



**Acerus Pharmaceuticals Corporation**

Unaudited Condensed Interim Consolidated Financial Statements

September 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 September 30, 2021 and December 31, 2020

Unaudited

(expressed in thousands of U.S. dollars)

	Notes	September 30, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 2,273	\$ 9,153
Trade and other receivables	4	2,199	528
Contract asset	5	-	936
Inventory		2,316	2,313
Prepaid and other assets	6	1,881	1,104
<b>Total current assets</b>		<b>8,669</b>	<b>14,034</b>
Property and equipment, net		340	806
Right of use asset	7	310	-
Intangible assets, net	8	2,030	2,142
<b>Total assets</b>		<b>\$ 11,349</b>	<b>\$ 16,982</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	\$ 7,696	\$ 5,435
Termination fee payable	5	2,378	-
Current portion of long-term debt	10	2,136	1,439
Current portion of lease liability	7	10	229
<b>Total current liabilities</b>		<b>12,220</b>	<b>7,103</b>
Termination fee payable	5	2,769	-
Lease liability	7	299	-
Long-term debt	10	14,569	6,580
Derivative financial instruments		98	139
<b>Total liabilities</b>		<b>29,955</b>	<b>13,822</b>
<b>Shareholders' equity (deficit)</b>			
Share capital		\$ 198,163	\$ 198,163
Contributed surplus		16,463	13,435
Accumulated other comprehensive loss		(13,949)	(13,949)
Deficit		(219,283)	(194,489)
<b>Total shareholders' equity (deficit)</b>		<b>(18,606)</b>	<b>3,160</b>
<b>Total liabilities &amp; shareholders' equity (deficit)</b>		<b>\$ 11,349</b>	<b>\$ 16,982</b>

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

Going concern (note 1)

Commitments and contingencies (note 14)

These condensed interim consolidated financial statements were authorized by the Board of Directors on November 8, 2021.

## Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended September 30, 2021 and 2020

Unaudited

(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	For the three months ended		For the nine months ended	
		September 30, 2021	2020	September 30, 2021	2020
<b>Revenue</b>					
Product revenue		\$ 587	\$ 493	\$ 1,383	\$ 814
Termination Fees	5	-	-	(6,254)	-
		587	493	(4,871)	814
Cost of goods sold		489	743	725	1,168
<b>Gross margin (loss)</b>		98	(250)	(5,596)	(354)
<b>Expenses</b>					
Research and development		1,353	760	3,254	1,782
Selling, general and administrative		5,046	5,634	16,618	13,813
<b>Total operating expenses</b>		6,399	6,394	19,872	15,595
Operating loss		(6,301)	(6,644)	(25,468)	(15,949)
<b>Other expenses (income)</b>					
Interest on long-term debt and other financing costs	10	1,007	385	1,707	1,613
Litigation settlement proceeds	14	(2,328)	-	(2,328)	-
Interest income		2	(2)	(5)	(65)
Foreign exchange (gain) loss		(31)	77	(71)	(16)
Change in fair value of derivative financial instruments		(53)	(56)	(41)	(160)
Loss on modification of debt	10	-	-	64	-
<b>Total other expenses (income)</b>		(1,403)	404	(674)	1,372
Loss for the period before income taxes		(4,898)	(7,048)	(24,794)	(17,321)
Income tax expense		-	-	-	-
<b>Net loss and comprehensive loss for the period</b>		(4,898)	(7,048)	\$ (24,794)	\$ (17,321)
Loss per common share					
Basic and diluted net loss per common share	11	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average common shares outstanding					
Basic and diluted	11	1,537,588,081	1,010,646,898	1,537,588,081	892,940,129

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## Acerus Pharmaceuticals Corporation

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

For the nine months ended September 30, 2021 and 2020

Unaudited

(expressed in thousands of U.S. dollars )

	Note	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
<b>Balance, January 1, 2020</b>		\$ 158,402	\$ 1,420	\$ 11,361	\$ (13,949)	\$ (170,065)	\$ (12,831)
Net loss and comprehensive loss for the period		-	-	-	-	(17,321)	(17,321)
Issuance of common shares, net of costs		17,820	-	-	-	-	17,820
Debt and interest accrued conversion, net of costs		11,932	-	-	-	-	11,932
Warranty expiry		-	(1,420)	1,420	-	-	-
Share based compensation	12	-	-	424	-	-	424
<b>Balance as at September 30, 2020</b>		\$ 188,154	\$ -	\$ 13,205	\$ (13,949)	\$ (187,386)	\$ 24
<b>Balance as at January 1, 2021</b>		198,163	-	13,435	(13,949)	(194,489)	3,160
Net loss and comprehensive loss for the period		-	-	-	-	(24,794)	(24,794)
Fair value adjustment on subordinated loan facility	10	-	-	2,228	-	-	2,228
Share based compensation	12	-	-	800	-	-	800
<b>Balance as at September 30, 2021</b>		\$ 198,163	\$ -	\$ 16,463	\$ (13,949)	\$ (219,283)	\$ (18,606)

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 nine months ended September 30, 2021 and 2020

Unaudited

(expressed in thousands of U.S. dollars)

	Note	September 30, 2021	September 30, 2020
<b>Operating activities:</b>			
Net loss for the period		\$ (24,794)	\$ (17,321)
Items not affecting cash:			
Adjustment for unrealized foreign exchange loss (gain)		7	(5)
Amortization of intangible assets	8	112	537
Depreciation of property and equipment		479	185
Depreciation of right of use asset	7	10	35
Interest expense and other financing costs	10	1,707	1,613
Change in fair value of derivative financial instruments		(41)	(160)
Share based compensation	12	800	424
Termination fee	5	6,204	-
Gain on disposal of property and equipment		(56)	-
Loss on modification of debt	10	64	-
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables	4	(1,671)	(341)
Contract asset	5	936	146
Inventory		(3)	(1,461)
Prepays and other assets	6	(777)	(49)
Accounts payable and accrued liabilities	9	2,261	(694)
Termination fee paid	5	(1,500)	-
<b>Net cash used in operating activities</b>		<b>(16,262)</b>	<b>(17,091)</b>
<b>Financing activities</b>			
Interest, financing fees and transactions costs paid	10	(733)	(1,165)
Proceeds from issuance of common shares, net of financing costs		-	17,820
Financing costs from debt conversion		-	(94)
Payment of long-term debt	10	(1,700)	(500)
Principal elements of lease payments	7	(229)	(73)
Proceeds from subordinated loan	10	12,000	-
<b>Net cash provided by financing activities</b>		<b>9,338</b>	<b>15,988</b>
<b>Investing activities</b>			
Proceeds from disposition of property and equipment		56	-
Acquisition of property and equipment		(12)	-
<b>Net cash provided by investing activities</b>		<b>44</b>	<b>-</b>
<b>Net decrease in cash for the period</b>		<b>(6,880)</b>	<b>(1,103)</b>
Cash, beginning of period		9,153	5,860
Cash, end of period		\$ 2,273	\$ 4,757

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

**Acerus Pharmaceuticals Corporation**  
Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2021 and 2020  
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**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 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.

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**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**

	September 30, 2021	December 31, 2020
Trade receivables	\$ 1,759	\$ 441
Litigation settlement receivable	388	-
Commodity tax receivable	52	87
<b>Total trade and other receivables</b>	<b>\$ 2,199</b>	<b>\$ 528</b>

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 September 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:

	September 30, 2021	December 31, 2020
60 - 90 days	\$ -	\$ 8
Greater than 90 days	-	43
	<b>\$ -</b>	<b>\$ 51</b>

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 recorded 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 and \$1,500 respectively were made during the three and nine months ended September 30, 2021. Payments to date include accreted interest expense of \$443. The remaining liability of \$5,147 at September 30, 2021 has been reflected as a current liability amounting to \$2,378 and a non current liability amounting to \$2,769 on the unaudited condensed interim consolidated statements of financial position.

	September 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)
<u>Derecognition of revenue previously recognized on termination</u>	<u>(163)</u>	<u>-</u>
<b>Balance</b>	<b>\$ -</b>	<b>\$ 245</b>

(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. 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. As certain launch conditions were not met by June 30, 2021, including the successful transfer of the manufacturing process by the Company to a new contract manufacturer, the third party is under no obligation to relaunch the product. Taking into account the Company's confidence level in



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5. **CONTRACT ASSET (continued)**

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, in the second quarter of 2021, the carrying value was previously reduced to \$nil to reflect management's estimate of the amount highly probable of not being subject to a significant reversal when these uncertainties are resolved. No additional costs are considered necessary for expenses associated with delays to date. A launch, assuming launch conditions can be met, is anticipated no earlier than January 1, 2022.

6. **PREPAIDS AND OTHER ASSETS**

	September 30, 2021	December 31, 2020
Deposits with vendors	\$ 871	\$ 505
Other prepayments	1,010	599
<b>Total prepaid and other assets</b>	<b>\$ 1,881</b>	<b>\$ 1,104</b>

Deposits with vendors include cash advanced for product rebates and coupons reimbursed by the depositor on behalf of the Company and deposits on raw material orders. Other prepayments include FDA market access fees, insurance premiums and software licenses.

7. **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 1<sup>st</sup>, 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.

	September 30, 2021	December 31, 2020
<b>Right of use asset:</b>		
Balance, January 1	\$ -	\$ 263
Acquisition of right of use asset	320	-
Depreciation of right of use asset	(10)	(48)
Remeasurement of lease liability	-	(215)
<b>Balance</b>	<b>\$ 310</b>	<b>\$ -</b>

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**7. LEASES (continued)**

	September 30, 2021	December 31, 2020
<b>Lease liability:</b>		
Balance, January 1	\$ 229	\$ 611
Payments	(229)	(91)
Remeasurement due to lease amendment	-	(290)
Addition of lease liability	311	-
Accrued interest	8	-
Foreign exchange effect	(10)	(1)
<b>Balance</b>	<b>309</b>	<b>229</b>
<b>Current lease liability</b>	<b>10</b>	<b>229</b>
<b>Non-current lease liability</b>	<b>\$ 299</b>	<b>\$ -</b>

**8. INTANGIBLE ASSETS**

	Technology and patents		Product rights		Total
<b>Costs</b>					
Balance, January 1, 2021	\$ 4,400	\$ 477	\$ 4,877		
Addition	-	-	-		
Disposal	-	-	-		
<b>Balance, September 30, 2021</b>	<b>\$ 4,400</b>	<b>\$ 477</b>	<b>\$ 4,877</b>		
<b>Accumulated depreciation</b>					
Balance, January 1, 2021	\$ 2,635	\$ 100	\$ 2,735		
Amortization	82	30	112		
Disposal	-	-	-		
<b>Balance, September 30, 2021</b>	<b>\$ 2,717</b>	<b>\$ 130</b>	<b>\$ 2,847</b>		
<b>Net book value</b>					
September 30, 2021	\$ 1,683	\$ 347	\$ 2,030		
<b>Costs</b>					
Balance, January 1, 2020	\$ 4,400	\$ 30,887	\$ 35,287		
Addition	-	-	-		
Disposal	-	(30,410)	(30,410)		
<b>Balance, December 31, 2020</b>	<b>\$ 4,400</b>	<b>\$ 477</b>	<b>\$ 4,877</b>		
<b>Accumulated depreciation</b>					
Balance, January 1, 2020	\$ 2,525	\$ 27,871	\$ 30,396		
Amortization	110	607	717		
Disposal	-	(28,378)	(28,378)		
<b>Balance, December 31, 2020</b>	<b>\$ 2,635</b>	<b>\$ 100</b>	<b>\$ 2,735</b>		
<b>Net book value</b>					
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 3 months.

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

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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2021	December 31, 2020
Accounts payable	\$ 2,241	\$ 1,088
Employee salaries and benefits payable	540	398
Accrual to complete Estrace manufacturing transfer	223	288
Interest and financing fees payable (note 10)	109	136
Accrued liabilities	1,035	1,092
Natesto® US related payables	3,368	2,072
Provision for returns and discounts	180	361
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 7,696</b>	<b>\$ 5,435</b>

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.

**10. 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	192	-	-	192
Advances on Subordinated Loan Facility	-	-	12,000	12,000
Loss on modification	64	-	-	64
Fair value adjustment	-	-	(2,228)	(2,228)
Accrued & Accreted Interest	-	-	358	358
Repayment of principal	(1,700)	-	-	(1,700)
Balance, September 30, 2021	\$ 6,575	\$ -	\$ 10,130	\$ 16,705
Current portion at September 30, 2021	2,136	-	-	2,136
Long-term portion as at September 30, 2021	\$ 4,439	\$ -	\$ 10,130	\$ 14,569

*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. As of September 30, 2021, the Company had \$6,550 outstanding on the credit facility and was in compliance with all covenants.

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**10. LONG-TERM DEBT (continued)**

*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 \$2,228 has been recorded on advances to date. 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 +/- \$338.

At September 30, 2021, \$12,000 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 September 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)
<b>Balance payable, December 31, 2020 (note 9)</b>	<b>\$</b>	<b>136</b>
Balance payable, January 1, 2021 (note 9)	\$	136
Interest and financing fees expense		1,707
Accretion interest termination fee payable (note 5)		(443)
Accretion interest subordinated loan facility		(108)
Accrued interest subordinated loan facility		(250)
Accrued interest lease liability (note 7)		(8)
Amortization of deferred financing fees		(192)
Interest, financing fees and transaction costs paid		(733)
<b>Balance payable, September 30, 2021 (note 9)</b>	<b>\$</b>	<b>109</b>

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**11. LOSS PER SHARE**

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

	For the three months ended September 30,	
	2021	2020
Numerator for basic and diluted loss per share available to common shareholders	\$ (4,898)	\$ (7,048)
Denominator for basic and diluted loss per share	1,537,588,081	1,010,646,898
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)

	For the nine months ended September 30,	
	2021	2020
Numerator for basic and diluted loss per share available to common shareholders	\$ (24,794)	\$ (17,321)
Denominator for basic and diluted loss per share	1,537,588,081	892,940,129
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)

**Weighted Average Common Shares Outstanding**

For the three months ended September 30:

	Total issued	Weighted Average Shares	
		Basic	Diluted
Balance, July 1, 2020	1,010,456,066	1,010,456,066	1,010,456,066
Private Placement, August 2020	532,015	190,832	190,832
Balance, September 30, 2020	1,010,988,081	1,010,646,898	1,010,646,898
Balance, July 1, 2021	1,537,588,081	1,537,588,081	1,537,588,081
Balance, September 30, 2021	1,537,588,081	1,537,588,081	1,537,588,081

For the nine months ended September 30:

	Total issued	Weighted Average Shares	
		Basic	Diluted
Balance, January 1, 2020	261,225,290	261,225,290	261,225,290
Private Placement, February 2020	449,148,891	378,662,021	378,662,021
Debt conversion, February 2020	300,081,885	252,988,743	252,988,743
Private Placement, August 2020	532,015	64,075	64,075
Balance, September 30, 2020	1,010,988,081	892,940,129	892,940,129
Balance, January 1, 2021	1,537,588,081	1,537,588,081	1,537,588,081
Balance, September 30, 2021	1,537,588,081	1,537,588,081	1,537,588,081

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**12. 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.

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.

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**12. SHARE BASED COMPENSATION (continued)**

The Company uses the Black-Scholes option pricing model to price its options, which requires certain assumptions including the stock price volatility for a publicly held corporation. Details of the 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

A forfeiture rate of 3% was used to estimate option expenses during the year. The Company recognized stock option compensation expense of \$304 and \$714 for the three and nine months ended September 30, 2021 (\$176 and \$424 for the three and nine months ended September 30, 2020).

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

	September 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	57,206,501	0.05
Exercised	-	-	-	-
Forfeited	(351,012)	0.05	(2,330,804)	0.13
Expired	(1,420,953)	0.24	(385,000)	0.75
Balance at September 30,	112,728,260	\$ 0.05	67,357,689	\$ 0.06
Options exercisable at September 30,	33,604,222	\$ 0.06	8,050,308	\$ 0.16

Canadian Dollar Options outstanding as at September 30, 2021			
Weighted average remaining life in			
Exercise prices	Number outstanding	years	Number exercisable
\$0.0345 to \$0.0452	57,958,452	3.6	25,743,089
\$0.0479 to \$0.0593	48,433,433	4.6	2,147,571
\$0.11 to \$0.17	4,436,103	1.8	3,813,290
\$0.21 to \$0.36	1,900,272	1.7	1,900,272
	112,728,260	3.9	33,604,222

**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

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**12. SHARE BASED COMPENSATION (continued)**

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:

	September 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 \$86 for the three and nine months ended September 30, 2021 (\$nil and \$nil for the three and nine months ended September 30, 2020).

**13. RELATED PARTY TRANSACTIONS**

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

Key management includes the Company's directors and executive officers. The remuneration of directors and key members of management and professional fees paid or payable to firms affiliated with the current directors and interim CEO for the three and six months ended September 30, 2021 and 2020 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Short-term compensation of key management and directors	\$ 509	\$ 444	\$ 1,563	\$ 1,184
Share-based compensation	297	195	722	409
Interest expense	197	-	250	212
	\$ 1,003	\$ 639	\$ 2,535	\$ 1,805

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately \$2,391 if all are terminated as a result of a change in control, \$2,308 if all are terminated without cause, and \$nil if all are terminated with cause.

**14. COMMITMENTS AND CONTINGENCIES**

Recipharm Litigation

On June 18, 2020, Acerus announced it had commenced litigation against Recipharm in the Commercial Court of London. Acerus 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 argued unsuccessfully 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. On July 6, 2021, Recipharm made an offer to settle pursuant to Part 36 of the English Civil Procedure Rules. On August 3, 2021, Recipharm was granted permission to appeal the Commercial Court's decision, with the main proceedings being stayed pending appeal.

In light of permission to appeal being granted and, amongst other things, the delay to the proceedings and to final judgment this will cause, on August 12, 2021, Acerus announced that it had accepted the Part 36 Offer and received \$2.3 million (GBP 1.7 million) from Recipharm as a settlement payment on August 24, 2021. In addition, Acerus was entitled to reimbursement of the majority of its costs of the litigation and received a further payment of \$0.4 million on



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**14. COMMITMENTS AND CONTINGENCIES (continued)**

October 14, 2021. This amount was recognized as a reduction of selling, general and administrative expenses during the three months ended September 30, 2021.

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

At September 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 SWK long-term debt is measured at amortized cost. At September 30, 2021, the fair value of the long-term SWK debt approximates its face value of \$6,550. At September 30, 2021, the fair value of the long-term First Generation debt approximates \$10,130.

**16. SEGMENT REPORTING**

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

At September 30, 2021, the Company has inventory in Germany, USA, UK and Taiwan in the amounts of \$1,487, \$477, \$352 and \$nil respectively (\$1,942, \$nil, \$352 and \$19 respectively at December 31, 2020). At September 30, 2021, the Company has total long-term assets in Canada and Germany in the amounts of \$2,352 and \$328 respectively (\$2,516 and \$432 respectively in Canada and Germany at December 31, 2020).

For the three months ended September 30, 2021, the Company had product revenues of \$nil, \$587 and \$nil from customers located in Canada, U.S. and rest of world respectively (\$70, \$494 and (\$71) from customers located in Canada, U.S. and rest of world respectively for the three months ended September 30, 2020).

For the nine months ended September 30, 2021, the Company had product revenues of \$64, \$982 and \$337 from customers located in Canada, U.S. and rest of world respectively (\$260, \$625 and (\$71) from customers located in Canada, U.S. and rest of world respectively for the nine months ended September 30, 2020).