Acerus Pharmaceuticals Corporation

Audited Consolidated Financial Statements

December 31, 2020

(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, 2020 and 2019, 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, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficit) 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 significant accounting policies and other explanatory information.

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.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Valuation of contract asset – Natesto product revenue *Refer to note 3 – Significant accounting policies – Revenue, note 4 – Critical accounting estimates and judgments, and note 7 – Contract asset to the consolidated financial statements* Natesto product revenue from the Company's U.S. marketing partner is recognized in two steps: (1) at a fixed contractual supply price when the product is delivered to the marketing partner; and (2) an additional top-up amount is earned based on the gross profit recognized when the U.S. 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 U.S. 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 U.S. marketing partner has sold the product and the gross profit realized by the U.S. marketing partner is known. The initial estimate of the top-up revenue, and subsequent adjustments if required, is reflected as a contract asset until it is earned. The Company had a contract asset of $0.25 million as at December 31, 2020, relating to the variable consideration component of sales made to its U.S.	Our approach to addressing the matter involved the following procedures, among others: • Read the license agreement with the US marketing partner to understand the key terms of the agreement. • Tested how management determined the contract asset – Natesto product revenue, which included the following: – Evaluated the reasonableness of management's assessment of the estimated future gross selling price, future gross to net deduction rates and gross margin per unit of the U.S. marketing partner considering. o their U.S. marketing partner's historical results including average gross selling prices, product return rates, rebates, discounts and coupon (trade spend) levels, o 2021 price increases; which were confirmed with the U.S. marketing partner o 2021 forecast coupon (trade spend) rates, which were confirmed with their contract commercial provider. – Confirmed with the Company's U.S. marketing partner the quantity of Natesto inventory on hand at December 31, 2020

Key audit matter	How our audit addressed the key audit matter
marketing partner that have not yet been sold by that party. Management's assessment of the estimated future gross profit per unit of its U.S. marketing partner takes into consideration both historical gross revenues, gross to net revenue deductions and gross margin experience as reported by its U.S. marketing partner as well as expectations of the future selling price, gross to net revenue deductions and gross margin per unit of its U.S. marketing partner. This required the use of significant judgment by management. We considered this a key audit matter due to the significant judgment made by management in assessing future gross selling price, future gross to net revenue deductions and gross margin per unit of its U.S. marketing partner that would be highly probable of not resulting in a significant reversal of the variable consideration recorded. This in turn led to a high degree of auditor subjectivity and judgment in performing procedures relating to the valuation of this contract asset.	used as the basis to determine the contract asset. – Tested the mathematical accuracy of management's contract asset – Natesto product revenue calculation.
Sale of Estrace® product right intangible asset *Refer to note 3 – Significant accounting policies note 4 – Critical accounting judgments and key sources of estimation uncertainty, note 5 – Product Rights and asset acquisitions and note 12 – Intangible assets to the consolidated financial statements* The Company entered into an asset purchase agreement to sell its Estrace® assets (excluding accounts receivable and inventory), effective November 30, 2020, to a third party in exchange for consideration in the form of royalties ranging from 10% to 15% on future Estrace product sales made by the third party over a period of approximately five years ending May 31, 2026. If the Company is	Our approach to addressing the matter involved the following procedures, among others: • Read the asset purchase agreement and proposed manufacturing transfer agreement to understand the key terms of the agreements. • Evaluated management's assessment supporting their conclusion that control has passed to the purchaser, considering the terms of the asset purchase agreement and proposed manufacturing transfer agreement. • Tested how management determined the variable consideration to be recognized that management considered highly probable would not result in a significant reversal when

Key audit matter	How our audit addressed the key audit matter
not able to meet certain "launch conditions" including the transfer of the manufacturing process to the new contract manufacturer by June 30, 2021, the third party is under no obligation to relaunch the product. If the Company completes the launch conditions by June 30, 2021, the third party is required to relaunch the product within six months of the launch conditions being met otherwise the Company has the option to buy back the acquired assets for $0.1 million. Intangible assets are only derecognized once control has transferred to another party, or when no future economic benefits are expected from their use or disposal which required the use of significant judgment by management. In management's judgment, based on the facts and circumstances surrounding this transaction, control of the acquired assets transferred to the third party on November 30, 2020, notwithstanding the additional performance obligations the Company is required to complete to fulfil the launch conditions specified in the agreement. The future royalties receivable represents variable consideration and is only included in the disposal proceeds to the extent that it is highly probable that a significant reversal in the amount of cumulative consideration will not occur when the uncertainty associated with the variable consideration is subsequently resolved. To determine the variable consideration to be recognized at the time of sale, management applied the expected value method using a probability weighted approach modeling multiple scenarios that depict the sales the purchaser may be able to achieve (the model). This required the use of significant judgment by management and involves significant estimation uncertainty. The Company recorded a loss on the sale of its Estrace® assets (primarily the product right intangible asset) of $1.63 million. The loss was determined based on disposal proceeds of $0.69	the uncertainty associated with the variable consideration is subsequently resolved, which included the following: – Tested the appropriateness of the method used by management and the mathematical accuracy of the variable consideration. – Evaluated the reasonableness of the scenarios used by management in the model and probabilities assigned to those scenarios, considering historical sales, and the purchasers' view of potential sales levels shared with management. – Agreed royalty rates used to the asset purchase agreement. • Tested the Company's share of the estimated costs to complete the manufacturing transfer process to the new contract manufacturer by tracing to the contract and subsequent change orders between the Company and the new contract manufacturer on a sample basis. • Tested the disclosures made in the consolidated financial statements, particularly on the significant assumptions related to the variable consideration.

Key audit matter	How our audit addressed the key audit matter
million, and the Company's share of the estimated costs to complete the manufacturing transfer process of $0.29 million. We considered this a key audit matter due to the significant judgments made by management when (a) assessing whether control has passed to the purchaser; and (b) estimating the variable consideration to be recognized. This in turn led to a high degree of auditor subjectivity and judgment in performing the related procedures and evaluating audit evidence relating to the scenarios used by management.	
Assessment of impairment indicators relating to the Trivair product right intangible asset *Refer to note 3 – Significant accounting policies note 4 – Critical accounting judgments and key sources of estimation uncertainty, note 5 – Product Rights and asset acquisitions and note 12 – Intangible assets to the consolidated financial statements* The Company has an intangible asset with a carrying value of $1.8 million relating to a technology platform ("TriVair") for pulmonary and nasal delivery of pharmaceutical medication that was acquired in 2009. The recoverability of this intangible asset is dependent on successful development and subsequent commercialization of the related products or entering into a potential transaction to license or sell the technology. In 2015 the Company granted a third party exclusive worldwide rights to develop, manufacture and market nasal and pulmonary inhalation devices developed or manufactured using the TriVair technology under a five-year intellectual property rights and product development agreement. During the year the agreement was amended and extended through to September 2025. Under the agreement the Company is entitled to receive 37% of any upfront fees, payments, or milestone payments on the first partnering transaction entered	Our approach to addressing the matter involved the following procedures, among others: • Read the amended intellectual property rights and product development agreement to understand the key terms of the agreement. • Evaluated management's assessment supporting their conclusion that there are no indicators that the intangible asset may be impaired at this time by confirming with the third party licensee the potential pipeline of applications being developed, current interest in the technology in the market and the status of international patent applications to support management's assessment. • Evaluated the disclosures made in the consolidated financial statements on the significant judgment relating to management's assessment of impairment indicators.

Key audit matter	How our audit addressed the key audit matter
into by this third party (and 25% on any subsequent partnering transactions) 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 $2.5 million. No revenues have been received to date. Management is required to assess at the end of each reporting period whether there is any indication that this intangible asset may be impaired. The assessment of impairment indicators requires a significant amount of management judgment. In management's view, based on the potential pipeline of applications being developed by the third party, no indicators of impairment have been identified during the current year with respect to this intangible asset. We considered this a key audit matter due to the significant judgment made by management when assessing whether there are any indicators of impairment. This in turn led to a high degree of auditor subjectivity and judgment in performing the related procedures and evaluating audit evidence relating to the assessment made by management.	

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 10, 2021

Acerus Pharmaceuticals Corporation

Consolidated Statements of Financial Position
As at December 31, 2020 and 2019
(expressed in thousands of U.S. dollars)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		$ 9,153	$ 5,860
Trade and other receivables	6	528	171
Contract asset	7	936	473
Inventory	8	2,313	1,494
Prepaid and other assets	9	1,104	1,237
Total current assets		14,034	9,235
Property and equipment, net	10	806	1,051
Right of use asset	11	-	263
Intangible assets, net	12	2,142	4,891
Total assets		$ 16,982	$ 15,440
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable and accrued liabilities	13	$ 5,435	$ 7,408
Current portion of long-term debt	14	1,439	-
Current portion of lease liability	11	229	101
Total current liabilities		7,103	7,509
Lease liability	11	-	510
Long-term debt	14	6,580	19,990
Derivative financial instruments	15	139	262
Total liabilities		13,822	28,271
Shareholders' equity (deficit)			
Share capital	16	$ 198,163	$ 158,402
Warrants	16	-	1,420
Contributed surplus		13,435	11,361
Accumulated other comprehensive loss		(13,949)	(13,949)
Deficit		(194,489)	(170,065)
Total shareholders' equity (deficit)		3,160	(12,831)
Total liabilities & shareholders' equity (deficit)		$ 16,982	$ 15,440

The accompanying notes are an integral part of these consolidated financial statements.
Going concern (note 1)
Commitments and contingencies (note 23)
These consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2021.

Acerus Pharmaceuticals Corporation

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2020 and 2019
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	For the year ended December 31, 2020	2019
Revenue			
Product revenue		$ 1,085	$ 3,575
Licensing and other revenue		-	193
		1,085	3,768
Cost of goods sold	17	2,014	2,199
Gross margin (loss)		(929)	1,569
Expenses			
Research and development	17	2,526	2,829
Selling, general and administrative	17	19,430	12,776
Total operating expenses		21,956	15,605
Operating loss		(22,885)	(14,036)
Other expenses/(income)			
Interest on long-term debt and other financing costs	14,18	1,975	2,532
Interest income		(67)	(17)
Foreign exchange (gain)loss		(112)	(261)
Change in fair value of derivative financial instruments	15	(182)	(161)
Gain on remeasurement of lease liability		(75)	-
Total other expenses		1,539	2,093
Loss for the year before income taxes		(24,424)	(16,129)
Income tax expense	19	-	-
Net loss for the year		$ (24,424)	$ (16,129)
Other comprehensive income, net of income tax			
Foreign currency translation adjustment		-	(98)
Total comprehensive loss for the year		$ (24,424)	$ (16,227)
Loss per common share			
Basic and diluted net loss per common share	20	$ (0.03)	$ (0.06)
Weighted average common shares outstanding			
Basic and diluted	20	975,848,903	255,002,276

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

Acerus Pharmaceuticals Corporation
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
For the years ended December 31, 2020 and 2019
(expressed in thousands of U.S. dollars)

	Note	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2019		$ 154,737	$ 1,420	$ 11,500	$ (13,851)	$ (153,877)	$ (71)
Adjustment for IFRS 16: Leases		-	-	-	-	(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		-	-	-	-	(16,129)	(16,129)
Foreign currency translation adjustment		-	-	-	(98)	-	(98)
Total comprehensive loss for the period		-	-	-	(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		-	-	176	-	-	176
Balance as at December 31, 2019		$ 158,402	$ 1,420	$ 11,361	$ (13,949)	$ (170,065)	$ (12,831)
Balance as at January 1, 2020		158,402	1,420	11,361	(13,949)	(170,065)	(12,831)
Net loss for the period		-	-	-	-	(24,424)	(24,424)
Total comprehensive loss for the period		-	-	-	-	(24,424)	(24,424)
Issuance of common shares, net of costs	16	27,829	-	-	-	-	27,829
Debt and interest accrued conversion, net of costs	16	11,932	-	-	-	-	11,932
Warrant expiry	16	-	(1,420)	1,420	-	-	-
Share based compensation	21	-	-	654	-	-	654
Balance as at December 31, 2020		$ 198,163	$ -	$ 13,435	$ (13,949)	$ (194,489)	$ 3,160

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, 2020 and 2019
(expressed in thousands of U.S. dollars)

	Note	December 31, 2020	December 31, 2019
Operating activities:			
Net loss for the period		$ (24,424)	$ (16,129)
Items not affecting cash:			
Adjustment for unrealized foreign exchange (gain)		15	(485)
Amortization of intangible assets	12	717	818
Depreciation of property and equipment	10	245	254
Depreciation of right of use asset	11	48	47
Interest expense and other financing costs	14,18	1,975	2,532
Change in fair value of derivative financial instruments	15	(182)	(161)
Share based compensation	21	654	176
Loss on sale of intangible asset	12	1,629	-
Gain on disposal of property and equipment		-	(5)
Impairment on intangible asset	12	-	2,536
Gain on remeasurement of lease liability	11	(75)	-
Inventory impairment		-	316
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		(357)	986
Contract asset		228	(473)
Inventory		(819)	720
Prepaids and other assets		133	(1,044)
Accounts payable and accrued liabilities		(1,954)	(1,471)
Net cash used in operating activities		(22,167)	(11,383)
Financing activities			
Interest, financing fees and transactions costs paid	14,18	(1,434)	(1,474)
Proceeds from issuance of common shares, net of financing costs	16	27,829	3,350
Financing costs from debt conversion	14	(94)	-
Payment of long-term debt	14	(750)	-
Principal elements of lease payments	11	(91)	(79)
Proceeds from issuance of long-term debt	14	-	11,500
Net cash from financing activities		25,460	13,297
Investing activities			
Proceeds from disposition of intangible asset	12	-	5
Acquisition of property and equipment, net of deposits		-	(13)
Acquisition of product rights		-	(100)
Net cash used in investing activities		-	(108)
Net increase in cash for the period		3,293	1,806
Exchange gain on cash		-	225
Cash, beginning of period		5,860	3,829
Cash, end of period		$ 9,153	$ 5,860

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, to continue the development and commercialization of additional products. These circumstances cast 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 within the next two quarters. In addition, management expect that the Company will breach its minimum revenue and EBITDA financial covenants as at March 31, 2021 unless a waiver is obtained from its lender. As a result, the long-term debt could become currently due shortly thereafter. 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, 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. Delays in reintroducing Natesto to the Canadian market, or unsuccessfully executing its US market strategy, could result in the Company failing to meet projected revenues or other budgeted targets which could result in the Company continuing to violate its debt covenants. In addition, 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 Pharmaceuticals Corporation ("Acerus") (incorporated in Ontario, Canada) and its wholly-owned subsidiaries, Acerus Labs Inc. ("ALI") (incorporated in Ontario) and Acerus Biopharma Inc. ("ABI") (incorporated in Ontario). 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 with its contract commercial providers Aytu BioScience Inc. ("Aytu") and Syneos Health Inc. ("Syneos") in the United States and through a global network of licensed distributors in other territories.

Impact of COVID-19 pandemic

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus as a global pandemic, which continues to spread throughout Canada and around the world. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. This disruption has impacted the Company's operations and overall business by delaying the progress of its research and development programs and selling activities. While there is significant uncertainty as to the duration and impact of this outbreak, the Company does not currently foresee adverse effects on the Company's supply

2. DESCRIPTION OF BUSINESS (continued)

chain, collectability of its receivables, or further impairment triggering events in relation to the carrying value of the Company's intangible assets at this time arising from COVID-19. The Company qualified for and received some financial assistance under the Canada Emergency Wage Subsidy as detailed in note 17.

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

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.

IBOR reform

In recent years, global regulators have prioritized the reform and replacement of benchmark interest rates such as LIBOR and other interbank offered rates (IBORs). As a result, public authorities and other market participants are selecting new benchmark interest rates in key currencies with the objective that such rates will be based on liquid underlying market transactions. With this reform, the IASB have provided amendments to IFRS 9 - Financial Instruments, IFRS 7 - Financial Instruments: Disclosures and IAS 39 - Financial Instruments: Recognition and Measurement. The amendments are effective for annual periods beginning on or after January 1, 2021 and are to be applied retrospectively. These changes may impact the fair value of liabilities and financial instruments. Management do not expect the impacts of the amendments to have a material impact on the Company's 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 & financial statements

Effective January 1, 2020, the Company changed the functional currency of the Canadian parent and its wholly-owned subsidiary ALI to the United States dollar given the increasing prevalence of the United States dollar-denominating activities of the Company over time. ABI remains consistent in using the United States dollar as its functional currency. The change in functional currency from the Canadian dollars to the United States dollar is accounted for prospectively from January 1, 2020. The exchange rate used to translate the balance sheet to reflect the change in functional currency on adoption was $0.77. This results in all of the entities in the audited consolidated financial statements having a functional currency and presentation currency as the United States dollar.

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 and comprehensive loss.

(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 loss within "Selling, general & administration" expenses. As at December 31, 2020 and 2019, management determined that no provision for impairment was required.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and comprehensive loss. 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 and comprehensive loss.

(i) Leases

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 term 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 over the lease term 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and twenty years.

Derecognition of intangible assets

An intangible asset is derecognized on disposal once control has transferred to another party, 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 and comprehensive loss when the asset is derecognized. Where the disposal proceeds consist of variable consideration (e.g. future royalty payments), the estimated disposal proceeds are only recorded to the extent that it is highly probable that a significant reversal in the amount of cumulative consideration will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(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 and comprehensive loss. 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.

Management makes estimates and takes tax filing positions and where 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.

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 loss 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 loss (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, 7 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 loss and comprehensive loss.
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 loss 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 and comprehensive loss. 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).

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 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 and is recorded as a contract asset. 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. The initial estimate of the top-up revenue, and subsequent adjustments if required, is reflected as a contract asset until it is earned (note 7).

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 an Omnibus Incentive Plan ("Plan") as described in note 21. The Plan provides for the issuance of stock options, restricted share units and performance share units to employees, officers, consultants and others as determined by the Board of Directors. The Plan also provides for the issuance of deferred share units to the directors.

Stock options

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.

Options generally vest over a period of up to three years. Over the vesting period of the option grants, the fair value is recognized as compensation expense with a corresponding increase in 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.

Restricted share units ("RSUs")

RSUs will be settled by the issuance of Company shares. RSUs vest one to three years from the date of grant. The cost of the RSU is charged to selling, general and administrative expenses using the cliff vesting method. The fair value of each grant of RSUs is the fair value of the Company's share price on the date of the grant. The resulting compensation expense is charged to income over the period the participants unconditionally become entitled to the award, with a corresponding increase in contributed surplus.

The compensation expense related to stock option and RSU 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.

Performance share units ("PSUs")

PSUs will be settled by the issuance of Company shares. PSUs vest one to three years from the date of grant. The cost of the PSU is charged to selling, general and administrative expenses using the graded vesting method. The fair value of

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

each grant of PSUs is the fair value of the Company's share price on the date of the grant. The resulting compensation expense is charged to income over the period the participants unconditionally become entitled to the award, with a corresponding increase in contributed surplus. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. At each reporting date, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision as a charge to income with a corresponding increase in contributed surplus. No PSUs have been issued as at December 31, 2020.

Deferred share units ("DSUs")

DSUs vest upon grant and are settled in cash. The vested DSUs are marked-to-market at the end of each reporting period based upon the closing price of the Company's shares with the change in fair value recorded in selling, general and administrative expenses. No DSUs have been issued as at December 31, 2020.

(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 per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted loss 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.

(t) 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

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.

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,

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

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.

Natesto product revenues from our U.S. marketing partner is 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 the gross profit recognized when the U.S. 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 the gross profit realized by the U.S. marketing partner is known. Management's assessment of the estimated future gross profit per unit of its U.S. marketing partner takes into consideration both historical gross revenues, gross to net revenue deductions and gross margin experience as reported by the U.S. marketing partner, as well as expectations of the future selling price, gross to net revenue deductions and gross margins per unit of our U.S. marketing partner 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

The Company has an intangible asset with a carrying value of $1,765 relating to a technology platform ("TriVair") for pulmonary and nasal delivery of pharmaceutical medication that was acquired in 2009 (notes 5 and 12). The recoverability of this intangible asset is dependent on successful development and subsequent commercialization of the related products or entering into a potential transaction to license or sell the technology. The Company has granted a third party exclusive worldwide rights to develop, manufacture and market nasal and pulmonary inhalation devices developed or manufactured using the TriVair technology under a five-year intellectual property right and product development agreement. In return, the Company is entitled to receive 37% of any upfront fees, payments, or milestone payments on the first partnering transaction entered into by this third party (and 25% on any subsequent partnering transactions) 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 $2,500. No revenues have been received to date. Management is required to assess at the end of each reporting period whether there is any indication that this intangible asset 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. This requires a significant amount of management judgment. In management's view, based on the potential pipeline of applications being developed by the third party, no indicators of impairment have been identified during the current year with respect to this intangible asset.

Derecognition of Estrace product right intangible asset and related accrued receivable

The Company reported an anticipated shortage of Estrace in January 2019 due to supply issues with its contract manufacturer (note 5c and note 23) and has since identified an alternative manufacturer and is continuing to work to transfer the manufacture of Estrace® to the new contract manufacturer which is expected to be completed in the first half of 2021. The Company entered into an asset purchase agreement to sell all of its Estrace® assets (excluding accounts receivable and inventory), effective November 30, 2020, to a third party in exchange for consideration in the form of royalties ranging from 10% to 15% on future Estrace product sales made by the third party over a period of approximately five years ending May 31 2026. If the Company is not able to meet certain "launch conditions" including the transfer of the manufacturing process to the new contract manufacturer by June 30, 2021, the third party is under no obligation to relaunch the product. If the Company completes the launch conditions by June 30, 2021, the third party is required to relaunch the product within six months of the launch conditions being met otherwise the Company has the option to buy back the acquired assets for $100.

Derecognizing the acquired assets occurs when the buyer obtains control of the assets and has the ability to direct the use of and obtain substantially all of the remaining benefits from the assets which required the use of significant judgement by management. In management's view, based on the facts and circumstances surrounding this transaction, control of

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

the acquired assets transferred to the third party on November 30, 2020, notwithstanding the additional performance obligations the Company is required to complete to fulfil the launch conditions specified in the agreement. As a result, the acquired assets have been derecognized and a loss of $1,629 recorded on their disposal, assuming disposal proceeds of $691 and after providing for $288 of costs expected to be incurred in order to complete the transfer of the manufacturing process to the new contract manufacturer as laid out in the proposed manufacturing transfer agreement between the Company, the third party and the new contract manufacturer.

The future royalties receivable represents variable consideration and is only included in the disposal proceeds to the extent that it is highly probable that a significant reversal in the amount of cumulative consideration will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Determining the amount of variable consideration to record requires significant judgment and involves significant estimation uncertainty. The company applied the expected value method using a probability weighted approach modeling multiple scenarios and assigning probability factors to each scenario to determine this amount, resulting in disposal proceeds of $691 being recorded which are included in contract assets (note 7). A +/- 10% change in estimated future sales by the third party using the probability weightings in the model would change the estimated disposal proceeds by $69. Changes to the probabilities assigned to various scenarios in the model could also impact the resulting disposal proceeds recorded. See note 12 for further details.

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.

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 paid the balance of the $7,500 Buyout payment during 2020. The terms of the Buyout are now in full force and effect, including a covenant not to sue and the waiver from Mattern for the entirety of 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

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

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 and to receive 20% of all revenues received 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 to September 2025 and the contract extension option was amended to make it conditional on the Company receiving at least $2,500 during the initial term.

(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 Company 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. Since that time, the Company has curtailed the supply of its limited inventory into the Canadian market until a replacement contract manufacturer is approved. The shortage of Estrace®, as well as the presence of a third-party generic, has accelerated the erosion of Estrace® sales in Canada. The Company is working with another contract manufacturer to facilitate the re-introduction of Estrace® into the Canadian market which is expected to resume in 2021. See note 23 *Recipharm Litigation* for more information.

On November 30, 2020, the Company entered into an asset purchase agreement with a third party to sell the Company's Canadian rights to Estrace®. Under the terms of the arrangement, the Company will receive variable consideration computed as a royalty on gross sales for a period of up to 5 years ending May 31, 2026. See note 12 for more information.

(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 was to 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 was to oversee the manufacturing of

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

Elegant™ and receive a supply price for the product. On September 8, 2020, the Company and Viramel mutually agreed to terminate the agreement.

(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 the Company 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.

On April 15, 2020, the Company received a Notice of Deficiency ("NOD") for its avanafil New Drug Submission. Health Canada has requested the provision of additional quality information related to the avanafil drug substance in alignment with International Council for Harmonization (ICH) technical guidance adopted by Health Canada. Until this information is provided to Health Canada, the avanafil review process has been halted. Acerus responded to the NOD on November 11, 2020. On December 11, 2020, Health Canada confirmed that the submission had passed screening and was accepted into review. This process may take up to an additional 300 days to complete.

On July 7, 2020, VIVUS, Inc. ("VIVUS"), the licensor of avanafil to Metuchen, announced that it has completed the solicitation of an in-court prepackaged plan of reorganization, under which IEH Biopharma LLC ("IEH") will take 100% ownership of VIVUS ahead of its July 7, 2020 chapter 11 filing. The Company has communicated with Metuchen and received assurances that the chapter 11 filing will not impact the supply chain for avanafil or access to the intellectual property it has licensed.

(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.

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

6. TRADE AND OTHER RECEIVABLES

	December 31, 2020	December 31, 2019
Trade receivables	$ 441	$ 81
Commodity tax receivable	87	90
Total trade and other receivables	$ 528	$ 171

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, 2020, the Company has recognized $nil in allowance for doubtful accounts ($nil as at December 31, 2019).

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, 2020	December 31, 2019
60 - 90 days	$ 8	$ 1
Greater than 90 days	43	40
	$ 51	$ 41

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, $nil was collected subsequent to year end.

7. CONTRACT ASSET

(i) Natesto product revenue

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 and 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 the 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, which is include in the $1,202 top-up revenues recognized relating to products delivered in prior years for the year ended December 31, 2019.

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

7. CONTRACT ASSET (continued)

Included in the $366 estimated top-up revenue recognized for the year ended December 31, 2020 is $nil relating to products delivered in prior years. Included in the $1,202 estimated top-up revenue recognized for the year ended December 31, 2019 is $729 relating to products delivered in prior years.

	December 31, 2020	December 31, 2019
Balance, January 1	$ 473	$ -
Estimated top-up revenue recognized on inventory previously sold	366	1,202
One time adjustment for sales subsequently returned due to expiration	(206)	-
Adjustment for inventory previously sold repurposed as samples	(92)	-
Recognition of top up revenue from actual units sold by marketing partner	(296)	(729)
Balance	$ 245	$ 473

(ii) Estrace sale proceeds

Contract assets also includes an accrued receivable in the amount of $691 for proceeds on the sale of its Estrace assets (note 12).

8. INVENTORY

	December 31, 2020	December 31, 2019
Raw materials	$ 1,732	$ 1,332
Work in progress	581	133
Finished goods	-	29
Total inventory	$ 2,313	$ 1,494

The cost of finished goods recognized as an expense and included in cost of sales amounted to $523 for the year ended December 31, 2020 ($514 for the year ended December 31, 2019).

9. PREPAIDS AND OTHER ASSETS

	December 31, 2020	December 31, 2019
Deposits with vendors	$ 505	$ -
Other	599	1,237
Total prepaid and other assets	$ 1,104	$ 1,237

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

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	$ -	$ 122	$ 3,139	$ 738	$ 3,999
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance, December 31, 2020	$ -	$ 122	$ 3,139	$ 738	$ 3,999
Accumulated depreciation					
Balance, January 1, 2019	$ -	$ 108	$ 2,504	$ 336	$ 2,948
Depreciation	-	10	159	76	245
Disposals	-	-	-	-	-
Balance, December 31, 2020	$ -	$ 118	$ 2,663	$ 412	$ 3,193
Net book value					
December 31, 2020	$ -	$ 4	$ 476	$ 326	$ 806

	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

At December 31, 2020, manufacturing equipment with a net book value of $432 was held off-site with a third party ($570 at December 31, 2019). During the year, $nil of depreciation was capitalized to inventory ($nil at December 31, 2019).

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

11. LEASES

In December 2020, the Company exercised its option to terminate the current premises lease effective June 30, 2021. The previous expected maturity date of June 30, 2025. A termination payment of $204 is due to the landlord, payable June 30, 2021, computed based upon the unamortized value of prepaid landlord inducements plus certain other termination costs. The lease liability was remeasured based upon the remaining lease term and considering the termination payment. The liability was reduced by $290, of which $215 was offset against the remaining carrying value of the Right-of-use asset and $75 was recorded as a gain in the statement of loss. The balance sheet shows the following amounts related to the premises lease:

Right-of-use asset:	December 31, 2020	December 31, 2019
Balance, January 1	$ 263	$ 296
Depreciation of right of use asset	(48)	(47)
Remeasurement of lease liability	(215)	-
Effect of foreign currency exchange difference	-	14
Balance	$ -	$ 263

Lease liability:	December 31, 2020	December 31, 2019
Balance, January 1	$ 611	$ 660
Payments	(91)	(79)
Remeasurement due to lease amendment	(290)	-
Foreign exchange effect	(1)	30
Balance	229	611
Current lease liabilities	229	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, 2020:

	December 31, 2020	December 31, 2019
Depreciation of right of use asset	$ 48	$ 47
Interest expenses (included in interest on long-term debt and other financing costs)	32	38
Expense relating to leases of low-value assets (included in administrative expenses)	5	11
Expenses relating to variable lease payments not included in lease liabilities (included in administrative expenses)	53	60

As at December 31, 2020, future payments related to lease liabilities amounts to $236, all of which is current.

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

12. INTANGIBLE ASSETS

	Technology and patents	Product rights	Total
Costs			
Balance, January 1, 2020	$ 4,400	$ 30,887	$ 35,287
Addition	-	-	-
Disposal	-	(30,410)	(30,410)
Balance, December 31, 2020	$ 4,400	$ 477	$ 4,877
Accumulated depreciation			
Balance, January 1, 2020	$ 2,525	$ 27,871	$ 30,396
Amortization	110	607	717
Disposal	-	(28,378)	(28,378)
Balance, December 31, 2020	$ 2,635	$ 100	$ 2,735
Net book value			
December 30, 2020	$ 1,765	$ 377	$ 2,142

	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

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 TriVair patents and patent applications is 16 years and 1 month.

Amortization of $110 has been recorded for the year ended December 31, 2020 ($110 for the year ended December 31, 2019).

Product rights include rights for Estrace®, Lidbree™, UriVarx® and Stendra®. Of the product acquisition costs, $300 was accrued but not payable as of December 31, 2020. Amortization of $568 has been recorded in cost of goods sold and $39 in research and development costs for the year ending December 31, 2020 ($670 in cost of goods sold and $38 in research and development for the year ending December 31, 2019).

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

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

12. INTANGIBLE ASSETS (continued)

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 November 30, 2020, the Company sold all of its Estrace® assets to a third party. The Company will receive purchase consideration computed as a royalty on sales for a period of approximately five years ending May 31 2026. An amount of $691 has been accrued as a contract asset (note 7) for the portion of the estimated future royalties receivable being the amount management considered was highly probable of not being subject to a significant reversal when the uncertainty associated with this variable consideration is subsequently resolved. The Company recorded the disposal of the Estrace® assets and derecognized the intangible asset. The Company also accrued $288 for costs it has agreed to pay related to completing the manufacturing transfer of the product to a new contract manufacturer resulting in a loss on sale of $1,629.

In estimating the contract asset for the variable consideration, the company applied the expected value method using a probability weighted approach modeling multiple scenarios and assigning probability factors to each scenario. A +/- 10% change in estimated future sales by the third party using the probability weightings in the model would change the estimated disposal proceeds by $69. Changes to the probabilities assigned to various scenarios in the model could also impact the resulting disposal proceeds recorded.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Accounts payable	$ 1,088	$ 1,012
Employee salaries and benefits payable	398	239
Buyout payable (note 5a)	-	2,486
Accrual to complete manufacturing transfer (note 12)	288	-
Interest and financing fees payable (note 14)	136	457
Accrued liabilities	1,092	1,220
Payables related to Natesto® US co-promote	2,072	1,060
Provision for returns and discounts	361	934
Total accounts payable and accrued liabilities	$ 5,435	$ 7,408

On August 2, 2019, the Company announced that it would voluntarily replace certain Natesto® lots 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 Company initially made minor modifications to the manufacturing process that appeared to have resolved the previously identified issues and produced a batch of Natesto® (the "Revised Batch"). However, on November 1, 2019, the Company announced that Health Canada had indicated that the minor modifications made to the manufacturing process that was attempted on the same batch of testosterone active pharmaceutical ingredient ("API") to address the earlier non-conforming issue required a supplemental new drug submission. As an alternative solution, the Company procured a new batch of API as soon as it became available from its supplier and successfully produced Natesto® using the new batch of API and the currently approved manufacturing process. On July 28, 2020, the Company announced the commercial production of Natesto® has been resumed. New batches of Natesto® have been manufactured utilizing the approved manufacturing process and new batches of API. Multiple shipments of this new commercial product have been delivered to the United States, Taiwan and South Korea with supply to Canada expected to resume in 2021. The voluntary recall of product in Canada was closed in December 2020. The provision for returns and discounts includes remaining

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

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

costs associated with the Canadian recall; notably, product destruction costs, as well as the cost of replacement product for the South Korea market.

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 the Company. Going forward, the Company will assume all regulatory and clinical responsibilities and costs for the product in the U.S. The Company 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 in July 2020, through Syneos Health, has launched 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 the Company and Aytu Sales Channels. Payables related to Natesto® US co-promote in the table above are for expenses related to the Company's more expansive role in the U.S.

14. LONG-TERM DEBT

	SWK Facility	First Generation Loan	Total
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
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 as at December 31, 2019	$ 8,490	$ 11,500	$ 19,990
Balance, January 1, 2020	$ 8,490	$ 11,500	$ 19,990
Amortization of deferred financing costs	374	-	374
Transaction costs	(88)	-	(88)
Gain on modification	(7)	-	(7)
Debt conversion to common shares	-	(11,500)	(11,500)
Repayment of principal	(750)	-	(750)
Balance, December 31, 2020	$ 8,019	$ -	$ 8,019
Current portion at December 31, 2020	1,439	-	1,439
Long-term portion as at December 31, 2020	$ 6,580	$ -	$ 6,580

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"). Security for the loan comprises a General Security Agreement on all assets, including intellectual property, of Acerus and its wholly-owned subsidiaries. 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.

14. LONG-TERM DEBT (continued)

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. The Company 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 the Company stock 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 in fiscal 2019 and 2020.

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.

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 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 the Company raising an additional $6,500 prior to December 23, 2019. In connection therewith, the Company obtained a commitment letter from First Generation Capital Inc. ("First Generation" or "FGC"), a company affiliated with the Chairman of the Board of Directors of the Company, to amend and restate the $5,000 subordinated secured term loan facility previously entered into on July 19, 2019 between the Company 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 the Company at the time of closing.

14. LONG-TERM DEBT (continued)

On February 12, 2020, the Company announced that it had entered into an agreement with SWK in respect of an amendment to the New Facility (the "February 2020 SWK Amendment"). The amendment to the New Facility 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) require pre-payment of $750 of principal in three instalments during 2020 and a commensurate reduction in the amount used to calculate exits fees; (iv) delay the date on which the Company must begin repaying principal from Q1-2021 to Q2-2021; 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 amended 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. The Company also made $750 of principal prepayments to SWK in fiscal 2020.

On September 29, 2020, the Company received a waiver with regards to the minimum aggregate revenue required for the three-month period ending September 30, 2020. On December 23, 2020, the Company received a waiver with regards to the minimum aggregate revenue required for the three-month period ending December 31, 2020. In addition, management expect that the Company will breach its minimum revenue and EBITDA financial covenants as at March 31, 2021 unless a waiver is obtained from its lender.

As of December 31, 2020, the Company had $8,250 outstanding on the credit facility.

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 the Companys' 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.

On February 12, 2020 the Company announced that it had entered into an agreement with First Generation in respect of an equity financing and debt-to-equity conversion by First Generation. The agreement included the conversion of the Company's outstanding $11,500 (plus accrued interest of $526) owing to First Generation under the A&R Loan into 300,081,885 Common Shares at a conversion price of CDN$0.053269 per Common Share (the "Debt Conversion"). The debt conversion is presented net of financing costs of $94.

As of December 31, 2020, the Company had $nil outstanding on the loan.

Canadian credit facility

With SWKs consent, the Company also has a Canadian Credit facility of $750, with no expiration date for use only as letters of credit and bank guarantees. At December 31, 2020, $nil was drawn as standby letters of credit and bank guarantees.

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

14. LONG-TERM DEBT (continued)

Interest and financing costs

Interest and finance expense on long-term debt was $1,361 for the year ended December 31, 2020 ($1,656 for December 31, 2019).

Accrued interest & financing costs		
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

Balance, January 1, 2020	$	457
Interest and financing fees expense		1,975
Transaction costs		88
Amortization of deferred financing fees		(374)
Accretion of Buyout payable		(14)
Warrant modification		(43)
Gain on debt modification		7
Interest and financing fees paid		(1,202)
Interest and financing fees paid related to 2019 accruals		(144)
Transaction costs paid		(88)
Interest accrued converted into common shares		(526)
Balance, December 31, 2020	$	136

Future principal and interest payments

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

	December 31, 2020
No later than 1 year	2,741
Later than 1 year and no later than 5 years	7,912
	10,653
Interest and exit fee	2,403
Total princiapl protion of debt	8,250

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

15. DERIVATIVE FINANCIAL INSTRUMENT

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

	December 31, 2020	December 31, 2019
Balance of warrants, January 1,	262	227
Addition/modification of derivative liability	43	79
Change in fair value of the derivative financial instruments	(182)	(54)
Effect of foreign currency exchange difference	16	10
Balance of warrants	$ 139	$ 262

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, 2020 were as follows: a share price of CDN$0.04; an expected life of 0.5 years; a risk-free rate of 0.15%; a volatility of 81.9%; and an exercise price of CDN$0.7095 (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%; an exercise price of CDN$0.7095 was used to compute the values at December 31, 2019). At December 31, 2020, the warrants had an average fair value of CDN$0.00 per warrant (CDN$0.01 per warrant at December 31, 2019).

SWK warrants

The Company 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 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 September 2019 debt agreement 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 will entitle SWK to purchase one common share of the Company 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. As part of the February 2020 amendment to the debt agreement described in note 14, the Company agreed to reprice both the 5,331,563 Original Warrants and the 1,361,544 New Warrants from CDN$0.11 to CDN$0.053269 with no other changes to the term and features described above.

SWK became entitled to an increase in the exchange basis of each warrant to prevent dilution of its interest as a result of the November 2020 Rights Offering. The exchange basis was determined at 1.16 to 1. Accordingly, the allotment of the Original Warrants and New Warrants was increased to 6,184,613 and 1,579,391 respectively.

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

15. DERIVATIVE FINANCIAL INSTRUMENT (continued)

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, 2020 were as follows: a share price of CDN$0.04; an expected life of 3.8 years; a risk-free rate of 0.36%; a volatility of 88.3%; and an exercise price of CDN$0.053269 for 7,764,004 warrants (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%; an exercise price of CDN$0.11 was used to compute the values at December 31, 2019). At December 31, 2020, the warrants had an average fair value of CDN$0.02 per warrant (CDN$0.05 per warrant as of December 31, 2019).

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, 2020.

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, 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
Balance as at January 1, 2020	261,225,290	23,584,624	$ 158,402	$ 1,420	$ 159,822
Private placement, February 2020	449,148,891	-	17,799	-	17,799
Debt conversion, February 2020	300,081,885	-	11,932	-	11,932
Expiry of warrants, June 2020	-	(23,584,624)	-	(1,420)	(1,420)
Private placement, August 2020	532,015		21	-	21
Rights Offering, November 24, 2020	526,600,000	-	10,009	-	10,009
Balance as at December 31, 2020	1,537,588,081	-	$ 198,163	$ -	$ 198,163

The Company is authorized to issue an unlimited number of common shares with no par value.

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.

On February 12, 2020 the Company announced that it had entered into an agreement with First Generation in respect of an equity financing and debt-to-equity conversion by First Generation. A private placement to First Generation of 449,148,891 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 private placement is presented net of $201 of financing costs. The agreement also included the conversion of the Company's outstanding $11,500 (plus accrued interest of $526) owing to First Generation under the A&R Loan into approximately 300,081,885 Common Shares at a conversion price of CDN$0.053269 per Common Share (the "Debt Conversion"). The debt conversion is presented net of financing costs of $94.

On June 28, 2020, 23,584,624 warrants issued in relation to a 2018 bought deal transaction expired. The value of the warrants, $1,420 was transferred to contributed surplus.

On August 28, 2020, the Company issued 532,015 common shares at CDN$0.0531 per share to a vendor in lieu of cash payment.

On November 24, 2020, the Company issued 526,600,000 Common Shares, pursuant to the Rights Offering announced on October 20, 2020, for gross proceeds of CDN$13.165 million. SWK also became entitled to an increase in the exchange basis of each warrant to prevent dilution of its interest as a result of the Rights Offering. The exchange basis

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

16. SHARE CAPITAL AND WARRANTS (continued)

was determined as 1.16 to 1. Accordingly, the allotment of the Original Warrants and New Warrants was increased by 853.050 and 217,817 respectively.

In addition to the warrants in the table above, there are 7,764.004 (December 31, 2019 – 9,727,921) warrants issued that have been classified as a derivative financial instrument and classified under long-term liabilities.

No options were exercised during 2020. During 2019, 5,225,000 options were exercised using the cashless exercise feature resulting in the Company issuing 2,610,256 new shares.

17. NATURE OF EXPENSES

	For the year ended December 31, 2020			
	Cost of goods sold	R&D	SG&A	Total
Cost of finished goods	$ 501	$ -	$ -	$ 501
Salaries and benefits	-	481	2,053	2,534
Canada Emergency Wage Subsidy	-	(15)	(171)	(186)
Amortization of intangible assets	567	150	-	717
Depreciation of property and equipment	135	67	43	245
Depreciation of right of use asset	-	-	48	48
Inventory obsolescence	676	-	-	676
Share-based compensation	-	60	594	654
Research & development	-	1,783	-	1,783
Selling and marketing	-	-	12,270	12,270
General and administrative	-	-	2,964	2,964
Loss on sale of intangible asset	-	-	1,629	1,629
Other	135	-	-	135
	$ 2,014	$ 2,526	$ 19,430	$ 23,970

	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

During the year, $nil of depreciation was capitalized to inventory ($nil at December 31, 2019).

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

18. INTEREST AND OTHER FINANCING COSTS

	December 31, 2020	December 31, 2019
Interest expense on long-term debt	$ 1,325	$ 1,577
Interest expense on lease liability	32	38
Interest charged by inventory supplier	44	-
Warrant modification and issuance	43	79
Gain on debt modification	(7)	-
Buy-out interest paid (note 5a)	150	-
Accretion of buy-out (note 5a)	14	485
Amortization of deferred financing fees (note 14)	374	353
	$ 1,975	$ 2,532

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

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,	
	2020	2019
Loss before income taxes	$ (24,424)	$ (16,129)
Tax recovery at the Canadian corporate tax rate of 26.5% (2015 - 26.5%)	(6,472)	(4,274)
Benefit of previously unrecognized deferred tax asset		
Tax effect of permanent differences (Canada)	142	(57)
Unrecognized deferred tax benefit	3,583	4,404
Effect of acquisition of control	2,749	-
Other	(2)	(73)
Tax (recovery) recognized for the year	$ -	$ -

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 and comprehensive loss.

Acquisition of control for Canadian Income tax purposes

The First Generation equity issuance and debt conversion in February 2020 described in note 16 results in an acquisition of control for Canadian income tax purposes. An acquisition of control triggers a tax year end, requires adjustments, if any, to the tax carrying value of tangible and intangible assets where the fair value is less than tax carrying value, and disallows the carry forward of unused capital losses and certain non-capital losses. Generally, adjustments to reduce the tax carrying value of such assets to fair value may be added to the Company's non-capital loss carryforwards for the period preceding the acquisition of control. The Company has non-capital loss carry forwards of $114,208 that will expire by 2040 ($3,539 in 2035, $25,423 in 2036, $18,545 in 2037, $23,157 in 2038, $19,530 in 2039 and $24,014 in 2040). The non-capital loss carry forward of $19,530 expiring in 2039 includes $18.5 million for fair value adjustments described above.

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

	As at December 31,	
	2020	2019
Property and equipment	$ 25	$ 44
Intangible assets	666	7,893
Financing costs	178	151
R&D pools	593	554
Investment tax credits	716	722
Accruals	110	825
Unrealized foreign exchange	-	(17)
Capital loss carryforwards	-	2,749
Loss Carry forwards	25,012	13,679
Total	$ 27,300	$ 26,600

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, 2020	2019
Numerator for basic and diluted loss per share available to common shareholders	$ (24,424)	$ (16,129)
Denominator for basic and diluted loss per share	975,848,903	255,002,276
Basic and diluted loss per share	$ (0.03)	$ (0.06)

Weighted Average Common Shares Outstanding

		Weighted Average Shares	
	Total issued	Basic	Diluted
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
Balance, January 1, 2020	261,225,290	261,225,290	261,225,290
Private Placement, February 2020	449,148,891	396,380,032	396,380,032
Debt conversion, February 2020	300,081,885	264,826,363	264,826,363
Private Placement, August 2020	532,015	181,699	181,699
Rights Offering, November 2020	526,600,000	53,235,519	53,235,519
Balance, December 31, 2020	1,537,588,081	975,848,903	975,848,903

21. SHARE BASED COMPENSATION

Under the Omnibus Incentive Plan adopted in 2020, the Company may issue stock options, RSUs and PSUs to employees, officers, consultants and others as determined by the Board of Directors. Stock options were previously issued under the Company's Amended and Restated Stock Option Plan. The Company may issue stock options and DSUs to directors.

At the time of approval of the Omnibus Incentive Plan, 60,914,974 stock options were outstanding under the Amended and Restated Stock Option Plan. No further stock options may be issued under the Amended and Restated Stock Option Plan.

The Omnibus Incentive Plan is also subject to the following limitations: (i) no more than 10% of the outstanding Shares may be issued under the plan or pursuant to any other security-based compensation arrangements of the Company during any one year period; (ii) no more than 5% of the outstanding Shares may be issued under the plan or pursuant to any other security-based compensation arrangements of the Company to any one person; (iii) no more than 10% of the outstanding Shares may be issued to insiders under the plan or under any other security-based compensation arrangements of the Company within any one year period or be issuable to insiders at any time; and (iv) the aggregate number of Shares reserved for issue to any one service provider of the Company shall not exceed 2% of the total number of Shares then outstanding, excluding Shares issued to such service provider upon the exercise of stock options over the preceding 12-month period.

With respect to awards made under the Omnibus Incentive Plan, if for any reason shares subject to issuance on the exercise of stock options granted under the plan are not issued, or are re-acquired by the Company, for reasons including a termination, expiration or cancellation, such shares will become available for additional grants under the plan. If any RSUs, PSUs or DSUs granted under the plan expire, terminate or are cancelled for any reason without being settled in the form of Shares issued from treasury, such Shares will become available for additional grants under the plan.

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

21. SHARE BASED COMPENSATION (continued)

Stock options

The Board may grant stock options to any participant under the Omnibus Incentive Plan at any time. The exercise price for stock options will be determined by the Board, but may not be less than the market value of a Share (being, on any particular day, the volume weighted average trading price of a Share on the TSX for the five (5) preceding days on which Shares were traded, or on any other stock exchange as selected by the Board for these purposes, and, in the event such Shares are not listed and posted for trading on any stock exchange, the fair market value of such Shares as determined by the Board in its discretion) (the "Market Value") on the date the stock option is granted, except in circumstances where the stock option is granted in exchange for another stock option, subject to TSX approval if required. It is anticipated that stock options will vest and become exercisable as to one third of the stock option on each of the anniversary of the date of grant for the three years following the date of grant, unless otherwise determined by the Board and specified in such participant's option agreement. Stock options must be exercised within a period fixed by the Board that may not exceed five years from the date of grant, except in a case where the expiry period falls during a blackout period, in which case the expiry period will be automatically extended until ten business days after the end of the blackout period. The Omnibus Incentive Plan also provides for earlier termination of stock options on the occurrence of certain events, including but not limited to, termination of a participant's employment.

The Omnibus Incentive Plan also provides for a holder of a stock option to elect a cashless exercise of such option equaling the amount by which the value of the underlying share at that time exceeds the exercise price of such option.

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 stock options issued in 2019 and 2020 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 06, 2019	1,050,000	Directors & employee	$0.13	5	1-3	1.8%	86.4%	nil	$0.090
Aug 08, 2019	1,965,686	Employees	$0.13	5	3	1.5%	86.9%	nil	$0.080
Mar 30, 2020	11,575,860	Directors	$0.0452	5	1	0.6%	91.6%	nil	$0.027
Mar 30, 2020	37,706,216	Employees	$0.0452	5	3	0.6%	91.6%	nil	$0.027
Mar 30, 2020	1,481,710	Consultant	$0.0452	3	1	0.5%	87.7%	nil	$0.021
Aug 12, 2020	5,123,617	Employee	$0.0593	5	3	0.3%	97.0%	nil	$0.040
Sep 09, 2020	1,319,098	Employee	$0.0520	5	3	0.4%	97.1%	nil	$0.036
Dec 02, 2020	2,510,597	Supplier	$0.0345	5	1	0.5%	94.9%	nil	$0.025
Dec 16, 2020	1,143,218	Employee	$0.0361	5	3	0.4%	94.7%	nil	$0.025
Dec 16, 2020	6,277,164	Directors	$0.0361	5	1	0.4%	94.7%	nil	$0.025

A forfeiture rate of 3% was used to estimate option expenses during the year. The Company recognized stock option compensation expense of $649 for the year ended December 31, 2020 ($176 for the year ended December 31, 2019).

21. SHARE BASED COMPENSATION (continued)

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

	December 31,			
	2020		2019	
	Number	Weighted average exercise price (CDN)	Number	Weighted average exercise price (CDN)
Balance at January 1,	12,866,992	$ 0.18	17,763,346	$ 0.18
Granted	67,137,480	0.05	3,015,686	0.13
Exercised	-	-	(5,225,000)	0.11
Forfeited	(6,409,965)	0.10	(2,252,040)	0.16
Expired	(1,085,000)	0.34	(435,000)	0.82
Balance at December 31,	72,509,507	$ 0.06	12,866,992	$ 0.17
Options exercisable at December 31,	6,404,695	$ 0.16	8,165,392	$ 0.18

	Canadian Dollar Options outstanding as at December 31, 2020		
Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$0.0345 to $0.0499	58,258,047	4.3	0
$0.05 to $0.10	7,549,382	4.0	1,106,667
$0.11 to $0.17	4,487,520	2.6	3,491,895
$0.21 to $0.36	2,214,558	2.1	1,806,133
	72,509,507	4.1	6,404,695

Restricted Share Units ("RSU")

An RSU is equivalent in value to a common share of the Company and are settled by the issuance of Company shares. RSUs vest one to three years from the date of grant. The cost of the RSU's is charged to selling, general and administrative expenses using the cliff vesting method. The fair value of each grant of RSUs is the fair value of the Company's share price on the date of the grant. The resulting compensation expense is charged to income over the period the employees unconditionally become entitled to the award, with a corresponding increase in contributed surplus.

A summary of the Company's RSU activity is as follows:

	December 31, 2020
Balance, January 1	-
Issuance, December 2020	3,961,218
Balance	3,961,218

The Company recognized RSU compensation expense of $5 for the year ended December 31, 2020 ($nil for the year ended December 31, 2019).

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

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, 2020 and 2019 were as follows:

	For the year ended December 31,	
	2020	2019
Short-term compensation of key management and directors	$ 1,527	$ 909
Termination benefits	-	363
Share-based compensation	628	155
Interest expense (note 14)	212	314
	$ 2,367	$ 1,741

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $1,899 if all are terminated as a result of a change in control, $1,852 if all are terminated without cause, and $nil if all are terminated with cause.

See note 14 and 16 for the details on an equity financing and debt-to-equity conversion by First Generation, a company affiliated with the Chairman of the Board of Directors of the Company. As a result of these transactions, First Generation's share ownership increased from 45.1% to 85.8%.

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 further milestone payments for TriVair™ products. Milestone payments of $2,000 are due upon FDA approval per new product up to a maximum of $8,000 for products submitted by ABI only. In addition, subsequent royalty payments are due capped at $25,000 per product.

The Company may be required to make certain regulatory or sales-based milestone payments as disclosed in notes 5(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 the Company on December 14, 2011. On October 29, 2013, Valeant commenced a third-party claim against the Company (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. The Company 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 was scheduled to commence in April 2020 and was anticipated to be two weeks long. However, in an effort to reduce the transmission of COVID-19, the Ontario

Superior Court suspended all regular operations in March 2020. Accordingly, the trial was adjourned to a later date. The trial is expected to take place in 2021. As of December 31, 2020, the Company has not accrued for any potential claims.

Recipharm Litigation

On June 18, 2020, the Company commenced litigation against Recipharm Limited ("Recipharm"), a wholly-owned subsidiary of Recipharm AB (RECI-B.ST), in the Commercial Court of London. The Company alleges that the suspension of Recipharm's manufacturing license in August 2018, in contravention of its contractual obligations to the Company, led to a shortage of Estrace® in Canada. Due to the shortage, Estrace® revenues and the Company's market share has decreased substantially each year since the shortage began. Consequently,

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

23. COMMITMENTS AND CONTINGENCIES (continued)

(c) Litigation (continued)

the Company has sued Recipharm for, among other things, its loss of profits and loss of market share caused by the shortage. The Company and Recipharm have exchanged pleadings and attended a Case Management Conference on November 20, 2020. The Company anticipates participating in a motion in the first half of 2021 to determine legal issues ahead of trial. As of December 31, 2020, 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, 2020 and 2019 are presented below:

December 31, 2020	Financial assets at amortized cost	Assets/ (liabilities) at FVTPL	Financial liabilities at amortized cost	Total
Cash	$ 9,153	$ -	$ -	$ 9,153
Trade and other receivables	528	-	-	528
Contract asset	936	-	-	936
Accounts payable and accrued liabilities	-	-	(5,435)	(5,435)
Long-term debt payable	-	-	(8,019)	(8,019)
Derivative financial instrument	-	(139)	-	(139)
	$ 10,617	$ (139)	$ (13,454)	$ (2,976)

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)

(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, 2020 and December 31, 2019, the Company's financial instruments consisted of cash, trade and other receivables, contract assets, accounts payable and accrued liabilities, long-term debt, and derivative

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

24. FINANCIAL INSTRUMENTS (continued)

(b) Fair value of financial instruments (continued)

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, 2020, the fair value of the long-term debt approximates its face value of $8,250.

(c) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk, market 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 through its net financial assets denominated in Canadian dollars, Euros and Great British Pounds of the parent whose functional currency is the US dollar.

	December 31, 2020		
	CDN	EUR	GBP
Cash	$ 10,263	$ -	$ -
Trade and other receivables	216	55	-
Accounts payable and accrued liabilities	(1,533)	(76)	(65)
Lease liability	292	-	-
	$ 9,238	$ (21)	$ (65)

Based on the above net exposure at December 31, 2020, 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:				
	CDN	EUR	GBP	Total
Appreciate 5%	$ (346)	$ (1)	$ (5)	$ (352)
Depreciate 5%	382	1	5	388

(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 $77 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 $77 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

24. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management (continued)

(iii) Credit risk (continued)

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 with revenues earned from its U.S. out-licensing partner comprising 58% of revenues for the year and 53% of its trade receivables at year end.

As at December 31, 2020, 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 and comprehensive loss, 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 $12 decrease and $12 increase in current year net loss respectively ($17 increase and $17 decrease in net income at December 31, 2019).

(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).

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

24. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management (continued)

(v) Liquidity risk (continued)

The following table summarizes the Company's significant contractual undiscounted cash flows as at December 31, 2020 (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	Total
Accounts payable and accrued liabilities	$ 5,011	$ 129	$ 295	$ -	$ -	$ 5,435
Purchase commitments	4,510	4,273	5,878	4,865	-	$ 19,526
Lease liability (principal and interest)	34	238	-	-	-	$ 272
Long-term debt (principal and interest)	249	847	1,645	3,062	4,849	10,652
As at December 31, 2020	9,804	5,487	7,818	7,927	4,849	35,885

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, 2020	December 31, 2019
Long-term debt	$ 8,019	$ 19,990
Shareholders' equity	3,160	(12,831)
	$ 11,179	$ 7,159

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, 2020, the Company has inventory in Germany, Canada, UK and Taiwan in the amounts of $1,942, $nil, $352 and $19 respectively ($1,465, $29, $nil and $nil respectively for the year ended December 31, 2019). At December 31, 2020, the Company has total long-term assets in Canada and Germany in the amounts of $2,516 and $432 respectively ($5,635 and $570 respectively in Canada and Germany at December 31, 2019).

For the year ended December 31, 2020 the Company had revenues of $209, $810 and $66 from customers located in Canada, U.S. and rest of world respectively ($2,373, $1,202 and $193 from customers located in Canada, U.S. and rest of world respectively for the year ended December 31, 2019).