ACERUS PHARMACEUTICALS CORPORATION

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2016 AND DECEMBER 31, 2015
UNAUDITED
(expressed in thousands of U.S. dollars)

ASSETS

	Notes	June 30, 2016	December 31, 2015
CURRENT			
Cash		$ 5,537	$ 6,333
Trade and other receivables		1,733	1,938
Licensing fee receivable	9	6,000	-
Inventory		3,759	3,750
Prepaids and other assets		91	172
Assets classified as held for sale		4	4
		17,124	12,197
NON-CURRENT ASSETS			
Property and equipment, net		1,894	2,066
Intangible assets, net	6	14,883	15,011
Deferred income tax asset		-	300
TOTAL ASSETS		$ 33,901	$ 29,574

LIABILITIES

CURRENT			
Accounts payable and accrued liabilities	7	$ 3,232	$ 1,999
Current portion of deferred lease inducement		48	40
Current portion of long-term debt	8	4,866	2,616
Current portion of deferred revenue and customer deposits	9	1,026	21,461
		9,172	26,116
LONG-TERM			
Deferred lease inducement		388	396
Long-term debt	8	2,829	5,415
Derivative financial instruments	10	79	106
Deferred revenue	9	6,768	-
TOTAL LIABILITIES		$ 19,236	$ 32,033

SHAREHOLDERS' EQUITY (DEFICIENCY)

Share capital	11	$ 151,766	$ 149,766
Warrants	11	37	37
Contributed surplus		10,296	10,166
Accumulated other comprehensive loss		(14,584)	(17,198)
Deficit		(132,850)	(145,230)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		14,665	(2,459)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 33,901	$ 29,574

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.
Going concern (note 1)
Commitments and contingencies (note 24)
These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 8, 2016.

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015
UNAUDITED
(expressed in thousands of U.S. dollars, except per share and share data)

	Notes	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
REVENUE					
Product revenues		$ 2,143	$ 2,132	$ 4,067	$ 4,748
Licensing and other fees		8,483	607	16,966	1,207
		10,626	2,739	21,033	5,955
EXPENSES					
Cost of sales (includes royalty expense of $1,424)	12	2,228	888	3,040	3,170
Research and development	12	402	716	889	1,511
Selling, general and administrative	12	1,466	1,690	2,443	3,040
Total operating expenses		4,096	3,294	6,372	7,721
FINANCE COSTS, NET					
Interest on long-term debt and other financing costs		270	996	581	1,909
Interest income		(5)	(32)	(10)	(64)
Foreign exchange (gain)/loss		(281)	351	1,443	(1,756)
Change in fair value of derivative financial instruments		(67)	(243)	(33)	(100)
		(83)	1,072	1,981	(11)
TOTAL EXPENSES		4,013	4,366	8,353	7,710
INCOME/(LOSS) BEFORE INCOME TAXES		6,613	(1,627)	12,680	(1,755)
INCOME TAXES					
Current		-	-	-	21
Deferred		150	-	300	(111)
		150	-	300	(90)
NET INCOME/(LOSS)		$ 6,463	$ (1,627)	$ 12,380	$ (1,665)
Basic weighted average shares outstanding	13	209,485,391	200,873,234	205,203,103	200,873,234
Diluted weighted average shares outstanding	13	215,185,391	200,873,234	210,903,103	200,873,234
Basic and diluted net earnings/(loss) per common share	13	$ 0.03	$ (0.01)	$ 0.06	$ (0.01)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment		(152)	987	2,614	(4,531)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		$ 6,311	$ (640)	$ 14,994	$ (6,196)

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

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
UNAUDITED
(expressed in thousands of U.S. dollars)

	Notes	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, January 1, 2015		$ 149,766	$ 1,040	$ 8,690	$ (6,836)	$ (136,199)	$ 16,461
Net loss for the period		-	-	-	-	(1,665)	(1,665)
Foreign currency translation adjustment		-	-	-	(4,531)	-	(4,531)
Total comprehensive loss for the period		-	-	-	(4,531)	(1,665)	(6,196)
Warrant expiry, net of tax	11		(1,003)	892	-	-	(111)
Share based compensation	14	-	-	291	-	-	291
Balance as at June 30, 2015		$ 149,766	$ 37	$ 9,873	$ (11,367)	$ (137,864)	$ 10,445
Balance, January 1, 2016		$ 149,766	$ 37	$ 10,166	$ (17,198)	$ (145,230)	$ (2,459)
Net income for the period		-	-	-	-	12,380	12,380
Foreign currency translation adjustment		-	-	-	2,614	-	2,614
Total comprehensive income for the period		-	-	-	2,614	12,380	14,994
Common shares issued	11	2,000	-	-	-	-	2,000
Share based compensation	14	-	-	130	-	-	130
Balance as at June 30, 2016		$ 151,766	$ 37	$ 10,296	$ (14,584)	$ (132,850)	$ 14,665

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

ACERUS PHARMACEUTICALS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
UNAUDITED
(expressed in thousands of U.S. dollars)

	Notes	2016	2015
CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES			
Net income/(loss) for the period		$ 12,380	$ (1,665)
Items not requiring an outlay of cash:			
Adjustment for unrealized foreign exchange gain		998	73
Deferred licensing revenue	9	(16,966)	(1,207)
Derivative adjustment to product sales		-	(9)
Amortization of intangible assets	6	903	947
Depreciation of property and equipment		237	287
Amortization of deferred leasehold improvement		(24)	-
Interest on long-term debt and other financing costs		581	1,909
Change in fair value of derivative financial instruments	10	(33)	(100)
Share based compensation	14	130	291
(Gain)/Loss on disposal of property and equipment		-	(2)
Deferred income tax expense/(recovery)		300	(111)
Net changes in non-cash working capital items related to operating activities:			
Trade and other receivables		486	(312)
Inventory		24	(294)
Prepaids and other assets		89	(130)
Accounts payable and accrued liabilities		592	(1,478)
Deferred revenue		2,000	484
Customer deposits		(49)	(356)
		1,648	(1,673)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Interest and financing fees paid		(459)	(1,553)
Proceeds from issuance of common shares, net of financing costs		2,000	-
Payment of long-term debt obligations		(4,333)	-
		(2,792)	(1,553)
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Acquisition of property and equipment, net of deposits		(11)	(224)
Proceeds from sale of property and equipment		-	73
		(11)	(151)
NET (DECREASE) IN CASH FOR THE PERIOD		(1,155)	(3,377)
Exchange gain/(loss) on cash		359	(2,111)
CASH BEGINNING OF PERIOD		6,333	31,017
CASH END OF PERIOD		$ 5,537	$ 25,529

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

1. GOING CONCERN

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

The ability of Acerus Pharmaceuticals Corporation ("Acerus") and its subsidiaries (together, the "Company") to realize its assets and meet its obligations as they come due is dependent on successfully commercializing its existing products, bringing new products and technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company 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 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 events that occurred in the last quarter of fiscal 2015 namely, the approval of a generic Estrace® drug in Canada, the termination of the Company's Natesto™ marketing and distribution agreement for the U.S. and Mexican markets, and more restrictive cash covenants included in the amendment to its long term debt agreement. It also included the impact of the new Natesto™ license and supply agreement entered into with Aytu BioScience Inc. ("Aytu") on April 22, 2016 pursuant to which Aytu will commercialize Natesto™ in the United States following the product's return to the Company on June 30, 2016. It is expected that cash flows generated from its revenue streams will be used to fund a portion of current operations, obligations and other initiatives; however, management continues to explore alternative financing arrangements with investors, lenders or strategic partners to allow the Company to achieve its product development and commercialization goals. There are no assurances that any of these initiatives will be successful. Furthermore, factors within and outside the Company's control could have a significant bearing on the ability of the Company to obtain additional financing. Alternatively, the Company might have to limit the number of developmental programs it funds or curtail its operations and expenditures.

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

2. DESCRIPTION OF BUSINESS

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

Acerus is a Canadian pharmaceutical company focused on the development, manufacture, marketing and distribution of innovative, branded products that improve the patient experience. The current therapeutic areas of focus for Acerus are men's health (urology) and women's health (hormone replacement therapy, female sexual dysfunction). Acerus markets Estrace® in Canada, a product indicated for the relief of symptoms due to menopause. Natesto™, a product utilizing Acerus's licensed nasal gel technology is the first and only approved testosterone nasal gel in the United States and Canada for replacement therapy in adult males diagnosed with hypogonadism.

2. DESCRIPTION OF BUSINESS (continued)

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

On January 7, 2016 Natesto™ was approved by Health Canada, including a twice-daily starting dose. It is the first and only nasal gel for testosterone replacement therapy in adult males for conditions associated with a deficiency or absence of endogenous testosterone (hypogonadism). It is the lowest dose testosterone gel replacement therapy to be approved in Canada, with the majority of men achieving normal testosterone levels in a Phase III study. In addition, Natesto™ demonstrated significant improvements in erectile function, intercourse satisfaction, orgasmic function, sexual desire, overall satisfaction and positive mood versus baseline.

On November 16, 2015, Health Canada granted a Notice of Compliance (NOC) for a third party generic version of Estrace®. To the Company's knowledge, Lupin-estradiol is now commercially available in Canada and obtained public reimbursement across major provinces in July 2016.

The Company entered into a license and supply agreement with Medinova AG, a Swiss pharmaceutical company, granting it the exclusive rights to commercialize Gynoflor™ in Canada. Gynoflor™ is an ultra-low dose estrogen (estriol) and lactobacillus combination vaginal tablet used for the treatment of atrophic vaginitis due to estrogen deficiency during menopause, for the restoration of vaginal flora following the use of anti-infectives and for the treatment of certain vaginal infections. Currently, there are no approved products in Canada containing estriol, or the unique combination of estrogen and lactobacillus.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2015. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

(b) Changes in accounting policy and disclosures

The impact of new standards, amendments to standards and interpretations that have been issued but are not effective for financial periods beginning on or after January 1, 2017 and have not been early adopted have been discussed in the Company's annual financial statements for the year ended December 31, 2015 except as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policy and disclosures

IFRS 15: Revenue from contracts with customers

IFRS 15 specifies how and when to recognize revenue as well as requiring the Company to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Amendments to IFRS 15 issued in April 2016 clarified the guidance on identifying performance obligations, licenses of intellectual property and principal versus agent, and to provide additional practical expedients on transition. It is effective for years beginning on or after January 1, 2018. The Company has yet to determine the full impact of the amendment.

IAS 12: Income taxes – Deferred tax

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

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

Amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for years beginning on or after January 1, 2017. The Company has yet to determine the full impact of the amendment.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Company's unaudited condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the unaudited condensed interim consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results may differ from these estimates. In preparing the unaudited condensed interim consolidated financial statements, the significant estimates made by management include those that applied to and are disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2015. The Company did not have any significant changes in estimates and judgments from those that applied at year end.

5. PRODUCT RIGHTS

(a) Bio-adhesive gel technology

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

The Company is collaborating with the vendor on the development of these product candidates in exchange for milestones, royalties based on the Company's gross margin, and other payments depending on the achievement of specified goals. There are potential future milestone payments totaling $4,500 for Tefina™ ($2.0 million upon the acceptance for filing by the FDA or European Medicines Agencies ("EMEA") and $2.5 million upon first commercial sale). Pursuant to an amendment to the IP Agreement in December 2013, the Company forfeited all rights to the third product candidate (dopamine). There are no milestones associated with the fourth product candidate (an anxiety product to be named later). Starting in fiscal 2018, Acerus has a minimum annual royalty obligation of $2,500 if gross annual sales of Natesto™ are below $75,000 in a calendar year and $5,000 if the gross annual sales of Natesto™ exceed $75,000 in a calendar year.

5. PRODUCT RIGHTS (continued)

(a) Bio-adhesive gel technology (continued)

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

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

During the three and six month periods ended June 30, 2016, $1,424 was expensed ($nil for the three and six month periods ended June 30, 2015).

(b) Pulmonary and nasal dry powder delivery technology

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

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

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

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

On October 13, 2015, SRL entered into an intellectual property rights and development agreement with a third party (IP Med Inc.) pursuant to which the applicable third party is responsible for undertaking certain development work in connection with the TriVair™ platform and potential drug candidates for use in connection therewith. Under such agreement, SRL is entitled to certain milestone and royalty payments upon the achievement of certain regulatory, clinical and commercial events.

(c) Estrace®

On July 16, 2014, the Company acquired from affiliates of Shire plc, the Canadian rights for Estrace® (17-beta estradiol), a product indicated for the treatment of relief of symptoms due to menopause. Under the terms of the agreement, the Company acquired the Canadian rights to Estrace®, together with existing inventories at the date of acquisition, for $41,411 (CDN$44,500). The acquisition was accounted for as a business combination.

(d) Gynoflor™

The Company entered into a license and supply agreement with Medinova AG, a Swiss pharmaceutical company, granting us the exclusive rights to commercialize Gynoflor™ in Canada. Gynoflor™ is an ultra-low dose estrogen (estriol) and lactobacillus combination vaginal tablet used for the treatment of atrophic vaginitis due to estrogen deficiency during menopause, for the restoration of vaginal flora following the use of anti-infectives and for the treatment of certain vaginal infections. Currently, there are no approved products in Canada containing estriol, or the unique combination of estrogen and lactobacillus. The Company will be obligated to obtain marketing approval for the product in Canada.

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

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Technology and Patents	Product Rights	Total
Cost			
At January 1, 2016	**$ 4,400**	**$ 28,538**	**$ 32,938**
Effect of foreign currency exchange differences	**-**	**1,823**	**1,823**
As at June 30, 2016	**$ 4,400**	**$ 30,361**	**$ 34,761**
Accumulated amortization and impairment			
At January 1, 2016	**$ 1,775**	**$ 16,152**	**$ 17,927**
Amortization for the period	**148**	**755**	**903**
Effect of foreign currency exchange differences	**-**	**1,048**	**1,048**
As at June 30, 2016	**$ 1,923**	**$ 17,955**	**$ 19,878**
Net Book Value			
As at June 30, 2016	**$ 2,477**	**$ 12,406**	**$ 14,883**

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

Amortization expense related to the technology and patents is computed based on the life of the existing patents and is included in the research and development expense on the consolidated statement of loss and comprehensive loss. The remaining life of the Direct Haler patents is 8 years and 4 months. Amortization of $74 and $148 has been recorded for the three and six months ending June 30, 2016 ($74 and $148 for the three and six months ending June 30, 2015).

Product rights related to the Canadian rights to Estrace®. Amortization of $390 and $755 has been recorded for the three and six months ending June 30, 2016 ($401 and $799 for the three and six months ending June 30, 2015). Due to the approval of a generic third party version of 17-beta estradiol in late 2015, the Company recorded an impairment of $14,210 in fiscal 2015.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at,	
	June 30, 2016	December 31, 2015
Accounts payable	**$ 2,412**	$ 1,143
Employee salaries and benefits payable	**349**	275
Accrued liabilities	**375**	511
Other	**96**	70
Total accounts payable and accrued liabilities	**$ 3,232**	$ 1,999

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

8. LONG-TERM DEBT

On December 11, 2015, the Company entered into an agreement to amend the senior financing with MidCap. Pursuant to the terms and conditions of the amendment, the Company immediately repaid $17,000 of its existing $25,000 principal amount outstanding. The remainder of the outstanding principal amount will have a final maturity date in January 2017. Additionally, upon the occurrence of certain events prior to the maturity date, the Company was required to reduce the total amount of debt outstanding to $5,000 pursuant to the amendment. The facility has been amended to allow the Company to repay all outstanding principal at its option at any time prior to maturity without penalty. The senior financing bears interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1% and is secured by all of the assets of the Company and includes a covenant to maintain a minimum cash balance as set out in the amended agreement.

An amendment to the senior financing was entered into on April 22, 2016 pursuant to which certain adjustments were made to the Company's minimum cash covenants. The senior financing matures January 9, 2017; provided, however, that the Company may elect, at its option, to retire all or a portion of the remaining indebtedness at any time prior to maturity without penalty. The Company used $3,000 of the cash proceeds received from the Aytu transactions to retire a portion of the outstanding principal amount owed to MidCap in connection with the senior financing. As at June 30, 2016, there is $3.7 million of principal outstanding and $0.4 million of financing costs accrued on the senior financing. Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the unused customer deposit owed to Endo following the termination of the Natesto® agreement. A $500 cash payment was paid to Endo on July 5th, 2016 and $3,800 of the remaining principal amount is subject to a promissory note, of which $500 is due in December 2016 and the remaining amounts to be paid in equal quarterly installments of $236 to the maturity date of June 30, 2020. The promissory note is unsecured and bears interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1%.

Interest expense on long-term debt was $130 and $324 for the three and six months ended June 30, 2016 ($707 and $1,336 for the three and six months ended June 30, 2015).

	Senior Financing	Promissory Note	Total
Carrying value of the loan at January 1, 2015	$ 23,770	$ -	$ 23,770
Accretion expense	763	-	**763**
Amortization of deferred financing costs	439	-	**439**
Repayment of principal	(17,000)	-	**(17,000)**
Effect of foreign currency exchange differences	59	-	**59**
Carrying value at December 31, 2015	$ 8,031	$ -	$ 8,031
Carrying value of the loan at January 1, 2016	**$ 8,031**	**$ -**	**$ 8,031**
Conversion of customer deposit to loan		**3,800**	**3,800**
Amortization of deferred financing costs	**257**	**-**	**257**
Repayment of principal	**(4,333)**	**-**	**(4,333)**
Effect of foreign currency exchange differences	**(60)**	**-**	**(60)**
Carrying value at June 30, 2016	**3,895**	**3,800**	**7,695**
Current portion at June 30, 2016	**3,895**	**971**	**4,866**
Long term portion of June 30, 2016	**$ -**	**$ 2,829**	**$ 2,829**

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

9. DEFERRED REVENUE AND CUSTOMER DEPOSITS

	As at	
	June 30, 2016	December 31, 2015
Upfront payment	**$ 7,794**	$ 16,966
Customer deposit	**-**	4,495
Carrying value	**7,794**	21,461
Current portion	**1,026**	21,461
Long-term portion of deferred revenue	**$ 6,768**	$ -

In November 2014, the Company entered into an exclusive agreement providing an affiliate of Endo International plc ("Endo") with the exclusive rights to market Natesto® in the United States and Mexico. Under the terms of the agreement, the Company received an upfront fee of $25,000 and a customer deposit of $5,000 upon closing of the transaction. The revenues from the upfront fee payment were deferred and amortized on a straight-line basis over the remaining life of the agreement which terminated on June 30, 2016.

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

The customer deposit reflects the deposit made for future sale of inventory by Endo. The remaining amount of the deposit at June 30, 2016 was converted into a $3,800 promissory note described in note 8.

10. DERIVATIVE FINANCIAL INSTRUMENT

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

	For the six months ended June 30, 2016	**For the year ended December 31, 2015**
Balance of warrants, January 1,	**$ 106**	$ 1,375
Change in fair value of the derivative financial instruments	**(33)**	(1,116)
Effect of foreign currency exchange difference	**6**	(153)
Balance of warrants	**$ 79**	$ 106

General Electric Capital Corporation warrants

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

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

10. DERIVATIVE FINANCIAL INSTRUMENT (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 June 30, 2016 were as follows: a share price of CDN$0.11; an expected life of 1.1 years; a risk free rate of 0.55%; a volatility of 84%; and an exercise price of $1.4524 (a share price of CDN$0.12; an expected life of 1.6 years; a risk free rate of 0.51%; a volatility of 84% and an exercise price of $1.4524 was used to compute the values at December 31, 2015). At June 30, 2016, the warrants had an average fair value of $0.00004 per warrant ($0.0004 per warrant at December 31, 2015).

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 the settlement price will then be calculated using the volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the period of five days ending immediately prior to the date of exercise.

A pricing model with observable market based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values as at June 30, 2016 were as follows: a share price of CDN$0.11; an expected life of 5.1 years; a risk free rate of 0.72%; a volatility of 83%; and an exercise price of CDN$0.7095 (a share price of CDN$0.12; an expected life of 5.5 years; a risk free rate of 0.92%; a volatility of 87%; an exercise price of CDN$0.7095 was used to compute the values at December 31, 2015). At June 30, 2016, the warrants had an average fair value of CDN$0.03 per warrant (CDN$0.05 per warrant at December 31, 2015).

11. SHARE CAPITAL AND WARRANTS

Shares Issued and Outstanding

	Number of		Amount		
	Common Shares	Warrants	Common Shares	Warrants	Total
Balance as at January 1, 2015	200,873,234	3,910,839	$ 149,766	$ 1,040	$ 150,806
Expiry of warrants, January 19, 2015	-	(3,859,200)	-	(1,003)	(1,003)
Balance as at December 31, 2015	200,873,234	51,639	$ 149,766	$ 37	$ 149,803
Balance as at January 1, 2016	**200,873,234**	**51,639**	**$ 149,766**	**$ 37**	**$ 149,803**
Private placement, April 27, 2016	**12,245,411**	**-**	**2,000**	**-**	**2,000**
Balance as at June 30, 2016	**213,118,645**	**51,639**	**$ 151,766**	**$ 37**	**$ 151,803**

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

In addition to the warrants in the table above, there are 3,189,730 warrants issued that have been classified as a derivative financial instrument (note 10).

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

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

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

12. NATURE OF EXPENSES

	For the three months ended June 30,							
	2016				2015			
	Cost of Sales	**R&D**	**SG&A**	**Total**	Cost of Sales	R&D	SG&A	**Total**
Salaries and benefits	**$ -**	**$ 164**	**$ 317**	**$ 481**	$ -	$ 229	$ 542	$ 771
Cost of inventories of finished goods	**312**	**-**	**-**	**312**	342	-	-	342
Amortization of intangible assets	**390**	**74**	**-**	**464**	401	74	-	475
Clinical trials	**-**	**37**	**-**	**37**	-	169	-	169
Rent, office and other expenses	**-**	**5**	**165**	**170**	-	63	189	252
Selling costs	**-**	**-**	**177**	**177**	-	-	214	214
Depreciation of property and equipment	**34**	**56**	**24**	**114**	27	94	2	123
Professional fees	**-**	**18**	**344**	**362**	-	46	450	496
Product development	**-**	**31**	**-**	**31**	-	14	-	14
Share-based compensation	**-**	**17**	**55**	**72**	-	17	135	152
Public company costs	**-**	**-**	**90**	**90**	-	-	93	93
Distribution and warehousing costs	**68**	**-**	**-**	**68**	101	-	-	101
Other	**-**	**-**	**-**	**-**	17	-	-	17
Loss on disposal of property and equipment	**-**	**-**	**-**	**-**	-	10	-	10
Business development	**-**	**-**	**294**	**294**	-	-	65	65
Royalty expense	1,424	**-**	**-**	**1,424**	-	-	-	-
Total expenses	**$ 2,228**	**$ 402**	**$ 1,466**	**$ 4,096**	$ 888	$ 716	$ 1,690	$ 3,294

	For the six months ended June 30,							
	2016				2015			
	Cost of Sales	**R&D**	**SG&A**	**Total**	Cost of Sales	R&D	SG&A	Total
Salaries and benefits	**$ -**	**$ 362**	**$ 728**	**$ 1,090**	$ -	$ 410	$ 1,150	$ 1,560
Cost of inventories of work in progress and finished goods	**655**	**-**	**-**	**655**	2,029	-	-	2,029
Amortization of intangible assets	**755**	**148**	**-**	**903**	799	148	-	947
Clinical trials	**-**	**102**	**-**	**102**	-	196	-	196
Rent, office and other expenses	**-**	**8**	**279**	**287**	-	142	333	475
Selling costs	**-**	**-**	**221**	**221**	-	-	389	389
Depreciation of property and equipment	**67**	**123**	**47**	**237**	72	192	23	287
Professional fees	**-**	**31**	**569**	**600**	-	118	589	707
Product development	**-**	**83**	**-**	**83**	-	278	-	278
Share-based compensation	**-**	**32**	**98**	**130**	-	29	262	291
Public company costs	**-**	**-**	**184**	**184**	-	-	200	200
Distribution and warehousing costs	**133**	**-**	**-**	**133**	208	-	-	208
Other	**6**	**-**	**-**	**6**	62	-	-	62
Gain on disposal of property and equipment	**-**	**-**	**-**	**-**	-	(2)	-	(2)
Business development	**-**	**-**	**317**	**317**	-	-	94	94
Royalty expense	**1,424**	**-**	**-**	**1,424**	-	-	-	-
Investment tax credits	**-**	**-**	**-**	**-**	-	-	-	-
Total expenses	**$ 3,040**	**$ 889**	**$ 2,443**	**$ 6,372**	$ 3,170	$ 1,511	$ 3,040	$ 7,721

13. EARNINGS/(LOSS) PER SHARE

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	**2015**	**2016**	2015
Numerator for basic and diluted loss per share available to common shareholders	**$ 6,463**	$ (1,627)	**$ 12,380**	$ (1,665)
Denominator for basic earnings/(loss) per share	**209,485,391**	200,873,234	**205,203,103**	200,873,234
Denominator for dilluted earnings/(loss) per share	**215,185,391**	200,873,234	**210,903,103**	200,873,234
Basic and diluted loss per share	**$ 0.03**	$ (0.01)	**$ 0.06**	$ (0.01)

For the three and six month periods ended June 30, 2015, the computation of diluted earnings/(loss) per share is equal to the basic loss per share due to the anti-dilutive effect on the stock options and warrants.

14. 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 (a maximum of 21,311,864 options as at June 30, 2016). The option exercise price must be equal to or greater than the fair market value of the Company's common shares at the date of grant.

The stock option plan also provides that:

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

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

The Company uses the Black-Scholes option pricing model to price its options, which requires certain assumptions including the stock price volatility for a publicly held corporation. Due to the absence of a company specific volatility, the Company uses a volatility applicable to other early-stage companies in the pharmaceutical industry.

On March 11, 2015 the Company granted 1,507,000 options to employees, management and directors. The options had an exercise price of CDN$0.75, a life of five years and vesting periods varied for each individual ranging from one to three years. The Black-scholes model variables used to compute option values were as follows: all options had an expected life of five years, the risk free rate was 1.4%; the implied volatility rate used was 80%; an expected dividend rate of nil was used; and an exercise price of CDN$0.75. The use of these variables resulted in a fair value per option of CDN$0.48.

On March 3, 2016 the Company granted 5,700,000 options employees, management and directors. The options had an exercise price of CDN$0.10, a life of five years and vesting periods varied for each individual ranging from one to three years. The Black-Scholes model used a risk free rate of 0.97%; an expected volatility of 86%; an expected dividend rate of nil and resulted in a fair value per option of CDN$0.07.

A forfeiture rate of 3% was used to estimate option expenses during the period. The Company recognized total share based compensation expense of $72 and $130 for the three and six months ended June 30, 2016 ($152 and $291 for the three and six months ended June 30, 2015).

14. SHARE BASED COMPENSATION (continued)

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

	For the six months ended June 30, 2016							
	2016				2015			
	Canadian Dollar Options		US Dollar Options		Canadian Dollar Options		US Dollar Options	
	Number	Weighted average exercise price (CAD)	Number	Weighted average exercise price (USD)	Number	Weighted average exercise price (CAD)	Number	Weighted average exercise price (USD)
Balance at January 1,	**5,922,790**	**$ 1.29**	**2,081,225**	**$ 5.68**	4,393,815	$ 1.54	2,351,225	$ 5.38
Granted	**5,700,000**	**0.10**	**-**	**-**	1,507,000	0.750	-	-
Forfeited	**(2,357,550)**	**0.35**	**(20,250)**	**3.40**	(9,125)	1.97	-	3.27
Balance at June 30, 2016	**9,265,240**	**$ 0.80**	**2,060,975**	**$ 5.70**	5,891,690	$ 1.34	2,351,225	$ 5.38
Options exercisable at June 30, 2016	**3,958,901**	**$ 1.56**	**2,060,975**	**$ 5.70**				

Canadian Dollar Options outstanding as at June 30, 2016						
	Options outstanding			Options exercisable		
Exercise prices	Number outstanding at June 30, 2016	Weighted average remaining life in years	Weighted average exercise prices	Number excercisable at June 30, 2016	Weighted average exercise prices	
$0.10	4,275,000	4.7	$ 0.10	-	$	0.10
$0.16	30,000	4.5	0.16	-		0.16
$0.41	50,000	2.4	0.41	50,000		0.41
$0.54	25,000	3.4	0.54	8,333		0.54
$0.75	1,127,000	3.7	0.75	508,998		0.75
$0.815	1,025,000	2.7	0.815	741,664		0.815
$0.87	819,800	1.8	0.87	736,466		0.87
$0.91	25,000	1.9	0.91	25,000		0.91
$1.45	75,000	0.3	1.45	75,000		1.45
$1.50	325,000	0.1	1.50	325,000		1.50
$2.18	900,000	1.4	2.18	900,000		2.18
$3.30	588,440	0.7	3.30	588,440		3.30
	9,265,240	3.3	$ 0.80	3,958,901	$	1.56

US Dollar Options outstanding as at June 30, 2016						
	Options outstanding			Options exercisable		
Exercise prices	Number outstanding at June 30, 2016	Weighted average remaining life in years	Weighted average exercise prices	Number excercisable at June 30, 2016	Weighted average exercise prices	
$2.20	204,225	0.1	$ 2.20	204,225	$	2.20
$3.00	250,000	1.1	3.00	250,000		3.00
$4.00	139,250	0.04	4.00	139,250		4.00
$5.00	582,500	1.1	5.00	582,500		5.00
$8.00	885,000	1.1	8.00	885,000		8.00
	2,060,975	1.0	$ 5.70	2,060,975	$	5.70

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

15. RELATED PARTY TRANSACTIONS

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

Key management includes the Company's directors and executive officers. The remuneration of directors and key members of management and legal fees paid or payable to firms affiliated with a current director of SRL for the three and six months ended June 30, 2016 and 2015:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	**2015**	**2016**	**2015**
Short-term compensation of key management and directors	**$ 344**	$ 600	**$ 749**	$ 1,233
Share-based compensation	**112**	148	**113**	285
Legal fees paid or payable to firms affilliated with directors	**6**	6	**9**	9
	$ 462	$ 754	**$ 871**	$ 1,527

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $288 if a liquidity event occurs, $689 if all are terminated without cause, and $nil if all are terminated with cause.

As at June 30, 2016, Acerus holds a $31,854 ($29,816 as at December 31, 2015) receivable from its wholly owned subsidiary SRL. This receivable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange gain of $115 and loss of $1,910 for the three and six months ended June 30, 2016 (loss of $439 and gain of $1,633 for the three and six months ended June 30, 2015) that has been recorded in the consolidated statement of income/(loss).

16. 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 June 30, 2016, the Company's financial instruments consisted of cash, trade and other receivables, licensing fee receivable, accounts payable and accrued liabilities, customer deposits, long-term debt, and derivative financial instruments. The derivative financial instruments are measured at fair value with any changes recognized through the consolidated statement of loss and comprehensive loss and are classified as Level 2. Cash, trade and other receivables, licensing fee receivable, accounts payable and accrued liabilities and customer deposits are measured at amortized cost and their fair values approximate carrying values due to their short-term nature. The fair value of the derivative financial instrument is estimated using a Black-Scholes pricing model (Level 2). Assumptions used in the model are disclosed in note 10.

The long-term debt is measured at amortized cost. At June 30, 2016, the fair value of the long-term debt approximates its face value of $7,907. 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.

17. SEGMENT REPORTING

The President and Chief Executive Officer and the 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.

18. SUBSEQUENT EVENTS

Litigation

In April 2016, the Company was served with a statement of claim filed in the Ontario Superior Court of Justice by Mr. Eugene Melnyk against the Company, as well as its Chairman and President & Chief Executive Officer. The Company firmly believes that the entirety of the allegations are without merit from a factual or legal basis, and maintain its position regarding the appropriate conduct of the business and management. In particular, the Company believes that the claims relating to alleged improper related party and non-arm's length transactions are entirely baseless and without support. The Company, together with the other named co-defendants, brought a motion to strike the action as disclosing no reasonable cause of action, which was scheduled to be heard on July 27, 2016. In response to this motion the plaintiff advised that he will bring a motion to convert the proceeding into a derivative action. Accordingly, the hearing date has been vacated and the Court has set a deadline of August 8, 2016 for the delivery of the plaintiff's motion record. This claim is in the early stages and accordingly the outcome is not determinable at this time.

Estrace®

On November 16, 2015, Health Canada granted a Notice of Compliance (NOC) for a third party generic version of Estrace®. To the Company's knowledge, Lupin-estradiol is now commercially available in Canada and obtained public reimbursement across major provinces in July 2016.