Acerus Pharmaceuticals Corporation

Audited Consolidated Financial Statements

December 31, 2018

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

Independent auditor's report

To the Shareholders of Acerus Pharmaceuticals Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Acerus Pharmaceuticals Corporation and its subsidiaries (together, the Company) as at December 31, 2018 and 2017 and January 1, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017 and January 1, 2017;
- the consolidated statements of loss and comprehensive loss for the years ended December 31, 2018 and 2017;
- the consolidated statements of changes in shareholders' equity for the years ended December 31, 2018 and 2017;
- the consolidated statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Simon Kent.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 4, 2019

Acerus Pharmaceuticals Corporation
Consolidated Statements of Financial Position
As at December 31, 2018 and 2017 and January 1, 2017
(expressed in thousands of U.S. dollars)

	Notes	December 31, 2018	Restated December 31, 2017*	Restated January 1, 2017*
ASSETS				
Current assets				
Cash		$ 3,829	$ 3,156	$ 5,199
Trade and other receivables	6	1,113	1,542	1,059
Licensing fee receivable		-	300	4,150
Inventory	7	2,506	2,979	3,770
Prepaid and other assets	8	176	229	226
Total current assets		7,624	8,206	14,404
Property and equipment, net	9	1,267	1,487	1,710
Intangible assets, net	10	7,933	12,561	13,602
Total assets		$ 16,824	$ 22,254	$ 29,716
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	11	$ 5,619	$ 3,134	$ 3,322
Current portion of deferred lease inducement	12	46	50	47
Current portion of long-term debt	13	-	1,026	4,092
Total current liabilities		5,665	4,210	7,461
Accrued liabilities	11	2,462	178	-
Deferred lease inducement	12	254	327	352
Long-term debt	13	8,287	3,543	2,357
Derivative financial instruments	14	227	307	141
Total liabilities		16,895	8,565	10,311
Shareholders' equity				
Share capital	15	$ 154,737	$ 151,766	$ 151,766
Warrants	15	1,420	-	37
Contributed surplus		11,500	11,066	10,440
Accumulated other comprehensive loss		(13,851)	(14,052)	(16,370)
Deficit		(153,877)	(135,091)	(126,468)
Total shareholders' equity		(71)	13,689	19,405
Total liabilities & shareholders' equity		$ 16,824	$ 22,254	$ 29,716

Note: **See note 3(b) 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.
Going concern (note 1)
Commitments and contingencies (note 22)
These consolidated financial statements were authorized for issue by the Board of Directors on March 4, 2019.

Acerus Pharmaceuticals Corporation

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	December 31, 2018	Restated December 31, 2017*
Revenue			
Product revenue		$ 7,043	$ 5,348
Licensing and other revenue		334	1,187
		7,377	6,535
Cost of goods sold	16	3,644	3,263
Royalty buyout	5(a), 16	6,680	-
Gross margin		(2,947)	3,272
Expenses			
Research and development	16	2,398	2,166
Selling, general and administrative	16	11,197	7,967
Total operating expenses		13,595	10,133
Operating loss		(16,542)	(6,861)
Other expenses/(income)			
Interest on long-term debt and other financing costs	17	1,773	380
Interest income		(12)	(21)
Foreign exchange loss		1,029	1,521
Change in fair value of derivative financial instruments	14	(380)	156
Gain on extinguishment of payables		(195)	(321)
Total other expenses		2,215	1,715
Loss for the year before income taxes		(18,757)	(8,576)
Income tax expense	18	29	47
Net loss for the year		$ (18,786)	$ (8,623)
Other comprehensive income, net of income tax			
Foreign currency translation adjustment		201	2,318
Total comprehensive loss for the year		$ (18,585)	$ (6,305)

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

	Notes	December 31, 2018	Restated December 31, 2017*
Loss per common share			
Basic and diluted net loss per common share	19	$ (0.08)	$ (0.04)
Weighted average common shares outstanding			
Basic	19	224,436,840	213,118,645
Diluted	19	224,436,840	213,118,645

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

Acerus Pharmaceuticals Corporation

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the years ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars)

	Notes	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2017		$ 151,766	$ 37	$ 10,440	$ (15,931)	$ (134,111)	$ 12,201
Change in accounting policy	3(b)	-	-	-	(439)	7,643	7,204
Restated total equity at the beginning of the fiscal year		151,766	37	10,440	(16,370)	(126,468)	19,405
Net loss for the year restated		-	-	-	-	(8,623)	(8,623)
Foreign currency translation adjustment restated		-	-	-	2,318	-	2,318
Total comprehensive loss for the year		-	-	-	2,318	(8,623)	(6,305)
Expiry of warrants	15	-	(37)	37	-	-	-
Share based compensation	16	-	-	589	-	-	589
Restated total equity as at December 31, 2017		$ 151,766	$ -	$ 11,066	$ (14,052)	$ (135,091)	$ 13,689
Net loss for the year		-	-	-	-	(18,786)	(18,786)
Foreign currency translation adjustment		-	-	-	201	-	201
Total comprehensive loss for the year		-	-	-	201	(18,786)	(18,585)
Issuance of common shares, net of costs	15	2,937	-	-	-	-	2,937
Issuance of warrants, net of costs	15	-	1,420	-	-	-	1,420
Exercise of stock options	15	34	-	(15)	-	-	19
Share based compensation	16	-	-	449	-	-	449
Balance as at December 31, 2018		$ 154,737	$ 1,420	$ 11,500	$ (13,851)	$ (153,877)	$ (71)

**See note 3(b) 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

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(expressed in thousands of U.S. dollars)

	Note	December 31, 2018	Restated December 31, 2017*
Operating activities:			
Net loss for the year		$ (18,786)	$ (8,623)
Items not affecting cash:			
Adjustment for unrealized foreign exchange loss		560	1,078
Amortization of intangible assets	16	1,694	1,781
Depreciation of property and equipment	9	256	264
Amortization of deferred leasehold inducement	12	(47)	(49)
Interest on long-term debt and other financing costs	17	1,773	380
Change in fair value of derivative financial instruments	14	(380)	156
Share based compensation	16	449	589
Loss/(gain) on disposal of property and equipment		1	(8)
Gain on extinguishment of payables		(195)	(321)
Impairment on intangible asset	10	2,641	-
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		325	(398)
Inventory		248	641
Prepaids and other assets		38	12
Accounts payable and accrued liabilities		4,992	447
Licensing fee receivable		300	4,150
Net cash (used in)/from operating activities		(6,131)	99
Financing activities			
Interest and financing fees paid		(692)	(687)
Proceeds from issuance of common shares and warrants, net of financing costs	15	4,376	-
Proceeds from debt issuance, net of financing costs paid		10,230	2,352
Payment of long-term debt obligations	13	(6,564)	(4,098)
Net cash from/(used in) financing activities		7,350	(2,433)
Investing activities			
Proceeds from disposition of property and equipment		-	10
Acquisition of property and equipment, net of deposits	9	(87)	-
Acquisition of product rights		(158)	-
Net cash (used in)/from investing activities		(245)	10
Net increase/(decrease) in cash for the year		974	(2,324)
Exchange (loss)/gain on cash		(301)	281
Cash, beginning of year		3,156	5,199
Cash, end of year		$ 3,829	$ 3,156

**See note 3(b) 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

1. GOING CONCERN

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

The ability of Acerus Pharmaceuticals Corporation ("Acerus") and its subsidiaries (together, the "Company") to realize its assets and meet its obligations as they come due is dependent on successfully commercializing its existing products, bringing new products and technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company will require additional funding, either from commercial sales of its existing products, 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. This assessment included taking into account the impact of a potential shortage of certain strengths of Estrace® in 2019, failing to meet projected revenues or other budgeted targets, all of which could lead the Company to potentially violate its debt financial covenants. The Company's ability to accomplish its strategic plans is dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations and possibly obtaining additional financing, executing other strategic initiatives that could provide cash flows, or alternatively curtail expenditures. There are no assurances that any of these initiatives will be successful. Factors within and outside the Company's control could have a significant bearing on its ability to obtain additional financing.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and 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 audited 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 Ontario, Canada. APBI was officially 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of presentation (continued)

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

(b) Changes in accounting policy and disclosures

The following standards have been adopted on January 1, 2018:

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 "*Financial Instruments: Recognition and Measurement*". The new standard uses a principle-based approach for the classification and measurement of financial assets: amortized cost and fair value. Additional amendments include a single "expected loss" impairment method and a substantially reformed approach to hedge accounting. This standard is effective for annual periods beginning on or after January 1, 2018. 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 significant effect on the valuation of the Company's financial assets.

IFRS 15 *Revenue from Contracts with Customers*

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.

- 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	December 31, 2017 As originally presented	IFRS 15	December 31, 2017 Restated
REVENUE			
Licensing and other fees	1,096	91	1,187
Total revenue	6,444	91	6,535
Gross margin	3,181	91	3,272
LOSS BEFORE INCOME TAXES	(8,667)	91	(8,576)
NET LOSS	$ (8,714)	$ 91	$ (8,623)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment	1,840	478	2,318
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (6,874)	$ 569	$ (6,305)

New and revised IFRSs issued but not yet effective

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

IFRS 16 *Leases*

The new standard brings most leases on-balance sheet, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently quantifying the impact of adoption and is assessing transitional implementation options.

IFRS 16 will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and financing leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings;
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

Management does not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

(c) Consolidation

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

(d) Segment reporting

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

(e) Foreign currency translation

Presentation currency

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

Transactions and balances

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation (continued)

Financial Statements

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

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

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

(f) 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. As at December 31, 2018 and 2017, management determined that no provision for impairment was required.

(g) Inventory

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment

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

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

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

(i) Leases

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

(j) Deferred lease inducements

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

(k) Intangible assets

Intangible assets acquired separately

Intangible assets with determinable lives are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized over their estimated useful lives using the straight-line method. Intangible assets held by the Company currently hold estimated useful lives between eight to twenty years.

Derecognition of intangible assets

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

(l) Impairment of non-financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes

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

(n) Financial instruments

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

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

Financial assets

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

Financial assets at FVTPL

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

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

Loans and receivables

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

Financial liabilities

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

Financial liabilities at FVTPL

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial liabilities at amortized cost

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

Impairment of financial assets

Assets carried at amortized cost

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Compound financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Derivative financial instruments

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

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

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

(p) 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 relative 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. Variable additional top-up amounts are estimated based on our partners' reported net sales for the period. Top-up revenues recognized relating to products delivered in prior periods amount to $429 for the year ended December 31, 2018 ($29 for the year ended December 31, 2017).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue (continued)

License and other revenue mainly consist 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.

(q) Cost of sales

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

(r) Share-based compensation

The Company has a stock option plan as described in note 20 that allows for the issuance of stock options to employees, directors, officers, consultants and others as determined by the Board of Directors. Under IFRS, each option installment is treated as a separate option grant with graded-vesting features, forfeitures are estimated at the time of grant and revised if actual forfeitures are likely to differ from previous estimates, and options granted to parties other than employees are measured at their fair value on the date goods or services are received. The fair value of the goods and services received are determined indirectly by reference to the fair value of the instrument granted, unless the fair value of the goods and services received is readily apparent.

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

(s) Investment tax credits

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

(t) Loss/income per share

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical accounting estimates and judgments

Revenue recognition

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

Fair value of derivative financial instruments

The fair values of derivative financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Additional information is disclosed in note 14.

Clinical trial expenses

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

Share based payments

The compensation expense related to share-based payments is determined using the Black-Scholes option pricing model. The significant variables and estimates used in the model are the volatility, dividend yield, expected option life, and risk-free interest rate. In addition, management also applies an estimated forfeiture rate. Additional information is disclosed in note 20.

Income taxes

The Company is subject to income taxes in different jurisdictions and therefore uses judgment to determine the provision for income taxes. Management makes estimates and takes tax filing positions and it is uncertain whether certain estimates and tax filing positions will be sustained upon examination by applicable tax authorities. Provisions for uncertain tax positions are recorded based on management's estimate of the most likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS

(a) Bio-adhesive gel technology

In May 2009 (and in accordance with certain subsequent contractual amendments), 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® and Tefina™.

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.

Under the License Agreement, Acerus owed royalties on upfronts, milestones and revenues from products, including Natesto®, 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, $625 on January 17, 2019, $2,025 by April 20, 2019 which includes a deferral fee of $150, and $2,500 by January 20, 2020. The Company recorded an expense of $6,680 in the year ended December 31, 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 ABI files itself. As well, there is a cap on royalty payments of $25,000 per product.

(c) Estrace®

The Company acquired the Canadian rights to Estrace® from affiliates of Shire plc in July 2014. The acquisition was accounted for as a business combination. On January 11, 2019, the Corporation reported on an anticipated shortage of certain doses of Estrace® on the Drug Shortages Canada website in relation to supply issues arising from the Corporation's contract manufacturer. A shortage of Estrace® may accelerate erosion of Estrace® sales due to the presence of the third-party generic.

5. PRODUCT RIGHTS AND ASSET ACQUISITIONS (continued)

(d) Gynoflor™

The Company entered into a license and supply agreement with Medinova AG, a Swiss pharmaceutical company, granting the Company the exclusive rights to commercialize Gynoflor™ in Canada. On January 24, 2019 the Company received a Notice of Deficiency-Withdrawal Letter ("Notice") for its Gynoflor™ New Drug Submission. The Company has decided not to file a Request for Reconsideration of the Notice and has informed its licensor, Medinova AG ("Medinova"), that further studies will be needed in order for Gynoflor™ to be approvable by Health Canada. Under the agreement with Medinova, neither the Company nor Medinova is obligated to conduct such further studies. If no further studies are conducted, then Acerus will not resubmit the Gynoflor™ dossier to Health Canada at this time. Acerus and Medinova will continue to work on areas of possible further collaborations.

(e) Elegant™ 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™ 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™ and will receive a supply price for the product.

(f) *UriVarx®*

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® 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® and will receive a supply price for the product.

(g) Stendra®

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® in Canada. Stendra® 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® and will receive a supply price for the product comprised of a transfer price and royalties on net sales of the product.

(h) Lidbree™

On May 29, 2018 the Company entered into an exclusive agreement with Pharmanest AB ("Pharmanest") to commercialize Short Acting Lidocaine Product ("Lidbree™" formerly referred to as "Shact™"), 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 Lidbree™ and will receive a tiered supply price for the product comprised of a percentage on net sales of the product.

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

6. TRADE AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables	$ 996	$ 1,311
Commodity tax receivable	117	231
Total trade and other receivables	$ 1,113	$ 1,542

Allowance for doubtful accounts are recognized based on estimated irrecoverable amounts determined by reference historical default experience of the counterparty and an analysis of the counterparty's current financial position. As at December 31, 2018 the Company has recognized $nil in allowance for doubtful accounts ($nil as at December 31, 2017).

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

Age of receivables that are past due but not impaired:

	December 31, 2018	December 31, 2017
60 - 90 days	$ 20	$ 413
Greater than 90 days	3	149
	$ 23	$ 562

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security. Of the amount past due at year end, $8 was collected subsequent to year end.

7. INVENTORY

	December 31, 2018	December 31, 2017
Raw materials	$ 1,665	$ 2,532
Work in progress	22	-
Finished goods	819	447
Total inventory	$ 2,506	$ 2,979

The cost of finished goods recognized as an expense and included in cost of sales amounted to $1,522 for the year ended December 31, 2018 ($960 for the year ended December 31, 2017).

8. PREPAIDS AND OTHER ASSETS

	December 31, 2018	December 31, 2017
Deposits with vendors	$ 119	$ 155
Other	57	74
Total prepaid and other assets	$ 176	$ 229

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

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Computers	Office, furniture and fixtures	Manufacturing and laboratory equipment	Leasehold improvements	Total
Cost					
Balance, January 1, 2018	$ 2	$ 126	$ 3,094	$ 764	$ 3,986
Additions	-	-	87	-	87
Disposals	(2)	-	-	-	(2)
Effect of foreign currency exchange difference	-	(10)	(133)	(61)	(204)
Balance, December 31, 2018	$ -	$ 116	$ 3,048	$ 703	$ 3,867
Accumulated depreciation					
Balance, January 1, 2018	$ 1	$ 65	$ 2,242	$ 191	$ 2,499
Depreciation	-	24	156	76	256
Disposals	(1)	-	-	-	(1)
Effect of foreign currency exchange difference	-	(6)	(129)	(19)	(154)
Balance, December 31, 2018	$ -	$ 83	$ 2,269	$ 248	$ 2,600
Net book value					
December 31, 2018	$ -	$ 33	$ 779	$ 455	$ 1,267

	Computers	Office, furniture and fixtures	Manufacturing and laboratory equipment	Leasehold improvements	Total
Costs					
Balance, January 1, 2017	$ 47	$ 193	$ 2,989	$ 713	$ 3,942
Disposals	(45)	(72)	-	-	(117)
Effect of foreign currency exchange difference	-	5	105	51	161
Balance, December 31, 2017	$ 2	$ 126	$ 3,094	$ 764	$ 3,986
Accumulated depreciation					
Balance, January 1, 2017	$ 45	$ 106	$ 1,975	$ 106	$ 2,232
Depreciation	-	25	163	76	264
Disposals	(45)	(70)	-	-	(115)
Effect of foreign currency exchange difference	1	4	104	9	118
Balance, December 31, 2017	$ 1	$ 65	$ 2,242	$ 191	$ 2,499
Net book value					
December 31, 2017	$ 1	$ 61	$ 852	$ 573	$ 1,487

At December 31, 2018, manufacturing equipment with a net book value of $708 was held off-site with a third party ($846 at December 31, 2017). During the year, $16 of depreciation was capitalized to inventory ($nil at December 31, 2017).

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

10. INTANGIBLE ASSETS

	Technology and patents	Product rights	Total
Costs			
Balance, January 1, 2018	$ 4,400	$ 31,484	$ 35,884
Addition	-	458	458
Effect of foreign currency exchange difference	-	(2,560)	(2,560)
Balance, December 31, 2018	$ 4,400	$ 29,382	$ 33,782
Accumulated depreciation			
Balance, January 1, 2018	$ 2,305	$ 21,018	$ 23,323
Amortization	110	1,584	1,694
Impairment charge	-	2,641	2,641
Effect of foreign currency exchange difference	-	(1,809)	(1,809)
Balance, December 31, 2018	$ 2,415	$ 23,434	$ 25,849
Net book value			
December 31, 2018	$ 1,985	$ 5,948	$ 7,933

	Technology and patents	Product rights	Total
Costs			
Balance, January 1, 2017	$ 4,400	$ 29,416	$ 33,816
Effect of foreign currency exchange difference	-	2,068	2,068
Balance, December 31, 2017	$ 4,400	$ 31,484	$ 35,884
Accumulated depreciation			
Balance, January 1, 2017	$ 2,071	$ 18,143	$ 20,214
Amortization	234	1,547	1,781
Effect of foreign currency exchange difference	-	1,328	1,328
Balance, December 31, 2017	$ 2,305	$ 21,018	$ 23,323
Net book value			
December 31, 2017	$ 2,095	$ 10,466	$ 12,561

Amortization expense related to the technology and patents is computed based on the life of the existing patents and is included in the research and development expense on the consolidated statement of loss/income and comprehensive loss/income. The remaining life of the Direct Haler patents and patent applications (if issued) is 18 years and 1 month. Amortization of $110 has been recorded for the year ended December 31, 2018 ($234 for the year ended December 31, 2017).

Product rights includes rights for Estrace®, Lidbree™, UriVarx® and Stendra®. Of the product acquisition costs, $300 was accrued but not payable as of December 31, 2018. Amortization of $1,557 has been recorded in cost of goods sold and $27 in research and development costs for the fiscal year ending December 31, 2018 ($1,547 in cost of goods sold for the year ending December 31, 2017).

On January 11, 2019, the Company reported on anticipated shortage of certain doses of Estrace® on the Drug Shortages Canada website in relation to supply issues arising from the Company's contract manufacturer. The Company was notified by its contract manufacturer of a partial manufacturing license suspension at the facility where Estrace® is being produced as a result of an audit by U.K. health authorities. The manufacturer initially expected that the manufacturing license would be reinstated by December 2018, in time to avoid delivery delays. The Corporation has been notified that such manufacturing license reinstatement has not yet occurred and that, as such, the Corporation's next expected shipment of Estrace® will be delayed. This may lead to potential shortage of the 0.5 mg and 1.0 mg doses of Estrace® within the next six months as forecasted demand may exceed in-stock inventory. As of the present time, the Corporation does not foresee a shortfall of the 2.0 mg dose in the next six months based on existing inventory in stock. The Corporation is working with the manufacturer to accelerate delivery timelines, but it is unclear at this time if supply will be re-established in time to avoid shortages.

(All amounts expressed in thousands of U.S. dollars except per share amounts
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10. INTANGIBLE ASSETS (continued)

A shortage of Estrace® may accelerate erosion of Estrace® sales due to the presence of the third-party generic. As such, the Company determined that the intangible asset related to Estrace® had been impaired by $2,641. The intangible asset was written down to its recoverable amount using a value-in-use discounted cash flow model. Key assumptions included a pre-tax discount rate of 16.9%, estimated cash flows and projected declines in revenue on the assumption that the contract manufacturer's license is reinstated by June 2019 and the Company receives its next shipment of Estrace® by September 2019. Assuming all variables remain constant, an increase or decrease in discount rate used by 1% would have resulted in a $196 increase and $211 decrease in net loss respectively. Assuming all variables remain constant, an increase or decrease in estimated revenues used by 10% would have resulted in a $590 decrease and $1,061 increase in net loss respectively.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Accounts payable	$ 1,378	$ 1,213
Employee salaries, severance and benefits payable	925	1,104
Buyout payable (note 5a)	2,488	54
Interest and financing fees payable (note 13)	317	99
Accrued liabilities	300	550
Provision for returns and discounts	211	114
Total current accounts payable and accrued liabilities	$ 5,619	$ 3,134
Other long-term accruals	300	178
Buyout payable (note 5a)	2,162	-
Total accounts payable and accrued liabilities	$ 8,081	$ 3,312

12. DEFERRED LEASEHOLD INDUCEMENT

	December 31, 2018	December 31, 2017
Balance, January 1	$ 377	$ 399
Amortized to rent expense	(47)	(49)
Effect of foreign currency exchange differences	(30)	27
Total balance of leasehold inducements	$ 300	$ 377
Current portion	46	50
Non-current portion	$ 254	$ 327

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

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

13. LONG-TERM DEBT

	Senior Financing	Promissory Note	Quantius Debt	SWK facility	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	-	-	306	-	306
Amortization of deferred financing costs	-	-	180	60	240
Transaction costs	-	-	-	(773)	(773)
Debt issuance	-	-	1,571	9,000	10,571
Repayment of principal and royalty payable	-	(2,357)	(4,207)	-	(6,564)
Effect of foreign currency exchange difference	-	-	(62)	-	(62)
Balance, December 31, 2018	$ -	$ -	$ -	$ 8,287	$ 8,287
Current portion at December 31, 2018	-	-	-	-	-
Long-term portion at December 31, 2018	$ -	$ -	$ -	$ 8,287	$ 8,287

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 was 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 was unsecured and bore 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.

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

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® in the U.S., and 2) maintaining Estrace® sales at a pre-determined minimum level. For the year ended December 31, 2018, the proceeds from the Quantius credit facility, net of financing costs paid amounted to $1,571 ($2,352 for the year ended December 31, 2017).

13. LONG-TERM DEBT (continued)

Quantius Inc. credit facility (continued)

The credit facility bore interest at a rate equivalent to the Bank of Canada prime plus 11.05% and was due to mature on December 1, 2019. The credit facility was 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 received 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 had 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 could be fully offset against the royalty fee payable at maturity. The terms of the agreement also contained customary financial covenants.

The credit facility was subsequently extinguished on October 12, 2018 with payment of principal, accrued interest pre-payment penalty and royalty retirement fee.

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 on or before March 31, 2019, 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. Principal payments thereafter will be based on a tiered percentage of net revenue with a cap of $600 per quarter. 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. As of December 31, 2018 the Company was in compliance with those 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 on maturity 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. For the year ended December 31, 2018, the proceeds from the SWK credit facility, net of financing costs amounted to $8,227.

As of December 31, 2018, the Company had $9,000 outstanding on the credit facility.

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

13. LONG-TERM DEBT (continued)

Interest and financing costs

Interest expense on long-term debt was $1,063 for the year ended December 31, 2018 ($370 for December 31, 2017).

Accrued interest & financing costs (note 11)		
Balance, January 1, 2017	$	256
Interest expense (note 17)		380
Transaction costs		191
Amortization of deferred financing fees		(10)
Interest and financing fees paid		(687)
Effect of foreign currency exchange difference		(31)
Balance, December 31, 2017	$	99
Balance, January 1, 2018	$	99
Interest and financing fees (note 17)		1,773
Transaction costs		505
Amortization of deferred financing fees		(240)
Prepayment penalty and royalty retirement fee		(312)
Accretion of Buyout payable		(470)
Transaction costs paid		(341)
Interest and financing fees paid		(692)
Effect of foreign currency exchange difference		(5)
Balance, December 31, 2018	$	317

Future principal and interest payments

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

		December 31, 2018
No later than 1 year	$	1,213
Later than 1 year and no later than 5 years		12,941
		14,154
Interest and exit fee		5,154
Total prinicpal portion of debt	$	9,000

14. DERIVATIVE FINANCIAL INSTRUMENT

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

		December 31, 2018		December 31, 2017
Balance of warrants, January 1,		307		141
Addition of derivative liability		325		-
Change in fair value of the derivative financial instruments		(380)		156
Effect of foreign currency exchange difference		(25)		10
Balance of warrants	$	227	$	307

MidCap Financial V, LLC warrants

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

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

14. DERIVATIVE FINANCIAL INSTRUMENT (continued)

MidCap Financial V, LLC warrants (continued)

A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values as at December 31, 2018 were as follows: a share price of CDN$0.115; an expected life of 2.5 years; a risk-free rate of 1.91%; a volatility of 81.5%; and an exercise price of CDN$0.7095 (a share price of CDN$0.29; an expected life of 3.5 years; a risk-free rate of 1.63%; a volatility of 91%; an exercise price of CDN$0.7095 was used to compute the values at December 31, 2017). At December 31, 2018, the warrants had an average fair value of CDN$0.01 per warrant (CDN$0.13 per warrant at December 31, 2017).

SWK warrants

As part of the transaction, SWK received 5,331,563 common share purchase warrants (the "Warrants") 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.

A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values as at December 31, 2018 were as follows: a share price of CDN$0.115; an expected life of 4.8 years; a risk-free rate of 1.93%; a volatility of 86.6%; and an exercise price of CDN$0.40. At December 31, 2018, the warrants had an average fair value of CDN$0.05 per warrant.

Pre-payment option

As per note 13, under terms of the SWK Credit Facility, the Company will have the option to prepay the facility. The prepayment penalties vary depending on the time frame. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at December 31, 2018.

15. 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 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
Issuance of units, June 2018	22,041,705	23,584,624	2,937	1,420	4,357
Exercise of options	223,912	-	34	-	34
Balance as at December 31, 2018	235,384,262	23,584,624	$ 154,737	$ 1,420	$ 156,157

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 CDN$0.30 per unit which included 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 was comprised of one common share of the Company and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one additional common share of the Company at an exercise price of CDN$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 CDN$0.30 within 24 months of closing.

(All amounts expressed in thousands of U.S. dollars except per share amounts
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15. 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.

In addition to the warrants in the table above, there are 8,366,377 (December 31, 2017 – 3,034,814) warrants issued that have been classified as a derivative financial instrument (note 14).

16. NATURE OF EXPENSES

	For the year ended December 31, 2018			
	Cost of sales & Royalty Buyout	R&D	SG&A	Total
Cost of finished goods	$ 1,522	$ -	$ -	$ 1,522
Royalty buyout	6,680	-	-	6,680
Salaries and benefits	-	962	2,956	3,918
Amortization of intangible assets	1,557	137	-	1,694
Depreciation of property and equipment	118	26	96	240
Share-based compensation	-	69	380	449
Research & development	-	1,204	-	1,204
Selling and marketing	-	-	2,247	2,247
General and administrative	-	-	2,877	2,877
Impairment on intangible asset	-	-	2,641	2,641
Other	447	-	-	447
	$ 10,324	$ 2,398	$ 11,197	$ 23,919

	For the year ended December 31, 2017			
	Cost of sales	R&D	SG&A	Total
Cost of finished goods	$ 960	$ -	$ -	$ 960
Royalty expense	201	-	-	201
Salaries and benefits	-	918	2,818	3,736
Amortization of intangible assets	1,547	234	-	1,781
Depreciation of property and equipment	135	32	97	264
Share-based compensation	-	72	517	589
Research & development	-	910	-	910
Selling and marketing	-	-	2,096	2,096
General and administrative	-	-	2,439	2,439
Other	420	-	-	420
	$ 3,263	$ 2,166	$ 7,967	$ 13,396

During the year, $16 of depreciation was capitalized to inventory ($nil at December 31, 2017).

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

17. INTEREST AND OTHER FINANCING COSTS

	December 31, 2018	December 31, 2017
Interest expense on long-term debt	$ 1,063	$ 370
Accretion of buy-out (Note 5a)	470	-
Amortization of deferred financing fees (note 13)	240	10
	$ 1,773	$ 380

18. INCOME TAXES

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

	For the year ended December 31,	
	2018	2017 (Restated)
Loss before income taxes	$ (18,757)	$ (8,576)
Tax recovery at the Canadian corporate tax rate of 26.5% (2015 - 26.5%)	(4,971)	(2,273)
Tax effect of permanent differences (Canada)	98	2,672
Barbados losses for which no benefit is recognized	-	(52)
Corporate tax rate differential on Barbados losses	-	(5,437)
Unrecognized deferred tax benefit	4,908	5,166
Other	(6)	(29)
Tax (recovery) recognized for the year	$ 29	$ 47

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

In Canada, the Company also has a net operating loss carry forwards of $30,538 that will expire by 2038 ($3,302 in 2036, $6,679 in 2037 and $20,557 in 2038). The Company also has a capital loss of $19,753 that can be carried forward indefinitely.

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

	As at December 31,	
	2018	2017 (Restated)
Property and equipment	14	19
Intangible assets	5,124	7,251
Financing costs	145	133
R&D pools	447	538
Investment tax credits	609	448
Accruals	1,420	172
Unrealized foreign exchange	53	(12)
Capital loss carryforwards	2,617	2,812
Loss Carry forwards	8,206	3,008
Total	18,635	14,369

19. 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):

	December 31, 2018	December 31, 2017
Numerator for basic and diluted loss per share available to common shareholders	$ (18,786)	$ (8,623)
Denominator for basic loss per share	224,436,840	213,118,645
Denominator for diluted loss per share	224,436,840	213,118,645
Basic and diluted loss per share	$ (0.08)	$ (0.04)

Weighted Average Common Shares Outstanding

		Weighted Average Shares	
	Total issued	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
Issuance of common shares, June 2018	22,041,705	11,232,211	11,232,211
Exercise of options	223,912	85,984	85,984
Balance, December 31, 2018	235,384,262	224,436,840	224,436,840

20. 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 (23,538,426 options available as at December 31, 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 common share.

20. SHARE BASED COMPENSATION (continued)

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

						Black-scholes model variables			
Grant date	Number granted	Granted to	Exercise price (CDN$)	Life (Years)	Vesting periods (Years)	Risk free rate	Expected volatility	Expected dividend rate	Fair value per options (CDN$)
Mar 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% 1.8%	93.4% 94.1%	nil	$0.08 $0.10
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
Nov 19, 2018	750,000	Employee	$0.17	5	3	2.4%	86.5%	nil	$0.10

A forfeiture rate of 3% was used to estimate option expenses during the year. The Company recognized total share-based compensation expense of $449 for the year ended December 31, 2018 ($589 for the year ended December 31, 2017).

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	4,062,617	0.24	-	-
Exercised	(223,912)	0.12	-	-
Expired	(1,926,200)	0.80	-	-
Cancelled	(1,237,858)	0.14	-	-
Forfeited	(227,501)	0.12	-	-
Balance at December 31, 2018	17,763,346	$ 0.18	-	-
Options exercisable at December 31, 2018	9,664,068	$ 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	10,175,000	0.13	-	-
Expired	(1,725,040)	2.38	(1,717,500)	6.25
Forfeited	(877,000)	0.16	-	-
Balance at December 31, 2017	17,316,200	$ 0.23	-	$ -

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

20. SHARE BASED COMPENSATION (continued)

	Canadian Dollar Options outstanding as at December 31, 2018		
Exercise prices	Number outstanding	Weighted average remaining life in years	Number excercisable
$0.09 to $0.11	4,708,335	2.2	3,228,328
$0.12 to $0.18	8,898,460	2.9	5,089,788
$0.21 to $0.36	3,336,551	4.1	525,952
$0.41 to $0.82	820,000	0.7	820,000
	17,763,346	2.8	9,664,068

21. RELATED PARTY TRANSACTIONS

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

Key management includes the Company's directors and executive officers. The remuneration of directors and key members of management and professional fees paid or payable to firms affiliated with the current directors and interim CEO for the year ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31, 2018	2017
Short-term compensation of key management and directors	$ 1,512	$ 1,432
Termination benefits	366	1,061
Share-based compensation	370	550
Professional fees paid or payable to firms affiliated with directors & officers	189	116
	$ 2,437	$ 3,159

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $1,542 if a change in control occurs, $1,493 if all are terminated without cause, and $nil if all are terminated with cause.

As at December 31, 2018, Acerus held a $2,073 receivable ($7,188 payable as at December 31, 2017) from 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 $152 for the year ended December 31, 2018 (loss of $1,677 for the year ended December 31, 2017) that has been recorded in the consolidated statement of income loss.

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

22. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

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

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

		December 31, 2018
No later than 1 year	$	165
Later than 1 year and no later than 5 years		718
Later than 5 years		269
	$	1,152

(b) Milestone payments

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

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

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

The Company may be required to make certain regulatory or sales based milestone payments as disclosed in notes 5(e)(f)(g) and (h).

(c) Guarantees

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

22. COMMITMENTS AND CONTINGENCIES (continued)

(c) Guarantees (continued)

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

(d) Litigation

Shenk Litigation

In November 2013, each of the Acerus, SRL (predecessor of ABI) and APBI (which has since been dissolved) 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 Acerus, SRL and APBI as party to his action in 2011 but promptly discontinued his claims against such parties. Each of the Loan Parties believes that the claim of Mr. Schenk, and the related third party claim by the Valeant Parties, is in each case without merit. The Company 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.

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

23. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets (liabilities) as at December 31, 2018 and 2017 are presented below:

December 31, 2018	Loans and receivables	Assets/ (liabilities) at FVTPL	Other financial liabilities	Total
Cash	$ 3,829	$ -	$ -	$ 3,829
Trade and other receivables	1,113	-	-	1,113
Accounts payable and accrued liabilities	-	-	(8,081)	(8,081)
Long-term debt payable	-	-	(8,287)	(8,287)
Derivative financial instrument	-	(227)	-	(227)
	$ 4,942	$ (227)	$ (16,368)	$ (11,653)

December 31, 2017	Loans and receivables	Assets/ (liabilities) at FVTPL	Other financial liabilities	Total
Cash	$ 3,156	$ -	$ -	$ 3,156
Trade and other receivables	1,542	-	-	1,542
Licensing fee receivable	300	-	-	300
Accounts payable and accrued liabilities	-	-	(3,312)	(3,312)
Long-term debt payable	-	-	(4,569)	(4,569)
Derivative financial instrument	-	(307)	-	(307)
	$ 4,998	$ (307)	$ (7,881)	$ (3,190)

(b) Fair value of financial instruments

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

At December 31, 2018, 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 and accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their short-term nature. The derivative financial instruments are measured at fair value with any changes recognized through the consolidated statement of income/(loss) and comprehensive income/(loss) and are classified as Level 2. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model. Assumptions used in the model are disclosed in note 14.

The long-term debt is measured at amortized cost. At December 31, 2018, the fair value of the long-term debt approximates its face value of $9,000. 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.

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23. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management

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

(i) Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. and Canadian dollars. The Company, however, is exposed to currency risk though its net financial assets denominated in US dollars and Euros of the parent.

	December 31, 2018		
	USD	EUR	GBP
Cash	$ 231	$ -	$ -
Trade and other receivables	301	-	-
Accounts payable and accrued liabilities	(670)	(243)	(8)
Long-term debt	(9,000)	-	-
	$ (9,138)	$ (243)	$ (8)

Based on the above net exposure at December 31, 2018, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the US dollar against the other currencies would have resulted in the following impact on net income:

	US Dollar			
Net income effect:	US	EUR	GBP	Total
Appreciate 5%	$ 435	$ (12)	$ (1)	$ 422
Depreciate 5%	(481)	12	1	(468)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Refer to Note 13 for details on the interest rate applicability to the SWK credit facility.

A 0.5% appreciation in the present LIBOR rate would lead to an increase of $173 of interest payments for the life of the New Facility. A 0.5% depreciation in the present LIBOR rate would lead to a decrease of $173 of interest payments required for the life of the loan.

(iii) Credit risk

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

Management monitors the collectability of trade and other receivable and estimates an allowance for doubtful accounts. The Company has concentration risk, as approximately 51% of its trade receivables are due from three pharmaceutical wholesalers in Canada and 29% from an out-licensing partner. The Company received the full amount of the prior year licensing fee receivable ($300) in February 2018.

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23. FINANCIAL INSTRUMENTS (continued)

(c) Financial risk management (continued)

(iii) Credit risk (continued)

As at December 31, 2018, the allowance for doubtful accounts was $nil. Management has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and all amounts are considered recoverable.

(iv) Market risk

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

Assuming that all other variables remain constant, a 5% appreciation or depreciation of the Company's share price would have resulted in an $18 decrease and $18 increase in net loss respectively ($28 increase and $28 decrease in net income at December 31, 2017).

(v) Liquidity risk

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

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

The following table summarizes the Company's significant contractual undiscounted cash flows as at December 31, 2018 and 2017 (excluding future milestones and royalties):

	Less than 3 months	3-6 months	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Accounts payable and accrued liabilities	$ 5,407	$ 101	$ 123	$ 2,800	$ -	$ 8,431
Purchase commitments	-	99	343	699	3,157	4,298
Long-term debt (principal and interest)	299	303	612	1,217	11,724	14,155
As at December 31, 2018	$ 5,706	$ 503	$ 1,078	$ 4,716	$ 14,881	$ 26,884

	Less than 3 months	3-6 months	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Accounts payable and accrued liabilities	$ 2,423	$ 178	$ 356	$ 177	$ -	$ 3,134
Derivative financial instruments	-	-	-	-	307	307
Long-term debt (principal and interest)	365	360	786	3,553	490	5,554
As at December 31, 2017	$ 2,788	$ 538	$ 1,142	$ 3,730	$ 797	$ 8,995

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24. CAPITAL MANAGEMENT

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

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

	December 31, 2018	December 31, 2017
Long-term debt	$ 8,287	$ 4,569
Shareholders' equity	(71)	13,689
	$ 8,216	$ 18,258

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

25. SEGMENT REPORTING

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

At December 31, 2018, the Company has total long-term assets in Canada and Germany in the amounts of $8,492 and $708 respectively ($13,202 and $846 respectively in Canada and Germany at December 31, 2017).

For the year ended December 31, 2018 the Company had revenues of $5,736, $1,307 and $334 from customers located in Canada, U.S. and rest of world respectively ($4,882, $466 and $1,187 from customers located in Canada, U.S. and rest of world respectively for the year ended December 31, 2017).

26. SUBSEQUENT EVENTS

Gynoflor™

On January 24, 2019 the Company received a Notice of Deficiency-Withdrawal Letter ("Notice") for its Gynoflor™ New Drug Submission. The Company has decided not to file a Request for Reconsideration of the Notice and has informed its licensor, Medinova AG ("Medinova"), that further studies will be needed in order for Gynoflor™ to be approvable by Health Canada. Under the agreement with Medinova, neither the Company nor Medinova is obligated to conduct such further studies. If no further studies are conducted, then Acerus will not resubmit the Gynoflor™ dossier to Health Canada at this time. Acerus and Medinova will continue to work on areas of possible further collaboration.