Acerus Pharmaceuticals Corporation

Unaudited Condensed Interim Consolidated Financial Statements

June 30, 2021

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

Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2021 and December 31, 2020

Unaudited

(expressed in thousands of U.S. dollars)

	Notes	June 30, 2021	December 31, 2020
ASSETS			
Current assets			
Cash		$ 2,603	$ 9,153
Trade and other receivables	4	1,321	528
Contract asset	5	-	936
Inventory	6	2,463	2,313
Prepaid and other assets	7	1,218	1,104
Total current assets		7,605	14,034
Property and equipment, net	8	375	806
Right of use asset	9	317	-
Intangible assets, net	10	2,067	2,142
Total assets		$ 10,364	$ 16,982
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable and accrued liabilities	11	$ 6,525	$ 5,435
Termination fee payable	5	2,670	-
Current portion of long-term debt	12	2,120	1,439
Current portion of lease liability	9	4	229
Total current liabilities		11,319	7,103
Termination fee payable	5	2,798	-
Lease liability	9	307	-
Long-term debt	12	4,978	6,580
Subordinated Loan Facility	12	5,747	-
Derivative financial instruments		156	139
Total liabilities		25,305	13,822
Shareholders' equity (deficit)			
Share capital		$ 198,163	$ 198,163
Contributed surplus		15,230	13,435
Accumulated other comprehensive loss		(13,949)	(13,949)
Deficit		(214,385)	(194,489)
Total shareholders' equity (deficit)		(14,941)	3,160
Total liabilities & shareholders' equity (deficit)		$ 10,364	$ 16,982

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

Going concern (note 1)

Commitments and contingencies (note 16)

These condensed interim consolidated financial statements were authorized by the Board of Directors on August 9, 2021.

Acerus Pharmaceuticals Corporation
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended June 30, 2021 and 2020
Unaudited
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Revenue					
Product revenue		$ 562	$ 176	$ 796	$ 321
Termination Fees	5	(50)	-	(6,254)	-
		512	176	(5,458)	321
Cost of goods sold		45	224	236	425
Gross margin (loss)		467	(48)	(5,694)	(104)
Expenses					
Research and development		928	400	1,901	1,022
Selling, general and administrative		6,285	4,602	11,572	8,179
Total operating expenses		7,213	5,002	13,473	9,201
Operating loss		(6,746)	(5,050)	(19,167)	(9,305)
Other expenses(income)					
Interest on long-term debt and other financing costs	12	408	382	700	1,228
Interest income		(2)	(32)	(7)	(63)
Foreign exchange (gain)/loss		(25)	151	(40)	(93)
Change in fair value of derivative financial instruments		(57)	59	12	(104)
Loss on modification of debt	12	-	-	64	-
Total other expenses		324	560	729	968
Loss for the period before income taxes		(7,070)	(5,610)	(19,896)	(10,273)
Income tax expense		-	-	-	-
Net loss and comprehensive loss for the period		(7,070)	(5,610)	$ (19,896)	$ (10,273)
Loss per common share					
Basic and diluted net loss per common share	13	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average common shares outstanding					
Basic and diluted	13	1,537,588,081	1,010,456,066	1,537,588,081	833,440,004

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

Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the six months ended June 30, 2021 and 2020

Unaudited

(expressed in thousands of U.S. dollars)

	Note	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2020		$ 158,402	$ 1,420	$ 11,361	$ (13,949)	$ (170,065)	$ (12,831)
Net loss and comprehensive loss for the period		-	-	-	-	(10,273)	(10,273)
Issuance of common shares, net of costs		17,799	-	-	-	-	17,799
Debt and interest accrued conversion, net of costs		11,932		-	-	-	11,932
Warranty expiry			(1,420)	1,420			-
Share based compensation	14	-	-	248	-	-	248
Balance as at June 30, 2020		$ 188,133	$ -	$ 13,029	$ (13,949)	$ (180,338)	$ 6,875
Balance as at January 1, 2021		198,163	-	13,435	(13,949)	(194,489)	3,160
Net loss and comprehensive loss for the period		-	-	-	-	(19,896)	(19,896)
Fair value adjustment on subordinated loan facility	12	-	-	1,328	-	-	1,328
Share based compensation	14	-	-	467	-	-	467
Balance as at June 30, 2021		$ 198,163	$ -	$ 15,230	$ (13,949)	$ (214,385)	$ (14,941)

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

Acerus Pharmaceuticals Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2021 and 2020
Unaudited
(expressed in thousands of U.S. dollars)

	Note		June 30, 2021		June 30, 2020
Operating activities:					
Net loss for the period		$	(19,896)	$	(10,273)
Items not affecting cash:					
Adjustment for unrealized foreign exchange loss (gain)			7		(23)
Amortization of intangible assets	10		75		358
Depreciation of property and equipment	8		443		128
Depreciation of right of use asset	9		3		24
Interest expense and other financing costs	12		700		1,228
Change in fair value of derivative financial instruments			17		(104)
Share based compensation	14		467		248
Termination fee	5		6,204		-
Gain on disposal of property and equipment	8		(56)		-
Loss on modification of debt	12		64		-
Net changes in non-cash working capital items related to operating activities:					
Trade and other receivables	4		(793)		14
Contract asset	5		936		243
Inventory	6		(150)		(1,587)
Prepaids and other assets	7		(114)		683
Accounts payable and accrued liabilities	11		1,090		(1,294)
Termination fee payable	5		(750)		-
Net cash used in operating activities			(11,753)		(10,355)
Financing activities					
Interest, financing fees and transactions costs paid	12		(512)		(883)
Proceeds from issuance of common shares, net of financing costs			-		17,799
Financing costs from debt conversion			-		(94)
Payment of long-term debt	12		(1,100)		(250)
Principal elements of lease payments	9		(229)		(48)
Proceeds from subordinated loan	12		7,000		-
Net cash (used in) provided from financing activities			5,159		16,524
Investing activities					
Proceeds from disposition of property and equipment	8		56		-
Acquisition of property and equipment	8		(12)		-
Net cash used in investing activities			44		-
Net (decrease) increase in cash for the period			(6,550)		6,169
Cash, beginning of period			9,153		5,860
Cash, end of period		$	2,603	$	12,029

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

1. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards 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, notwithstanding the new subordinated loan funding received from First Generation Capital in April 2021 (note 12) , 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 current fiscal year. The Company's ability to accomplish its strategic plans is dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations, 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 violating 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 unaudited condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. DESCRIPTION OF BUSINESS

These unaudited condensed interim consolidated financial statements represent the consolidated accounts of Acerus 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 Suite 205, 7025 Langer Drive, Mississauga, Ontario, L5N 0E8.

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"), Amneal Pharmaceuticals Inc ("Amneal") and Syneos Health Inc. ("Syneos") in the United States and through a global network of licensed distributors in other territories. Effective March 31, 2021, the Company terminated its previous contract with Aytu and assumed all responsibilities within the U.S. market for services previously contracted to them on August 1, 2021, following a transition period that ended on July 31, 2021.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2020, except for as noted below.

(a) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

(b) Changes in accounting policy and disclosures

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. These amendments were adopted effective January 1, 2021 and did not have a material impact on the unaudited condensed consolidated financial statements.

4. TRADE AND OTHER RECEIVABLES

	June 30, 2021	December 31, 2020
Trade receivables	$ 1,191	$ 441
Commodity tax receivable	130	87
Total trade and other receivables	$ 1,321	$ 528

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 June 30, 2021, the Company has recognized $nil in allowance for doubtful accounts ($nil as at December 31, 2020).

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:

	June 30, 2021	December 31, 2020
60 - 90 days	$ 6	$ 8
Greater than 90 days	36	43
	$ 42	$ 51

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.

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5. CONTRACT ASSET

(i) Natesto product revenue

Natesto product revenues from Aytu Bioscience Inc (Aytu), our U.S. marketing partner through March 31, 2021, was 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 was 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 was 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. The Company records this as a contract asset. Management's assessment of the estimated future gross profit per unit of its U.S. marketing partner took 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.

The agreement with Aytu was terminated effective March 31, 2021. As part of the termination agreement, the Company agreed to repurchase $116 of Aytu's unsold inventory on hand at March 31, 2021 and pay a $7,500 termination fee in equal installments of $250 over 30 months, beginning April 15, 2021. The Company recorded an expense (included in revenue) of $6,204 for the three months ended March 31, 2021, representing the fair value of the $7,500 termination fee. The fair value was estimated by discounting the payments using a rate of 17%. A +/- 10% change in the discount rate would change the estimated fair value by +/- $106. The Company also derecognized $163 of the remaining balance of the contract asset at March 31, 2021.

Payments of $750 were made during the three months ended June 30, 2021. The remaining liability of $5,468 at June 30, 2021 has been reflected as a current liability amounting to $2,670 and a non current liability amounting to $2,798 on the unaudited condensed interim consolidated statements of financial position.

	June 30, 2021	December 31, 2020
Balance, January 1	$ 245	$ 473
Estimated top-up revenue recognized on inventory previously sold	-	366
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	(82)	(296)
Derecognition of revenue previously recognized on termination	(163)	-
Balance	$ -	$ 245

(ii) Estrace sale proceeds

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. 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. An amount of $691 was initially accrued as a contract asset 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.

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5. CONTRACT ASSET (continued)

Delays previously reported in the transfer of the manufacturing process to the new contract manufacturer resulted in the launch conditions to be satisfied by June 30, 2021 not being met. Further delays during the current period will result in a launch no earlier than January 1, 2022. The Company has reassessed the carrying value of the contract asset recognized at the time of sale and concluded that a revaluation is appropriate. Taking into account the Company's confidence level in being able to complete the launch conditions, and timing thereof, and the impact this may have on the third party's decision to relaunch the product, the carrying value was reduced to $nil from $691 to reflect management's estimate of the amount highly probable of not being subject to a significant reversal when these uncertainties are resolved. A charge of $691 has been included in selling, general and administrative expenses. No additional costs were considered necessary for expenses associated with the most recent delay.

6. INVENTORY

		June 30, 2021		December 31, 2020
Raw materials	$	1,648	$	1,732
Work in progress		236		581
Finished goods		579		-
Total inventory	$	2,463	$	2,313

7. PREPAIDS AND OTHER ASSETS

		June 30, 2021		December 31, 2020
Deposits with vendors	$	533	$	505
Other		685		599
Total prepaid and other assets	$	1,218	$	1,104

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

		Office, furniture and fixtures		Manufacturing and laboratory equipment		Leasehold improvements		Total
Costs								
Balance, January 1, 2021	$	122	$	3,139	$	738	$	3,999
Additions		12		-		-		12
Disposals		-		-		-		-
Balance, June 30, 2021	$	134	$	3,139	$	738	$	4,011
Accumulated depreciation								
Balance, January 1, 2021	$	118	$	2,663	$	412	$	3,193
Depreciation		2		117		324		443
Disposals		-		-		-		-
Balance, June 30, 2021	$	120	$	2,780	$	736	$	3,636
Net book value								
June 30, 2021	$	14	$	359	$	2	$	375

(All amounts expressed in thousands of U.S. dollars except per share amounts
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8. PROPERTY AND EQUIPMENT (continued)

	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

During the three months ended June 30, 2021, the Company sold property and equipment with a net book value of $nil for proceeds of $56. At June 30, 2021, manufacturing equipment with a net book value of $363 was held off-site with a third party ($432 at December 31, 2020).

9. LEASES

In December 2020, the Company exercised its option to terminate its previous premises lease effective June 30, 2021. The expected maturity date of the previous lease was June 30, 2025. A termination payment of $204 was paid to the landlord on 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 $291, 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 for the year ended December 31, 2020.

On June 1st, 2021, the Company entered into a new premises lease. The new lease, including an option to renew at the discretion of the Company, has an expected maturity date of November 30, 2031. The Company recorded a Right of use asset in the amount of $320, net of $22 of lease inducements. The Company recorded a Lease liability in the amount of $311, net of $22 in lease inducements receivable, using a discount rate of 6.50%. The discount rate was derived from publicly available market capitalization reports available for a comparable location and class of lease premises. A +/- 1% change in the discount rate would change the estimated fair value of both the Right of use asset and the Lease liability by +/- $17.The Right of use asset is being amortized on a straight line basis over the term of the expected maturity date of November 30, 2031.

Right of use asset:	June 30, 2021	December 31, 2020
Balance, January 1	$ -	$ 263
Acquisition of right of use asset	320	-
Depreciation of right of use asset	(3)	(48)
Remeasurement of lease liability	-	(215)
Balance	$ 317	$ -

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9. LEASES (continued)

Lease liability:	June 30, 2021	December 31, 2020
Balance, January 1	$ 229	$ 611
Payments	(229)	(91)
Remeasurement due to lease amendment	-	(290)
Addition of lease liability	311	-
Foreign exchange effect	-	(1)
Balance	311	229
Current lease liability	4	229
Non-current lease liability	$ 307	$ -

10. INTANGIBLE ASSETS

	Technology and patents	Product rights	Total
Costs			
Balance, January 1, 2021	$ 4,400	$ 477	$ 4,877
Addition	-	-	-
Disposal	-	-	-
Balance, June 30, 2021	$ 4,400	$ 477	$ 4,877
Accumulated depreciation			
Balance, January 1, 2021	$ 2,635	$ 100	$ 2,735
Amortization	55	20	75
Disposal	-	-	-
Balance, June 30, 2021	$ 2,690	$ 120	$ 2,810
Net book value			
June 30, 2021	$ 1,710	$ 357	$ 2,067

	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 31, 2020	$ 1,765	$ 377	$ 2,142

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 and comprehensive loss. The remaining life of the TriVair patents and patent applications is 15 years and 4 months.

Product rights include rights for Lidbree™ and Stendra®. Of the product acquisition costs, $300 was accrued but not payable as of June 30, 2021

(All amounts expressed in thousands of U.S. dollars except per share amounts
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11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2021		December 31, 2020
Accounts payable	$	1,202	$	1,088
Employee salaries and benefits payable		746		398
Accrual to complete manufacturing transfer		222		288
Interest and financing fees payable (note 12)		209		136
Accrued liabilities		1,066		1,092
Natesto® US related payables		2,901		2,072
Provision for returns and discounts		179		361
Total accounts payable and accrued liabilities	$	6,525	$	5,435

Payables related to Natesto® US in the table above are for expenses related to the Company's U.S. selling and marketing activities for Natesto®. These activities include services contracted through Syneos Health as well as contracts for rebates and coupons negotiated directly with Pharmacy Benefit Managers and Health Plans. The balance also includes liabilities with other contract partners for rebates, coupons, product returns, regulatory support, regulatory compliance and samples management.

12. LONG-TERM DEBT

		SWK Facility		First Generation Loan		First Generation Subordinated Loan		Total
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
Balance, January 1, 2021	$	8,019	$	-	$	-	$	8,019
Amortization of deferred financing costs		115		-		-		115
Advances on Subordinated Loan Facility		-		-		7,000		7,000
Loss on modification		64		-		-		64
Fair value adjustment		-		-		(1,328)		(1,328)
Accrued Interest		-		-		75		75
Repayment of principal		(1,100)		-		-		(1,100)
Balance, June 30, 2021	$	7,098	$	-	$	5,747	$	12,845
Current portion at June 30, 2021		2,120		-		-		2,120
Long-term portion as at June 30, 2021	$	4,978	$	-	$	5,747	$	10,725

SWK credit facility

On March 26, 2021, the Company announced that it had entered into an agreement with SWK in respect of an amendment to the New Facility (the "Fifth Amendment"). The amendment to the New Facility (i) increases the minimum threshold for consolidated unencumbered liquid assets required to be maintained by the Company from $1,500 to $2,000 effective May 15, 2021; (ii) waived the revenue and EBITDA covenants for 2021 and resets them for 2022 to better reflect the nature of the Company's business at this time; (iii) fixes principal repayments at $600 per quarter; and (iv) required a pre-payment of $500 of principal on May 15, 2021. A loss on modification of $64 was recorded against deferred financing fees as a result of this amendment.

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

As of June 30, 2021, the Company had $7,150 outstanding on the credit facility and was in compliance with all covenants.

First General Capital Inc. subordinated loan facility

On April 30, 2021, the Company announced closing a $15 million subordinated secured loan facility ("Loan Facility") with First Generation Capital Inc. ("First Generation"), a company affiliated with the Chairman of the Board of Directors of the Company. The loan will be made available to the Company by way of one or more advances under a secured promissory note. The Loan Facility is subordinated to the existing credit facility with SWK and bears interest at a fixed rate of 8% per annum. Subject to the terms of the subordination and intercreditor agreement between First Generation and SWK, the Loan Facility is repayable in full by December 31, 2024. Prior to December 31, 2024, cash payments of interest or principal repayments are subject to certain exceptions related to the Company's market capitalization and the outstanding amount of the senior facility with SWK. The Loan Facility can be repaid in full or in part without limitation following repayment of the full amount owing to SWK.

In accordance with IFRS 9 - Financial Instruments, loans must be initially measured at fair value. The company has assessed the fair market interest rate attributable to the subordinated loan facility and determined that an interest rate of 14% represents fair value. Accordingly, a fair value adjustment of $1,328 has been recorded. As the loan is from a related party who has a controlling interest in the Company, the resultant gain has been recorded as contributed surplus. A +/- 1% change in the discount rate would change the estimated initial fair value of the loan by +/- $0.2 million.

At June 30, 2021, $7,000 is outstanding on the Loan Facility. No principal or interest payments are expected over the next twelve months.

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 June 30, 2021, $25 was drawn as standby letters of credit and bank guarantees.

Interest and financing costs

Balance payable, January 1, 2020	$	457
Interest and financing fees		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 payable, December 31, 2020 (note 11)	$	136

Balance payable, January 1, 2021 (note 11)	$	136
Interest and financing fees expense		700
Amortization of deferred financing fees		(115)
Interest, financing fees and transaction costs paid		(512)
Balance payable, June 30, 2021 (note 11)	$	209

13. LOSS PER SHARE

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

	For the three months ended June 30, 2021	2020
Numerator for basic and diluted loss per share available to common shareholders	$ (7,070)	$ (5,610)
Denominator for basic and diluted loss per share	1,537,588,081	1,010,456,066
Basic and diluted loss per share	$ (0.00)	$ (0.01)

	For the six months ended June 30, 2021	2020
Numerator for basic and diluted loss per share available to common shareholders	$ (19,896)	$ (10,273)
Denominator for basic and diluted loss per share	1,537,588,081	833,440,004
Basic and diluted loss per share	$ (0.01)	$ (0.01)

Weighted Average Common Shares Outstanding

For the three months ended June 30:

		Weighted Average Shares	
	Total issued	Basic	Diluted
Balance, April 1, 2020	1,010,456,066	1,010,456,066	1,010,456,066
Balance, June 30, 2020	1,010,456,066	1,010,456,066	1,010,456,066
Balance, April 1, 2021	1,537,588,081	1,537,588,081	1,537,588,081
Balance, June 30, 2021	1,537,588,081	1,537,588,081	1,537,588,081

For the six months ended June 30:

		Weighted Average Shares	
	Total issued	Basic	Diluted
Balance, January 1, 2020	261,225,290	261,225,290	261,225,290
Private Placement, February 2020	449,148,891	236,913,701	236,913,701
Debt conversion, February 2020	300,081,885	158,284,950	158,284,950
Balance, June 30, 2020	1,010,456,066	656,423,941	656,423,941
Balance, January 1, 2021	1,537,588,081	975,848,903	975,848,903
Balance, June 30, 2021	1,537,588,081	1,537,588,081	1,537,588,081

14. 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.

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

14. SHARE BASED COMPENSATION (continued)

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.

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 2021 and fiscal 2020 are set out below:

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 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
Jun 29, 2021	1,170,609	Consultant	$0.0479	5	1	1.0%	88.2%	nil	$0.033
Jun 29, 2021	40,820,109	Employees	$0.0479	5	3	1.0%	88.2%	nil	$0.033

14. SHARE BASED COMPENSATION (continued)

A forfeiture rate of 3% was used to estimate option expenses during the year. The Company recognized stock option compensation expense of $147 and $410 for the three and six months ended June 30, 2021 ($203 and $248 for the three and six months ended June 30, 2020).

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

	June 30,					
	2021			2020		
	Number		Weighted average exercise price (CDN)	Number		Weighted average exercise price (CDN)
Balance at January 1,	72,509,507	$	0.06	12,866,992	$	0.18
Granted	41,990,718		0.05	50,763,786		0.05
Exercised	-		-	-		-
Forfeited	(351,012)		0.05	(2,330,804)		0.13
Expired	(806,667)		0.10	(385,000)		0.75
Balance at June 30,	113,342,546	$	0.05	60,914,974	$	0.06
Options exercisable at June 30,	28,870,861	$	0.07	7,145,747	$	0.16

	Canadian Dollar Options outstanding as at June 30, 2021		
Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$0.0345 to $0.0452	99,949,170	2.2	23,232,492
$0.05 to $0.09	6,842,715	3.9	400,000
$0.11 to $0.17	4,436,103	2.1	3,457,145
$0.21 to $0.36	2,114,558	1.7	1,781,224
	113,342,546	2.3	28,870,861

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:

	June 30, 2021	December 31, 2020
Balance, January 1	3,961,218	-
Issuance	-	3,961,218
Balance	3,961,218	3,961,218

The Company recognized RSU compensation expense of $29 and $57 for the three and six months ended June 30, 2021 ($nil and $nil for the three and six months ended June 30, 2020).

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

15. 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 three and six months ended June 30, 2021 and 2020 were as follows:

	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Short-term compensation of key management and directors	$ 504	$ 364	$ 1,054	$ 740
Share-based compensation	157	177	425	214
Interest expense	53	-	53	212
	$ 714	$ 541	$ 1,532	$ 1,166

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $2,351 if all are terminated as a result of a change in control, $2,274 if all are terminated without cause, and $nil if all are terminated with cause.

16. COMMITMENTS AND CONTINGENCIES

Recipharm Litigation
On June 18, 2020, Acerus announced it had commenced litigation against Recipharm Limited ("Recipharm"), a wholly-owned subsidiary of Recipharm AB, in the Commercial Court of London. Acerus previously alleged that the suspension of Recipharm's manufacturing license in August 2018 was a violation of its contractual obligations and led to a shortage of Estrace® in Canada. On June 15, 2021, the Company won at a preliminary issue trial in which Recipharm alleged that Acerus' claim for damages was barred by the terms of the companies' manufacturing contract. In agreeing with Acerus that its claim for damages was not barred, the Commercial Court of London directed the matter to proceed to a full trial in the coming months. Recipharm was granted permission to appeal the court's decision on August 3, 2021, with the main proceedings being stayed pending appeal.

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.

17. 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.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At June 30, 2021 and December 31, 2020, the Company's financial instruments consisted of cash, trade and other receivables, contract assets, accounts payable, termination fee payable and accrued liabilities, long-term debt, and derivative financial instruments. Cash, trade and other receivables, contract assets and accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their short-term nature.

The derivative financial instruments are measured at fair value with any changes recognized through the consolidated statement of loss and comprehensive loss and are classified as Level 2. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model.

The long-term debt is measured at amortized cost. At June 30, 2021, the fair value of the long-term debt approximates its face value of $7,150.

18. SEGMENT REPORTING

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

At June 30, 2021, the Company has inventory in Germany, USA, Canada, UK and Taiwan in the amounts of $1,533, $578, $nil, $352 and $nil respectively ($1,942, $nil, $nil, $352 and $19 respectively at December 31, 2020). At June 30, 2021, the Company has total long-term assets in Canada and Germany in the amounts of $2,396 and $363 respectively ($2,516 and $432 respectively in Canada and Germany at December 31, 2020).

For the three months ended June 30, 2021, the Company had revenues of $nil, $562 and $nil from customers located in Canada, U.S. and rest of world respectively ($79, $26 and $71 from customers located in Canada, U.S. and rest of world respectively for the three months ended June 30, 2020).

For the six months ended June 30, 2021, the Company had revenues of $64, $395 and $337 from customers located in Canada, U.S. and rest of world respectively ($119, $131 and $71 from customers located in Canada, U.S. and rest of world respectively for the six months ended June 30, 2020).