued $453 related to replacing products and potential returns for the three and six months ended June 30, 2019. Included in this amount, the Company has accrued $80 in additional discount provisions to encourage wholesalers and pharmacies to accept replacement product which is expected to be available in October 2019 and $373 related to cost to either replace or refund the product. Should all the wholesalers and pharmacies elect to receive a refund instead of a replacement, the total accrual would increase by $310.