Management's Discussion & Analysis of
Acerus Pharmaceuticals Corporation
For the three and six months ended June 30, 2022

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Acerus Pharmaceuticals Corporation and its wholly owned subsidiaries (the "Company", "Acerus", "we" or "our") constitutes management's review of the factors that affected our financial and operating performance for the three and six months ended June 30, 2022. This MD&A is dated August 8, 2022 and should be read in conjunction with the annual audited consolidated financial statements and accompanying notes for the year ended December 31, 2021.

The unaudited condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard ("IAS") 34, Interim Financial reporting, and are presented in thousands of United States ("U.S.") dollars except for per share amounts and unless otherwise noted. For more detailed information regarding certain forward-looking statements contained herein, please see the note below regarding "Forward-looking Statements". The results of the operations, business prospects and financial condition of the Company will be affected by, among others, the "Risk Factors" set out in our Annual Information Form dated March 14, 2022 available at www.sedar.com.

We have assessed our ability to continue as a going concern and concluded that in order to complete our planned product development and commercialization programs, additional capital will be required within the next quarter. Notwithstanding the additional financing raised subsequent to June 30, 2022 (see "Subsequent Event"), the Company will require additional funding from lenders or investors, to pay its current liability obligations, including the $6 million up-front fee on the acquisition of Serenity LLC, and to meet its forecast cash flow requirements over the next year. Our ability to accomplish our strategic plans is also dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations, 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 as planned in 2022, or unsuccessfully executing its US market strategy, could result in the Company failing to meet projected revenues or other budgeted targets. In addition, factors within and outside our management's control could have a significant bearing on our ability to obtain additional financing. These circumstances cast significant doubt as to our ability to realize our assets, meet our contractual obligations and commitments as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Forward-looking statements

This MD&A contains forward-looking information. This forward-looking information is not based on historical facts but rather on our expectations regarding the future growth of the Company and our respective results of operations, performance and business prospects and opportunities. Forward-looking information may include financial and other projections, as well as statements regarding future plans, objectives or economic performance, or the assumptions underlying any of the foregoing. This MD&A uses words such as "believe", "expect", "would", "will", "expects", "anticipates", "intends", "estimates", or similar expressions to identify forward-looking information. Such forward-looking information reflects our current beliefs based on information currently available to us.

These forward-looking statements are subject to important assumptions and the Company has also made certain macroeconomic and general industry assumptions in the preparation of such forward-looking statements. While the Company considers these factors and assumptions to be reasonable based on information currently available, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Acerus business, or developments in the Company's industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Risks related to forward-looking statements include, among other things: the ability of the Company to continue as a going concern; the Company's limited operating history; the Company's ability to meet future capital requirements; the fluctuating operating results of the Company; First Generation's significant influence over matters put before the shareholders; the

degree of market acceptance of the Company's products; risks relating to generic competition for the Company's products; extensive government regulation; risks associated with debt financing; marketing and distribution risks; manufacturing-related risks; supplier risks; risks relating to the supply of raw materials; publication of adverse clinical trial results; risks related to unexpected product safety or efficacy concerns; risks relating to promotional activities; risks associated with the cost and reimbursement of the Company's products; risks related to reliance on data obtained from Symphony or similar providers; intellectual property risks, including the uncertainty of intellectual property protection, risks associated with licensed patent rights and the risk of third party claims of infringement; risks related to disputes regarding ownership or inventorship of products and technologies; risks associated with trade secrets; risks related to the performance of services by third parties; risks associated with the public market and volatility associated with the Company's shares; risk of potential third-party liability; risks relating to clinical testing conducted by the Company; regulatory approval related matters; risks related to certain minimum payment obligations; a dependence on key personnel; risk of potential dilution of shareholders; risks associated with potential future acquisition activities; risks associated with the expiry of inventory; risks relating to the valuation of intangible assets; risks associated with returns, allowances and chargebacks; risks relating to the ability of the Company to expand its operations; competition risks; risks associated with technological change; foreign exchange risk; concentration risk; risks associated with certain indemnity obligations; tax-related risks; risks relating to the Company's ability to generate ancillary additional revenue; risks relating to securities analyst coverage of the Company; risks related to having limited experience in the U.S. market, risks related to the actions of its commercial partners, risks associated with the costs of complying with U.S. laws and regulations, risks related to controlled substances in the U.S., risks related to U.S. third party payer actions, risks related to U.S. federal coverage and reimbursement policies, risks related to training a U.S. sales force and risks related to evolving tariffs and trade policies between the U.S. and other countries; risks related to the Company's acquisition of Serenity Pharmaceuticals LLC ("Serenity") including: the Company's lack of experience marketing nocturia products; overestimating the market opportunity for Noctiva™; underestimating its costs to market Noctiva™; not having a supply agreement in place to produce Noctiva™; and risks associated with the impact of the novel coronavirus ("COVID-19") as a global pandemic on the economy, workforces, financial markets and supply chain.

Risks related to forward-looking statements include those risks referred to in our filings with the Canadian Securities regulators, including risks described in our Annual Information Form dated March 14, 2022, under the heading "Risk Factors". Actual results, performance or achievement could differ materially from that expressed in, or implied by, any forward-looking information in this MD&A, and, accordingly, investors should not place undue reliance on any such forward-looking information. Further, any forward-looking information speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking information to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time and the importance of current factors may change over time and it is not possible for us to predict all such factors, changes in such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information contained in this MD&A.

Description of business

The 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), Acerus Biopharma Inc. ("ABI") (incorporated in Ontario) and Serenity Pharmaceuticals LLC (incorporated in Delaware, USA). 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 Pharmaceuticals Corporation is a Canadian-based specialty pharmaceutical company focused on the commercialization and development of innovative prescription products that improve patient experience, with a primary focus in the field of men's health. We currently have one marketed product: Natesto®, the first and only testosterone nasal gel for testosterone replacement therapy in adult males diagnosed with hypogonadism. Our primary market is the United States where we commercialize our product with our contract commercial provider Syneos Health ("Syneos"). Our previous contract with Aytu Biosciences Inc. ("Aytu") was terminated effective March 31, 2021. Following a transition period that ended on July 31, 2021, we assumed all responsibilities within the U.S. market for services previously contracted to them.

On March 7, 2022, we announced that we had acquired Serenity Pharmaceuticals LLC ("Serenity"), a Miami, FL based pharmaceutical company. Serenity's principal asset is Noctiva™ (desmopressin acetate), a patented prescription treatment for nocturnal polyuria that had received FDA approval. Noctiva™ is clinically indicated for the treatment of nocturia due to nocturnal polyuria in adults who awaken at least two times per night to void. We expect to resume manufacturing of Noctiva™ by the end of 2022 and launch Noctiva™ along with Natesto® using the same sales force noted above. We believe that there is significant synergy between Noctiva™ and

Natesto® with similar physician call points in the urology and high prescribing general practitioner segment. Refer to the "*Key products and developments"* section for more information.

Natesto® has also been licensed for distribution in Canada and in over 60 additional countries worldwide, through a global network of licensed distributors. Marketing approvals in jurisdictions outside of North America are expected to take place over the course of the coming years.

Our active pipeline includes two innovative products: avanafil a new chemical entity PDE5 inhibitor for the treatment of erectile dysfunction, which has been approved by the U.S. Food and Drug Administration ("FDA") and the European Medicines Agency ("EU EMA") and is commercialized in the U.S. under the trade name Stendra® and, in the European Union ("EU") under the trade name Spedra® and Lidbree™ (formerly referred to as Shact™), a short acting lidocaine formulation delivered through a proprietary device into the vaginal mucosal tissue. Refer to the "*Key products and developments"* section for more information.

Beyond the active product pipeline, we have product rights to Tefina™, a clinical stage product aimed at addressing a significant unmet need for women with female sexual dysfunction.

On April 19, 2022, the Company announced that it intended to undertake a consolidation of its outstanding common shares on the basis of one (1) post-consolidation share for every two hundred (200) pre-consolidation shares (the "Consolidation"). Subsequently approved by the Toronto Stock Exchange ("TSX"), the Consolidation took effect on April 26,2022 and the Company's common shares commenced trading on the TSX on a post-consolidation basis beginning at the open of markets on April 29, 2022. After the Consolidation, the number of common shares issued and outstanding were consolidated from approximately 1,541,549,299 to approximately 7,707,738 on a non-diluted basis. All fractions of post-consolidation shares were rounded down to the nearest whole number.

For further information please see the Annual Information Form dated March 14, 2022 and our other filings available on SEDAR at www.sedar.com.

Key products and developments

Noctiva™

On March 7, 2022, we acquired Serenity Pharmaceuticals LLC ("Serenity"), a Miami, Florida based pharmaceutical company. Serenity's principal asset is Noctiva™ (desmopressin acetate), a patented prescription treatment for nocturnal polyuria that had received FDA approval. Noctiva™ is the first FDA approved product for the treatment of nocturia, the condition of waking two or more times per night to void, due to nocturnal polyuria (overproduction of urine during the night). Noctiva™ is an emulsified low-dose vasopressin antilog administered through a preservative-free nasal spray 30 minutes before bedtime. Noctiva™ has two dosage strengths, 0.83 mcg/0.1 mL and 1.66 mcg/0.1 mL. Each spray delivers 0.1 mL of Noctiva™. We believe that nocturia affects approximately 40 million Americans and that nocturnal polyuria is present in approximately 88% of those. Of the 40 million Americans affected by nocturia, over 10 million actively seek treatment for their condition. Noctiva™ is designed to decrease the number of night-time voids in men and women suffering from nocturia and uses a patented spray technology to maximize drug delivery while minimizing the risk for Hyponatremia. Noctiva™ had been commercialized in the past but at the time of acquisition was not for sale.

As Noctiva™ represents virtually all of the underlying value of Serenity, we treated the acquisition as an asset acquisition based on the concentration test noted in Paragraph B7B of IFRS3. Accordingly, the acquisition has been treated as the acquisition primarily of an intangible asset as shown below and not as a business combination. As a result, no goodwill or deferred taxes arose on this transaction.

Details of the purchase consideration and net assets acquired are as follows:

i) Purchase consideration:

		June 30, 2022
Cash	$	605
Promissory note		5,658
Contingent share consideration: deferred share issuance		22,601
Contingent share consideration: sales performance milestones		3,445
Closing costs and success fees		1,393
Acquisition cost	$	33,702

The promissory note, originally repayable on June 7, 2022 being 90 days after closing, was subsequently deferred with 50% due on September 30, 2022 and 50% due on December 31, 2022. The promissory note bears interest equal to the applicable federal rate for short term instruments published by the Internal Revenue Service being 2.21% at June 30, 2022. Accrued interest of $17 is also included in the promissory note payable recorded on the consolidated balance sheet.

The contingent share consideration (and corresponding increase in contributed surplus) has been measured at the estimated fair value of the net assets acquired less the cash and promissory notes paid / payable in accordance with IFRS 2 “Share based payments”. The deferred share consideration consists of:

- A deferred share issuance of 803,715,000 (4,018,575 post consolidation) shares of the Company. These shares (representing approximately 1/3 of the fully diluted shares of the Company) are issuable upon the later of (i) January 23, 2023; or (ii) 30 days after first commercial sale of Noctiva in the USA or Canada;
- Two contingent share payment tranches of $5,000,000 worth of common shares each if Noctiva™ net annual revenues in the USA and Canada reach:
    - $100 million before December 31, 2026, and
    - $150 million annually on or before December 13, 2028.

		June 30, 2022
Intangible assets	$	36,331
Provisions		(2,250)
Assumed liabilities		(379)
Net assets and liabilities recognized	$	33,702

Should the Company not achieve a first commercial sale of Noctiva™ in the US market within 24 months, a $3 million exit fee is payable to the sellers and the IP associated with all pipeline products (which excludes Noctiva™) will revert back to the sellers.

In addition to the purchase consideration described above, the Company has agreed to pay milestone payments in the form of royalties to the vendors. These payments are not reflected in the purchase price of the intangible. Refer to the *“Contractual obligations and commitments”* section below for further discussion.

Amortization of the intangible will begin at the commencement when the asset is available for use and will continue until patent expiry in 2030. Availability for use is expected in Q4 2022 upon qualification of the previous Noctiva™ contract manufacturer.

Natesto®

We have entered into the following license, development and supply agreements for Natesto®:

Date	Company	Territory	Terms
April 22, 2016	Aytu BioScience Inc. ("Aytu")	United States	• Non-refundable upfront payments totaling $8.0 million • Sales-based milestones that could potentially total $37.4 million • Tiered supply price per unit • Agreement amended and restated agreement effective July 2019 • Agreement terminated effective March 31, 2021, with a 120-day transition period ending July 31, 2021
December 15, 2016	Hyundai Pharm Co., Ltd ("Hyundai")	South Korea	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
June 5, 2017	Therios Healthcare ("Therios")	Saudi Arabia, United Arab Emirates, and Egypt	• Fixed supply price per unit • The agreement was terminated by mutual consent on May 19, 2020
June 14, 2017	medac Gesellschaft für Klinische Spezialpräparate mbH ("medac")	15 European countries: Germany, United Kingdom, France, Italy, Czech Republic, Slovakia, Spain, Sweden, Finland, Denmark, Norway, Poland, Austria, Netherland and Belgium (See update below on October 31, 2018)	• Non-refundable upfront fee • Milestone payment on regulatory approval and sales-based milestone payments • Tiered supply price per unit
October 17, 2017	Eu Hwa Pte LTD. ("HWA")	Thailand, Malaysia/Brunei, Singapore, Vietnam, Philippines, Hong Kong/Macau and one other small South East Asian country	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
November 23, 2017	Apsen Farmacêutica ("Apsen")	Brazil	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
April 9, 2018	Producto Científicos, S.A. de C.V ("Carnot Laboratorios")	Mexico and 18 Central and Latin American countries (Argentina, Columbia, Peru, Chile, Ecuador, Guatemala, El Salvador, Nicaragua, Honduras, Panama, Costa Rica, Cuba, Dominican Republic, Venezuela, Bolivia, Uruguay, Paraguay and Haiti)	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit • This agreement was terminated by mutual consent on May 18, 2021 upon repayment of the upfront fee.
October 30, 2018	medac	Amended to include all existing European Union Member states and the United Kingdom, Norway, Liechtenstein, Iceland, Turkey, Australia, New Zealand, South Africa and Israel.	• Non-refundable upfront fee • All other terms as per the original agreement • This agreement was terminated by mutual consent on April 4, 2022 at no cost.
March 30, 2021	Maylen Farma	20 countries in eastern Europe, Central Asia and the Middle East.	• Milestone payment on regulatory approval • Tiered supply price per unit

Natesto® in Canada.

Canadian market shipments are expected to resume in Q3 2022. In anticipation, pre-market activities are underway to prepare for the re-launch of Natesto® in Canada.

Natesto® in Europe and Asia.

On January 10, 2020, we announced that the dossier filed as a Decentralized Procedure in 19 European countries for the approval of Natesto® had been voluntarily withdrawn. The regulatory dossier was filed by our European licensee - medac Gesellschaft für klinische Spezialpräparate mbH ("medac"). The MPA (Swedish Health Authority), the Reference Member State (RMS) for the procedure, has requested that studies be completed, which were not otherwise required in other filings globally (including in Canada and the United States). After consulting with medac, we have mutually agreed to voluntarily withdraw the application to allow for the completion of the studies. Subsequently, we terminated our agreement with medac on April 4, 2022.

We continue to evaluate both the commercial opportunity and regulatory requirements pertinent for the resubmission and commercialization of Natesto® in the European market. Orient Europharma Co., Ltd., our South Asian partner, is expected to receive the approval of Natesto® in Hong Kong by Q4 2022 and look to commercialize in the coming year.

Natesto® in the U.S.

On April 1, 2021, we announced the buy back of all remaining U.S. rights for Natesto from Aytu. Under the terms of the Termination and Transition Agreement, we agreed to pay a termination fee of $7.5 million, to be paid in equal instalments of $0.25 million over 30 months beginning April 15, 2021. We also agree to repurchase all unsold inventory on hand as of March 31, 2021, the termination date. Aytu continued to support the distribution of Natesto® during a transition period which ended on July 31, 2021. The Termination and Transition Agreement also provided that any expenses claimed during the 120-day transition period attributable to sales made prior to April 1, 2021, be shared in accordance with the previous License and Supply Agreement (as described above). From April 1, 2021, Acerus earns 100% of net revenue on product sales of Natesto® in the US.

On May 10, 2021, we announced that we had entered into a three-year agreement with Amneal Pharmaceuticals Inc. ("Amneal") to co-promote Natesto® in the United States Endocrinology segment. Under the terms of the agreement, Amneal will sell Natesto® to their existing Endocrinology targets through June 30, 2024, leveraging the current Endocrinology clients of Amneal's 50+ sales representatives. In compensation for their marketing efforts, Amneal will receive a commission for most of the net profits attributed to Endocrinology targets in the three active promotional years, with Acerus retaining a low double-digit percentage of such profits during the active promotion period. Amneal will also receive a three-year trailing royalty following the active promotion period, with compensation to them decreasing from a majority of net profits to a minority of the net profits. Amneal's commission since inception and through the three and six month period ended June 30, 2022, is not yet material. Despite Amneal's efforts to ramp up and disseminate product knowledge to their existing Endocrinology customers, results through the first year of the agreement have not met the expectations for either Amneal or us. Consequently, the arrangement was terminated effective June 30, 2022. From July 1, 2022 forward, the Endocrinology segment will be reassigned our specialty sales force engaged through Syneos Health described below.

In 2019, we also engaged Syneos Health (NASDAQ: SYNH), a leading integrated biopharmaceutical solutions organization including the industry's largest Contract Commercial Organization (CCO), to help us establish a high performing commercial footprint in the U.S. Syneos Health has extensive experience in Men's Health and with Natesto®, and offers an end-to-end model that enables rapid deployment of a U.S. commercial team; scale across all aspects of commercialization, including medical and regulatory affairs, managed markets, marketing and sales; and provides greater flexibility and effectiveness in resource deployment. In partnership with Syneos, on July 20, 2020, Acerus announced the launch of its U.S. Specialty sales force. In total, 30+ Syneos personnel are currently deployed in sales and commercial operations support. Acerus also employs 4 employees located in the US responsible for the day to day management of our Natesto® business.

During 2021, we were granted an additional patent and listing in the Orange Book extending intellectual property protection on Natesto® in the U.S. to 2034.

Estrace®

On November 30, 2020, we sold all of our Estrace® assets to a third party. We 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 we 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 us to a new contract manufacturer, the third party is under no obligation to relaunch the product. Specifically, we have been unable to replicate the production attributes of Estrace with the new contract manufacturer that would support an L3 attestation with Health Canada to qualify the new manufacturer. Therefore, taking into account our reduced 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 previously reduced to $nil on June 30, 2021 to reflect our estimate of the amount highly probable of not being subject to a significant reversal when these uncertainties are resolved. As delays persisted through December 31, 2021, a further charge of $150 was recorded in cost of goods sold to reflect our estimate of the net realizable value of raw materials currently held at the new contract manufacturer should we not ultimately be able to complete the manufacturing transfer. A final demonstration batch was produced in March 2022 to ascertain whether the new contract manufacturer had achieved a like for like production to support an L3 attestation. The results did not support the attestation. As a result, we agreed with the third party to whom the product rights were sold to transfer our marketing authorizations and to terminate any further work related to qualifying the new contract manufacturer. Acerus will not receive any payments on future sales of Estrace®, if any. A final charge of $201 was recorded in cost of goods sold to reflect a net realizable value of $nil for raw materials currently held at the new contract manufacturer. An accrual of $147 remains as at June 30, 2022 to reflect final costs to terminate all agreements related to this activity. No further costs were accrued at June 30, 2022 to conclude this activity.

avanafil **(**available in the U.S. under the brand name **Stendra®)**

On April 15, 2020, we received a NOD for its avanafil New Drug Submission. Health Canada 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. We submitted our response 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. In October, 2021, the Company received a Notice of Deficiency from Health Canada related to its avanafil New Drug Submission ("NDS"). Health Canada had previously requested the provision of additional pre-clinical and toxicology data related to the avanafil active pharmaceutical ingredient (API) from the API manufacturer, Sanofi. Sanofi did not provide the available data in a format requested by Health Canada as per the timeline prescribed. As a result, Acerus has had to withdraw the avanafil dossier from the review process. Acerus is working with Petros Pharmaceuticals, the licensor of avanafil to Acerus, and Sanofi to ensure that the information will be provided in a timely manner and to discuss how to apportion the additional regulatory costs incurred as a result of the failure of Sanofi to supply the information to Health Canada. A resubmission is expected to be made to Health Canada prior to December 31, 2022, with the expected introduction of avanafil to the Canadian market occurring in late 2023.

On December 11, 2020, VIVUS, Inc. ("VIVUS"), the licensor of avanafil to Metuchen, announced that it had received approval of its plan of reorganization, under which IEH Biopharma LLC ("IEH") now holds 100% ownership of VIVUS. As set forth in the plan of reorganization, VIVUS will continue to fulfill its supply chain obligations for avanafil and provide access to the intellectual property it has licensed.

Lidbree™

On May 29, 2018, we entered into an exclusive agreement to commercialize Pharmanest AB's ("Pharmanest") Short Acting Lidocaine Product ("Lidbree™"), a pain relief drug device combination, in Canada. Under the terms of the license agreement, Pharmanest received an upfront payment and a regulatory milestone payment when we receive 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 based on a percentage on net sales of the product.

Corporate Update

Share Capital

19,806 shares (3,961,218 pre-consolidation) were issued on March 16, 2022 to settle RSUs that became fully vested on December 31, 2021.

Long-term debt financing

First Generation Loan

On April 30, 2021, we announced closing a $15 million subordinated secured loan facility ("Loan Facility") with First Generation, a company affiliated with the Chairman of the Board of Directors of the Company. The loan will be made available 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.

On December 13, 2021, we announced we had entered into an amending agreement with First Generation to increase the subordinated loan facility from $15 million to $25 million. SWK consented to the $10 million increase as well as a temporary amendment to reduce the minimum Consolidated Unencumbered Liquid Asset covenant from $2 million to $250 until February 1, 2022.

On February 18, 2022, we announced that we had entered into an amending agreement with First Generation to increase the subordinated loan facility from US$25 million to US$30.845 million. This increase was made available to the Company by way of a single advance under a secured grid promissory note with First Generation. The proceeds from the Loan Facility increase were used on February 17, 2022, to settle all obligations under the SWK credit facility. SWK subsequently acknowledged the full release and settlement of the Company's obligations. Upon receiving this acknowledgement, the entire First Generation Loan Facility became a first priority secured debt on the Company's assets.

On March 30, 2022, the Company announced that it had entered into an amending agreement to increase the loan facility from $30.845 million to $35.845 million of which $2.5 million of the increase was advanced on March 31, 2022 with the remaining $2.5 million was advanced on April 19, 2022. An amendment to the March 31, 2022 agreement was executed on June 23, 2022 for an additional amount of $2.1 million funded on June 23, 2022.

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 original subordinated loan facility of $25 million and determined that an interest rate of 14% represents fair value. Accordingly, a fair value adjustment of $4,343 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 +/- $663.

In accordance with IFRS 9 - Financial Instruments, the Company has also assessed the fair market interest rate attributable to the current period loan facility amendments of $12.945 million and determined that an interest rate of 14% represents fair value primarily due to the fact that security for these amendments is no longer subordinated to SWK's previous security priority. Accordingly, a fair value adjustment of $1,930 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 +/- $299.

At June 30, 2022, $37.945 million is outstanding on the secured loan facility. No principal or interest payments are expected over the next twelve months.

SWK – Credit Facility

The SWK credit facility was repaid on February 18, 2022, from the proceeds of the First generation loan entered into on the same date as noted above.

Canadian credit facility

At June 30, 2022, we also had a Canadian Credit facility of $0.75 million with no expiration date for use only as letters of credit and bank guarantees. At June 30, 2022, $nil was drawn as standby letters of credit and bank guarantees with $0.75 million remaining available under this facility.

Factors affecting results from operations

Revenue and cost of sales

Our product revenues for the three and six months ended June 30, 2022 reflects the sale Natesto® net of deductions for early pay discounts, rebates, co-pay, distribution fees, chargebacks and returns (collectively known as gross to net adjustments). A description of these adjustments is as follows:

- Early pay discounts are granted for payment on mutually agreed terms.
- Rebates represent discounts off the wholesale acquisition cost ("WAC") of product negotiated between the Company and individual Pharmacy Benefit Managers ("PBMs") in return for listing on the PBMs health plan formularies.

- Co-Pay represents the Company's cash discount offered to patients directly to cover the remaining out of pocket costs for the Company's products.
- Distribution fees represent the costs charged by wholesalers for distributing the Company's product throughout North America.
- Charge backs represent discounts off the wholesale acquisition cost of product negotiated between the Company and select wholesalers; notably, large pharmacy chains and government administered benefit plans.
- Returns represents products previously sold subsequently returned to the Company due to product expiry (i.e. short-dated product). The Company's wholesaler agreements provide for an 18-month period for the return of short dated product commencing 6 months before the products expiry date.

Amounts accrued for individual gross to net items are included in Accounts payable and accrued liabilities within current liabilities. These provisions are based on both historical levels and relevant forward-looking information. While such historical experience and forward-looking information has allowed for reasonable estimates in the past, these may not always be accurate indicators of future events. We monitor these provisions quarterly and make adjustments when we believe actual results may differ from established reserves.

Prior to the termination of the license and supply agreement with Aytu on March 31, 2021, we recognized Natesto® revenue on delivery of the product to this marketing partner as the sum of two items: 1) the contractual supply price when the product is delivered; and 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 was 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, were reflected as a contract asset until it is earned.

Cost of sales reflect the cost of finished goods which include manufacturing, distribution and warehousing costs.

Research and development expenses

Our research and development ("R&D") expenses consist primarily of project specific costs, namely: project management, clinical studies, laboratory analysis, new product submissions, formulation development and packaging design costs as well as milestone obligations based on the achievement of specific development, or regulatory milestones on or before specific dates. Research and development expenses also include salary, benefits and share-based compensation for R&D management and staff and amortization of intangible assets, leasehold improvements, and manufacturing and laboratory assets.

Our R&D activities focus on clinical research and product development, including but not limited to internal and external activities associated with advancing product candidates towards obtaining regulatory approval for marketing in various jurisdictions.

Selling, general and administrative expenses

Our selling, general and administrative expenses consist primarily of salary, benefits, and share-based compensation for non-R&D executive management and other staff, professional fees, public company related costs, selling and marketing expenses, office expenses and amortization of leasehold improvements and equipment used for administrative purposes.

Other expenses

Other expenses consist of interest expense, accretion expense, amortization of deferred financing fees, fair value adjustment to the derivative financial instruments, foreign exchange gains and losses and interest income.

Taxation

Canada has laws related to various taxes imposed by national/federal, provincial and municipal authorities. Applicable taxes include a value added tax ("VAT") and harmonized sales tax ("HST"), corporate income tax, payroll taxes and other taxes. The VAT and HST taxes that are payable on goods and services billed and purchased are 19.6% in Europe and 13% in Canada, respectively. Taxes paid on goods and services purchased are generally recoverable as input tax credits. The corporate income tax rate in Canada is 26.5% in 2022 and is unchanged from 2021.

Select consolidated financial information

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2021	2020
Statement of operations data				
Revenue	$ 748	$ 512	$ 1,530	$ (5,458)
Operating loss	(6,852)	(6,746)	(12,213)	(19,167)
Net Loss	(7,935)	(7,070)	(14,885)	(19,896)
Basic and diluted net loss per common share	$ (1.03)	$ (0.92)	$ (1.93)	$ (2.59)

Balance sheet data:	June 30, 2022	December 31, 2021
Total assets	$ 45,431	$ 9,652
Total liabilities	57,142	35,666
Long-term debt	34,349	23,290

Review of operating results – Three months ended June 30, 2022

Revenue and gross margin (loss)

	Three months ending June 30,			
	2022	2021	Change $	Change %
Revenue				
Product revenue	$ 748	$ 562	$ 186	33 %
Termination Fee	-	(50)	50	n/a
	748	512	236	46 %
Cost of goods sold	481	45	436	969 %
Gross margin (loss)	$ 267	$ 467	$ (200)	43 %

Revenue increased $0.2 million for the three months ended June 30, 2022, versus the prior period in 2021, reflecting an increase quarter over quarter of 33% in product sales into the US market. The termination fee recognized in the prior period reflects a return of fees previously paid by Carnot Laboratories pursuant to the termination of this agreement on May 18, 2021.

Cost of goods sold increased by $0.4 million for the three months ended June 30, 2022, versus the prior period in 2021, reflecting a $0.3 million charge to write down of Estrace raw material and obsolete inventory destruction charges with the remaining increase consistent with the increase in product revenue.

Operating expenses

	Three months ending June 30,			
	2022	2021	Change $	Change %
Operating expenses				
Research and development	$ 2,234	$ 928	$ 1,306	141 %
Selling, general and administrative	4,885	6,285	(1,400)	(22)%
	$ 7,119	$ 7,213	$ (94)	(1)%

Research and development

Research and development expenses have increased by $1.3 million for the three months ended June 30, 2022, versus the prior period in 2021. Of this increase, approximately $0.9 million is attributable to clinical trial expenses for Natesto® in the U.S. related to the Ambulatory Blood Pressure Monitoring trial (required by the FDA) that was deferred from 2020 due to Covid related restrictions. A further $0.2 million is attributable to expenses incurred to return Noctiva to active production with our contract manufacturer and $0.2 million for ongoing Natesto® product development activities.

Given the nature of our business and product pipeline, we will continue to incur research and development expenses in the future. Research and development expenditures will increase as we initiate further clinical studies to differentiate our Natesto® product and as we incur regulatory costs to get product approvals in Canada as well as to support our distribution partners as they file for approval outside North America. In addition, formulation optimization and product development costs may be incurred for products utilizing other in-licensed or in-housed developed technologies in the future as well as costs anticipated to develop the next generation of dispenser for Natesto®. Related to the acquisition of Noctiva™ product in March 2022, we will also incur development expenses to return the product to active production, which is expected by Q1 2023.

Selling, general and administrative

Selling, general and administrative expenses decreased by $1.4 million for the three months ended June 30, 2022, versus the prior period in 2021. Of the decrease, $0.7 million relates to a one-time charge recognized in the prior period to write off the accrued receivable recorded in Q4 2020 for the expected proceeds on the sale of Estrace as previously discussed. The balance of the decrease is primarily attributable to nonrecurring start up activities with Syneos incurred in the prior period as well as one time costs to ramp up new advertising agency programs.

We have begun the process of relaunching Noctiva™ in the US market expected by Q1 2023. Costs to be incurred associated with this strategy will include manufacturing start up (noted above), sales force development, marketing and brand advertising and other critical pre and post launch market and business development activities. These costs are expected to be material through the balance of the fiscal year.

Other expenses (income)

	Three months ending June 30,			
	2022	2021	Change $	Change %
Other expenses (income)				
Interest expense and other financing	$ 1,256	$ 408	$ 848	208 %
Interest income	(2)	(2)	(0)	0 %
Foreign exchange (gain) loss	(61)	(25)	(36)	144 %
Change in fair value of derivative financial instruments	(110)	(57)	(53)	93 %
	$ 1,083	$ 324	$ 759	234 %

The $0.8 million increase in interest expense and other financing costs is due to the increase in interest bearing debt: notably, the First Generation Loan Facility as well as accreted interest expense on the Aytu termination fee payable. Please also refer to the *First Generation Loan* discussion within the "*Long-term debt financing*" section.

Review of operating results – Six months ended June 30, 2022

Revenue and gross margin (loss)

	Six months ended June 30,			
	2022	2021	Change $	Change %
Product revenue	$ 1,530	$ 796	$ 734	92 %
Termination fee	-	(6,254)	6,254	n/a
	1,530	(5,458)	6,988	(128)%
Cost of goods sold	732	236	496	210 %
Gross margin	$ 798	$ (5,694)	$ 6,492	114 %

Revenue increased $0.7 million for the six months ended June 30, 2022, versus the prior period in 2021, reflecting the recognition of 100% of the gross margin on Natesto® sales in the US market versus a revenue share in the comparative period under the previous Aytu agreement. This change was effective April 1, 2021, following the termination of our previous agreement with Aytu effective March 31, 2021. We agreed to pay Aytu a termination fee of $7,500, payable in equal installments of $250 over 30 months, in return for buying back all of our rights to Natesto® in the U.S. market. The first installment was paid on April 15, 2021. We recorded a charge against revenue of $6,204 in the three months ended March 31, 2021, representing the fair value of the $7,500 obligation payable. The fair value was estimated by discounting the installment payments using a rate of 17%. A +/- 10% change in the discount rate would change the estimated fair value by +/- $106.

Cost of goods sold increased by $0.5 million for the six months ended June 30, 2022, versus the prior period in 2021, reflecting a $0.3 million charge to write down of Estrace raw material and obsolete inventory destruction charges with the remaining increase consistent with the increase in product revenue.

Operating expenses

	Six months ended June 30,			
	2022	2021	Change $	Change %
Operating expenses				
Research and development	$ 3,524	$ 1,901	$ 1,623	85 %
Selling, general and administrative	9,487	11,572	(2,085)	(18)%
	$ 13,011	$ 13,473	$ (462)	(3)%

Research and development

Research and development expenses have increased by $1.6 million for the six months ended June 30, 2022, versus the prior period in 2021 of which approximately $1.2 million is attributable to an increase in clinical trial activities for Natesto® in the U.S. related to the Ambulatory Blood Pressure Monitoring trial (required by the FDA) that was deferred from 2020 due to Covid related restrictions. A further $0.2 million is attributable to expenses incurred to return Noctiva to active production with our contract manufacturer and $0.2 million for ongoing Natesto® product development activities.

Given the nature of our business and product pipeline, we will continue to incur research and development expenses in the future. Research and development expenditures will increase as we initiate further clinical studies to differentiate our Natesto® product and as we incur regulatory costs to get product approvals in Canada as well as to support our distribution partners as they file for approval outside North America. In addition, formulation optimization and product development costs may be incurred for products utilizing other in-licensed or in-housed developed technologies in the future as well as costs anticipated to develop the next generation of dispenser for Natesto®. Related to the acquisition of Noctiva™ product in March 2022, we will also incur development expenses to return the product active production, which is expected by Q1 2023.

Selling, general and administrative

Selling, general and administrative expenses decreased by $2.1 million for the six months ended June 30, 2022, versus the prior period in 2021. Of the decrease, $0.7 million relates to a one-time charge recognized in the prior period to write off the accrued receivable recorded in Q4 2020 for the expected proceeds on the sale of Estrace as previously discussed. A further $0.3 million is attributable to reduced noncash depreciation and leasehold amortization expenses as a result of the move to smaller head office premises since the comparative period in 2021. The balance of the decrease is primarily attributable to nonrecurring start up activities with Syneos incurred in the prior period as well as one time costs to ramp up new advertising agency programs.

We have begun the process of relaunching Noctiva™ in the US market expected by Q1 2023. Costs to be incurred associated with this strategy will include manufacturing start up (noted above), sales force development, marketing and brand advertising and other critical pre and post launch market and business development activities. These costs are expected to be material through the balance of the fiscal year.

Other expenses (income)

	Six months ended June 30,			
	2022	2021	Change $	Change %
Other expenses (income)				
Interest expense and other financing costs	$ 2,728	$ 700	$ 2,028	290 %
Interest income	(3)	(7)	4	57 %
Foreign exchange (gain) loss	(22)	(40)	18	(45)%
Change in fair value of derivative financial instruments	(31)	12	(43)	n/a
Loss on modification of debt	-	64	(64)	n/a
	$ 2,672	$ 729	$ 1,943	267 %

The $2.0 million increase in interest expense and other financing costs is due to the increase in interest bearing debt: notably, the First Generation Loan Facility as well as accreted interest expense on the Aytu termination fee payable. Please refer to the *First Generation Loan* discussion within the "*Long-term debt financing*" section.

Select quarterly information

The following table highlights selected unaudited condensed interim consolidated financial data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2021. The selected financial information presented below reflects all adjustments, consisting primarily of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These results are not necessarily indicative of results for any future period, and you should not rely on these results to predict future performance.

	Three months ended			
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Statement of operations data				
Product revenue	$ 748	$ 782	$ 738	$ 587
Cost of goods sold	481	251	393	489
Research and development	2,234	1,290	3,309	1,353
Selling, general & administrative expense	4,885	4,602	5,234	5,046
Finance costs, net	1,083	1,589	825	925
Litigation settlement proceeds	-	-	-	(2,328)
Net loss	(7,935)	(6,950)	(9,023)	(4,898)
Basic and diluted net loss per common share	$ (1.03)	$ (0.90)	$ (1.17)	$ (0.64)

	Three months ended			
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Statement of operations data				
Product revenue	$ 562	$ 234	$ 271	$ 493
Termination Fee	(50)	(6,204)	-	-
Cost of goods sold	45	191	846	743
Research and development	928	973	744	760
Selling, general & administrative expense	6,285	5,287	5,617	5,634
Finance costs, net	324	405	167	404
Net loss	(7,070)	(12,826)	(7,103)	(7,048)
Basic and diluted net loss per common share	$ (0.92)	$ (1.67)	$ (1.42)	$ (1.40)

The fluctuations in reported results during these periods resulted primarily from the following factors:

- As noted in the "Key products and developments*"* section, we terminated our previous agreement with Aytu on March 31, 2021. Commencing April 1, 2021, we now earn 100% of the gross margin on the sale of Natesto® in the US market. As a result of this change, we are now able to recognize revenue on the basis of monthly sales into our sales channels rather than on periodic bulk shipments to Aytu. Fluctuations in product revenue balances prior to Q2 2022 are mainly due to the timing of Natesto® inventory shipments to Aytu in the U.S. and declining Estrace® sales due to supply interruptions. Revenues in Q3 2020 reflect a shipment of Natesto® to Aytu, recognition of the potential related top-up revenue, revenue adjustments related to new rebate and trial card programs and an adjustment to previously recognized top-up revenue due to disposal of short-dated product.
- The litigation settlement proceeds recognized in Q3 2021 were received from Recipharm upon acceptance of their offer to settle our claim arising from the violation of the manufacturing license agreement for the production of Estrace®. Please also refer to the "Litigation" section of our annual audited consolidated financial statements for the year ended December 31, 2021.
- In Q1 2021 we recorded a charge against revenue of $6,204 representing the fair value of the $7,500 termination fee obligation payable to Aytu. We also paid a fee of $50 in May 2021 to Carnot Laboratorios to terminate our current agreement.
- Q2 2022 cost of goods sold includes charges of $0.3 million for the balance of Estrace raw material and destruction charges. Q3 2021 cost of goods sold includes a charge of $0.3 million to write off an off-specification production batch of Natesto®. Q2 2021 cost of goods sold includes a recovery of raw material previously written down as well as positive product reruns experience adjustments related to the 2019 recall of Nateso® Q3 2020 cost of goods sold reflects a charge of $275 for spoilage of slow-moving raw materials. An additional provision for spoilage of $0.5 million was recognized against Q4 2020 cost of goods sold.
- Research and development expenses have, on balance, returned to normalized levels primarily related to clinical trials since the curtailment of clinical trial activities in Q2 2020 due to CIOVD-19 restrictions. However, expense variability is nonetheless evident, primarily attributable to the FDA required Ambulatory Blood Pressure Monitoring trial. Research and development expenses for Q4 2021 reflects an impairment charge of $1.7 million for TriVair. A charge of $0.2 million was also recognized in March 2021 related to additional costs to achieve the manufacturing transfer related to the sale of Estrace® in 2020.
- Selling, general and administrative expense in the last four quarters have normalized albeit affected somewhat by normal sales force churn and intermittent COVID 19 restrictions. Increases from Q3 2020 through Q2 2021 reflects the completed ramp up of contracted resources deployed under our agreement with Syneos to promote Natesto® in the U.S.. Expenses for Q3 2021 include a recovery of $0.4 million for reimbursement of legal expenses incurred in the Recipharm litigation. The increase in Q2 2021 reflects a noncash loss of $0.7 million for the loss on the Estrace accrued receivable and costs spent on marketing and advertising campaigns for Natesto® in the US market with a new advertising agency.

Financial position

The following table presents a summary of our financial position:

	June 30, 2022	December 31, 2021	Change $	Change %
Working capital (total current assets less total current liabilities)	$ (13,620)	$ (3,424)	$ (10,196)	298 %
Non-current assets	37,311	1,003	36,308	3,620 %
Long-term obligations	35,402	23,593	11,809	50 %
Shareholders' deficit	(11,711)	(26,014)	14,303	(55)%

Working capital

The $10.2 million decrease in working capital between December 31, 2021 to June 30, 2022 reflects the following:

- $0.9 million decrease in cash attributable to $10.7 million of cash used from operations, $6.6 million used for principal and interest payments, offset by $17.9 million in advances on the loan facility from First Generation and a combined $1.5 million in cash investing activities in property & equipment and the Noctiva™ intangible asset acquisition.
- $5.4 million increase in accounts payable and accrued liabilities maximizing available credit limits as well as the assumption of $1.9 million of liabilities related to the Noctiva™ intangible asset acquisition.
- $0.2 million decrease in prepaids due to movements in supplier prepayments.
- $0.1 million decrease in inventory reflecting write down of obsolete raw materials.
- $5.7 million increase in promissory note issued related to Noctiva™ intangible asset acquisition.
- $0.7 million increase in current portion of termination fee payable for obligation.

Offset by:

- $0.6 million increase in accounts receivable from increase in Natesto® sales.
- $2.2 million decrease in current portion of long-term debt attributable to the extinguishment of the SWK loan in February 2022.

Non-current assets

Non-current assets consist of property and equipment, right of use asset and intangible assets. Property and equipment mainly consist of office furniture and manufacturing equipment. Right of use asset relates to the lease our new head office leased premises in Mississauga, Canada. Intangible assets consist of technology and patent product rights. At June 30, 2022 manufacturing equipment with a net book value of $0.4 million was held off-site by a third party ($0.4 million at December 31, 2021). The $36.3 million increase in non-current assets at June 30, 2022 versus December 31, 2021 is entirely attributable to the acquisition of Noctiva™ described in the *Key products and developments* section above.

Long-term obligations

Long-term obligations consist of long-term debt, the long-term portion of the termination fee, derivative financial instruments and lease liability.

Please refer to the "*Long-term debt financing*" section above for details on settlement of the SWK facility and the First Generation loan facility.

Shareholders' deficiency

On April 19, 2022, we announced that we intended to undertake a consolidation of its outstanding common shares on the basis of one (1) post-consolidation share for every two hundred (200) pre-consolidation shares (the "Consolidation"). The Consolidation was previously approved by shareholders of the Company at the annual and special meeting of shareholders of the Company held on June 14, 2021. Subsequently approved by the Toronto Stock Exchange ("TSX") on April 26, 2022, the common shares began trading on the TSX on a post-consolidation basis beginning at the open of markets on April 29, 2022.

As a result of the Consolidation, the number of common shares issued and outstanding was reduced from 1,541,549,299 to 7,707,738 on a non-diluted basis. All fractions of post-consolidation shares were rounded down to the nearest whole number.

We are authorized to issue an unlimited number of common shares. Each common share entitles the holder thereof to receive notice of and exercise one vote at all meetings of shareholders. As at June 30, 2022, we had 7,707,738 common shares issued and outstanding and 559,635 outstanding stock options with a weighted average exercise price of CDN$10.43.

The $14.3 million increase in shareholders' deficit at June 30, 2022 versus December 31, 2021 is primarily due to the $14.9 million net loss offset by a $0.4 million of share based compensation, $2.7 million from the fair value adjustment on the loan facility and $26.1 million recorded for contingent consideration related to the acquisition of Noctiva™, all relieved to contributed surplus. In addition, $0.2 million was transferred from Contributed surplus to Share capital to reflect the issuance of 19,806 common shares for RSUs that had vested.

Liquidity and capital resources

Liquidity risk

As detailed in the long-term obligations section above, a principal amount of $37.945 million has been drawn on the First Generation loan facility as at June 30, 2022. See "*Long-term debt financing*" section for more detail.

Liquidity risk is the risk that we may encounter difficulties in meeting our financial liability obligations as they become due. The purpose of liquidity management is to ensure that there is sufficient cash to meet all of our financial commitments and obligations as they come due. We control liquidity risk through management of working capital, cash flows, and sourcing of funding. We have planning and budgeting processes in place to help determine the funds required to support our normal operating requirements on an ongoing basis. Since inception, we have financed our cash requirements primarily through issuances of equity securities and long-term debt.

The unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2022 have been prepared on a going concern basis, which assert that we have the ability in the near term to continue to realize our assets and discharge our liabilities and commitments. At June 30, 2022, $0.4 million remained committed on the First Generation loan facility. We have assessed our ability to continue as a going concern and concluded that in order to complete our planned product development and commercialization programs, additional capital will be required within the next quarter. Furthermore, the Company will require additional funding from lenders or investors, to pay its current liability obligations, including the $6 million up-front fee on the acquisition of Serenity LLC, and to meet its forecast cash flow requirements over the next year.

Our ability to accomplish our strategic plans is dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations, 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. For example, delays in reintroducing Natesto® to the Canadian market, or unsuccessfully executing on our US market strategy, could result in the Company failing to meet projected revenues or other budgeted targets. In addition, factors within and outside our management's control could have a significant bearing on our ability to obtain additional financing.

Cash flows

	For the six months ended June 30,			
Cash flows from/(used in):	2022	2021	Change $	Change %
Operating activities	$ (10,709)	$ (11,753)	$ 1,044	9 %
Financing activities	11,344	5,159	6,185	n/a
Investing activities	(1,508)	44	(1,552)	(3,527)%
Net (decrease) increase in cash	$ (873)	$ (6,550)	$ 5,678	n/a

At June 30, 2022, we had a cash balance of $1.3 million. Please note discuss above regarding liquidity risk.

The cash outflow from operating activities of $10.7 million for the six months ended June 30, 2022 is a result of a $14.9 million net loss, offset by an $0.9 million inflow from working capital and offset by $3.3 million in non-cash expenses. The cash outflow from operating activities of $11.8 million for the six months ended June 30, 2021 is a result of a $19.9 million net loss, offset by a $6.4 million inflow from working capital and offset by $1.7 million in non-cash expenses.

The cash inflow from financing activities of $11.3 million for the six months ended June 30, 2022 was due to $17.9 million in advances on the First Generation loan offset by $6.6 million in principal and interest payments on the former SWK debt. The cash inflow of $5.2 million from financing activities for the six months ended June 30, 2021 was due to $7.0 million in advances on the First Generation loan offset by $1.6 million in principal and interest payments on the New facility with SWK and by $0.2 million in capital lease payments.

Capital expenditures

Capital expenditures of $1.5 million for the six months ended June 30, 2022 related primarily to the cash acquisition costs for Noctiva™ versus $nil million in the comparative six month period in 2021.

Contractual obligations and commitments

As of June 30, 2022, and in normal course of business, we have the following obligations to make future payments, representing contracts and other commitments that are known and committed.

	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	$ 9,459	$ 938	$ 300	$ -	$ -	$ 10,697
Purchase commitments	4,276	4,670	1,432	1,228	-	$ 11,606
Termination Fee	1,250	750	1,500	750	-	$ 4,250
Lease liability (principal and interest)	11	11	22	45	142	$ 230
Promissory Note	2,838	2,837	-	-	-	$ 5,675
Long-term debt (principal and interest)	-	-	-	-	48,497	$ 48,497
As at March 31, 2022	17,834	9,205	3,254	2,023	48,639	$ 80,956

More significant purchase commitments include $3.8 million contracted with Syneos Health (discussed under "*Natesto® in the U.S.*" above), $2.0 million contracted for the US APBM trial, $1.6 million for the relaunch of Natesto® in Canada, $0.9 million for production of Nateso® and $1.4 million for re-establishing the production of Noctiva™.

Please refer to the "*Long-term debt financing*" sections for details on the First Generation loan facility.

In relation to the pulmonary and nasal dry powder delivery technology ("TriVair"), there is a milestone payment of $2.0 million due upon FDA approval for each product up to a maximum of $8.0 million (see note 5(b) of the December 31, 2021 consolidated financial statements) for products submitted for approval by ABI itself.

We may also be required to make certain regulatory or sales-based milestone payments as part of other in-licensing agreements as described in notes 5(d) and (e) in the consolidated financial statements for the year ended December 31, 2021.

In relation to the acquisition of Serenity Pharmaceuticals LLC, in addition to the purchase consideration for Noctiva™ described in the "*Key products and developments*" section above, we have agreed to pay milestone payments in the form of royalties to the vendors as follows:

- For sales in the US and Canada: 12% on annual net sales less than or equal to $50 million; 15% on annual net sales between $50 million and $100 million; and 18% on annual net sales exceeding $100 million.
- For sales outside of the US and Canada: 40% of net profits earned by licensed distributors.

These payments are not reflected in the purchase price of the intangible asset. These royalties cease if a generic version is launched.

We also agreed to pay a success fee to Torreya Capital LLC on total consideration paid on the acquisition of Serenity Pharmaceuticals LLC. The fee is computed as 10 % of all paid and issued consideration; notably cash consideration, contingent share consideration, assumed liabilities and future royalty payments to Serenity Pharmaceuticals LLC up to the first $12,500,000 of aggregate consideration. Thereafter, a fee of 3% is earned on any aggregate consideration paid in excess of $41,666. An estimate of this fee has been accrued and capitalized as part of the costs of acquiring the Noctiva™ intangible asset described in the "*Key products and developments*" section above.

Related party transactions

Key management includes our directors and executive officers. The remuneration of directors and key members of management and professional fees paid for the three and six months ended June 30, 2022 and 2021were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Short-term compensation of key management and directors	$ 598	$ 504	$ 1,208	$ 1,054
Share-based compensation	184	157	397	425
Interest expense	730	53	1,270	53
	$ 1,512	$ 714	$ 2,875	$ 1,532

These transactions are in the normal course of operations.

Trade and other accounts receivable includes $78 due from an executive officer for payroll withholdings remitted upon the vesting of RSUs. The amount due bears interest at the Canada Customs and Revenue Agency prescribed rate, currently 1%.

Executive employment agreements allow for total additional payments of approximately $2.3 million if all are terminated as a result of a change in control, $2.3 million if all are terminated without cause, and $nil if all are terminated with cause.

As at June 30, 2022, Acerus had a $15.4 million receivable ($14.0 million receivable as at December 31, 2021) from its wholly owned subsidiary ABI. The receivable is non-interest bearing, due on demand and eliminates upon consolidation.

Please refer to the *"Shareholders' deficiency"* section for details on an equity movements.

First Generation's share ownership is 89.3% as at June 30, 2022 a decrease from 89.5% as at December 31, 2021 due to the issuance of common shares for RSUs that have vested.

Dividends

We intend to re-invest future earnings to finance our growth and therefore do not intend to pay dividends in the foreseeable future. Any subsequent decision to pay dividends is at the discr3tion of the Board of Directors and will depend on our financial position, operating results, capital requirements and other factors deemed relevant by the Board of Directors.

Financial instruments

As at June 30, 2022, our financial instruments consisted of cash, trade and other receivables, contract assets, accounts payable and accrued liabilities, promissory note, long-term debt, and derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statement of loss and comprehensive loss and is classified as Level 2. Cash, trade and other receivables, contract assets, accounts payable and accrued liabilities and the promissory note are measured at amortized costs and their fair values approximate carrying values due to their short-term nature.

The long-term debt with First Generation is measured at amortized cost. At June 30, 2022, the fair value of the First Generation debt, the termination fee payable and the lease liability approximates their current carrying values of $34,349, $3,876 and $335 respectively.

Currency risk

We are exposed to currency risk related to the fluctuation of foreign exchange rates. We are exposed to currency risk through net assets denominated in Canadian dollars, Euros, and British Pounds of the parent company, whose functional currency is the US dollar.

	June 30, 2022		
	CDN	EUR	GBP
Cash	$ 106	$ -	$ -
Accounts payable and accrued liabilities	(2,503)	(72)	(33)
Lease liability	(431)	-	-
	$ (2,828)	$ (72)	$ (33)

Based on the above net exposure at March 31, 2022, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the U.S. dollar against the other currencies would have resulted in the following impact on net (loss)/income:

US Dollar

Net income effect:

	CDN	EUR	GBP	Total
Appreciate 5%	$ 105	$ (4)	$ (3)	$ 98
Depreciate 5%	(116)	4	3	(109)

Credit risk

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

We monitor the collectability of trade and other receivables and estimates on allowance for doubtful accounts. As at March 31, 2022, the allowance for doubtful accounts was $nil. Allowance for doubtful accounts is minimal because there has not been a significant change in credit quality and all amounts are considered recoverable.

Market risk

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

Assuming that all other variables remain constant, a 5% appreciation or depreciation of our share price would have resulted in an immaterial impact on our net loss.

Accounting pronouncements

The accounting policies applied are consistent with the significant accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2021. These policies have been consistently applied to all periods presented except as noted below regarding the change in functional currency.

Critical accounting estimates

In preparing our condensed interim consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates. Estimates are based on our best knowledge of current events and actions that we may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and any future periods are affected.

Going concern

The condensed interim consolidated financial statements for the three and six months ended June 30, 2022 were prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future. We have assessed our ability to continue as a going concern and concluded that, notwithstanding the funding received from First Generation, and the settlement of the SWK credit facility, in order to complete our planned product development and commercialization programs and execute our strategic plans, additional capital will be required within the next quarter. Furthermore, the Company will require additional funding from lenders or investors, to pay its current liability obligations, including the $6 million up-front fee on the acquisition of Serenity LLC, and to meet its forecast cash flow requirements over the next year. Our ability to accomplish our 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 in 2022, or unsuccessfully executing its US

market strategy for either Natesto® or Noctiva™ could result in the Company failing to meet projected revenues or other budgeted targets. In addition, factors within and outside our management's control could have a significant bearing on our ability to obtain additional financing. These circumstances cast significant doubt as to our ability to realize our assets, meet our contractual obligations and commitments as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Revenue recognition

We record Product revenue from sales in North America at the invoiced amount less estimated accruals for gross to net adjustments; namely, early pay discounts, rebates, co-pay, distribution fees, chargebacks and returns. Information about the judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of product revenue are discussed below.

Rebates & Co-Pay

The accrual for rebates and co-pay is a significant and complex estimate used in the recognition of product revenue and represents variable consideration under IFRS 15. Rebates are negotiated with individual PBMs as a percentage off of WAC pursuant to agreements signed with the Company. In return, the PBM agrees to list the Company's drug on its health plan formulary typically in a preferential priority to other drug therapy alternatives. Rebates are invoiced by and paid directly to the PBMs for products subsequently prescribed under the health plans administered by them. Co-Pay represents the Company's cash discount offered to patients directly to cover the remaining out of pocket costs for the Company's products after rebates are applied. The cash rebate is claimed using a Co-Pay card issued to the patient, which is administered by a third party vendor. In our assessment, we estimate accruals for rebates & co-pay based on current contractual terms, historical claims experience and forward looking projected prescription forecasts of shipments from wholesalers that will be dispensed for eligible benefit plan participants. While such experience has allowed for reasonable estimates in the past, historical claims and forward looking forecasts may not always be an accurate indicator of future rebate & co-pay liabilities. We continually monitor the accrual for rebates and co-pay and makes adjustments when we believe that actuals may differ from established accruals. Rebates and co-pay charges are recognized as a reduction of sales revenue in the period in which the underlying sales are recognized.

Returns

The accrual for returns is a significant and complex estimate used in the recognition of product revenue and represents variable consideration under IFRS 15. Our wholesaler agreements provide for an 18-month window for the return of short dated product which commences 6 months before the products expiry date. Accruals for returns are recognized in the period the underlying product revenue is recognized. We estimate accruals for returns based on assumptions of the inventory of its products in the wholesale distribution channel that remain subject to returns, developed using existing return policies with customers, product expiry dates, data from wholesalers and large pharmacy chains of their inventory levels, external prescription data, historical returns experience and projected future returns. During the six months prior to the termination of the Aytu agreement, Aytu experienced higher than previously expected returns of Natesto. History may not always be an accurate indicator of future returns. The key estimates used to calculate the returns accrual include an assumed return rate of 1% and an assumed inventory in the retail channel equal to approximately one months' sales. If the assumed returns rate was to increase or decrease by 100% (i.e. 1% to 2%), the return accrual would increase or decrease by $70 respectively. We continually monitor accruals for returns and makes adjustments when we believe that actual product returns may differ from established reserves. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns.

Impairment of non-financial assets

We have an intangible asset relating to a technology platform ("TriVair") for pulmonary and nasal delivery of pharmaceutical medication that was acquired in 2009. Future revenues from 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. We have 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. We are 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.

During December 2021, the Company was informed that the application to prosecute a patent for TriVair for the US market was rejected for a second time. This decision culminated several years of effort with the US regulator. A Request for rehearing was filed in January 2022 to support a third submission, which was also subsequently rejected in February 2022. The likelihood of the existing design being patented for the US market without either a significant design modification, or a limitation in therapy application regarding pulmonary and/or nasal delivery, remains unlikely.

The recoverability of this intangible asset was dependent on successful technology development and subsequent commercialization of related products. Despite successfully prosecuting the TriVair patent in other non-US markets, the absence of success in the US market has impeded any significant commercial success to date. In the absence of a US market patent prosecution, and in the absence of any commercial opportunities to date for the existing technology in non-US markets, the recoverable amount of the intangible asset was reduced to $nil at December 31, 2021 with a charge of $1,656 recorded in research and development expense. The remaining life of the TriVair patents within other jurisdictions where a patent has been successfully prosecuted; notably, Canada and Japan, is 15 years and 7 months.

Derecognition of Estrace product right intangible asset and related accrued receivable

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. However, as the Company was 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.

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 the acquired assets was considered to have 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 were derecognized and a loss of $1,629 recorded on their disposal in the year ended December 31, 2020, assuming disposal proceeds of $691 and after providing for $288 of costs expected to be incurred 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 in the year ended December 31, 2020, which was included in contract assets. As certain launch conditions were not met by June 30, 2021 (and have still not been met), 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 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 has been reduced to $nil on June 30, 2021 to reflect our estimate of the amount highly probable of not being subject to a significant reversal if/when these uncertainties are resolved. As delays persisted through December 31, 2021, a further charge of $150 was recorded in cost of goods sold to reflect our estimate of the net realizable value of raw materials currently held at the new contract manufacturer should we not ultimately be able to complete the manufacturing transfer.

As noted in the "Key products and developments" section above, during March 2022, a final demonstration batch was produced to ascertain whether the new contract manufacturer had achieved a like for like production to support an L3 attestation. The results did not support the attestation. As a result, we agreed with the third party to whom the product rights were sold to transfer our marketing authorizations and to terminate any further work related to qualifying the new contract manufacturer. Acerus will not receive any payments on future sales of Estrace®, if any. A final charge of $201 was recorded in cost of goods sold to reflect a net realizable value of $nil for raw materials currently held at the new contract manufacturer. An accrual of $147 remains as at June 30, 2022 to reflect final costs to terminate all agreements related to this activity. No further costs were accrued at June 30, 2022 to conclude this activity.

Non-IFRS financial measures

The non-IFRS measures included in this MD&A are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Despite the importance of these measures to management in goal setting and performance measurement, we stress that these are non-IFRS measures that may be limited in their usefulness to investors.

We use non-IFRS measures, such as EBITDA and Adjusted EBITDA to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the valuation of issuers. We also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure and working capital requirements.

The definition and reconciliation of EBITDA and Adjusted EBITDA used and presented by the Company to the most directly comparable IFRS measures follows below.

EBITDA and Adjusted EBITDA

EBITDA is defined as net (loss)/income adjusted for income tax, depreciation of property and equipment, amortization of intangible assets, interest on long-term debt and other financing costs, interest income, and changes in fair values of derivative financial instruments. Management uses EBITDA to assess the Company's operating performance.

Adjusted EBITDA is defined as EBITDA adjusted for, as applicable, licensing and other revenue, royalty expenses associated with triggering events, Buyout, milestones, share based compensation, impairment of intangible asset, foreign exchange (gain)/loss and the impact of charges related to a product recall. We use Adjusted EBITDA as a key metric in assessing our business performance when we compare results to budgets, forecasts and prior years. Management believes Adjusted EBITDA is a good alternative measure of cash flow generation from operations as it removes cash flow fluctuations caused by extraordinary and non-recurring items, including changes in working capital. A reconciliation of net loss to EBITDA (and Adjusted EBITDA) is set out below.

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Net loss	$ (7,935)	$ (7,070)	$ (14,885)	$ (19,896)
Adjustments:				
Amortization of intangible assets	10	38	20	75
Depreciation of property and equipment	39	221	78	443
Depreciation of right of use asset	7	3	15	3
Interest expense and other financing costs*	1,256	408	2,728	700
Interest income	(2)	(2)	(3)	(7)
Change in fair value of derivative	(110)	(57)	(31)	12
Loss on modification of debt	-	-	-	64
EBITDA	$ (6,735)	$ (6,459)	$ (12,078)	$ (18,606)
Termination Fees	-	50	-	6,254
Share based compensation	180	176	417	467
Foreign exchange (gain) loss	(61)	(25)	(22)	(40)
Gain from sale of property and equipment	-	56	-	56
Adjusted EBITDA	$ (6,616)	$ (6,202)	$ (11,683)	$ (11,869)

* This figure includes interest expense, amortization of deferred financing costs and accretion expense related to our outstanding debts.

Management's responsibility for financial reporting

Disclosure controls and procedures and internal controls over financial reporting

As at June 30, 2022 management has disclosure controls and procedures ("DCP") that provide reasonable assurance that information required to be disclosed by the Company in its filings under Canadian securities legislation is recorded, processed, summarized and reported in a timely manner. The system of DCP includes, among other things, the Company's Corporate Disclosure and Whistleblower policies and Code of Conduct, the review and approval procedures of the Disclosure Committee and continuous review and monitoring procedures by senior management.

As at June 30, 2022 management has designed internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. These controls were designed based on the framework established by Internal Control - Integrated Framework: 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Due to its inherent limitations, ICFR may not prevent or detect misstatements. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial reporting.

Changes in internal controls over financial reporting

There have been no changes to the Company's internal controls over financial reporting during the three and six months ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Litigation

Schenk Litigation

Valeant Pharmaceuticals International, Inc. and Valeant International Bermuda ("Valeant") are defendants in Ontario Superior Court of Justice Action No. CV-11-438382, which claims a declaration that Valeant is contractually obligated to compensate the plaintiff, Reiner Schenk ("Schenk") pursuant to the terms of a contract between Schenk and Biovail Corporation. The main action was commenced by Notice of Action issued on October 31, 2011 and a Statement of Claim was issued on December 14, 2011. Acerus Pharmaceuticals Corporation was named as one of the defendants in the main action, but the action was discontinued as against Acerus on December 14, 2011. On October 29, 2013, Valeant commenced a third party claim against Acerus (among others) claiming contribution, indemnity and other relief over to the full extent that Valeant may be held liable to Schenk, and damages for breach of fiduciary duty, breach of contract and intentional interference with economic relations in any amount for which Valeant is found liable to Schenk. Acerus has defended the third-party claim, denying any liability to Valeant. The parties have concluded examinations for discovery and attended a pre-trial conference in February 2020. The trial 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 parties attended a further pre-trial conference in December 2021 and the trial is now expected to take place in January 2023. As of June 30, 2022, the Company has not accrued for any potential claims.

Jones Day litigation

On December 11, 2019, Jones Day commenced an action in the New York State Supreme Court against Serenity, and certain members of its senior management, for alleged unpaid legal bills. On September 21, 2020, Serenity filed an answer with counterclaims against Jones Day. Serenity's counterclaim alleges breach of contract in connection with Jones Day's representation of Serenity in a prior lawsuit, fraud in respect of certain billing issues and malpractice. Also on September 21, 2020, the senior management members filed a motion to dismiss Jones Day's complaint as against them. Jones Day also brought a motion to dismiss Serenity's counterclaims. On May 12, 2020, a decision was rendered in both motions. Serenity's motion was dismissed and Jones Day's motion was granted with respect to the counterclaims in fraud and malpractice, but dismissed in respect of the breach of contract claim. The parties are now proceeding through discovery, which is anticipated to be complete by August 31, 2022. Whilst we feel confident in successfully upholding our claim of breach of contract and fending off the Jones Day demands, a provision of $2,189 has been recorded at June 30, 2022 to provide for a conservative estimate of anticipated costs of discovery, legal fees and other costs and potential settlement.

Subsequent Events

First Generation advance

On August 5, 2022, the Company announced that it had entered into an amending agreement with First Generation to increase the existing secured loan facility from US$37.945 million to $47.945 million. This increase will be made available by way of two advances of US$5.0 million each on August 5 and 8, 2022, under a secured grid promissory note with First Generation.

Additional information

Additional information about Acerus, including the Company's Annual Information Form dated March 14, 2022, is available in documents filed by the Company with Canadian securities regulatory authorities and made available on the System for Electronic Document Analysis and Retrieval at www.sedar.com.