ACERUS PHARMA

ACERUS PHARMACEUTICALS CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

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

March 7, 2017

Independent Auditor's Report

To the Shareholders of
Acerus Pharmaceuticals Corporation

We have audited the accompanying consolidated financial statements of Acerus Pharmaceuticals Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of income/loss and comprehensive income/loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Acerus Pharmaceuticals Corporation and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Acerus Pharmaceuticals Corporation and its subsidiaries' ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario

ACERUS PHARMACEUTICALS CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016 AND 2015

(expressed in thousands of U.S. dollars)

ASSETS

	Notes	December 31, 2016	2015
CURRENT			
Cash		$ 5,199	$ 6,333
Trade and other receivables	6	1,059	1,938
Licensing fee receivable	14	4,150	-
Inventory	7	3,770	3,750
Prepaids and other assets	8	226	176
		14,404	12,197
NON-CURRENT ASSETS			
Property and equipment	9	1,710	2,066
Intangible assets	10	13,602	15,011
Deferred income tax	19	-	300
TOTAL ASSETS		$ 29,716	$ 29,574

LIABILITIES

	Notes	2016	2015
CURRENT			
Accounts payable and accrued liabilities	11	$ 3,322	$ 1,999
Current portion of deferred lease inducement	12	47	40
Current portion of long-term debt	13	4,092	2,616
Current portion of deferred revenue and customer deposits	14	1,006	21,461
		8,467	26,116
NON-CURRENT LIABILITIES			
Deferred lease inducement	12	352	396
Long-term debt	13	2,357	5,415
Deferred revenue	14	6,198	-
Derivative financial instruments	15	141	106
TOTAL LIABILITIES		$ 17,515	$ 32,033

SHAREHOLDERS' EQUITY (DEFICIENCY)

	Notes	2016	2015
Share capital	16	$ 151,766	$ 149,766
Warrants	16	37	37
Contributed surplus		10,440	10,166
Accumulated other comprehensive loss		(15,931)	(17,198)
Deficit		(134,111)	(145,230)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		12,201	(2,459)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 29,716	$ 29,574

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

Going concern (note 1)

Commitments and contingencies (note 23)

These consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2017.

ACERUS PHARMACEUTICALS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

		December 31,	
	Notes	**2016**	**2015**
REVENUE			
Product revenues		$ 7,013	$ 9,028
Licensing and other fees		17,473	7,887
		24,486	16,915
EXPENSES			
Cost of sales (includes royalty expense of $1,451 and $nil for the year ended December 31, 2016 and 2015 respectively)	17	4,453	5,108
Research and development	17	1,596	2,874
Selling, general and administrative	17	5,478	5,781
Impairment of intangible asset	10	-	14,210
Total operating expenses		11,527	27,973
FINANCE COSTS, NET			
Interest on long-term debt and other financing costs	18	1,179	3,792
Interest income		(17)	(129)
Foreign exchange (gain)/loss		341	(4,192)
Change in fair value of derivative financial instruments	15	37	(1,108)
		1,540	(1,637)
TOTAL EXPENSES		13,067	26,336
INCOME/(LOSS) BEFORE INCOME TAXES		11,419	(9,421)
INCOME TAXES			
Current	19	-	21
Deferred	19	300	(411)
		300	(390)
NET INCOME/(LOSS)		$ 11,119	$ (9,031)
Basic weighted average shares outstanding	20	209,193,404	200,873,234
Diluted weighted average shares outstanding	20	210,479,254	200,873,234
Basic and diluted net earnings/(loss) per common share	20	$ 0.05	$ (0.04)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		1,267	(10,362)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		$ 12,386	$ (19,393)

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

ACERUS PHARMACEUTICALS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(expressed in thousands of U.S. dollars)

	Notes	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive loss**	**Deficit**	**Total**
Balance, January 1, 2015		$ 149,766	$ 1,040	$ 8,690	$ (6,836)	$ (136,199)	$ 16,461
Net loss for the year		-	-	-	-	(9,031)	(9,031)
Foreign currency translation adjustment		-	-	-	(10,362)	-	(10,362)
Total comprehensive loss for the year		-	-	-	(10,362)	(9,031)	(19,393)
Warrant expiry, net of tax	16		(1,003)	892	-	-	(111)
Share based compensation	21	-	-	584	-	-	584
Balance as at December 31, 2015	.	$ 149,766	$ 37	$ 10,166	$ (17,198)	$ (145,230)	$ (2,459)
Balance, January 1, 2016		$ 149,766	$ 37	$ 10,166	$ (17,198)	$ (145,230)	$ (2,459)
Net income for the year		-	-	-	-	11,119	11,119
Foreign currency translation adjustment		-	-	-	1,267	-	1,267
Total comprehensive income for the year		-	-	-	1,267	11,119	12,386
Common shares issued	16	2,000	-	-	-	-	2,000
Share based compensation	21	-	-	274	-	-	274
Balance as at December 31, 2016		$ 151,766	$ 37	$ 10,440	$ (15,931)	$ (134,111)	$ 12,201

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

ACERUS PHARMACEUTICALS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(expressed in thousands of U.S. dollars)

	Notes	**2016**	**2015**
CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES			
Net income/(loss) for the year		$ 11,119	$ (9,031)
Items not requiring an outlay of cash:			
Adjustment for unrealized foreign exchange gain		103	(1,646)
Deferred licensing revenue	14	(17,473)	(7,887)
Amortization of intangible assets	10	1,811	1,843
Depreciation of property and equipment	9	397	564
Amortization of deferred leasehold inducement	12	(48)	(20)
Interest on long-term debt and other financing costs	18	1,179	3,792
Change in fair value of derivative financial instruments	15	37	(1,116)
Share based compensation	21	274	584
Impairment of intangible asset	10	-	14,210
Loss on disposal of property and equipment		4	10
Deferred income tax expense/(recovery)		300	(411)
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		950	(452)
Inventory		(191)	846
Prepaids and other assets		(43)	(86)
Accounts payable and accrued liabilities		1,341	(2,210)
Deferred revenue	14	4,000	493
Customer deposits		(549)	(505)
		3,211	(1,022)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Interest and financing fees paid		(686)	(2,648)
Proceeds from issuance of common shares, net of financing costs	16	2,000	-
Proceeds from debt financing		-	8,000
Payment of long-term debt obligations	13	(5,786)	(25,000)
		(4,472)	(19,648)
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Acquisition of property and equipment, net of deposits	9	(71)	(779)
Proceeds from sale of property and equipment		-	97
		(71)	(682)
NET DECREASE IN CASH FOR THE YEAR		(1,332)	(21,352)
Exchange gain/(loss) on cash		198	(3,332)
CASH BEGINNING OF YEAR		6,333	31,017
CASH END OF YEAR		$ 5,199	$ 6,333

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

1. GOING CONCERN

These audited consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future.

The ability of Acerus Pharmaceuticals Corporation ("Acerus") and its subsidiaries (together, the "Company") to realize its assets and meet its obligations as they come due is dependent on successfully commercializing its existing products, bringing new products and technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company will require additional funding, either from commercial sales of its existing products, commercial transactions or investors, to continue the development and commercialization of additional products. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Management has assessed the Company's ability to continue as a going concern and concluded that in order to complete its planned product development and commercialization programs, capital may be required. This assessment included taking into account the impact of events that occurred in the last quarter of fiscal 2015 namely, the approval of a generic Estrace$^{®}$ drug in Canada and the termination of the Company's Natesto™ marketing and distribution agreement for the U.S. and Mexican markets. The assessment also included the impact of the launch of Natesto$^{®}$ in Canada and the new Natesto$^{®}$ license and supply agreement entered into with Aytu BioScience Inc. ("Aytu") on April 22, 2016 pursuant to which Aytu has been commercializing Natesto$^{®}$ in the U.S. following the product's return to the Company on June 30, 2016 and the planned launch of Gynoflor^{TM}. Subsequent to year end, the Company received the final $4,000 upfront payment from Aytu, which was used to repay the outstanding debt. It is expected that the cash flows generated from these revenue streams will be used to fund current operations, obligations and other initiatives. The Company's ability to accomplish its strategic plans is dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations and possibly obtaining additional financing, executing other strategic initiatives that could provide cash flows, or alternatively curtail expenditures. There are no assurances that any of these initiatives will be successful. Factors within and outside the Company's control could have a significant bearing on its ability to obtain additional financing.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. DESCRIPTION OF BUSINESS

These audited consolidated financial statements represent the consolidated accounts of Acerus (incorporated in Ontario, Canada) and its wholly-owned subsidiaries, Acerus Pharmaceuticals SRL ("SRL") (incorporated in Barbados) and Acerus Pharmaceuticals (Barbados) Inc. ("APBI") (incorporated in Barbados). The head office, principal address and records office of the Company are located in Mississauga, Ontario, Canada. The Company's registered address is 2486 Dunwin Drive, Mississauga, Ontario, L5L 1J9.

Acerus Pharmaceuticals Corporation is a fully-integrated, Canadian specialty pharmaceutical company engaged in the development, manufacture, marketing and distribution of innovative, branded products in Men's and Women's Health. Acerus markets Estrace® in Canada, a product indicated for the relief of symptoms due to menopause. Natesto$^{®}$, a product utilizing Acerus's licensed nasal gel technology is the first and only approved testosterone nasal gel in the United States and Canada for replacement therapy in adult males diagnosed with hypogonadism. Acerus is pursuing a global expansion of the Natesto$^{®}$ platform via implementation of additional commercial partnerships in other jurisdictions, including a recently signed agreement with a company in South Korea. Acerus actively continues to pursue high quality opportunities that will help build their Canadian business.

2. DESCRIPTION OF BUSINESS (continued)

The commercial rights to Natesto® in the United States and Mexico were licensed by Acerus to an affiliate of Endo International plc ("Endo") until June 30, 2016 pursuant to a notice of termination received on December 31, 2015. On April 22, 2016, the Company entered into a license and supply agreement with Aytu pursuant to which Aytu began commercializing Natesto™ in the United States following the product's return to the Company on June 30, 2016. Under the terms of the agreement, the Company is entitled to upfront payments totaling $8,000, with $2,000 paid at signing and of the remaining $6,000, the Company received $2,000 in October 2016 and $4,000 in January 2017. Additionally, the Company is entitled to sales-based milestones that could potentially total $37,500. Finally, the Company will be responsible for the manufacturing of the product and will receive a tiered supply price that varies during the term of the agreement.

On January 7, 2016 Natesto® was approved by Health Canada. Natesto® is now commercially available in Canada.

The Company granted exclusives rights to market Natesto® in South Korea to Hyundai Pharm Co., LTD. ("Hyundai"), a South Korean pharmaceutical company on December 15, 2016. Under the terms of the license, development and supply agreement, Acerus received a non-refundable upfront fee in January 2017, will receive a milestone payment upon regulatory approval and will receive a fixed supply price per unit.

On November 16, 2015, Health Canada granted a Notice of Compliance (NOC) for a third party generic version of Estrace® which has obtained public reimbursement across major provinces in July 2016 and is commercially available in Canada.

The Company entered into a license and supply agreement with Medinova AG on April 6, 2016, a Swiss pharmaceutical company, granting it the exclusive rights to commercialize Gynoflor™ in Canada. On February 28, 2017, the Corporation submitted a NDS to Health Canada to obtain marketing approval for the product in Canada.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations assessed by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments (warrants) that are measured at fair values, as explained in the accounting policies below. The accounting policies have been consistently applied to all the years presented unless otherwise stated.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policy and disclosures

New and revised IFRSs issued but not yet effective

A number of new standards and amendments to standards and interpretations have not been applied in preparing these consolidated financial statements. None of these standards are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 16 *Leases*

The new standard brings most leases on-balance sheet, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted but only if the entity also applies *IFRS 15, Revenue from contracts with customers*. The Company has yet to assess IFRS 16's full impact.

IAS 7 *Statement of cash flows – Disclosures related to financing activities*

Amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for years beginning on or after January 1, 2017. Management will be implementing the additional disclosures required for fiscal 2017.

IAS 12 *Income taxes – Deferred tax*

Amended the standard to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. It is effective for years beginning on or after January 1, 2017.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 specifies how and when to recognize revenue as well as requiring the Company to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. IFRS 15 applies to an annual reporting period beginning on or after January 1, 2018. The Company is currently reviewing the impact of IFRS 15 on the Company's consolidated financial statements and plans to adopt the standard on January 1, 2018.

IFRS 9 *Financial Instruments*

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling to profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 32.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policy and disclosures (continued)

For financial liabilities, there were no changes to classification and comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness test. It requires an economic relationship between the hedged item and the hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 32. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has yet to assess IFRS 9's full impact.

(c) Consolidation

The wholly-owned subsidiaries of the Company are consolidated to produce the financial results for the consolidated Company. All intercompany transactions, balances, income and expenses on transactions between subsidiaries are fully eliminated. Profits and losses resulting from intercompany transactions that were recognized are also fully eliminated.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer.

(e) Foreign currency translation

Presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollars, which in the opinion of management, is the most appropriate presentation currency as the United States dollar is used to significant effect in, or has a significant impact on, the operations of the Company and reflects the economic substance of a majority of the underlying events and circumstances relevant to the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in finance costs in the consolidated statement of income/loss and comprehensive income/loss.

Financial Statements

Management has determined that the functional currency for each of the Barbados-based subsidiaries is the United States dollar, and the functional currency for the Canadian parent is the Canadian dollar. The Canadian dollar is the appropriate functional currency for the parent as it the primary economic environment in which the parent operates. The results and financial statements of the parent are translated at the end of each reporting period as follows:

- Monetary assets and liabilities are translated at the period-end closing rate including trade receivables from its subsidiary company;
- Management has elected equity and shareholders' equity (deficiency), are measured in terms of the exchange rate at the date of the transaction; and
- Revenue and expenses at an average rate for the period where this rate approximates the exchange rates at the dates of the transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation (continued)

All resulting currency translation gains or losses from translating the financial statements from the functional currency to the presentation currency are recorded in the other comprehensive income/loss in the consolidated statement of income/loss and comprehensive income/loss.

(f) Business combinations

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a business is the fair values of the assets transferred and the liabilities assumed of the acquired business. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

(g) Trade receivables

Trade receivables are amounts due from customers for inventory sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. As at December 31, 2016 and 2015, management determined that no provision for impairment was required.

(h) Inventory

Inventories consist of raw materials, work-in-process and finished goods. Inventories are stated at the lower of cost based on first-in-first-out (“FIFO”) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(i) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is recorded as follows:

Computers	- straight-line over 3 years;
Office furniture and fixtures	- straight-line over 5 years;
Laboratory equipment	- straight-line over 5 to 10 years;
Manufacturing equipment	- straight-line over 3 to 10 years;
Leasehold improvements	- straight-line over the expected term of the lease.

Expenditures that extend the useful life of the asset are capitalized and minor repair and maintenance costs are expensed as incurred to the consolidated statement of income/loss and comprehensive income/loss. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the consolidated statement of income/loss and comprehensive income/loss.

(j) Leases

All leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Deferred lease inducements

Lease inducements, representing reduced rental periods and non-repayable leasehold improvement allowances received from the landlord are amortized on a straight-line basis as a reduction of rent expense over the term of the lease.

(l) Intangible assets

Intangible assets acquired separately

Intangible assets with determinable lives are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized over their estimated useful lives using the straight-line method except for intangible assets that have an identifiable pattern of consumption of the economic benefit of the asset which are amortized over the consumption pattern. Intangible assets held by the Company currently hold estimated useful lives between eight to fifteen years.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the consolidated statement of income/loss and comprehensive income/loss when the asset is derecognized.

(m) Impairment of non-financial assets

The Company reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or "CGUs"). Recoverable amount is the higher of an asset's fair value less the cost of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU) as determined by management.

Any impairment losses are recognized immediately in the consolidated statement of income/loss and comprehensive income/loss. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) Income taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for the differences between the tax basis and carrying amounts of assets and liabilities, for operating losses and for tax credit carry-forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates and laws.

(o) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs related to other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future, if it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking, or if it is a derivative that is not designated and effective as a hedging instrument. Financial assets and derivative financial instruments classified as FVTPL are initially measured at fair value with any subsequent gain or loss arising from changes in fair value recognized in the consolidated statement of income/loss and comprehensive income/loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured initially at fair value and subsequently at amortized cost using the effective interest method, less any impairment.

Financial liabilities

Financial liabilities are classified as either financial liabilities classified as 'FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities classified as FVTPL are financial liabilities held for trading or derivative financial instruments. A financial liability is classified as FVTPL if the instrument is acquired or incurred principally for the purpose of selling or repurchasing in the short-term or where the Company does not have the unconditional right to avoid delivering cash or another financial asset to the holders in certain circumstances. Financial liabilities at FVTPL are classified as current liabilities if expected or potentially required to be settled within 12 months from the end of a given reporting period; otherwise, the liabilities are classified as non-current.

Financial liabilities at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Impairment of financial assets

Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial instruments (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of income/loss and comprehensive income/loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statement of income/loss and comprehensive income/loss.

Financial liabilities and equity instruments

Classification as debt or equity

Instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Proceeds received on issuance of units, consisting of common shares and warrants, are allocated to those two instruments based on their relative fair values. Transaction costs are also allocated to the common shares and warrants in proportion to the allocation of proceeds.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Compound financial instruments

Compound financial instruments contain both a liability and an embedded derivative in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the interest rate applied by the market for similar debt instruments. The liability is subsequently measured on an amortized cost basis using the effective interest method over the expected life. The embedded derivative is initially recorded at fair value using pricing model techniques. It is recognized and presented together with the liability in the consolidated statement of financial position and is subsequently re-measured at fair value through profit and loss.

(p) Derivative financial instruments

Acerus has issued warrants with a cashless exercise option, some with an exercise price in a currency other than the functional currency (CDN). These are treated as a derivative liability and therefore measured at fair value. Gains and losses on re-measurement are presented separately in the consolidated statement of income/loss and comprehensive income/loss. These instruments are classified as non-current based on their expected life. Transaction costs that are directly attributable to the long term debt and the joint issuance of these warrants have been allocated to long term debt and to the warrants based on their relative fair value.

In addition to the above, the Company also has an embedded derivative of nominal value related to long-term debt (interest floor) and an embedded derivative related to the license, development and supply agreement for the sale of Natesto® (fixed price contract denominated in a currency other than the entity's functional currency).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Derivative financial instruments (continued)

Derivatives embedded in non-derivative host contracts are separated from the host contract when their economic risk and characteristics are not closely related to those of the host contract and the compound instrument is not measured at FVTPL.

(q) Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances based on historical information of the Company or the predecessor owner and consideration of the type of customer, type of transaction and the specifics of each arrangement.

Product Revenue:

Revenue from the sale of goods is recognized when title has passed and when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Company.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

License and other fees:

License and supply agreements may contain multiple elements. The individual elements of each agreement are divided into separate units of accounting if certain criteria are met. The applicable revenue recognition approach is then applied to each unit. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

Milestone payments are recorded as deferred revenue when received and amortized on a straight-line basis over the term of the agreement.

(r) Deferred revenue

Deferred revenue consists of amounts received from customers in advance of revenue recognition. Amounts expected to be recognized within one year or less are classified as current liabilities with the balance being classified as non-current liabilities.

(s) Cost of sale

Costs of sales comprise the cost of inventory sold during the year, royalty expenses, depreciation, amortization charges and distribution costs.

(t) Share-based compensation

The Company has a stock option plan as described in note 21 that allows for the issuance of stock options to employees, directors, officers, consultants and others as determined by the Board of Directors. Under IFRS, each option installment is treated as a separate option grant with graded-vesting features, forfeitures are estimated at the time of grant and revised if actual forfeitures are likely to differ from previous estimates, and options granted to parties other than employees are measured at their fair value on the date goods or services are received. The fair value of the goods and services received are determined indirectly by reference to the fair value of the instrument granted, unless the fair value of the goods and services received is readily apparent.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Share-based compensation (continued)

Over the vesting period of the option grants, the fair value is recognized as compensation expense and a related credit is recorded as contributed surplus. The contributed surplus is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

(u) Investment tax credits

Investment tax credits, which are earned as a result of incurring qualifying research and development expenditures, are treated either as a reduction of the relevant asset account or research and development expenses in the period that the credits become available and there is reasonable assurance that they will be realized.

(v) Income/loss per share

Basic income/loss per share is calculated by dividing the net income/loss by the weighted average number of common shares outstanding during the year. Diluted income/loss per share is calculated by dividing the applicable net income/loss by the sum of the weighted average number of shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions regarding recognition and measurement of assets, liabilities, income and expenses. Information about the judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Critical accounting estimates and judgments

Fair value of derivative financial instruments

The fair values of derivative financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Additional information is disclosed in note 15.

Revenue recognition

Product revenue is recorded at the invoiced amount less estimated accruals for product returns, discounts, chargebacks and other price adjustments. These provisions with respect to Estrace® and Natesto® are presently based on historical levels and are recognized as a reduction of sales. While such experience has allowed for reasonable estimates in the past, history may not always be an accurate indicator of future events. Management will monitor these provisions and make adjustments when it believes actual results may differ from established reserves.

Management evaluates the multiple elements and units of accounting which are included within certain partnering and product supply agreements. Management has evaluated the license, development and supply agreement for the sales of Natesto® and has determined that the recognition of revenue on upfront fees under the applicable agreements with Endo and Aytu is over the estimated life of the agreement. In light of the termination notice received from Endo during the prior period, the life of the agreement was revised to June 30, 2016. The estimated period is reviewed at least annually and is updated if expectations change as a result of commercial partner interactions, product commercial obsolescence or other factors. It is possible that these factors may cause significant changes in the Company's recognition of revenue in the future.

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

Clinical Trial Expenses

Clinical trial expenses are accrued based on estimates of the services received and efforts expended pursuant to contracts with clinical research organizations (CROs), consultants and other vendors. In the normal course of business, the Company contracts third parties to perform various clinical trial activities in the ongoing development of potential products. The financial terms of these agreements vary from contract to contract, are subject to negotiation and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrolment of patients or the completion of portions of the clinical trial or similar conditions. The Company accrues and expenses clinical trial activities based upon estimates of the proportion of work completed over the life of the individual clinical trial and patient enrolment rates in accordance with agreements established with CROs and clinical trial sites. The Company determines the estimates by reviewing contracts, vendor agreements and purchase orders, and through discussions with internal personnel and external service providers as to the progress or stage of completion of trials or services and the agreed-upon fee to be paid for such services. However, actual costs and timing of clinical trials are highly uncertain, subject to risks and may change depending upon a number of factors, including the Company's clinical development plan.

Share based payments

The compensation expense related to share-based payments is determined using the Black-Scholes option pricing model. The significant variables and estimates used in the model are the volatility, dividend yield, expected option life, and risk free interest rate. In addition, management also applies an estimated forfeiture rate. Additional information is disclosed in note 21.

Impairment of non-financial assets

The Company reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments. Additional information is disclosed in note 10.

Income taxes

The Company is subject to income taxes in different jurisdictions and therefore uses judgment to determine the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Provisions for uncertain tax positions are recorded based on management's estimate of the most likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS

(a) Bio-adhesive gel technology

In May 2009 (and in accordance with certain subsequent contractual amendments), SRL acquired certain rights from M&P Patent AG (since renamed Mattern Pharma) to use certain technology to develop, apply for and obtain regulatory approval, and to manufacture and sell four product candidates pursuant to an Intellectual Property Rights and Product Development Agreement ("IP Agreement").

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

(a) Bio-adhesive gel technology (continued)

The Company is collaborating with the vendor on the development of these product candidates in exchange for milestones, royalties based on the Company's gross margin, and other payments depending on the achievement of specified goals for Natesto® and Tefina™. There are potential future milestone payments totaling $4,500 for Tefina™. Pursuant to an amendment to the IP Agreement in December 2013, the Company forfeited all rights to the third product candidate (dopamine). There are no milestones associated with the fourth product candidate (an anxiety product to be named later). Starting in fiscal 2018, there is a minimum annual royalty obligation of $5,000 if the gross annual sales of Natesto™ exceed $75,000 in a calendar year or $2,500 if the gross annual sales of the Natesto® product are below $75,000 in the applicable calendar year. Should there be a royalty shortfall in two consecutive years, the minimum royalty obligation decreases to $1.5 million if the gross annual sales of Natesto® are below $75.0 million in a calendar year and $3.0 million if the gross annual sales of Natesto® exceed $75.0 million in a calendar year. If a royalty shortfall occurs for two consecutive years for the reduced minimum royalty that is applicable, the minimum royalty obligation shall cease to apply. As soon as, in any two consecutive years, no royalty shortfall occurs, with either the minimum royalty or the reduced minimum royalty, the minimum royalty amounts will be reapplied. For the year ended December 31, 2016, the Company expensed $1,451 in royalty expense due to royalty payments related to the $8,150 upfront fee received from the Natesto® license, supply and development agreements.

The Company must pay minimum royalties of $5,000 per year in each full calendar year following the first commercial sale of Tefina™.

The minimum royalty amounts may be subject to a potential reduction mechanism in the IP Agreement after the total amount of royalties paid to M&P under the IP Agreement exceeds $80,000. There is an expiry of the royalty obligations at the earliest of (a) cumulative royalty payments of $250,000 or (b) May 22, 2024.

(b) Pulmonary and nasal dry powder delivery technology

On November 30, 2009, SRL entered into an asset purchase agreement with Keldmann Healthcare A/S ("Keldmann"), a privately-held Denmark-based technology company.

Pursuant to the terms of the asset purchase agreement, SRL paid $4,500 to Keldmann to acquire the Direct Haler technology platform for pulmonary and nasal delivery of pharmaceutical medications. This acquisition was accounted for as a purchase of identifiable intangible and tangible assets. Accordingly, the purchase price was allocated as $4,400 to technology and patents, $50 to trademarks and $50 to laboratory equipment. At December 31, 2013 the full value of the trademarks was written off.

As part of this transaction with Keldmann, and pursuant to an Amended Product Development Agreement dated December 30, 2009, SRL may collaborate with Keldmann on the development of certain product candidates in exchange for consulting fees and will make milestone, royalty and other payments depending on achievement of specified development and other goals.

There is a milestone payment of $2,000 due upon Food and Drug Administration ("FDA") approval for each product to a maximum of $8,000. As well, there is a cap on royalty payments of $25,000 per product.

(c) Gynoflor™

The Company entered into a license and supply agreement with Medinova AG, a Swiss pharmaceutical company, granting the Company the exclusive rights to commercialize Gynoflor™ in Canada. On February 28, 2017, the Corporation submitted a NDS to Health Canada to obtain marketing approval for the product in Canada.

6. TRADE AND OTHER RECEIVABLES

	As at December 31,	
	2016	**2015**
Trade receivables	**$ 947**	$ 1,823
Commodity tax receivable	**112**	115
Total trade and other receivables	**$ 1,059**	$ 1,938

Allowance for doubtful accounts are recognized based on estimated irrecoverable amounts determined by reference historical default experience of the counterparty and an analysis of the counterparty's current financial position. As at December 31, 2016 the Company has recognized $nil in allowance for doubtful accounts ($nil as at December 31, 2015).

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful accounts as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Age of receivables that are past due but not impaired:

	As at December 31,	
	2016	**2015**
60-90 days	**$ 30**	$ 314
91-120 days	**45**	238
	$ 75	$ 552

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security. Of the amount past due at year end, $57 was collected subsequent to year end.

7. INVENTORY

	As at December 31,	
	2016	**2015**
Raw materials	**$ 2,917**	$ 2,993
Work in progress	**-**	213
Finished goods	**853**	544
Total inventory	**$ 3,770**	$ 3,750

The cost of finished goods recognized as an expense and included in cost of sales amounted to $1,103 for the year ended December 31, 2016 ($3,125 for the year ended December 31, 2015).

8. PREPAIDS AND OTHER ASSETS

	As at December 31,	
	2016	**2015**
Deposit with vendors	**$ 161**	$ 34
Other	**65**	142
Total prepaids and other assets	**$ 226**	$ 176

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Computers	Office Furniture and Fixtures	Manufacturing and Laboratory Equipment	Leasehold Improvements	Assets under construction	Total
Cost						
At January 1, 2016	**$ 47**	**$ 185**	**$ 2,945**	**$ 671**	**$ 14**	**$ 3,862**
Additions	**-**	**4**	**-**	**7**	**-**	**11**
Transfer to completed asset	**-**	**-**	**-**	**14**	**(14)**	**-**
Effect of foreign currency exchange differences	**-**	**4**	**44**	**21**	**-**	**69**
As at December 31, 2016	**$ 47**	**$ 193**	**$ 2,989**	**$ 713**	**$ -**	**$ 3,942**
Accumulated Depreciation						
At January 1, 2016	**$ 43**	**$ 81**	**$ 1,641**	**$ 31**	**$ -**	**$ 1,796**
Depreciation for the year	**2**	**25**	**296**	**74**	**-**	**397**
Effect of foreign currency exchange differences	**-**	**-**	**38**	**1**	**-**	**39**
As at December 31, 2016	**$ 45**	**$ 106**	**$ 1,975**	**$ 106**	**$ -**	**$ 2,232**
Net Book Value						
As at December 31, 2016	**$ 2**	**$ 87**	**$ 1,014**	**$ 607**	**$ -**	**$ 1,710**

	Computers	Office Furniture and Fixtures	Manufacturing and Laboratory Equipment	Leasehold Improvements	Assets under construction	Total
Cost						
At January 1, 2015	$ 53	$ 122	$ 3,302	$ 1,270	$ 42	$ 4,789
Additions	2	123	10	704	-	839
Transfer to assets held for sale	-	(40)	(81)	-	-	(121)
Transfer to completed asset	-	-	-	23	(23)	-
Disposals	(7)	(6)	-	(1,153)	-	(1,166)
Effect of foreign currency exchange differences	(1)	(14)	(286)	(173)	(5)	(479)
As at December 31, 2015	$ 47	$ 185	$ 2,945	$ 671	$ 14	$ 3,862
Accumulated Depreciation						
At January 1, 2015	$ 48	$ 109	$ 1,442	$ 1,250	$ -	$ 2,849
Depreciation for the year	3	15	484	52	-	554
Transfer to assets held for sale	-	(39)	(60)	-	-	(99)
Disposals	(7)	-	-	(1,153)	-	(1,160)
Effect of foreign currency exchange differences	(1)	(4)	(225)	(118)	-	(348)
As at December 31, 2015	$ 43	$ 81	$ 1,641	$ 31	$ -	$ 1,796
Net Book Value						
As at December 31, 2015	$ 4	$ 104	$ 1,304	$ 640	$ 14	$ 2,066

At December 31, 2016 manufacturing equipment with a net book value of $998 was held off-site with a third party ($1,182 at December 31, 2015).

Depreciation expense is included in cost of goods sold ($135 for the year ended December 31, 2016 and $140 for the year ended December 31, 2015), research and development expenses ($167 for the year ended December 31, 2016 and $374 for the year ended December 31, 2015), general and administrative expense ($95 for the year ended December 31, 2016 and $50 for the year ended December 31, 2015) and capitalized into inventory ($5 for the year ended December 31, 2016 and $5 for the year ended December 31, 2015) on the consolidated statement of income/loss and comprehensive income/loss and consolidated statement of financial position.

10. INTANGIBLE ASSETS

	Technology and Patents	Product Rights	Total
Cost			
At January 1, 2016	**$ 4,400**	**$ 28,538**	**$ 32,938**
Effect of foreign currency exchange differences	**-**	**878**	**878**
As at December 31, 2016	**$ 4,400**	**$ 29,416**	**$ 33,816**
Accumulated amortization and impairment			
At January 1, 2016	**$ 1,775**	**$ 16,152**	**$ 17,927**
Amortization for the period	**296**	**1,515**	**1,811**
Effect of foreign currency exchange differences	**-**	**476**	**476**
As at December 31, 2016	**$ 2,071**	**$ 18,143**	**$ 20,214**
Net Book Value			
As at December 31, 2016	**$ 2,329**	**$ 11,273**	**$ 13,602**

	Technology and Patents	Product Rights	Total
Cost			
At January 1, 2015	$ 4,400	$ 34,046	$ 38,446
Effect of foreign currency exchange differences	-	(5,508)	(5,508)
As at December 31, 2015	$ 4,400	$ 28,538	$ 32,938
Accumulated amortization and impairment			
At January 1, 2015	$ 1,479	$ 780	$ 2,259
Amortization for the year	296	1,547	1,843
Impairment charge	-	14,210	14,210
Effect of foreign currency exchange differences	-	(385)	(385)
As at December 31, 2015	$ 1,775	$ 16,152	$ 17,927
Net Book Value			
As at December 31, 2015	$ 2,625	$ 12,386	$ 15,011

Amortization expense related to the technology and patents is computed based on the life of the existing patents and is included in the research and development expense on the consolidated statement of income/loss and comprehensive income/loss. The remaining life of the Direct Haler patents is 7 years and 10 months. Amortization of $296 has been recorded for the year ending December 31, 2016 ($296 for the year ending December 31, 2015).

Product rights includes rights for Estrace$^{®}$. Amortization of $1,515 has been recorded for the fiscal year ending December 31, 2016 ($1,547 for the year ending December 31, 2015). Due to the approval of a generic third party version of 17-beta estradiol, the Company recorded an impairment of the asset in fiscal 2015 of $14,210. The intangible asset was written down to its recoverable amount using the discounted cash flow method. Key assumptions included the discount rate of 15%, estimated cash flows and declines in revenue. The Company also shortened the remaining useful life of the product rights from 18.5 years to 8.5 years. Assuming all variables remain constant, an increase or decrease in the discount rate used by 1% would have resulted in a $512 increase and $578 decrease in impairment loss respectively. Assuming all variables remain constant, a 10% increase or decrease in the estimated revenues would have resulted in a $1,321 decrease and $1,312 increase in impairment loss respectively.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31,	
	2016	**2015**
Accounts payable	**$ 1,604**	$ 1,143
Employee salaries and benefits payable	**281**	275
Royalty payable	**747**	-
Interest payable	**231**	129
Accrued liabilities	**335**	382
Other	**124**	70
Total accounts payable and accrued liabilities	**$ 3,322**	$ 1,999

12. DEFERRED LEASEHOLD INDUCEMENT

	As at December 31,	
	2016	**2015**
Opening balance, January 1	**$ 436**	$ -
Additions	**-**	493
Amortized to rent expense	**(48)**	(20)
Effect of foreign currency exchange differences	**11**	(37)
Total balance of leasehold inducements	**$ 399**	$ 436
Current portion	**47**	40
Non-current portion	**352**	396

The deferred leasehold inducement is being amortized on a straight-line basis over the term of the lease which ends June 30, 2025.

13. LONG-TERM DEBT

On July 16, 2014, the Company entered into a senior financing with MidCap for facilities of up to $25,000. On December 11, 2015, the Company entered into an agreement to amend the senior financing with MidCap. Pursuant to the terms and conditions of the amendment, the Company immediately repaid $17,000 of its existing $25,000 principal amount outstanding. The remainder of the outstanding principal amount matured on January 9, 2017. The senior financing bore interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1% and was secured by all of the assets of the Company and includes a covenant to maintain a minimum cash balance as set out in the amended agreement. The Company was in compliance with the covenants established.

An amendment to the senior financing was entered into on April 22, 2016 pursuant to which certain adjustments were made to the Company's minimum cash covenants. The Company used $3,000 of the cash proceeds received from the Aytu transactions to retire a portion of the outstanding principal amount owed to MidCap in connection with the senior financing. As at December 31, 2016, there was $2,714 of principal outstanding and $441 of exit fees payable on the senior financing. The debt was extinguished on January 6, 2017.

13. LONG-TERM DEBT (continued)

In accordance with the credit and security agreement with MidCap, the Company had granted security over the assets of the Company and its subsidiaries. In connection with the transaction, the lenders were issued warrants exercisable for an aggregate of 3,034,814 common shares of the Company. The warrants are exercisable for a period of seven years at an exercise price of CDN$0.7095, which was calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of five days ending immediately prior to the closing date of the senior financing. The fair value of the warrants on the date of issuance was $1,324.

Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the unused customer deposit (pre-paid inventory) owed to Endo following the termination of the Natesto® agreement. A $500 cash payment was paid to Endo in July 2016 and $3,800 of the remaining principal amount is subject to a promissory note, of which $500 was paid in December 2016 and the remaining amounts are payable in equal quarterly installments of $236 with the final payment and maturity date of June 30, 2020. The promissory note is unsecured and bears interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1%.

Interest expense on long-term debt was $700 for the year ended December 31, 2016 ($2,590 for December 31, 2015)

	Senior Financing	Promissory Note	Total
Carrying value of the loan at January 1, 2015	$ 23,770	$ -	$ 23,770
Accretion expense	763	-	763
Amortization of deferred financing costs	439	-	439
Issuance of debt	8,000	-	8,000
Repayment of principal	(25,000)	-	(25,000)
Effect of foreign currency exchange differences	59	-	59
Carrying value at December 31, 2015	$ 8,031	$ -	$ 8,031
Current portion at December 31, 2015	2,616	-	2,616
Long term portion at December 31, 2016	$ 5,415	$ -	$ 5,415
Carrying value of the loan at January 1, 2016	**$ 8,031**	**$ -**	**$ 8,031**
Conversion of customer deposit to loan	**-**	**3,800**	**3,800**
Amortization of deferred financing costs	**424**	**-**	**424**
Repayment of principal	**(5,286)**	**(500)**	**(5,786)**
Effect of foreign currency exchange differences	**(20)**	**-**	**(20)**
Carrying value at December 31, 2016	**3,149**	**3,300**	**6,449**
Current portion at December 31, 2016	**3,149**	**943**	**4,092**
Long term portion at December 31, 2016	**$ -**	**$ 2,357**	**$ 2,357**

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

	As at December 31,
	2016
No later than 1 year	**$ 4,623**
Later than 1 year and no later than 5 years	**2,702**
	$ 7,325
Interest expense and other financing costs	**1,311**
Total principal portion of debt at December 31,	**6,014**

14. DEFERRED REVENUE AND CUSTOMER DEPOSITS

	As at December 31,	
	2016	2015
Deferred revenue	**$ 7,204**	$ 16,966
Customer deposit	**-**	4,495
Carrying value	**7,204**	21,461
Current portion	**1,006**	21,461
Long-term portion of deferred revenue	**$ 6,198**	$ -

In November 2014, the Company entered into an exclusive agreement providing Endo with the exclusive rights to market Natesto® in the United States and Mexico. Under the terms of the agreement, the Company received an upfront fee of $25,000 and a customer deposit (pre-paid inventory) of $5,000 upon closing of the transaction. The revenues from the upfront fee payment were deferred and amortized on a straight-line basis over the remaining life of the agreement which terminated on June 30, 2016. The customer deposit reflects the deposit made for future sale of inventory by Endo. The Company paid $500 of the deposit and converted $3,800 into a promissory note as described in note 13.

On April 22, 2016, the Company entered into a license and supply agreement with Aytu pursuant to which Aytu has been selling Natesto® in the United States following the product's return to the Company on June 30, 2016. Under the terms of the agreement, the Company was entitled to upfront payments equaling $8,000, with $2,000 received on signing, $2,000 received in October 2016 and $4,000 received in January 2017. The revenues from the upfront payment are deferred and amortized on a straight-line basis over the term of the agreement of 8 years. The upfront payment was recorded in Canadian dollars at the spot rate in effect on the date of the transaction. For reporting purposes, this balance is translated into U.S. dollars at the end of each period, using the spot rate in effect at the end of the period.

On December 15, 2016, the Company granted exclusive rights to market Natesto® in South Korea to Hyundai Pharm Co., LTD. ("Hyundai"), a South Korean pharmaceutical company. Under the terms of the license, development and supply agreement, Acerus received a non-refundable upfront fee in January 2017. Additionally, Acerus is eligible to receive a milestone payment upon regulatory approval of the product in South Korea and a fixed supply price per unit. The revenues from the upfront payment are deferred and amortized on a straight-line basis over the term of the agreement which is estimated to be 12.5 years.

15. DERIVATIVE FINANCIAL INSTRUMENT

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

	For the year ended December 31,	
	2016	**2015**
Balance of warrants, January 1,	**$ 106**	$ 1,375
Change in fair value of the derivative financial instruments	**37**	(1,116)
Effect of foreign currency exchange difference	**(2)**	(153)
Balance of warrants	**$ 141**	$ 106

15. DERIVATIVE FINANCIAL INSTRUMENT (continued)

General Electric Capital Corporation warrants

In connection with a previous debt agreement, the lender was issued warrants exercisable for an aggregate of 154,916 common shares. The warrants are exercisable for a period of five years (until July 2017) at an exercise price of $1.4524. The warrant holder may also choose a cashless exercise, in which case the settlement price will then be calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of three days ending immediately prior to the date of exercise. On August 22, 2016, the holder irrevocably abandoned its warrants and accordingly the value of the warrants were expensed.

MidCap Financial V, LLC warrants

In accordance with the senior financing with MidCap entered into on July 16, 2014, the lenders have been issued warrants exercisable for an aggregate of 3,034,814 common shares of the Company. The warrants are exercisable for a period of seven years at an exercise price of CDN$0.7095, which was calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of five days ending immediately prior to the closing date of the senior financing. The warrant holder may also choose a cashless exercise, in which case the settlement price will then be calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of five days ending immediately prior to the date of exercise.

A pricing model with observable market based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values as at December 31, 2016 were as follows: a share price of CDN$0.135; an expected life of 4.5 years; a risk free rate of 0.60%; a volatility of 102%; and an exercise price of CDN$0.7095 (a share price of CDN$0.12; an expected life of 5.5 years; a risk free rate of 0.92%; a volatility of 87%; an exercise price of CDN$0.7095 was used to compute the values at December 31, 2015). At December 31, 2016, the warrants had an average fair value of CDN$0.06 per warrant (CDN$0.05 per warrant at December 31, 2015).

16. SHARE CAPITAL AND WARRANTS

Shares Issued and Outstanding

	Number of		Amount		
	Common Shares	**Warrants**	**Common Shares**	**Warrants**	**Total**
Balance as at January 1, 2015	200,873,234	3,910,839	$ 149,766	$ 1,040	$ 150,806
Expiry of warrants, January 19, 2015	-	(3,859,200)	-	(1,003)	(1,003)
Balance as at December 31, 2015	200,873,234	51,639	$ 149,766	$ 37	$ 149,803
Balance as at January 1, 2016	**200,873,234**	**51,639**	**$ 149,766**	**$ 37**	**$ 149,803**
Private placement, April 27, 2016	**12,245,411**	**-**	**2,000**	**-**	**2,000**
Balance as at December 31, 2016	**213,118,645**	**51,639**	**$ 151,766**	**$ 37**	**$ 151,803**

The Company is authorized to issue an unlimited number of common shares.

In addition to the warrants in the table above, there are 3,034,814 (December 31, 2015 – 3,189,730) warrants issued that have been classified as a derivative financial instrument (note 15).

On January 19, 2015, a total of 3,859,200 warrants with a cumulative value of $1,003 and an exercise price of $2.50 expired. A total of $892, which represents the cumulative value of the warrants, net of tax of $111, was transferred to contributed surplus.

Acerus entered into a subscription agreement with Aytu pursuant to which Aytu acquired 12,245,411 common shares for gross cash proceeds of $2,000. This private placement was completed on April 27, 2016.

17. NATURE OF EXPENSES

	For the year ended December 31,							
	2016				2015			
	Cost of Sales	R&D	SG&A	Total	Cost of Sales	R&D	SG&A	Total
Salaries and benefits	**$ 6**	**$ 699**	**$ 1,459**	**$ 2,164**	$ -	$ 767	$ 2,446	$ 3,213
Cost of finished goods	**1,103**	**-**	**-**	**1,103**	2,941	-	-	2,941
Amortization of intangible assets	**1,515**	**296**	**-**	**1,811**	1,547	296	-	1,843
Clinical trials	**-**	**111**	**-**	**111**	-	633	-	633
Rent, office and other expenses	**-**	**14**	**590**	**604**	-	154	701	855
Selling costs	**-**	**-**	**1,217**	**1,217**	-	-	659	659
Depreciation of property and equipment	**135**	**167**	**95**	**397**	140	374	50	564
Professional fees	**-**	**106**	**1,170**	**1,276**	-	229	852	1,081
Product development	**-**	**141**	**-**	**141**	-	452	-	452
Share-based compensation	**-**	**58**	**216**	**274**	-	60	524	584
Public company costs	**-**	**-**	**269**	**269**	-	-	340	340
Distribution and warehousing costs	**237**	**-**	**-**	**237**	296	-	-	296
Other	**6**	**-**	**-**	**6**	184	-	-	184
Gain on disposal of property and equipment	**-**	**4**	**-**	**4**	-	10	-	10
Business development	**-**	**-**	**462**	**462**	-	-	209	209
Royalty expense	**1,451**	**-**	**-**	**1,451**	-	-	-	-
Investment tax credits	**-**	**-**	**-**	**-**	-	(101)	-	(101)
Total expenses	**$ 4,453**	**$ 1,596**	**$ 5,478**	**$ 11,527**	$ 5,108	$ 2,874	$ 5,781	$ 13,763

18. INTEREST AND OTHER FINANCING COSTS

	For the year ended December 31,	
	2016	2015
Interest expense on long-term debt	**$ 755**	$ 2,590
Amortization of deferred financing costs	**424**	439
Accretion expense	**-**	763
	$ 1,179	$ 3,792

19. INCOME TAXES

In Barbados, the Acerus subsidiaries are classified as International Business Corporations ("IBC") where there is a sliding scale corporate tax rate with a ceiling rate of 2.5% on income up to BBD$10 million and a minimum floor rate of 0.25% when income exceeds BBD$30 million. The rate declines by 0.5% for each incremental BBD$10 million until the floor rate is achieved.

The difference between the amount of the provision for income taxes and the amount computed by multiplying income/loss before taxes by the statutory Canadian and Barbados rates are reconciled as follows:

	For the year ended December 31,	
	2016	**2015**
Income/(Loss) before income taxes	**$ 11,419**	$ (9,421)
Tax recovery at the Canadian corporate tax rate of 26.5% (2015 - 26.5%)	**3,026**	(2,497)
Benefit of previously unrecognized deferred tax asset	**(145)**	(411)
Tax effect of permanent differences (Canada)	**83**	558
Barbados losses for which no benefit is recognized	**2**	(88)
Corporate tax rate differential on Barbados losses	**(4,256)**	(726)
Unrecognized deferred tax benefit	**1,590**	2,762
Other	**-**	12
Tax (recovery) recognized for the year	**$ 300**	$ (390)

At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgment, which includes a review of projected taxable income. The Company has not recognized the deferred tax assets, arising from accumulated losses carried forward from previous years, and the corresponding deferred tax recovery on the statements of income/loss and comprehensive income/loss.

As at December 31, 2016, the Company has net operating loss carry forwards in Barbados of $71,599 that are scheduled to expire as follows:

In the year ending:	December 31, 2018	**$ 45**
	December 31, 2019	**993**
	December 31, 2020	**2,550**
	December 31, 2021	**6,010**
	December 31, 2022	**23,899**
	December 31, 2023	**29,390**
	December 31, 2024	**54**
	December 31, 2025	**8,540**
	December 31, 2026	**118**
	Total losses	**$ 71,599**

19. INCOME TAXES (continued)

In Canada, the Company also has a net operating loss carry forwards of $3,961 that will expire in 2036. The Company also has a capital loss of $1,316 that can be carried forward indefinitely.

The deferred income tax expense of $300 for the year ended December 31, 2016 relates to a Barbados deferred tax asset recognized in the prior year.

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

	2016	2015
Property and equipment	**13**	30
Intangible assets	**2,391**	2,328
Financing costs	**373**	568
Licensing payments	**889**	-
Non-capital loss carry forwards	-	20
R&D pools	**495**	336
Investment tax credits	**27**	342
Accruals	**82**	98
Unrealized foreign exchange	**51**	237
Capital loss carryforwards	**278**	174
Loss Carry forwards	**1,986**	2,387
Total	**6,585**	6,520

20. EARNINGS/LOSS PER SHARE

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

	For the year ended December 31,	
	2016	2015
Numerator for basic and diluted earnings/(loss) per share available to common shareholders	**$ 11,119**	$ (9,031)
Denominator for basic earnings/(loss) per share	**209,193,404**	200,873,234
Denominator for diluted earnings/(loss) per share	**210,479,254**	200,873,234
Basic and diluted earnings/(loss) per share	**$ 0.05**	$ (0.04)

For the year ended December 31, 2015, the computation of diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share due to the anti-dilutive effect on the stock options and warrants.

20. EARNINGS/LOSS PER SHARE (continued)

Weighted Average Common Shares Outstanding

		Weighted Average Shares	
	Total Issued	**Basic**	**Diluted**
Balance as at December 31, 2015	200,873,234	200,873,234	200,873,234
Balance at January 1, 2016	**200,873,234**	**200,873,234**	**200,873,234**
Options in the money	**-**	**-**	**1,285,850**
Private placement, April 27, 2016	**12,245,411**	**8,320,170**	**8,320,170**
Balance as at December 31, 2016	**213,118,645**	**209,193,404**	**210,479,254**

21. SHARE BASED COMPENSATION

The Company has an incentive stock option plan that permits it to, from time to time, grant options to acquire common shares to its directors, officers, employees, consultants, and others, up to the maximum number of a “rolling” amount equal to 10% of the total shares issued and outstanding (21,311,864 options available as at December 31, 2016). The option exercise price must be equal to or greater than the market price of the Company's common shares at the date of grant.

The stock option plan also provides that:

- upon the surrender, termination, expiry or exercise of any options granted under the stock option plan, common shares subject to such options shall become available to satisfy future grants of options under the stock option plan; and

- a holder of an option may, rather than exercise such option, elect a cashless exercise of such option payable in common shares equaling the amount by which the value of an underlying share at that time exceeds the exercise price of such option or warrant to acquire such share.

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

						Black-Scholes model variables			
Grant date	**Number granted**	**Granted to**	**Exercise price**	**Life**	**Vesting periods**	**Risk Free rate**	**Expected Volatility**	**Expected Divdend rate**	**Fair Value per Option**
Mar, 11, 2015	1,507,000	Employees & directors	CDN$0.75	5 years	1-3 years	1.4%	80.0%	nil	CDN$0.48
Aug, 7, 2015	200,000	Employee	CDN$0.45	5 years	3 years	1.0%	80.0%	nil	CDN$0.27
Dec, 24, 2015	30,000	Employee	CDN$0.16	5 years	3 years	1.0%	86.0%	nil	CDN$0.10
Mar, 4, 2016	5,700,000	Employees & directors	CDN$0.10	5 years	1-3 years	1.0%	86.0%	nil	CDN$0.07
Aug, 11, 2016	400,000	Employee & director	CDN$0.09	5 years	1-3 years	0.9%	96.0%	nil	CDN$0.06
Aug, 23, 2016	325,000	Employee	CDN$0.13	5 years	3 years	0.9%	101.0%	nil	CDN$0.14
Nov, 4, 2016	500,000	Employee	CDN$0.18	5 years	3 years	0.6%	99.0%	nil	CDN$0.12

21. SHARE BASED COMPENSATION (continued)

A forfeiture rate of 3% was used to estimate option expenses during the year. The Company recognized total share based compensation expense of $274 for the year ended December 31, 2016 ($584 for the year ended December 31, 2015).

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

	For the year ended December 31,			
	2016			
	Canadian Dollar Options		US Dollar Options	
	Number	Weighted average exercise price (CDN)	Number	Weighted average exercise price (USD)
Balance at January 1,	**5,922,790**	**$ 1.29**	**2,081,225**	**$ 5.68**
Granted	**6,925,000**	**0.11**	**-**	**-**
Expired	**(400,000)**	**1.49**	**(343,475)**	**2.93**
Forfeited	**(2,704,550)**	**0.32**	**(20,250)**	**3.40**
Balance at December 31, 2016	**9,743,240**	**$ 0.71**	**1,717,500**	**6.25**
Options exercisable at December 31, 2016	**3,639,903**	**$ 1.55**	**1,717,500**	**$ 6.25**

	2015			
	Canadian Dollar Options		US Dollar Options	
	Number	Weighted average exercise price (CDN)	Number	Weighted average exercise price (USD)
Balance at January 1,	4,393,815	$ 1.54	2,351,225	$ 5.38
Granted	1,737,000	0.71	-	-
Forfeited	(208,025)	1.73	(270,000)	3.10
Balance at December 31, 2015	5,922,790	$ 1.29	2,081,225	$ 5.68

21. SHARE BASED COMPENSATION (continued)

	Canadian Dollar Options outstanding as at December 31, 2016		
Exercise prices	Number outstanding at December 31, 2016	Weighted average remaining life in years	Number excercisable at December 31, 2016
$0.09	400,000	4.6	-
$0.10	3,965,000	4.2	-
$0.13	325,000	4.6	-
$0.16	30,000	4.0	10,000
$0.18	500,000	4.8	-
$0.41	50,000	1.8	50,000
$0.75	1,115,000	3.2	504,999
$0.82	1,025,000	2.2	741,664
$0.87	819,800	1.2	819,800
$0.91	25,000	1.4	25,000
$2.18	900,000	0.9	900,000
$3.30	588,440	0.2	588,440
	9,743,240	3.1	3,639,903

	US Dollar Options outstanding as at December 31, 2016		
Exercise prices	Number outstanding at December 31, 2016	Weighted average remaining life in years	Number excercisable at December 31, 2016
$3.00	250,000	0.6	250,000
$5.00	582,500	0.6	582,500
$8.00	885,000	0.6	885,000
	1,717,500	0.6	1,717,500

22. RELATED PARTY TRANSACTIONS

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

Key management includes the Company's directors and executive officers. The remuneration of directors and key members of management and legal fees paid or payable to firms affiliated with the current directors for the year ended December 31, 2016 and 2015 were as follows:

	For the year ended December 31,	
	2016	2015
Short-term compensation of key management and directors	$ 1,319	$ 2,367
Termination benefits	98	279
Share-based compensation	261	578
Legal fees paid or payable to firms affilliated with directors	12	21
	$ 1,690	$ 3,245

These transactions are in the normal course of operations.

22. RELATED PARTY TRANSACTIONS (continued)

Executive employment agreements allow for total additional payments of approximately $280 if a liquidity event occurs, $680 if all are terminated without cause, and $nil if all are terminated with cause.

As at December 31, 2016, Acerus holds a $32,716 ($29,816 as at December 31, 2015) receivable from its wholly owned subsidiary SRL. This receivable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange loss of $690 for the year ended December 31, 2016 (gain of $4,625 for the year ended December 31, 2015) that has been recorded in the consolidated statement of income loss.

23. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company has operating leases for the right to use office and manufacturing and laboratory facilities in Canada and office facilities in Barbados. The Company also has operating leases for some office equipment. There are no other off-balance sheet arrangements.

The Company's Canadian entity entered into a lease agreement for a 10,000 sq. ft. facility that expires in June 2025.

The Barbados office is leased pursuant to a contract ending in March 2017.

	December 31, 2016
No later than 1 year	$ 171
Later than 1 year and no later than 5 years	685
Later than 5 years	639
Total	$ 1,495

(b) Milestone payments

Under certain research and development agreements, the Company may be required to make payments contingent upon the achievement of specific development, regulatory or commercial milestones on or before specific dates.

The Company may be required to make remaining milestone payments in the aggregate amount of $4,500 for Tefina^{TM} and $8,000 for TriVair^{TM} products. The Tefina^{TM} milestone payments are due in two tranches: the first $2,000 upon the acceptance for filing by the FDA or by the European Medicines Agency of the first application for regulatory approval of the product; another $2,500 is due upon the first commercial sale of the product in the USA or in at least two major markets (whichever is earlier). With regards to the TriVair^{TM} products, there is a milestone payment of $2,000 upon FDA approval for each product to a maximum of $8,000. As well, there is a cap on royalty payments of $25,000 per product.

The Company may be required to make minimum royalty payments as disclosed in notes 5(a) and 5(b).

23. COMMITMENTS AND CONTINGENCIES (continued)

(c) Guarantees

All directors and/or officers of the Company, and each of its various subsidiary entities, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions to the directors and officers. The term of the indemnification is not explicitly defined, but is limited to events for the period during which the indemnified party served as a director or officer of the applicable Acerus entity. The maximum amount of any potential future payment required to be made by the Company cannot be reasonably estimated but could have a material adverse effect on the Company.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product and service agreements. These indemnification arrangements may require the applicable Acerus entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the particular Acerus entity or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. The applicable Acerus entity, whenever possible, tries to limit this potential liability within the particular agreement or contract, but due to the unpredictability of future events the maximum amount of any potential reimbursement required to be made by the Company or its subsidiary entities cannot be reasonably estimated, but could have a material adverse effect on the Company.

(d) Litigation

In November 2013, each of the Company, SRL and APBI were served with a third party claim by Valeant Pharmaceuticals International, Inc. and Valeant International (Barbados) SRL (collectively, the "Valeant Parties"). The third party claim seeks certain contribution and indemnity, and damages relating to an underlying claim advanced against the Valeant Parties by Mr. Reiner Schenk. Mr. Schenk asserts that, *inter alia*, the Valeant Parties breached certain obligations owing to him under a confidentiality agreement in 2005 and 2006, and that he is accordingly owed certain damage amounts. Mr. Schenk had originally included the Company, SRL and APBI as party to his action in 2011 but promptly discontinued his claims against such parties. Each of the Company, SRL and APBI believes that the claim of Mr. Schenk, and the related third party claim by the Valeant Parties, is in each case without merit, and they intend to defend themselves against the claims to the fullest extent possible.

In April 2016, the Company was served with a statement of claim filed in the Ontario Superior Court of Justice by Mr. Eugene Melnyk against the Company, as well as its Chairman and President & Chief Executive Officer. On December 21, 2016, the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice heard a motion brought by Mr. Eugene Melnyk for leave to commence a derivative action in the name of the Company against certain of the Company's directors and officers, and the motion was dismissed with written reasons to follow. On February 22, 2017, Justice Wilton-Siegel issued his written reasons dismissing Mr. Melnyk's claim with costs.

In the normal course of business, the Company may be the subject of litigation claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against such litigation.

24. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets (liabilities) as at December 31, 2016 and 2015 are presented below:

December 31, 2016	**Loans and receivables**	**Assets/ (liabilities) at FVTPL**	**Other financial liabilities**	**Total**
	$	**$**	**$**	**$**
Cash	**5,199**	**-**	**-**	**5,199**
Trade and other receivables	**1,059**	**-**	**-**	**1,059**
Licensing fee receivable	**4,150**	**-**	**-**	**4,150**
Accounts payable and accrued liabilities	**-**	**-**	**(3,322)**	**(3,322)**
Long-term debt payable	**-**	**-**	**(6,449)**	**(6,449)**
Derivative financial instrument	**-**	**(141)**	**-**	**(141)**
	10,408	**(141)**	**(9,771)**	**496**

December 31, 2015	**Loans and receivables**	**Assets/ (liabilities) at FVTPL**	**Other financial liabilities**	**Total**
	$	**$**	**$**	**$**
Cash	6,333	-	-	6,333
Trade and other receivables	1,938	-	-	1,938
Accounts payable and accrued liabilities	-	-	(1,999)	(1,999)
Customer deposit	-	-	(4,495)	(4,495)
Long-term debt payable	-	-	(8,031)	(8,031)
Derivative financial instrument	-	(106)	-	(106)
	8,271	(106)	(14,525)	(6,360)

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(b) Fair value of financial instruments

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

At December 31, 2016, the Company’s financial instruments consisted of cash, trade and other receivables, licensing fee receivable, accounts payable and accrued liabilities, customer deposits, long-term debt, and derivative financial instruments. Cash, trade and other receivables, licensing fee receivable, accounts payable and accrued liabilities and customer deposits are measured at amortized cost and their fair values approximate carrying values due to their short-term nature. The derivative financial instruments are measured at fair value with any changes recognized through the consolidated statement of income/(loss) and comprehensive income/(loss) and are classified as Level 2. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model (Level 2). Assumptions used in the model are disclosed in note 15.

24. FINANCIAL INSTRUMENTS (continued)

(b) Fair value of investments (continued)

The long-term debt is measured at amortized cost. At December 31, 2016, the fair value of the long-term debt approximates its face value of $6,455. The fair values are based on cash flows discounted using a rate based on the borrowing rate and are within Level 3 of the fair value hierarchy.

(c) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk.

(i) Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. and Canadian dollars. The Company’s Barbados office incurs limited expenses and has a small bank balance in Bajan dollars, the totals of which are considered to have an insignificant effect on financial reporting.

The Company does not believe it is exposed to currency risk on the net assets denominated in Bajan dollars as the currency is fixed to the U.S. dollar. The Company, however, is exposed to currency risk though its net assets denominated in US dollars and Euros of the Canadian parent.

	As at December 31, 2016	
	USD	EUR
Cash	$ 2,401	$ -
Trade and other receivables	4,000	-
Accounts payable and accrued liabilities	1,107	(37)
Long-term debt	6,455	-
	$ 13,963	$ (37)

Based on the above net exposure at December 31, 2016, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the US dollar against the other currencies would have resulted in the following impact on net income:

	US Dollar		
	Appreciate 5%		
	US	EUR	Total
December 31, 2016 net income	$ (665)	$ (2)	$ (667)
	Depreciate 5%		
	US	EUR	Total
December 31, 2016 net income	$ 735	$ 2	$ 737

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has an interest rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1%. Due to the LIBOR floor, a 0.5% appreciation or depreciation in the present LIBOR rate would have a nil effect on interest expense. However, in the event that LIBOR exceeds 1.0% in the future, any appreciation or depreciation of LIBOR could impact the Company’s interest expense.

24. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management (continued)

(iii) Credit risk

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

Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts. The Company has concentration risk, as approximately 45% of its trade receivables are due from three pharmaceutical wholesalers in Canada. The Company received the full amount of the licensing fee receivable ($4,150) in January 2017.

As at December 31, 2016, the allowance for doubtful accounts was $nil. Management has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and all amounts are considered recoverable.

(iv) Market risk

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

Assuming that all other variables remain constant, a 5% appreciation or depreciation of the Company's share price would have resulted in an $13 decrease and $13 increase in net income respectively ($11 increase and $10 decrease in net loss at December 31, 2015).

(v) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support normal operating requirements on an ongoing basis. Since inception, the Company has financed its cash requirements primarily through issuances of securities, short-term borrowings, issuances of long-term debt (including convertible debt) and interest income and upfront licensing fees.

The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing.

25. FINANCIAL INSTRUMENTS (continued)

(v) Liquidity risk (continued)

The following table summarizes the Company's significant contractual undiscounted cash flows as at December 31, 2016 and 2015:

	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
December 31, 2016						
Accounts payable and accrued liabilities	**$ 3,322**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,322**
Derivative financial instruments	**-**	**-**	**-**	**-**	**141**	**141**
Long-term debt (interest and principal)	**3,484**	**317**	**617**	**1,156**	**1,546**	**7,120**
As at December 31, 2016	**$ 6,806**	**$ 317**	**$ 617**	**$ 1,156**	**$ 1,687**	**$ 10,583**
December 31, 2015						
Accounts payable and accrued liabilities	$ 1,999	$ -	$ -	$ -	$ -	$ 1,999
Derivative financial instruments	-	-	-	-	106	106
Customer deposits	-	4,495	-	-	-	4,495
Long-term debt (interest and principal)	779	764	2,142	5,486	-	9,171
As at December 31, 2015	$ 2,778	$ 5,259	$ 2,142	$ 5,486	$ 106	$ 15,771

25. CAPITAL MANAGEMENT

The Company’s capital management objectives are to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders. The Company does this by ensuring it has sufficient cash resources to fund its research and development activities, to pursue its eventual commercialization efforts and to maintain its ongoing operations. The Company includes the long-term debt and shareholders’ equity in the definition of capital.

A summary of the Company’s capital structure is as follows:

	As at December 31, 2016	As at December 31, 2015
Long-term debt	**$ 6,449**	$ 8,031
Sharholders' equity (deficiency)	**12,201**	(2,459)
	$ 18,650	$ 5,572

The Company continually evaluates alternatives to raise additional capital. These alternatives include seeking additional capital from existing shareholders and new shareholders, from the issuance of debt securities and by way of monetizing its technologies or development programs through commercial or partnering arrangements.

26. SEGMENT REPORTING

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

At December 31, 2016, the Company has total long-term assets in Canada, Barbados and Germany in the amounts of $11,982, $2,332 and $998 respectively ($13,265, $2,930 and $1,182 respectively at December 31, 2015).

For the year ended December 31, 2016 the Company had product revenues from customers located in Canada of $6,899 and licensing and product revenues from Bermuda, U.S. and Korea of $17,082, $506 and $1 respectively ($7,867 from customers located in Canada and $9,048 licensing and product revenues from Bermuda for the year ended December 31, 2015).