ACERUS PHARMACEUTICALS CORPORATION

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017

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

These condensed interim consolidated statements have been prepared by and are the responsibility of the Company. The Company's auditor has not performed a review of these condensed interim consolidated statements.

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2017 AND DECEMBER 31, 2016
UNAUDITED
(expressed in thousands of U.S. dollars)

ASSETS

	Notes	March 31, 2017	December 31, 2016
CURRENT			
Cash		$ 3,873	$ 5,199
Trade and other receivables		980	1,059
Licensing fee receivable		-	4,150
Inventory		3,633	3,770
Prepaids and other assets		124	226
		8,610	14,404
NON-CURRENT ASSETS			
Property and equipment		1,650	1,710
Intangible assets		13,250	13,602
TOTAL ASSETS		$ 23,510	$ 29,716

LIABILITIES

CURRENT			
Accounts payable and accrued liabilities	6	$ 2,374	$ 3,322
Current portion of deferred lease inducement		47	47
Current portion of long-term debt	7	943	4,092
Current portion of deferred revenue		1,015	1,006
		4,379	8,467
NON-CURRENT LIABILITIES			
Deferred lease inducement		344	352
Long-term debt	7	2,121	2,357
Deferred revenue		5,997	6,198
Derivative financial instruments		97	141
TOTAL LIABILITIES		$ 12,938	$ 17,515

SHAREHOLDERS' EQUITY (DEFICIENCY)

Share capital	8	$ 151,766	$ 151,766
Warrants	8	37	37
Contributed surplus		10,518	10,440
Accumulated other comprehensive loss		(15,562)	(15,931)
Deficit		(136,187)	(134,111)
TOTAL SHAREHOLDERS' EQUITY		10,572	12,201
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 23,510	$ 29,716

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.
Going concern (note 1)
These consolidated financial statements were authorized for issue by the Board of Directors on May 12, 2017.

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF (LOSS)/INCOME AND COMPREHENSIVE (LOSS)/INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
UNAUDITED
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	March 31, 2017	March 31, 2016
REVENUE			
Product revenues		$ 1,015	$ 1,924
Licensing and other fees		255	8,483
Total revenue		1,270	10,407
Cost of sales *(includes amortization of intangible assets of $379 and $365 for the three months eneded March 31, 2017 and 2016)*	9	638	812
Gross profit		632	9,595
EXPENSES			
Research and development	9	723	487
Selling, general and administrative	9	1,621	977
Total operating expenses		2,344	1,464
FINANCE COSTS, NET			
Interest on long-term debt and other financing costs		116	311
Interest income		(8)	(5)
Foreign exchange loss		301	1,724
Change in fair value of derivative financial instruments		(45)	34
		364	2,064
TOTAL EXPENSES		2,708	3,528
(LOSS) /INCOME BEFORE INCOME TAXES		(2,076)	6,067
INCOME TAXES			
Deferred		-	150
		-	150
NET (LOSS)/INCOME		$ (2,076)	$ 5,917
Basic weighted average shares outstanding	10	213,118,645	200,873,234
Diluted weighted average shares outstanding	10	213,118,645	206,055,052
Basic and diluted net (loss)/earnings per common share	10	$ (0.01)	$ 0.03
OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF INCOME TAX			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		369	2,766
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		$ (1,707)	$ 8,683

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

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
UNAUDITED
(expressed in thousands of U.S. dollars)

	Notes	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2016		$ 149,766	$ 37	$ 10,166	$ (17,198)	$ (145,230)	$ (2,459)
Net income for the period		-	-	-	-	5,917	5,917
Foreign currency translation adjustment		-	-	-	2,766	-	2,766
Total comprehensive income for the period		-	-	-	2,766	5,917	8,683
Share based compensation	11	-	-	58	-	-	58
Balance as at March 31, 2016	.	$ 149,766	$ 37	$ 10,224	$ (14,432)	$ (139,313)	$ 6,282
Balance, January 1, 2017		$ 151,766	$ 37	$ 10,440	$ (15,931)	$ (134,111)	$ 12,201
Net loss for the period		-	-	-	-	(2,076)	(2,076)
Foreign currency translation adjustment		-	-	-	369	-	369
Total comprehensive loss for the period		-	-	-	369	(2,076)	(1,707)
Share based compensation	11	-	-	78	-	-	78
Balance as at March 31, 2017		$ 151,766	$ 37	$ 10,518	$ (15,562)	$ (136,187)	$ 10,572

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

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
UNAUDITED
(expressed in thousands of U.S. dollars)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss)/income for the period		$ (2,076)	$ 5,917
Items not requiring an outlay of cash:			
Adjustment for unrealized foreign exchange gain		253	1,475
Deferred licensing revenue		(255)	(8,483)
Amortization of intangible assets	9	453	439
Depreciation of property and equipment	9	66	123
Amortization of deferred leasehold inducement		(12)	(7)
Interest on long-term debt and other financing costs		116	311
Change in fair value of derivative financial instruments		(45)	34
Share based compensation	9, 11	78	58
Loss on disposal of property and equipment		1	-
Deferred income tax expense		-	150
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		146	443
Inventory		329	(352)
Prepaids and other assets		105	21
Accounts payable and accrued liabilities		(955)	215
Licensing fee receivable		4,150	-
Customer deposits		-	(32)
		2,354	312
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Interest and financing fees paid		(341)	(258)
Payment of long-term debt obligations	7	(3,391)	(570)
		(3,732)	(828)
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		-	(2)
		-	(2)
NET DECREASE IN CASH FOR THE PERIOD		(1,378)	(518)
Exchange gain on cash		52	383
CASH BEGINNING OF YEAR		5,199	6,333
CASH END OF PERIOD		$ 3,873	$ 6,198

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

1. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards ("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 may 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 approval of a generic Estrace® drug in Canada, 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. since July 2016 and the planned launch of Gynoflor™ in 2018. During the three months ended March 31, 2017, the Company received the final $4,000 upfront payment from Aytu, which was used to repay the balance of the MidCap 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, executing other strategic initiatives that could provide cash flows, or alternatively curtail expenditures and possibly obtaining additional financing. 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 unaudited condensed interim 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 unaudited condensed interim 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 nasal gel technology is approved in the United States and Canada for testosterone 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 Hyundai Pharm Co., LTD. ("Hyundai") a pharmaceutical company in South Korea. Acerus actively continues to pursue high quality opportunities that will help build their Canadian business.

2. DESCRIPTION OF BUSINESS (continued)

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 on June 30, 2016. Under the terms of the agreement, the Company received upfront payments totaling $8,000. 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 firth three years of the agreement.

The Company granted exclusives rights to market Natesto® in South Korea to 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 as well as a fixed supply price per unit. Hyundai filed for the marketing approval of Natesto® with the Ministry of Food and Drug Safety (MFDS) in South Korea in April 2017.

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 New Drug Submission ("NDS") to Health Canada to obtain marketing approval for the product in Canada.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2016. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

(b) Changes in accounting policy and disclosures

New and revised IFRSs issued but not yet effective

The following standards have been adopted on January 1, 2017:

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 in its annual consolidated financial statements for the year ending December 31, 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. The adoption of this standard on January 1, 2017 did not have a material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(b) Changes in accounting policy and disclosures

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 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.

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.

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 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Company's unaudited condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the unaudited condensed interim consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results may differ from these estimates. In preparing the unaudited condensed interim consolidated financial statements, the significant estimates made by management include those that applied to and are disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2016. The Company did not have any significant changes in estimates and judgments from those that applied at year end.

5. PRODUCT RIGHTS

(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").

The IP Agreement includes the payment of 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 $1,500 if the gross annual sales of Natesto® are below $75,000 in a calendar year and $3,000 if the gross annual sales of Natesto® exceed $75,000 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.

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 for products submitted for approval by SRL. As well, there is a cap on royalty payments of $25,000 per product.

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

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at	
	March 31, 2017	**December 31, 2016**
Accounts payable	**$ 1,215**	$ 1,604
Employee salaries and benefits payable	**246**	281
Royalty payable (note 5)	**-**	747
Interest payable	**-**	231
Accrued liabilities	**797**	335
Other	**116**	124
Total accounts payable and accrued liabilities	**$ 2,374**	$ 3,322

7. LONG-TERM DEBT

MidCap – Senior Financing
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. 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 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 debt was extinguished on January 6, 2017.

Endo – Promissory Note
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%. At March 31, 2017 the Company had $3,064 outstanding on the promissory note.

Interest expense on long-term debt was $87 for the three months ended March 31, 2017 ($194 for the three months ended March 31, 2016)

	Senior Financing	**Promissory Note**	**Total**
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
Carrying value of the loan at January 1, 2017	**$ 3,149**	**$ 3,300**	**$ 6,449**
Amortization of deferred financing costs	**5**	**-**	**5**
Repayment of principal	**(3,155)**	**(236)**	**(3,391)**
Effect of foreign currency exchange differences	**1**	**-**	**1**
Carrying value at March 31, 2017	**-**	**3,064**	**3,064**
Current portion at March 31, 2017	**-**	**943**	**943**
Long term portion at March 31, 2017	**$ -**	**$ 2,121**	**$ 2,121**

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

8. SHARE CAPITAL AND WARRANTS

Shares Issued and Outstanding

	Number of		Amount		
	Common Shares	Warrants	Common Shares	Warrants	Total
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
Balance as at March 31, 2017	**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, 2016 – 3,034,814) warrants issued that have been classified as a derivative financial instrument (note 8).

On April 27, 2016, 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.

9. NATURE OF EXPENSES

	For the three months ended March 31,							
	2017				2016			
	Cost of Sales	R&D	SG&A	Total	Cost of Sales	R&D	SG&A	Total
Salaries and benefits	$ -	$ 221	$ 444	$ 665	$ -	$ 198	$ 411	$ 609
Cost of finished goods	183	-	-	183	343	-	-	343
Amortization of intangible assets	379	74	-	453	365	74	-	439
Clinical trials	-	5	-	5	-	65	-	65
Rent, office and other expenses	-	8	131	139	-	3	114	117
Selling costs	-	-	583	583	-	-	44	44
Depreciation of property and equipment	34	8	24	66	33	67	23	123
Professional fees	-	74	280	354	-	13	225	238
Product development	-	320	-	320	-	52	-	52
Share-based compensation	-	13	65	78	-	15	43	58
Public company costs	-	-	65	65	-	-	94	94
Distribution and warehousing costs	42	-	-	42	65	-	-	65
Other	-	-	-	-	6	-	-	6
Business development	-	-	29	29	-	-	23	23
Total expenses	$ 638	$ 723	$ 1,621	$ 2,982	$ 812	$ 487	$ 977	$ 2,276

10. (LOSS)/EARNINGS PER SHARE

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

	For the three months ended March 31,	
	2017	**2016**
Numerator for basic and diluted (loss)/earnings per share available to common shareholders	**$ (2,076)**	$ 5,917
Denominator for basic (loss)/earnings per share	**213,118,645**	200,873,234
Denominator for diluted (loss)/earnings per share	**213,118,645**	206,055,052
Basic and diluted (loss)/earnings per share	**$ (0.01)**	$ 0.03

For the three months ended March 31, 2017, the computation of diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share due to the anti-dilutive effect on the stock options and warrants.

11. 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 March 31, 2017). 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.

The following table presents the Black-Scholes variables used to calculate the fair value of the option.

						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 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
Mar 10, 2017	4,810,000	Employee & director	CDN$0.12	5 years	3 years	1.1%	98.2%	nil	CDN$0.08

A forfeiture rate of 3% was used to estimate option expenses during the period. The Company recognized total share based compensation expense of $78 for the three months ended March 31, 2017 ($58 for the three months ended March 31, 2016).

11. SHARE BASED COMPENSATION (continued)

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

	For the three months ended March 31,							
	2017				2016			
	Canadian Dollar Options		US Dollar Options		Canadian Dollar Options		US Dollar Options	
	Number	Weighted average exercise price (CDN)	Number	Weighted average exercise price (USD)	Number	Weighted average exercise price (CDN)	Number	Weighted average exercise price (USD)
Balance at January 1,	**9,743,240**	**$ 0.71**	**1,717,500**	**$ 6.25**	5,922,790	$ 1.29	2,081,225	$ 5.68
Granted	**4,810,000**	**0.12**	**-**	**-**	5,700,000	0.10	-	-
Expired	**(588,440)**	**3.30**	**-**	**-**	-	-	-	-
Forfeited	**(118,334)**	**0.15**	**-**	**-**	(50,400)	0.42	-	-
Balance at March 31,	**13,846,466**	**$ 0.40**	**1,717,500**	**6.25**	11,572,390	$ 0.71	2,081,225	$ 5.68
Options exercisable at March 31,	**5,389,795**	**$ 0.80**	**1,717,500**	**$ 6.25**				

Canadian Dollar Options outstanding as at March 31, 2017

Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$0.09	400,000	4.4	-
$0.10	3,855,000	3.9	1,754,996
$0.12	4,810,000	4.9	-
$0.13	325,000	4.4	-
$0.16	30,000	3.7	10,000
$0.18	500,000	4.6	-
$0.41	50,000	1.6	50,000
$0.75	1,108,333	2.9	806,666
$0.82	1,023,333	1.9	1,023,333
$0.87	819,800	1.0	819,800
$0.91	25,000	1.1	25,000
$2.18	900,000	0.6	900,000
	13,846,466	3.7	5,389,795

US Dollar Options outstanding as at March 31, 2017

Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$3.00	250,000	0.4	250,000
$5.00	582,500	0.4	582,500
$8.00	885,000	0.4	885,000
	1,717,500	0.4	1,717,500

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

12. 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 three months ended March 31, 2017 and 2016 were as follows:

	For the three months ended March 31,	
	2017	**2016**
Short-term compensation of key management and directors	**$ 416**	$ 405
Share-based compensation	**73**	1
Legal fees paid or payable to firms affilliated with directors	**1**	3
	$ 490	$ 409

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $1,874 if a change in control occurs, $1,123 if all are terminated without cause, and $nil if all are terminated with cause.

As at March 31, 2017, Acerus holds a $36,279 ($32,716 as at December 31, 2016) 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 $311 for the three months ended March 31, 2017 (loss of $2,025 for the three months ended March 31, 2016) that has been recorded in the consolidated statement of (loss)/income.

13. 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. On April 6, 2017, Mr. Eugene Melnyk served a Notice of Appeal to appeal the decision of Justice Wilton-Siegel to the Divisional Court of the Ontario Superior Court of Justice. A hearing date for the appeal to the Divisional Court has not yet been set.

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.

14. 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 March 31, 2017, the Company's financial instruments consisted of cash, trade and other receivables, accounts payable and accrued liabilities, long-term debt, and derivative financial instruments. Cash, trade and other receivables, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their short-term nature. The derivative financial instruments are measured at fair value with any changes recognized through the unaudited condensed interim consolidated statement of (loss)/income and comprehensive (loss)/income and are classified as Level 2. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model (Level 2).

The long-term debt is measured at amortized cost. At March 31, 2017, the fair value of the long-term debt approximates its face value of $3,064. 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.

15. 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 March 31, 2017, the Company has total long-term assets in Canada, Barbados and Germany in the amounts of $11,680, $2,257 and $963 respectively ($11,982, $2,332 and $998 respectively at December 31, 2016).

For the three months ended March 31, 2017, the Company had product revenues from customers located in Canada of $1,015 and licensing and product revenues from U.S. and Korea of $252 and $3 respectively ($1,861, $8,546 and $nil respectively for the three months ended March 31, 2016).