



**Acerus Pharmaceuticals Corporation**

Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2018

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

## Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statement of Financial Position

As at September 30, 2018, December 31, 2017 and January 1, 2017

Unaudited

(expressed in thousands of U.S. dollars)

	Notes	September 30, 2018	Restated December 31, 2017*	Restated January 1, 2017*
<b>ASSETS</b>				
<b>Current assets</b>				
Cash		\$ 1,231	\$ 3,156	\$ 5,199
Trade and other receivables		1,023	1,542	1,059
Licensing fee receivable		-	300	4,150
Inventory		2,667	2,979	3,770
Prepaid and other assets		484	229	226
<b>Total current assets</b>		<b>5,405</b>	<b>8,206</b>	<b>14,404</b>
Property and equipment, net		1,361	1,487	1,710
Intangible assets, net		11,520	12,561	13,602
<b>Total assets</b>		<b>\$ 18,286</b>	<b>\$ 22,254</b>	<b>\$ 29,716</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	6	\$ 5,887	\$ 3,134	\$ 3,322
Current portion of deferred lease inducement		49	50	47
Current portion of long-term debt	7	1,948	1,026	4,092
<b>Total current liabilities</b>		<b>7,884</b>	<b>4,210</b>	<b>7,461</b>
Accrued liabilities	6	2,093	178	-
Deferred lease inducement		280	327	352
Long-term debt	7	3,058	3,543	2,357
Derivative financial instruments		207	307	141
<b>Total liabilities</b>		<b>13,522</b>	<b>8,565</b>	<b>10,311</b>
<b>Shareholders' equity</b>				
Share capital	8	\$ 154,720	\$ 151,766	\$ 151,766
Warrants	8	1,420	-	37
Contributed surplus		11,403	11,066	10,440
Accumulated other comprehensive loss		(13,953)	(14,052)	(16,370)
Deficit		(148,826)	(135,091)	(126,468)
<b>Total shareholders' equity</b>		<b>4,764</b>	<b>13,689</b>	<b>19,405</b>
<b>Total liabilities &amp; shareholders' equity</b>		<b>\$ 18,286</b>	<b>\$ 22,254</b>	<b>\$ 29,716</b>

\*See note 3(c) for details regarding the restatement as a result of change in accounting policy.

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 November 5, 2018.

## Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statement of (Loss) and Comprehensive (Loss)

For the three and nine months ended September 30, 2018 and 2017

Unaudited

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

	Notes	For the three months ended, September 30,		For the nine months ended, September 30,	
		2018	2017 Restated*	2018	2017 Restated*
<b>Revenue</b>					
Product revenue		\$ 1,583	\$ 1,360	\$ 5,159	\$ 3,569
Licensing and other revenue		-	-	150	584
		1,583	1,360	5,309	4,153
Cost of goods sold	9	777	661	2,833	1,935
Royalty buyout	5(a)	-	-	6,680	-
<b>Gross margin</b>		806	699	(4,204)	2,218
<b>Expenses</b>					
Research and development	9	751	367	1,827	1,492
Selling, general and administrative	9	2,159	1,793	6,173	4,897
<b>Total operating expenses</b>		2,910	2,160	8,000	6,389
Operating loss		(2,104)	(1,461)	(12,204)	(4,171)
<b>Other expenses/(income)</b>					
Interest on long-term debt and other financing costs		718	98	1,276	295
Interest income		(3)	(5)	(12)	(18)
Foreign exchange loss		48	1,348	353	2,451
Change in fair value of derivative financial instruments		2	(39)	(88)	(99)
<b>Total other expenses</b>		765	1,402	1,529	2,629
Loss for the period before income taxes		(2,869)	(2,863)	(13,733)	(6,800)
Income tax expense		2	-	2	-
<b>Net loss for the period</b>		(2,871)	(2,863)	\$ (13,735)	\$ (6,800)
Other comprehensive income, net of income tax					
Foreign currency translation adjustment		8	1,859	99	3,382
<b>Total comprehensive loss for the period</b>		(2,863)	(1,004)	\$ (13,636)	\$ (3,418)
*See note 3(c) for details regarding the restatement as a result of change in accounting policy.					
Loss per common share					
Basic and diluted net loss per common share	10	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ (0.03)
Weighted average common shares outstanding					
Basic	10	235,262,972	213,118,645	220,798,110	213,118,645
Diluted	10	235,262,972	213,118,645	220,798,110	213,118,645

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

For the nine months ended September 30, 2018 and 2017

Unaudited

(expressed in thousands of U.S. dollars )

	Note	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
<b>Balance, January 1, 2017</b>		\$ 151,766	\$ 37	\$ 10,440	\$ (15,931)	\$ (134,111)	\$ 12,201
Change in accounting policy	3(c)	-	-	-	(439)	7,643	7,204
<b>Restated total equity at the beginning of the fiscal year</b>		151,766	37	10,440	(16,370)	(126,468)	19,405
Net loss for the period restated		-	-	-	-	(6,800)	(6,800)
Foreign currency translation adjustment restated		-	-	-	3,382	-	3,382
Total comprehensive loss for the period		-	-	-	3,382	(6,800)	(3,418)
Share based compensation	11	-	-	217	-	-	217
<b>Balance as at September 30, 2017</b>		\$ 151,766	\$ 37	\$ 10,657	\$ (12,988)	\$ (133,268)	\$ 16,204
<b>Balance at December 31, 2017 as originally presented</b>		\$ 151,766	\$ -	\$ 11,066	\$ (14,091)	\$ (142,825)	\$ 5,916
Change in accounting policy	3(c)	-	-	-	39	7,734	7,773
<b>Restated total equity as at December 31, 2017</b>		151,766	-	11,066	(14,052)	(135,091)	13,689
Net loss for the period		-	-	-	-	(13,735)	(13,735)
Foreign currency translation adjustment		-	-	-	99	-	99
Total comprehensive loss for the period		-	-	-	99	(13,735)	(13,636)
Issuance of common shares, net of costs		2,943	-	-	-	-	2,943
Issuance of warrants, net of costs		-	1,420	-	-	-	1,420
Exercise of stock options	8	11	-	-	-	-	11
Share based compensation	11	-	-	337	-	-	337
<b>Balance as at September 30, 2018</b>		\$ 154,720	\$ 1,420	\$ 11,403	\$ (13,953)	\$ (148,826)	\$ 4,764

\*See note 3(c) for details regarding the restatement as a result of change in accounting policy.

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

## Acerus Pharmaceuticals Corporation

Condensed Interim Consolidated Statement of Cash Flows

For the nine months ended September 30, 2018 and 2017

Unaudited

(expressed in thousands of U.S. dollars)

	Note	September 30, 2018	Restated September 30, 2017*
<b>Operating activities:</b>			
Net (loss) for the period		\$ (13,735)	\$ (6,800)
Items not affecting cash:			
Adjustment for unrealized foreign exchange loss		361	2,386
Amortization of intangible assets	9	1,300	1,375
Depreciation of property and equipment	9	193	198
Amortization of deferred leasehold inducement		(37)	(36)
Interest on long-term debt and other financing costs		1,276	295
Change in fair value of derivative financial instruments		(88)	(99)
Share based compensation	9	337	217
(Gain) on disposal of property and equipment		-	(4)
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		476	(561)
Inventory		45	475
Prepays and other assets		(113)	23
Accounts payable and accrued liabilities		4,203	(1,211)
Licensing fee receivable		300	4,150
<b>Net cash (used in)/from operating activities</b>		<b>(5,482)</b>	<b>408</b>
<b>Financing activities</b>			
Interest and financing fees paid		(557)	(340)
Proceeds from issuance of common shares and warrants, net of	11	4,374	-
Proceeds from debt issuance, net of financing costs		1,571	-
Payment of long-term debt obligations		(1,500)	(3,391)
<b>Net cash from/(used in) operating activities</b>		<b>3,888</b>	<b>(3,731)</b>
<b>Investing activities</b>			
Proceeds from disposition of property and equipment		-	5
Acquisition of property and equipment, net of deposits		(88)	-
Acquisition of product rights		(156)	-
<b>Net cash (used in)/from investing activities</b>		<b>(244)</b>	<b>5</b>
<b>Net increase/(decrease) in cash for the period</b>		<b>(1,838)</b>	<b>(3,318)</b>
Exchange gain/(loss) on cash		(87)	267
Cash, beginning of year		3,156	5,199
Cash, end of period		\$ 1,231	\$ 2,148

\*See note 3(c) for details regarding the restatement as a result of change in accounting policy.

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

**Acerus Pharmaceuticals Corporation**  
Notes to Unaudited Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2018 and 2017  
(All amounts expressed in thousands of U.S. dollars except per share amounts  
and unless otherwise stated)

**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 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 will be required. 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, possibly obtaining additional financing, executing other strategic initiatives that could provide cash flows, or alternatively curtailing expenditures. There are no assurances that any of these initiatives will be successful. 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 statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

**2. DESCRIPTION OF BUSINESS**

These unaudited condensed interim consolidated financial statements represent the consolidated accounts of Acerus (incorporated in Ontario, Canada) and its wholly-owned subsidiaries, Acerus Labs Inc. (“ALI”) (incorporated in Ontario), Acerus Biopharma Inc. (“ABI”) (formerly named Acerus Pharmaceuticals SRL (“SRL”)) (incorporated in Ontario), and Acerus Pharmaceuticals (Barbados) Inc. (“APBI”) (incorporated in Barbados). On November 6, 2017, ABI migrated jurisdiction of incorporation, corporate law residence, and tax residence from Barbados to Canada. APBI was dissolved on February 26, 2018. 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 is a Canadian-based specialty pharmaceutical company focused on the development, manufacture, marketing and distribution of branded products with a primary focus in the field of men’s and women’s health. The Company commercializes its products via its own salesforce in Canada, and through a global network of licensed distributors in the U.S. and other territories.

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2017. These policies have been consistently applied to all periods presented, except for the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* starting January 1, 2018.

**(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, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

**(b) New and amended standards**

A number of new or amended standards became applicable for the 2018 reporting period and the Company had to change its accounting policies. For IFRS 15 *Revenue from Contracts with Customers*, the Company has made retrospective adjustments. IFRS 9 *Financial Instruments* did not have a material impact on the Company’s accounting policies and did not require retrospective adjustments. The details of the impact from the adoption of these standards and the new accounting policies are disclosed in note 3(c) below.

Other 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.

**(c) Impact of changes and updates to accounting policies**

IFRS 9 *Financial Instruments* was adopted without restating comparative information. The Company’s financial assets primarily consist of trade receivables. The adoption of IFRS 9 was applied on a retrospective basis on January 1, 2018 without restatement of comparatives and did not have a material effect on the valuation of the Company’s financial assets, as such there are no changes to the opening statement of financial position on January 1, 2018.

The Company adopted IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively and has restated comparatives for the 2017 fiscal year.

The impacts of adoption of the new standard are summarized below:

- The Company’s product revenue is from the sale of goods where control transfers to the customer and the Company’s performance obligations are satisfied. The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized under these arrangements.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Impact of changes and updates to accounting policies (continued)**

- License and other revenue mainly consist of upfront and milestone payments received from license and supply agreements. In its review of out-licensing agreements, the Company concluded that the license is distinct from other goods and services in the contracts. The license provides the partner with the right to use the Company's intellectual property. Previously, the upfront payments were recorded as deferred revenue and amortized as income over the life of the contracts. Under IFRS 15, the upfront revenue is recognized when control transfers to the licensee and the license period begins. For milestone payments, there has been no change in the recognition criteria, income is recognized at the point in time when it is highly probable that the milestone event criteria are met, and the risk of reversal of revenue recognition is remote.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	January 1, 2017 As originally presented	IFRS 15	January 1, 2017 Restated
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of deferred revenue	1,006	(1,006)	-
<b>Total current liabilities</b>	8,467	(1,006)	7,461
Deferred revenue	6,198	(6,198)	-
<b>Total liabilities</b>	17,515	(7,204)	10,311
<b>Shareholders' equity</b>			
Accumulated other comprehensive loss	(15,931)	(439)	(16,370)
Deficit	(134,111)	7,643	(126,468)
<b>Total shareholders' equity</b>	12,201	7,204	19,405
<b>Total liabilities &amp; shareholders' equity</b>	\$ 29,716	\$ -	\$ 29,716

	December 31, 2017 As originally presented	IFRS 15	January 1, 2018 Restated
<b>Balance sheet (extract)</b>			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of deferred revenue	1,206	(1,206)	-
<b>Total current liabilities</b>	5,416	(1,206)	4,210
Deferred revenue	6,567	(6,567)	-
<b>Total liabilities</b>	16,338	(7,773)	8,565
<b>Shareholders' equity</b>			
Accumulated other comprehensive loss	(14,091)	39	(14,052)
Deficit	(142,825)	7,734	(135,091)
<b>Total shareholders' equity</b>	5,916	7,773	13,689
<b>Total liabilities &amp; shareholders' equity</b>	\$ 22,254	\$ -	\$ 22,254



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Impact of changes and updates to accounting policies (continued)**

	<b>For the three months ended,</b>		
	<b>September 30,</b>		<b>September 30,</b>
	<b>2017</b>		<b>2017</b>
	<b>As originally</b>	<b>IFRS 15</b>	<b>Restated</b>
	<b>presented</b>		
<b>REVENUE</b>			
Licensing and other fees	268	(268)	-
Total revenue	1,628	(268)	1,360
Gross profit	967	(268)	699
<b>LOSS BEFORE INCOME TAXES</b>	(2,595)	(268)	(2,863)
<b>NET LOSS</b>	\$ (2,595)	\$ (268)	\$ (2,863)
<b>OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustment	1,531	328	1,859
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	\$ (1,064)	\$ 60	\$ (1,004)

	<b>For the nine months ended,</b>		
	<b>September 30,</b>		<b>September 30,</b>
	<b>2017</b>		<b>2017</b>
	<b>As originally</b>	<b>IFRS 15</b>	<b>Restated</b>
	<b>presented</b>		
<b>REVENUE</b>			
Licensing and other fees	775	(191)	584
Total revenue	4,344	(191)	4,153
Gross profit	2,409	(191)	2,218
<b>LOSS BEFORE INCOME TAXES</b>	(6,609)	(191)	(6,800)
<b>NET LOSS</b>	\$ (6,609)	\$ (191)	\$ (6,800)
<b>OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustment	2,834	548	3,382
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	\$ (3,775)	\$ 357	\$ (3,418)

The Company's updated accounting policies, effective January 1, 2018, with the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are as follows:

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Impact of changes and updates to accounting policies (continued)**

**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. Provisions for doubtful trade receivables are established using an expected credit loss model (ECL). The provisions are based on a forward-looking ECL, which includes possible default events on the trade receivables over the entire holding period of the trade receivable, considering the occurrence of a significant increase in credit risk. Significant financial difficulties of a customer, such as probability of bankruptcy, financial reorganization, default or delinquency in payments are considered indicators that recovery of the trade receivable is doubtful. These provisions represent the difference between the trade receivable's carrying amount in the consolidated statement of financial position and the estimated net collectible amount. Charges for doubtful trade receivables are recorded as marketing and selling costs recognized in the consolidated statement of income/(loss) within "Selling, General & Administration" expenses.

**Revenue**

Revenue from the sale of goods, which is recorded as "Product revenue" in the consolidated statement of income/(loss), is recognized when a contractual promise to a customer (the performance obligation) has been fulfilled by transferring control over the promised goods and services to the customer. The amount of revenue to be recognized is based on the consideration the Company expects to receive in exchange for its goods and services. If the contract contains more than one performance obligation, the consideration is allocated based on standalone selling price of each performance obligation.

Consideration the Company receives in exchange for its goods or services may be fixed or variable. Variable consideration is only recognized when it is highly probable that a significant reversal will not occur. The most common elements of variable considerations are listed below:

- Discounts granted to customers are provisioned and recorded as a deduction from revenue at the time the related revenue are recorded or when the incentives are offered. They are calculated on the basis of historical experience and the specific terms in the individual agreements.
- Sales returns provisions are recognized and recorded as revenue deductions when there is historical experience of the Company agreeing to customer returns and the Company can reasonably estimate expected future returns. In doing so, the estimated rate of return is applied, determined based on historical experience of customer returns and considering any other relevant factors. The provisions are applied to the amounts invoiced, taking into consideration the number of returned products to be destroyed versus products that can be placed back in inventory for resale.
- Revenues for certain of our partners are earned in two steps: 1) at a contractual supply price when the product is delivered to the marketing partner; and 2) an additional top-up amount is earned based on a pricing schedule when the marketing partner recognizes sales of the product. The additional top-up amounts are estimated based on our partners' reported net sales for the period.

Provisions for revenue deductions are adjusted to actual amounts as discounts and returns are processed. The provision represents estimates of the related obligations, requiring the use of judgement when estimating the effect of these sales deductions.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Impact of changes and updates to accounting policies (continued)**

**Revenue (continued)**

License and other revenue mainly consists of upfront payments and milestone payments received from license and supply agreements. 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.

Upfront payments are considerations received for the right to use the Company's intellectual property. Revenues from upfront payments in license and supply agreements are recognized when control transfers to the licensee and the license period begins. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria is met, and the risk of reversal of revenue recognition is remote.

**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, 2017. The Company did not have any significant changes in estimates and judgments from those that applied at year end aside from those detailed below:

*Revenue recognition*

License and other revenue mainly consists of upfront payments and milestone payments received in license and supply agreements. Management, in its review of out-licensing agreements, uses significant judgement to determine if the license is distinct from other goods and services in the contract and if the license provides the partner with the right to use or the right to access the Company's intellectual property. Management makes their decision by reviewing contracts and through discussions with internal and external personnel to determine the substance of the agreements.

**5. PRODUCT RIGHTS**

**(a) Bio-adhesive gel technology**

In May 2009 (and in accordance with certain subsequent contractual amendments), ABI 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") in exchange for milestones, royalties based on the Company's gross margin, and other payments depending on the achievement of specified goals for Natesto<sup>®</sup> and Tefina<sup>™</sup>.

On May 17, 2018, the Company entered into an agreement with Mattern Pharma AG (Mattern) to buy out all of its obligations (the "Buyout") under the Amended and Restated Intellectual Property Rights and Product Development Agreement, dated December 21, 2013 (as amended) ("License Agreement"), including all of its future royalty payment obligations.

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**5. PRODUCT RIGHTS (continued)**

**(a) Bio-adhesive gel technology (continued)**

Under the License Agreement, Acerus owed royalties on upfronts, milestones and revenues from products, including Natesto<sup>®</sup>, covered by the License Agreement, including minimum annual royalties of \$5,000 if gross product sales are \$75,000 or greater or \$2,500 if gross product sales are below \$75,000 starting in fiscal 2018 and ending in 2024. Pursuant to the Buyout, with the payment of \$7,500, all of Acerus' material obligations owed to Mattern are suspended, but Mattern's obligations to Acerus remain in force. Under the Buyout, among other rights, Acerus receives a perpetual, fully-paid, irrevocable license to all of Mattern's patents and know-how for the products covered by the License Agreement. Acerus will pay the \$7,500 in the following instalments: \$750 was paid in July 2018, \$1,750 was paid in September 2018, \$2,500 by January 20, 2019, and \$2,500 by January 20, 2020. The Company recorded an expense of \$6,680 in the nine months ended September 30, 2018, representing the fair value of the \$7,500 obligation under the Buyout. The fair value was estimated by discounting the payments using a rate of 14.75%.

The Buyout also includes a covenant not to sue and a waiver from Mattern, which will become irrevocable upon payment of the last instalment to Mattern. The Buyout will remain in full force and effect as long as the License Agreement is in force. In the event of a payment default, following a grace period, the Buyout automatically terminates and the License Agreement's obligations become binding on Acerus again. In such an eventuality, all monies paid by Acerus pursuant to the Buyout, with the exception of the first instalment, can be offset against monies that would otherwise be owed to Mattern under the License Agreement.

**(b) Pulmonary and nasal dry powder delivery technology**

On November 30, 2009, ABI 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, ABI paid \$4,500 to Keldmann to acquire the Direct Haler technology platform (TriVair) for pulmonary and nasal delivery of pharmaceutical medications. This acquisition was accounted for as a purchase of identifiable intangible and tangible assets.

As part of this transaction with Keldmann, and pursuant to an Amended Product Development Agreement dated December 30, 2009, ABI 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 ABI. As well, there is a cap on royalty payments of \$25,000 per product.

**(c) Gynoflor<sup>™</sup>**

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<sup>™</sup> in Canada. On December 24, 2017 the Company received a Notice of Deficiency ("NOD"). In its notice, Health Canada requested additional technical information on Gynoflor<sup>™</sup> in order to complete its assessment of the product, which the Company believes will cause a delay in the review process. Acerus officially responded to the NOD on April 11, 2018, focusing only the vaginal atrophy indication and expects to receive a decision from Health Canada in the first half of 2019.

**(d) Elegant<sup>™</sup> franchise**

On December 20, 2017, the Company entered into a license, development and supply agreement with Viramal Limited ("Viramal"), a London-based specialty pharmaceutical company, granting the Company exclusive rights to commercialize the Elegant<sup>™</sup> franchise in Canada. Under the terms of the license, development and supply agreement, the Company will pay Viramal a regulatory milestone payment upon the Company receiving marketing approval in Canada, as well as milestone payments based on achieving sales targets. Viramal will oversee the manufacturing of Elegant<sup>™</sup> and will receive a supply price for the products.

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**5. PRODUCT RIGHTS (continued)**

**(e) *UriVarx*<sup>®</sup>**

On January 8, 2018 the Company entered into an exclusive distributor and license agreement with Innovus Pharmaceuticals, Inc. (“Innovus”), granting Acerus the exclusive rights to commercialize UriVarx<sup>®</sup> in Canada. Under the terms of the exclusive distributor and license agreement, the Company paid an upfront payment at signing and will pay milestone payments based on the Company achieving certain sales targets. Innovus will oversee the manufacturing of UriVarx<sup>®</sup> and will receive a supply price for the product.

**(f) *Stendra*<sup>®</sup>**

On March 27, 2018 the Company entered into an exclusive distributor and license agreement with Metuchen Pharmaceuticals LLC (“Metuchen”), a privately-held specialty pharmaceutical company, granting Acerus the exclusive rights to commercialize Stendra<sup>®</sup> in Canada. Stendra<sup>®</sup> is a new chemical entity targeting the large and growing Erectile Dysfunction (“ED”) market. Under the terms of the sublicense agreement, Metuchen will receive regulatory milestone payments upon Acerus filing a New Drug Submission (“NDS”) with Health Canada and upon Acerus receiving marketing approval in Canada. Metuchen will also receive milestone payments based on Acerus achieving sales targets. Metuchen will oversee the manufacturing of Stendra<sup>®</sup> and will receive a supply price for the product comprised of a transfer price and royalties on net sales of the product.

**(g) *Shact*<sup>™</sup>**

On May 29, 2018 the Company entered into an exclusive agreement with Pharmanest AB (“Pharmanest”) to commercialize Short Acting Lidocaine Product (“Shact<sup>™</sup>”), a pain relief drug device combination in Canada. Under the terms of the license agreement, Pharmanest will receive an upfront and regulatory milestone payments upon the Company receiving marketing approval in Canada. Pharmanest will also receive milestone payments based on the Company achieving sales targets. Pharmanest will oversee the manufacturing of Shact<sup>™</sup> and will receive a tiered supply price for the product comprised of a percentage on net sales of the product.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2018	December 31, 2017
Accounts payable	\$ 1,534	\$ 1,213
Employee salaries and benefits payable	784	1,104
Buyout payable (note 5a)	2,400	54
Interest payable	221	99
Accrued liabilities	765	550
Provision for returns and discounts	183	114
Total current accounts payable and accrued liabilities	\$ 5,887	\$ 3,134
Employee severance, long-term liability	-	178
Buyout payable (note 5a)	2,093	-
Total accounts payable and accrued liabilities	\$ 7,980	\$ 3,312

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**7. LONG-TERM DEBT**

	Senior Financing	Promissory Note	Quantius Debt	Total
Balance, January 1, 2017	\$ 3,149	\$ 3,300	\$ -	\$ 6,449
Additional debt acquired	-	-	2,352	2,352
Transaction costs	-	-	(191)	(191)
Accrued royalty payable	-	-	6	6
Amortization of deferred financing costs	5	-	5	10
Repayment of principal	(3,155)	(943)	-	(4,098)
Effect of foreign currency exchange difference	1	-	40	41
Balance, December 31, 2017	\$ -	\$ 2,357	\$ 2,212	\$ 4,569
Current portion at December 31, 2017	-	943	83	1,026
Long-term portion at December 31, 2017	\$ -	\$ 1,414	\$ 2,129	\$ 3,543
Balance, January 1, 2018	\$ -	\$ 2,357	\$ 2,212	\$ 4,569
Accrued royalty payable	-	-	289	289
Amortization of deferred financing costs	-	-	172	172
Debt issuance	-	-	1,571	1,571
Repayment of principal	-	(1,500)	-	(1,500)
Effect of foreign currency exchange difference	-	-	(95)	(95)
Balance, September 30, 2018	\$ -	\$ 857	\$ 4,149	\$ 5,006
Current portion at September 30, 2018	-	857	1,091	1,948
Long-term portion at September 30, 2018	\$ -	\$ -	\$ 3,058	\$ 3,058

*Endo – Promissory note*

Pursuant to the transition agreement between Acerus and an affiliate of Endo International plc (“Endo”), parties entered into an agreement related to the unused customer deposit (pre-paid inventory) owed to Endo following the termination of the Natesto® license agreement in 2016. 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 was 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%.

On March 15, 2018, the promissory note was amended such that principal repayments under the promissory note would now be made annually on the last business day of December of each year instead of quarterly. Payments of interest were to continue to be made quarterly.

On July 5, 2018, the promissory note was amended such that Endo accepted a prepayment of \$1,500 in full satisfaction of the Company’s obligation to prepay a portion of the promissory note from 50% of the net proceeds of the equity financing closed on June 28, 2018. Under the amended promissory note, the remaining balance and all interest accrued and unpaid would be paid the earlier of (i) the next equity financing completed by the Company; and (ii) June 30, 2019 unless another pre-payment obligation under the promissory note is triggered.

As of September 30, 2018, the Company had \$857 outstanding on the promissory note.

On October 11, 2018, the promissory note and outstanding accrued interest was repaid in full and the note was extinguished.

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

*Quantius Inc. credit facility*

On December 6, 2017, Acerus entered into a senior secured term credit facility with Quantius Inc. (“Quantius”) for up to CDN\$5,000 of which CDN\$3,000 was available at closing, with the remaining CDN\$2,000 received on April 20, 2018 following the satisfaction of certain conditions, including 1) Aytu achieving a pre-determined number of prescriptions per month for Natesto<sup>®</sup> in the U.S., and 2) maintaining Estrace<sup>®</sup> sales at a pre-determined minimum level.

The credit facility bears interest at a rate equivalent to the Bank of Canada prime plus 11.05% and matures on December 1, 2019. The credit facility is repayable in monthly instalments of 1/48 of the balance owing commencing December 1, 2018 with the remaining balance due at maturity. As part of the transaction, Quantius received an underwriting fee representing low single digit percentage of the maximum facility amount and will receive a royalty fee representing low single digit percentage of revenues over the term of the facility, capped at a high single digit percentage of the borrowed amount. Under terms of the agreement, the Company will have the option to prepay the credit facility with the payment of low single digit prepayment penalties depending on the timing of pre-payment. The prepayment penalties will be fully offset against the royalty fee payable at maturity. The terms of the agreement also contain customary financial covenants. Due to the Mattern payment of \$1,750 in September, the Company obtained a waiver for the financial covenants for the month ending September 30, 2018.

As of September 30, 2018, the Company had \$4,171 outstanding on the credit facility.

The credit facility was subsequently extinguished on October 12, 2018 with payment of principal, accrued interest and capped royalty payment amount.

*SWK credit facility*

On October 12, 2018, the Company entered into a senior secured term loan credit facility with SWK Funding LLC (“SWK”) for up to \$11,000 (“New Facility”). An initial tranche of \$9,000 of the New Facility was received at closing, with the remaining \$2,000 of the New Facility becoming available upon satisfaction of certain future conditions.

The New Facility bears interest at a rate per annum equal to the greater of (a) the three-month London Inter-Bank Offered Rate (“LIBOR”), or (b) 1.50%, with such base rate being capped at no greater than 4.25%, plus an applicable margin of 10.50%. The New Facility matures on October 11, 2023 and is interest-only for the first two years of the term. Under the terms of the agreement, the Company will have the option to prepay the loan prior to the maturity date subject to the payment of certain prepayment fees. The terms of the agreement also contain customary financial covenants. The proceeds from the New Facility was used primarily to (i) repay the amount outstanding under the Quantius Facility, including a prepayment penalty and royalty retirement fee; (ii) retire the Endo promissory note; and (iii) for ongoing general working capital.

As part of the transaction, SWK received an origination fee representing a low single digit percentage of the maximum facility amount, and will receive a final payment representing a single digit percentage of the principal amount actually advanced under the facility. Acerus has also issued 5,331,563 common share purchase warrants (the “Warrants”) to SWK as partial consideration for the New Facility. Each Warrant entitles SWK to purchase one common share of Acerus at an exercise price of CDN\$0.40 per common share, expires on October 11, 2023 and has a cashless exercise feature. Following the second anniversary of the issuance of the Warrants, the Company can cause SWK to exercise the Warrants prior to their expiry date if the closing price of the Company’s common shares on the TSX trades at or above CDN\$0.80 per share for a period of at least 21 consecutive trading days.

As of September 30, 2018, the Company incurred \$236 in transaction costs which has been classified under prepaids and other assets. This amount was subsequently reclassified and netted against the debt in October 2018 when it was drawn.

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

*Interest and financing costs*

Interest expense on long-term debt was \$378 and \$791 for the three and nine months ended September 30, 2018, respectively (\$81 and \$244 for the three and nine months ended September 30, 2017).

Balance, January 1, 2017	\$	256
Interest expense		380
Transaction costs		191
Amortization of deferred financing fees		(10)
Interest paid		(687)
Effect of foreign currency exchange difference		(31)
Balance, December 31, 2017	\$	99
Balance, January 1, 2018	\$	99
Interest and financing fees		1,276
Amortization of deferred financing fees		(172)
Accrued debt financing fees		186
Accrued royalty payable		(295)
Accretion of Buyout payable		(313)
Interest and financing fees paid		(557)
Effect of foreign currency exchange difference		(3)
Balance, September 30, 2018	\$	221

**8. SHARE CAPITAL AND WARRANTS**

**Shares Issued and Outstanding**

	Number of Common shares	Number of Warrants	Common shares	Warrants	Total
Balance as at January 1, 2017	213,118,645	51,639	\$ 151,766	\$ 37	\$ 151,803
Expiry of warrants, July 18, 2017	-	(51,639)	-	(37)	(37)
Balance as at December 31, 2017	213,118,645	-	\$ 151,766	\$ -	\$ 151,766
Balance as at January 1, 2018	213,118,645	-	\$ 151,766	\$ -	\$ 151,766
Exercise of options, March 2018	74,997	-	6	-	6
Issuance of units, June 2018	22,041,705	23,584,624	2,943	1,420	4,363
Exercise of options, August 2018	55,250	-	5	-	5
Balance as at September 30, 2018	235,290,597	23,584,624	\$ 154,720	\$ 1,420	\$ 156,140

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

On June 28, 2018, the Company closed an offering, under which 22,041,705 units were issued at a price of \$0.30 per unit which includes 2,875,005 units in connection with the exercise in full of the over-allotment option granted to the Underwriter of the offering. Each unit is comprised of one common share of the Company and one common share purchase warrant of the Company. Each warrant shall entitle the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.40 at any time up to 24 months following closing of the offering. On closing, the Underwriter received cash commission equal to 7% of the gross proceeds from the sale of Units and compensation options entitling it to purchase 1,542,919 Common Shares at a price of \$0.30 within 24 months of closing.



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**8. SHARE CAPITAL AND WARRANTS (continued)**

The gross proceeds have been segregated into their common share and warrant components based on their relative fair values of CDN\$4,597 and CDN\$2,016 respectively. The common share and warrant components are shown net of transaction costs of CDN\$693 and CDN\$304 respectively. The fair value of the warrants was based on a Black-Scholes model, with the residual amounts of the net proceeds being allocated to the value of the common shares. The fair value of the warrants, CDN\$0.09 per warrant, was based on a Black-Scholes model using the following variables: an expected life of 2 years; a risk-free rate of 1.95%; a volatility rate of 86%; and an exercise price of CDN\$0.40. The fair value of the broker warrants, CDN\$0.11 per warrant, was based on a Black-Scholes model using the following variables: an expected life of 2 years; a risk-free rate of 1.95%; a volatility rate of 86%; and an exercise price of CDN\$0.30.

On October 12, 2018, the Company entered into a senior secured term loan credit facility with SWK for up to \$11,000 (“New Facility”). As part of the transaction, SWK received 5,331,563 common share purchase warrants. Please see subsequent events note for more information.

In addition to the warrants in the table above, there are 3,034,814 (December 31, 2017 – 3,034,814) warrants issued that have been classified as a derivative financial instrument and classified under long-term liabilities.

**9. NATURE OF EXPENSES**

	For the three months ended September 30, 2018			
	Cost of sales & Royalty			
	Buyout	R&D	SG&A	Total
Cost of finished goods	\$ 269	\$ -	\$ -	\$ 269
Salaries and benefits	-	230	735	965
Amortization of intangible assets	396	51	-	447
Depreciation of property and equipment	34	7	23	64
Share-based compensation	-	15	96	111
Research & development	-	448	-	448
Selling and marketing	-	-	674	674
General and administrative	-	-	631	631
Other	78	-	-	78
	<u>\$ 777</u>	<u>\$ 751</u>	<u>\$ 2,159</u>	<u>\$ 3,687</u>

  

	For the three months ended September 30, 2017			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	\$ 179	\$ -	\$ -	\$ 179
Salaries and benefits	-	159	513	672
Amortization of intangible assets	400	74	-	474
Depreciation of property and equipment	34	33	-	67
Share-based compensation	-	-	73	73
Research & development	-	101	-	101
Selling and marketing	-	-	573	573
General and administrative	-	-	634	634
Other	48	-	-	48
	<u>\$ 661</u>	<u>\$ 367</u>	<u>\$ 1,793</u>	<u>\$ 2,821</u>

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**9. NATURE OF EXPENSES (continued)**

	For the nine months ended September 30, 2018			
	Cost of sales & Royalty			
	Buyout	R&D	SG&A	Total
Cost of finished goods	\$ 1,231	\$ -	\$ -	\$ 1,231
Royalty buyout	6,680	-	-	6,680
Salaries and benefits	-	749	1,935	2,684
Amortization of intangible assets	1,194	106	-	1,300
Depreciation of property and equipment	101	19	73	193
Share-based compensation	-	60	277	337
Research & development	-	893	-	893
Selling and marketing	-	-	1,781	1,781
General and administrative	-	-	2,107	2,107
Other	307	-	-	307
	<b>\$ 9,513</b>	<b>\$ 1,827</b>	<b>\$ 6,173</b>	<b>\$ 17,513</b>

	For the nine months ended September 30, 2017			
	Cost of sales			
	Buyout	R&D	SG&A	Total
Cost of finished goods	\$ 537	\$ -	\$ -	\$ 537
Salaries and benefits	-	547	1,535	2,082
Amortization of intangible assets	1,153	222	-	1,375
Depreciation of property and equipment	101	65	32	198
Share-based compensation	-	13	204	217
Research & development	-	645	-	645
Selling and marketing	-	-	1,549	1,549
General and administrative	-	-	1,577	1,577
Other	144	-	-	144
	<b>\$ 1,935</b>	<b>\$ 1,492</b>	<b>\$ 4,897</b>	<b>\$ 8,324</b>

**10. (LOSS) PER SHARE**

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

	For the three months ended	
	September 30,	
	2018	2017
Numerator for basic and diluted (loss) per share available to common shareholders	\$ (2,871)	\$ (2,863)
Denominator for basic (loss)/earnings per share	235,262,972	213,118,645
Denominator for diluted (loss)/earnings per share	235,262,972	213,118,645
Basic and diluted (loss)/earnings per share	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

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**10. (LOSS) PER SHARE (continued)**

	For the nine months ended	
	September 30,	
	2018	2017
Numerator for basic and diluted (loss) per share available to common shareholders	\$ (13,735)	\$ (6,800)
Denominator for basic (loss)/earnings per share	220,798,110	213,118,645
Denominator for diluted (loss)/earnings per share	220,798,110	213,118,645
<b>Basic and diluted (loss)/earnings per share</b>	<b>\$ (0.06)</b>	<b>\$ (0.03)</b>

For the three and nine months ended September 30, 2018, the computation of diluted (loss) per share is equal to the basic (loss) per share due to the anti-dilutive effect on the stock options and warrants.

For the three months ended September 30, 2018:

	Total issued	Weighted Average Shares	
		Basic	Diluted
Balance, December 31, 2017	213,118,645	213,118,645	213,118,645
Balance, January 1, 2018	213,118,645	213,118,645	213,118,645
Exercise of options, March 2018	74,997	74,997	74,997
Issuance of common shares, June 2018	22,041,705	22,041,705	22,041,705
Exercise of options, August 2018	55,250	27,625	27,625
<b>Balance, September 30, 2018</b>	<b>235,290,597</b>	<b>235,262,972</b>	<b>235,262,972</b>

For the nine months ended September 30, 2018:

	Total issued	Weighted Average Shares	
		Basic	Diluted
Balance, December 31, 2017	213,118,645	213,118,645	213,118,645
Balance, January 1, 2018	213,118,645	213,118,645	213,118,645
Exercise of options, March 2018	74,997	52,768	52,768
Issuance of common shares, June 2018	22,041,705	7,617,354	7,617,354
Exercise of options, August 2018	55,250	9,344	9,344
<b>Balance, September 30, 2018</b>	<b>235,290,597</b>	<b>220,798,111</b>	<b>220,798,111</b>

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**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 (23,529,059 options available as at September 30, 2018). 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 value 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 options granted in fiscal 2018 and 2017:

Grant date	Number granted	Granted to	Exercise price (CDN\$)	Life (Years)	Vesting periods (Years)	Black-scholes model variables			Fair value per options (CDN\$)
						Risk free rate	Expected volatility	Expected dividend rate	
Mar 10, 2017	4,810,000	Employees & directors	\$0.12	5	1-3	1.1%	98.2%	nil	\$0.08
May 18, 2017	900,000	Employee	\$0.13	5	3	1.8%	103.3%	nil	\$0.09
Jun 01, 2017	500,000	Employee	\$0.11	5	3	1.8%	95.7%	nil	\$0.08
Jun 12, 2017	50,000	Employee	\$0.11	5	1-3	1.8%	97.6%	nil	\$0.08
Sep 18, 2017	425,000	Employees & directors	\$0.11	5	1-3	1.8%	96.2%	nil	\$0.08
Nov 09, 2017	3,235,000	Employees & directors	\$0.12	3-5	0-3	1.6%	93.4%	nil	\$0.08
Nov 22, 2017	20,000	Employees	\$0.17	5	3	1.8%	98.8%	nil	\$0.15
Dec 06, 2017	200,000	Director	\$0.36	5	1	1.8%	104.4%	nil	\$0.28
Dec 11, 2017	35,000	Employee	\$0.35	5	3	1.8%	107.8%	nil	\$0.26
Mar 23, 2018	1,948,331	Employees & directors	\$0.27	5	1-3	2.1%	90.0%	nil	\$0.20
Mar 23, 2018	100,000	Director	\$0.27	3	0	2.0%	95.6%	nil	\$0.17
Aug 15, 2018	1,050,000	Employees	\$0.21	5	3	2.2%	89.8%	nil	\$0.14
Aug 29, 2018	214,286	Consultant	\$0.28	3	1	2.2%	98.0%	nil	\$0.18

In March 2018, 74,997 options were exercised for 74,997 common shares for a purchase price of \$6. In August 2018, 55,250 options were exercised for 55,250 common shares for a purchase price of \$5.

A forfeiture rate of 3% was used to estimate option expenses during the period. The Company recognized total share-based compensation expense of \$111 and \$337 for the three and nine months ended September 30, 2018 (\$73 and \$217 for the three and nine months ended September 30, 2017).

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**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):

	2018			
	Canadian Dollar Options		US Dollar Options	
	Number	Weighted average exercise price (CDN)	Number	Weighted average exercise price (USD)
Balance at January 1,	17,316,200	\$ 0.23	-	\$ -
Granted	3,312,617	0.25	-	-
Exercised	(130,247)	0.11	-	-
Expired	(1,876,200)	0.81	-	-
Cancelled	(861,875)	0.12	-	-
Forfeited	(172,500)	0.12	-	-
Balance at September 30, 2018	17,587,995	\$ 0.18	-	-
Options exercisable at September 30, 2018	9,203,032	\$ 0.18	\$ -	\$ -

  

	2017			
	Canadian Dollar Options		US Dollar Options	
	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
Granted	6,685,000	0.12	-	-
Expired	(825,040)	2.60	-	-
Forfeited	(867,034)	0.13	-	-
Balance at September 30, 2017	14,736,166	\$ 0.37	1,717,500	\$ 6.25

Canadian Dollar Options outstanding as at  
September 30, 2018

Exercise prices	Number outstanding	Weighted average remaining life in	
		years	Number exercisable
\$0.09 to \$0.11	4,926,668	2.5	3,259,993
\$0.12 to \$0.18	8,243,710	3.1	4,973,039
\$0.21 to \$0.36	3,547,617	4.4	100,000
\$0.41 to \$0.82	870,000	0.9	870,000
	17,587,995	3.1	9,203,032

**Acerus Pharmaceuticals Corporation**  
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**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 professional fees paid or payable to firms affiliated with the current directors for the three and nine months ended September 30, 2018 and 2017 were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Short-term compensation of key management and directors	\$ 572	\$ 366	\$ 1,184	\$ 1,188
Share-based compensation	110	71	280	211
Professional fees paid or payable to firms affiliated with directors & officers	-	-	189	1
	<u>\$ 682</u>	<u>\$ 437</u>	<u>\$ 1,653</u>	<u>\$ 1,400</u>

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately \$1,625 if a change in control occurs, \$1,549 if all are terminated without cause, and \$nil if all are terminated with cause.

As at September 30, 2018, Acerus has a \$4,748 payable (\$7,188 payable as at December 31, 2017) to its wholly owned subsidiary ABI. The payable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange gain of \$55 and loss of \$264 for the three and nine months ended September 30, 2018 (loss of \$1,621 and \$2,871 for the three and nine months ended September 30, 2017) that has been recorded in the consolidated statement of loss.

**13. LITIGATION**

Shenk Litigation

Valeant Pharmaceuticals International, Inc. and Valeant International Bermuda ("Valeant") are defendants in Ontario Superior Court of Justice Action No. CV-11-438382, which claims a declaration that Valeant is contractually obligated to compensate the Plaintiff, Reiner Schenk ("Schenk") pursuant to the terms of a contract between Schenk and Biovail Corporation. The main action was commenced by Notice of Action issued on October 31, 2011 and a Statement of Claim was issued on December 14, 2011. Acerus Pharmaceuticals Corporation was named as one of the defendants in the main action, but the action was discontinued as against Acerus on December 14, 2011. On October 29, 2013, Valeant commenced a third-party claim against Acerus (among others) claiming contribution, indemnity and other relief over to the full extent that Valeant may be held liable to Schenk, and damages for breach of fiduciary duty, breach of contract and intentional interference with economic relations in any amount for which Valeant is found liable to Schenk. Acerus has defended the third-party claim, denying any liability to Valeant. It is expected that a date for trial will be set in the near future, although there is currently no fixed date by which a trial date must be 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.

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**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 September 30, 2018 and December 31, 2017, the Company's financial instruments consisted of cash, trade and other receivables, licensing fee receivable, accounts payable and accrued liabilities, long-term debt, and derivative financial instruments. Cash, trade and other receivables, licensing fee receivable and accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their short-term nature except for the Buyout payable. The Buyout payable has been discounted using a current interest rate and accordingly its carrying value approximates fair value. The derivative financial instruments are measured at fair value with any changes recognized through the consolidated statement of loss and comprehensive loss and are classified as Level 2. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model.

The long-term debt is measured at amortized cost. At September 30, 2018, the fair value of the long-term debt approximates its face value of \$5,028. 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-maker (CODM). Management has determined that there is one operating segment based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

At September 30, 2018, the Company has total long-term assets in Canada and Germany in the amounts of \$12,139 and \$742 respectively (\$13,202 and \$846 for Canada and Germany respectively at December 31, 2017).

For the three and nine months ended September 30, 2018, the Company had revenues of \$1,411 and \$4,101 from customers in Canada, \$172 and \$1,058 from customers in the U.S. and \$nil and \$150 from other regions (\$1,344 and \$3,546 for Canada, \$16 and \$23 for the U.S., and \$nil and \$584 for other regions for the three and nine months ended September 30, 2017).

**16. SUBSEQUENT EVENTS**

**SWK credit facility**

On October 12, 2018, the Company entered into a senior secured term loan credit facility with SWK Funding LLC ("SWK") for up to \$11,000 ("New Facility"). An initial tranche of \$9,000 of the New Facility was received at closing, with the remaining \$2,000 of the New Facility becoming available upon satisfaction of certain future conditions.

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**16. SUBSEQUENT EVENTS (continued)**

The New Facility bears interest at a rate per annum equal to the greater of (a) the three-month London Inter-Bank Offered Rate (“LIBOR”), or (b) 1.50%, with such base rate being capped at no greater than 4.25%, plus an applicable margin of 10.50%. The New Facility matures on October 11, 2023 and is interest-only for the first two years of the term. Under the terms of the agreement, the Company will have the option to prepay the loan prior to the maturity date subject to the payment of certain prepayment fees. The terms of the agreement also contain customary financial covenants. The proceeds from the New Facility was used primarily to (i) repay the amount outstanding under the Quantius Facility, including a prepayment penalty and royalty retirement fee; (ii) retire the Endo promissory note; and (iii) for ongoing general working capital.

As part of the transaction, SWK received an origination fee representing a low single digit percentage of the maximum facility amount, and will receive a final payment representing a single digit percentage of the principal amount actually advanced under the facility. Acerus has also issued 5,331,563 common share purchase warrants (the “Warrants”) to SWK as partial consideration for the New Facility. Each Warrant entitles SWK to purchase one common share of Acerus at an exercise price of CDN\$0.40 per common share, expires on October 11, 2023 and has a cashless exercise feature. Following the second anniversary of the issuance of the Warrants, the Company can cause SWK to exercise the Warrants prior to their expiry date if the closing price of the Company’s common shares on the TSX is at or above CDN\$0.80 per share for a period of at least 21 consecutive trading days.

Endo – Promissory note

On October 11, 2018, the promissory note and outstanding accrued interest was repaid in full and the note was extinguished.

Quantius Inc. credit facility

The credit facility was subsequently extinguished on October 12, 2018 with the payment of principal, accrued interest and capped royalty payment amount.