MANAGEMENT'S DISCUSSION AND ANALYSIS OF
ACERUS PHARMACEUTICALS CORPORATION
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2017

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Acerus Pharmaceuticals Corporation and its wholly owned subsidiaries (the "Company", "Acerus", "we" or "our") constitutes management's review of the factors that affected our financial and operating performance for the year ended December 31, 2017. This MD&A is dated March 20, 2018 and should be read in conjunction with the notes and audited consolidated financial statements for the year ended December 31, 2017.

The annual audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and are presented in thousands of United States ("U.S.") dollars except for per share amounts and unless otherwise noted. For more detailed information regarding certain forward-looking statements contained herein, please see the note regarding "Forward-looking Statements". The results of the operations, business prospects and financial condition of the Company will be affected by, among others, the "Risk Factors" set out in our Annual Information Form dated March 20, 2018 available at www.sedar.com.

Our ability to realize our assets and meet our obligations as they come due is dependent on successfully commercializing our 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, we will require additional funds, either from commercial sales of both existing and future products, commercial transactions and investors, to continue the development, commercialization and launch of additional products. These circumstances lend significant doubt as to our ability to meet our obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

We have assessed our ability to continue as a going concern and concluded that in order to complete our planned product development and commercialization programs, capital will be required. Our ability to accomplish our 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 our control could have a significant bearing on our ability to obtain additional financing.

Forward-looking statements

This MD&A contains forward-looking information. This forward-looking information is not based on historical facts but rather on our expectations regarding the future growth of the Company and our respective results of operations, performance and business prospects and opportunities. Forward-looking information may include financial and other projections, as well as statements regarding future plans, objectives or economic performance, or the assumptions underlying any of the foregoing. This MD&A uses words such as "believe", "expect", "would", "will", "expects", "anticipates", "intends", "estimates", or similar expressions to identify forward-looking information. Such forward-looking information reflects our current beliefs based on information currently available to us.

These forward-looking statements are subject to important assumptions and the Corporation has also made certain macroeconomic and general industry assumptions in the preparation of such forward-looking statements. While the Corporation considers these factors and assumptions to be reasonable based on information currently available, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Acerus business, or developments in the Corporation's industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Risks related to forward-looking statements include, among other things: the ability of the Corporation to continue as a going concern; the Corporation's limited operating history; the Corporation's ability to meet future capital requirements; the fluctuating operating results of the Corporation; the degree of market acceptance of the Corporation's products; risks relating to generic competition for the Corporation's products; extensive government regulation; risks associated with debt financing; marketing and distribution risks; manufacturing-related risks; supplier risks; risks relating to the supply of raw materials; publication of adverse

clinical trial results; risks related to unexpected product safety or efficacy concerns; risks relating to promotional activities; risks associated with the cost and reimbursement of the Corporation's products; risks related to reliance on data obtained from IMS; intellectual property risks, including the uncertainty of intellectual property protection, risks associated with licensed patent rights and the risk of third party claims of infringement; risks related to disputes regarding ownership or inventorship of products and technologies; risks associated with trade secrets; risks related to the performance of services by third parties; risks associated with the public market and volatility associated with the Corporation's shares; risk of potential third-party liability; risks relating to clinical testing conducted by the Corporation; regulatory approval related matters; risks related to certain minimum payment obligations; a dependence on key personnel; risk of potential dilution of shareholders; risks associated with potential future acquisition activities; risks associated with the expiry of inventory; risks relating to the valuation of intangible assets; risks associated with returns, allowances and chargebacks; risks relating to the ability of the Corporation to expand its operations; competition risks; risks associated with technological change; foreign exchange risk; concentration risk; risks associated with certain indemnity obligations; tax-related risks; risks relating to the Corporation's ability to generate ancillary additional revenue; and risks relating to securities analyst coverage of the Corporation.

Risks related to forward-looking statements include those risks referred to in our filings with the Canadian Securities regulators, including risks described in our Annual Information Form dated March 20, 2018 under the heading "Risk Factors". Actual results, performance or achievement could differ materially from that expressed in, or implied by, any forward-looking information in this MD&A, and, accordingly, investors should not place undue reliance on any such forward-looking information. Further, any forward-looking information speaks only as of the date on which such statement is made and we undertake no obligation to update any forward-looking information to reflect the occurrence of unanticipated events, except as required by law. New factors emerge from time to time and the importance of current factors may change from time to time and it is not possible for us to predict all such factors, changes in such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information contained in this MD&A.

Description of business

Acerus (incorporated in Ontario, Canada) is the parent to three wholly-owned subsidiaries, Acerus Labs Inc. ("ALI") (incorporated in Ontario), Acerus Biopharma Inc. ("ABI") (formerly named Acerus Pharmaceuticals SRL ("SRL")) (incorporated in Ontario), and Acerus Pharmaceuticals (Barbados) Inc. ("APBI") (incorporated in Barbados). On November 6, 2017, ABI migrated jurisdiction of incorporation, corporate law residence, and tax residence from Barbados to Canada. APBI was 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.

We are a Canadian-based specialty pharmaceutical company focused on the development, manufacture, marketing and distribution of branded products that improve patient experience, with a primary focus in the field of men's and women's health. We commercialize our products via our own salesforce in Canada, and through a global network of licensed distributors in the U.S. and other territories.

We currently have three marketed products: Estrace®, a product for the symptomatic relief of menopausal symptoms, is commercialized in Canada; Natesto®, the first and only testosterone nasal gel for testosterone replacement therapy in adult males diagnosed with hypogonadism, is commercialized in Canada and the U.S; and UriVarx®, a Natural Health Product that helps reduce symptoms of hyperactive bladder such as daytime urinary frequency, urgency and nocturia. The product was recently approved by Health Canada and will be offered over-the-counter to Canadians dealing with such symptoms. In addition, Natesto® has been licensed for distribution in 29 additional countries worldwide. Marketing approvals in jurisdictions outside of North America are expected to take place over the course of the coming years. Our pipeline includes four innovative products: Elegant™ Vaginal Moisturizer, which provides comfort to women suffering from vaginal dryness, and Elegant™ pH, which is a pH balanced vaginal product; Gynoflor™, an ultra-low dose vaginal estrogen combined with a probiotic, for which a NDS has been filed in Canada for the treatment of vaginal atrophy, restoration of vaginal flora and treatment of certain vaginal infections; and Tefina™, a clinical stage product aimed at addressing a significant unmet need for women with female sexual dysfunction. Finally, we own or have a license to numerous patents relating to proprietary delivery systems as well as novel formulations of products currently in the early stage of development.

For further information please see the Annual Information Form dated March 20, 2018 and our other filings available on SEDAR at www.sedar.com.

Key products and developments

Natesto®

We entered into the following license, development and supply agreements with regards to Natesto®:

Date	Company	Territory	Terms
April 22, 2016	Aytu BioScience Inc. ("Aytu")	United States	• Upfront payments totaling $8,000 • Sales-based milestones that could potentially total $37,400 • Tiered supply price per unit
December 15, 2016	Hyundai Pharm Co., Ltd ("Hyundai")	South Korea	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
June 5, 2017	Therios Healthcare ("Therios")	Saudi Arabia, United Arab Emirates, and Egypt	• Fixed supply price per unit
June 14, 2017	medac Gesellschaft für Klinische Spezialpräparate mbH ("medac")	15 European countries	• Non-refundable upfront fee • Milestone payment on regulatory approval and sales-based milestone payments • Tiered supply price per unit
October 17, 2017	Eu Hwa Pte LTD. ("EU")	Thailand, Malaysia/Brunei, Singapore, Vietnam, Philippines, Hong Kong/Macau and one other small South East Asian country	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
November 23, 2017	Apsen Farmacêutica ("Apsen")	Brazil	• Non-refundable upfront fee (received in 2018) • Milestone payment on regulatory approval • Tiered supply price per unit

Gynoflor™

We entered into a license and supply agreement with Medinova AG on April 6, 2016, a Swiss pharmaceutical company, granting us the exclusive rights to commercialize Gynoflor™ in Canada. On February 28, 2017, we submitted a NDS to Health Canada to obtain marketing approval for the product in Canada. Currently, there are no approved estriol + lactobacillus products on the Canadian market.

On December 24, 2017 we received a Notice of Deficiency ("NOD"). In its notice, Health Canada requested additional technical information on Gynoflor™ in order to complete its assessment of the product, which we believe will cause a delay in the review process. We are currently working on responding to the NOD and currently intend to focus on the vaginal atrophy indication in its response to Health Canada. We may revisit with Health Canada at a later date the indications for restoration of vaginal flora following the use of anti-infectives and for the treatment of certain vaginal infections.

Elegant™ franchise

On December 20, 2017, we entered into a license, development and supply agreement with Viramal Limited ("Viramal"), a London-based specialty pharmaceutical company, granting us exclusive rights to commercialize the Elegant™ franchise in Canada. The Elegant™ franchise comprises Elegant™ Vaginal Moisturizer, which provides comfort to women suffering from vaginal dryness, and Elegant™ pH, which is a pH balanced vaginal product. Elegant™ Vaginal Moisturizer and Elegant™ pH are over-the-counter products. Under the terms of the license, development and supply agreement, we will pay Viramal a regulatory milestone payment upon 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.

Corporate Update

Long-term debt financing

The debt balance of $3.2 million owed to MidCap V, LLC ("MidCap") as at December 31, 2016 was extinguished in January 2017.

On December 6, 2017, we entered into a senior secured term credit facility with Quantius Inc. ("Quantius") for up to CDN$5.0 million. Of which CDN$3.0 million was available at closing, with the remaining CDN$2.0 million becoming available upon satisfaction of certain future 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. The credit facility bears interest at a rate equivalent to the Bank of Canada prime plus 11.05% and matures on December 1, 2019. The credit facility is repayable in monthly instalments of 1/48 of the balance owing commencing December 1, 2018 with the remaining balance due at maturity. As part of the transaction, Quantius received an underwriting fee representing a low single digit percentage of the maximum facility amount and will receive a royalty fee representing low single digit percentage on our revenues over the term of the facility, capped at a high single digit percentage of the borrowed amount. Under terms of the agreement, we will have the option to prepay the loan with the payment of low single digit prepayment penalties. The prepayment penalties will be fully offset against the royalty fee payable at the time of termination. The terms of the agreement also contain customary financial covenants. We were in compliance with the covenants as of December 31, 2017.

On March 15, 2018, the promissory note payable to an affiliate of Endo International plc ("Endo") was amended such that principal repayments under the promissory note would now be made annually on the last business day of the month of December of each year instead of quarterly. Payments of interest will continue to be made quarterly.

Factors affecting results from operations

Revenue and cost of sales

Our product revenues reflect the sales of Estrace® and Natesto® net of chargebacks, discounts and other price adjustments. Cost of sales reflect the cost of finished goods which include manufacturing, distribution, warehousing costs, the amortization of the Estrace® product rights intangible asset and royalty expenses for Natesto®.

Our licensing and other fee revenues reflect the amortization of the upfront license fees received as part of the Natesto® marketing, license, development and supply agreements.

Research and development expenses

Our research and development ("R&D") expenses consist primarily of project specific costs, namely: project management, clinical studies, laboratory analysis, new product submissions, formulation development and packaging design costs as well as milestone obligations based on the achievement of specific development, regulatory or commercial milestones on or before specific dates. Research and development expenses also include salary, benefits and share-based compensation for R&D management and staff and amortization of intangible assets, leasehold improvements and manufacturing and laboratory assets.

Our R&D activities focus on clinical research and development and include internal and external activities associated with advancing product candidates towards obtaining regulatory approval for marketing in various jurisdictions.

Selling, general and administrative expenses

Our selling, general and administrative costs mainly consist of salary and benefits for executive management and other staff, share-based compensation, professional fees, public company related costs, selling expenses, office expenses and amortization of leasehold improvements and equipment related to administrative usage.

Other expenses

Other expenses consist of interest expense, accretion, amortization of deferred financing fees, fair value adjustment to the derivative financial instruments, foreign exchange gains and losses, interest income and a gain on extinguishment of payables. The foreign exchange gains and losses on the intercompany receivable and payable has been a major component of the net financing costs as the

receivable and payable is denominated in U.S. dollars and is held by the parent company in its functional currency, Canadian dollar, and thus the foreign exchange gain/loss does not eliminate on consolidation.

Foreign currency

For Acerus, ALI and ABI, a majority of the revenue and expenses are in Canadian dollars (functional currency) and are translated into U.S. dollar (reporting currency) for consolidated reporting. Accordingly, the results of operations are impacted by fluctuations in the U.S. dollar exchange rate. The Canadian legal entities' statement of (loss)/income and comprehensive (loss)/income, which are recorded in Canadian dollars, were translated to U.S. dollars at the average exchange rate of $0.7700 and $0.7548 respectively for the years ended December 31, 2017 and 2016. Similarly, the Canadian entities' statement of financial position which is recorded in Canadian dollars was translated into U.S. dollars at the period-end spot rates of $0.7971 and $0.7448 at December 31, 2017 and 2016 respectively.

Taxation

Canada and Barbados have laws related to various taxes imposed by national/federal, provincial and municipal authorities. Applicable taxes include a value added tax ("VAT") and harmonized sales tax ("HST"), corporate income tax, payroll taxes and other taxes. The VAT and HST taxes that are payable on goods and services billed and purchased are 17.5% in Barbados, 19.6% in Europe and 13% in Canada, respectively. These may be recoverable due to input tax credits. Corporate income tax payable in Canada is 26.5% in 2017 and in Barbados there is a sliding scale of rates ranging from 2.5% on the first BBD$10.0 million of taxable income to 0.25% on taxable income of BBD$30.0 million and greater. On November 6, 2017, ABI migrated jurisdiction of incorporation, corporate law residence, and tax residence from Barbados to Canada.

Selected consolidated financial information

The following table sets forth selected consolidated data for the years ended December 31, 2017, 2016 and 2015 as follows:

	2017	2016	2015
Statement of operations data			
Revenue	$ 6,444	$ 24,486	$ 16,915
(Loss)/income before other expenses/(income) and taxes	(6,952)	12,959	(11,058)
Net (loss)/income	(8,714)	11,119	(9,031)
Basic and diluted net (loss)/earnings per common share	$ (0.04)	$ 0.05	$ (0.04)
Balance sheet data:			
Total assets	$ 22,254	$ 29,716	$ 29,574
Long-term debt	4,569	6,449	8,031

The fluctuations in reported results during these periods resulted primarily from the following factors:

- In 2017, revenue reflects shipment of product to Aytu, a full year of revenue from Natesto® Canada and the stabilization of Estrace® sales
- In 2017, we extinguished the remaining debt balance of $3.2 million owed to MidCap
- In 2017, we received gross proceeds of CDN$3.0 million in debt from Quantius Inc.
- In 2017, we signed Natesto® out-licensing agreements which entitled us to a total of $1.2 million in upfront payments
- In 2016 and 2015, we accelerated the recognition of a $25.0 million upfront licensing fee related to Natesto® U.S., due to the return of the product on June 30, 2016 by our former U.S. market licensee, Endo.
- In 2015, we recorded a $14.2 million impairment charge on the intangible asset related to the Canadian rights to Estrace® due to the approval by Health Canada of a third-party generic.

For a detailed review of operating results, see "Review of operating results."

Review of operating results

Revenue and gross profit

	2017	2016	Change $	Change %
Revenue				
Product revenue	$ 5,348	$ 7,013	$ (1,665)	(24)%
Licensing revenue	1,096	17,473	(16,377)	(94)%
	6,444	24,486	(18,042)	(74)%
Cost of goods sold	3,263	4,453	(1,190)	(27)%
Gross margin	$ 3,181	$ 20,033	$ (16,852)	(84)%

Total revenue decreased to $6.4 million for the year ended December 31, 2017 from $24.5 million in the prior year. The decrease in product revenue was primarily the result of lower Estrace® sales due to the presence of a third-party generic ($4.4 million and $6.8 million for the years ended December 31, 2017 and 2016). This is offset by the increase in sales for Natesto® Canada, as 2017 reflects a full year of sales, and increase in sales for Natesto® U.S. as the product was relaunched in July 2016 by Aytu and continued to gain momentum in 2017.

Revenues from the sale of Natesto® in the U.S. are earned in two steps: 1) at a contractual supply price reflecting cost of goods sold plus a nominal margin when the product is delivered to the marketing partner (tier-one); and 2) an additional top-up amount is earned based on a tiered pricing schedule when the marketing partner recognizes the sale of product (tier-two). As such, the gross margin earned for tier-one revenues are nominal with a bulk of the gross margins being recognized when tier-two revenues are earned. Depending on the mix of tier-one and tier-two, gross margins can fluctuate substantially.

On transition of the U.S. commercialization rights for Natesto®, Aytu purchased inventory from Endo. As such, revenues earned in fiscal 2016 only reflect tier-two revenues. Tier-one revenues under Aytu were recognized for the first time in Q4 2017. Starting fiscal 2018, we expect to recognize increasing revenues from both tier-one and tier-two revenues.

Licensing revenue in the current year reflects the amortization of the upfront payments received from various Natesto® licensing, development and supply agreements. The licensing revenue recognized in 2016 primarily relates to the recognition of the $25.0 million upfront payment earned in the Natesto® license, development and supply agreement with an affiliate of Endo. The agreement with Endo was terminated as of June 30, 2016, as such, the recognition of the revenue was accelerated. Cost of goods sold decreased by $1.2 million or 27% to $3.3 million for the year ended December 31, 2017 compared to $4.5 million for the year ended December 31, 2016. Royalty expense related to the upfront licensing fees were $0.2 million and $1.5 million respectively for the years ended December 31, 2017 and 2016. As in prior years, no royalties were paid on product revenues, however, in fiscal 2018, we will have minimum royalties of $2.5 million included in cost of goods sold for Natesto®. Also included in cost of goods sold is a $1.6 million and $1.5 million charge for the amortization of the Estrace® product rights intangible for the years ended December 31, 2017 and 2016 respectively. The current period reflects revenues and related expenses from both tier-one and tier-two revenues.

Operating expenses

	2017	2016	Change $	Change %
Operating expenses				
Research and development	$ 2,166	$ 1,596	$ 570	36 %
Selling, general and administrative	7,967	5,478	2,489	45 %
	$ 10,133	$ 7,074	$ 3,059	43 %

Research and development

Research and development increased by $0.6 million over the prior year period mainly due to Health Canada filing fees for Gynoflor™, various clinical trial costs, product development costs and regulatory consulting fees regarding drug application filings for Natesto® outside North America.

Given the nature of our business and product pipeline, we expect to continue to incur research and development expenses in the future. Research and development expenditures may increase if we initiate further Natesto®, Tefina™ and other clinical studies. In addition, formulation optimization and product development costs may be incurred for products utilizing other in-licensed or in-house developed technologies in the future.

Selling, general and administrative

Selling, general and administrative expenses increased by $2.5 million over the prior year. Selling expenses increased by $0.9 million over the prior year, representing a full year of expenses related to the launch of Natesto® Canada. These expenses are offset by a $0.2 million decrease in business development expenses. Salaries, benefits and share-based compensation increased by $1.4 million over the prior year due to the accrual of severance fees for a member of the executive team and the addition of several personnel, including the onboarding of the sales team.

In Q4 2017, we transitioned from using a contract sales force to directly employing our own full-time sales representatives. At year-end 2017, we had six representatives detailing Natesto® and Estrace® to urologist, endocrinologists, gynecologist and high prescribing general practitioners. We anticipate strategically building our direct salesforce to take advantage of market opportunities, expand our territorial coverage and in preparation for new product launches.

Other expenses

	2017	2016	Change $	Change %
Other expenses/(income)				
Interest on long-term debt and other financing costs	$ 380	$ 1,179	$ (799)	(68)%
Interest income	(21)	(17)	(4)	24 %
Foreign exchange loss	1,521	341	1,180	346 %
Change in fair value of derivative financial instruments	156	37	119	322 %
Gain on extinguishment of payables	(321)	-	(321)	n/a
	$ 1,715	$ 1,540	$ 175	11 %

The $0.8 million decrease in interest on long-term debt and other financings costs over the prior year is mainly due to the repayment of the MidCap loan in January 2017. The increase in foreign exchange loss is driven by the U.S. denominated intercompany receivable and payable and the strengthening of the Canadian dollar. The increase in change in fair value of derivative financial instruments is driven by the increase in our stock price over the prior year. The gain on extinguishment of payables relates to the reversal of reserves previously taken.

Select quarterly information

The following table highlights selected unaudited consolidated financial data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2017. The selected financial information presented below reflects all adjustments, consisting primarily of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These results are not necessarily indicative of results for any future period and you should not rely on these results to predict future performance.

	Three months ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Statement of operations data				
Revenue*	$ 2,100	$ 1,628	$ 1,446	$ 1,270
Cost of goods sold	1,328	661	636	638
Research and development	674	367	402	723
Selling, general & administrative	3,070	1,793	1,483	1,621
Other expenses, net	(914)	1,402	863	364
Net (loss)/income	(2,105)	(2,595)	(1,938)	(2,076)
Basic and diluted net (loss)/earnings per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

*Q3 2017 revenue adjusted to correct top-up revenue amounts

	Three months ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Statement of operations data				
Revenue	$ 1,808	$ 1,645	$ 10,626	$ 10,407
Cost of goods sold	718	695	2,228	812
Research and development	364	343	402	487
Selling, general & administrative	1,594	1,441	1,466	977
Other expenses, net	(557)	116	(83)	2,064
Net (loss)/income	(311)	(950)	6,463	5,917
Basic and diluted net earnings per common share	$ 0.00	$ 0.00	$ 0.03	$ 0.03

Our revenues reflect Estrace® and Natesto® product sales, the accelerated recognition of the unamortized portion of the upfront payment received from Endo as part of the Natesto® license, development and supply agreement, which was terminated as of June 30, 2016.

Included in cost of goods sold in Q2 2016 is a $1.4 million royalty expense recorded on the $8.0 million upfront payment due from Aytu.

Research and development expense in Q4 2017 reflects additional expenses related to various product development costs and regulatory consulting fees regarding worldwide drug application filings for Natesto®. Selling, general and administrative expenses increased in Q4 2017 compared to the prior quarter mainly due to an accrual for termination costs of a member of the executive team incurred in Q4.

The fluctuations in the Other expenses over the quarters are mainly due to foreign exchange gain/loss on translation of the U.S. dollar denominated intercompany receivable with the parent company into Canadian dollar, and lower interest expense due to the repayment of the debt owed to MidCap.

Results of operations – Fourth quarter

The following table presents selected financial information (including certain non-IFRS measures, as noted) for the three months ended December 31, 2017 and 2016, which were derived from the consolidated financial statements for the respective periods:

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016
Revenue		
Product revenue	$ 1,779	$ 1,557
Licensing revenue	321	251
	2,100	1,808
Cost of goods sold	1,328	718
Gross margin	772	1,090
Expenses		
Research and development	674	364
Selling, general and administrative	3,070	1,594
Total operating expenses	3,744	1,958
Other expenses/(income)		
Interest on long-term debt and other financing costs	85	327
Interest income	(3)	(4)
Foreign exchange loss	(930)	(804)
Change in fair value of derivative financial instruments	255	(76)
Gain on extinguishment of payables	(321)	-
Total other expenses	(914)	(557)
(Loss)/Income before income taxes	(2,058)	(311)
Current income tax expense	47	-
Deferred income tax expense	-	-
Net (loss)/income for the period	(2,105)	(311)
Other comprehensive loss		
Foreign currency translation adjustment	(994)	(987)
Total comprehensive (loss)/income for the period	(3,099)	(1,298)
Loss per common share		
Basic and diluted net (loss)/earnings per common share	$ (0.01)	$ 0.00
Weighted average common shares outstanding		
Basic	213,118,645	213,118,645
Diluted	213,118,645	213,118,645

Revenue and gross profit

	Three months ending December 31,			
	2017	2016	Change $	Change %
Revenue				
Product revenue	$ 1,779	$ 1,557	$ 222	14 %
Licensing revenue	321	251	70	28 %
	2,100	1,808	292	16 %
Cost of goods sold	1,328	718	610	85 %
Gross margin	$ 772	$ 1,090	$ (318)	(29)%

Product revenues increased from $1.6 million for the three months ended December 31, 2016 to $1.8 million for the same 2017 period. On a Canadian dollar basis, Estrace® sales have declined by 25% from CDN$2.0 million (USD $1.5 million) for the three months ended December 31, 2016 to CDN$1.5 million (USD $1.2 million) in the same 2017 period. This decrease was expected due to the entrance of a third-party generic in the third quarter of 2016. Estrace® sales appear to have stabilized as seen from the previous three quarters, CDN$1.5 million, CDN$1.4 million and CDN$1.5 million in Q2, Q3 and Q4 2017 respectively.

The remaining product revenues in the fourth quarter relate to Natesto® product sales. The increase in the current period of Natesto® product revenue relates to a having a full quarter of sales in Canada as this product was launched in late 2016 as well as revenues from shipment of product to Aytu.

Licensing revenue in the period reflects the amortization of the upfront payments received from various Natesto® licensing, development and supply agreements. The increase in licensing revenues reflect the addition of several new marketing partners in fiscal 2017.

Cost of goods sold increased from $0.7 million for the three months ended December 31, 2016 to $1.3 million for the three months ended December 31, 2017. For the three months ended December 31, 2017, cost of goods sold included a royalty payment related to the upfront licensing fees of $0.2 million versus $nil in the same prior year period. Furthermore, in Q4 2017 gross margins are affected by the timing and recognition of sales and related cost of goods. In Q4 2017, we recognized revenues from the delivery of Natesto® product to Aytu. These are sold to Aytu at a contractual supply price with a small margin. When Aytu sells the product, an additional top-up amount is earned based on a tiered pricing schedule with no related cost of goods aside from royalty expense.

Operating expenses

	Three months ending December 31,			
	2017	2016	Change $	Change %
Operating expenses				
Research and development	$ 674	$ 364	$ 310	85 %
Selling, general and administrative	3,070	1,594	1,476	93 %
	$ 3,744	$ 1,958	$ 1,786	91 %

Research and development

An increase of $0.3 million in research and development for the three months ended December 31, 2017 compared to the same prior year period is mainly a result of various clinical trial costs, product development costs and regulatory consulting fees regarding drug application filings for Natesto® outside North America.

Given the nature of our business and product pipeline, we expect to continue to incur research and development expenses in the future. Research and development expenditures may increase if we initiate further Natesto®, Tefina™ and other clinical studies. In addition, formulation optimization and product development costs may be incurred for products utilizing other in-licensed or in-housed developed technologies in the future.

Selling, general and administrative

Selling, general and administrative expenses increased by $1.5 million for the three months ended December 31, 2017 over the same prior year period. Salaries, benefits and share-based compensation increased by $0.9 million over the prior year mainly due to the accrual of severance costs for a member of the executive team and the addition of several personnel, including the onboarding of the sales team. Professional fees for the three months ended December 31, 2017 also increased by $0.2 million over the same prior year period mainly due to consulting and legal fees related to additional business activities.

Other expenses

	Three months ending December 31,			
	2017	2016	Change $	Change %
Other expenses/(income)				
Interest on long-term debt and other financing costs	$ 85	$ 327	$ (242)	74 %
Interest income	(3)	(4)	1	25 %
Foreign exchange gain	(930)	(804)	(126)	(16)%
Change in fair value of derivative financial instruments	255	(76)	331	436 %
Gain on extinguishment of payables	(321)	-	(321)	n/a
	$ (914)	$ (557)	$ (357)	(64)%

The $0.2 million decrease in interest on long-term debt and other financing costs for the three months ended December 31, 2017 compared to the same prior year period is mainly due to the repayment of the MidCap loan in January 2017. The increase in change in fair value of derivative financial instruments is driven by the increase in our stock price over prior year. The gain on extinguishment of payables relates to the reversal of reserves previously taken.

Financial position

The following table presents a summary of our financial position as derived from the consolidated statement of financial position:

	As at December 31,			
	2017	2016	Change $	Change %
Working capital (total current assets less total liabilities)	$ 2,790	$ 5,937	$ (3,147)	(53)%
Non-current assets	14,048	15,312	(1,264)	(8)%
Long-term obligations	10,922	9,048	1,874	21 %
Shareholders' equity	5,916	12,201	(6,285)	(52)%

Working capital

The approximately $3.1 million decrease in working capital from December 31, 2016 to December 31, 2017 reflects the following:

The net decrease of current assets includes a net decrease of $2.0 million in cash position, the collection of $4.0 million license fee receivable from Aytu in Q1 2017, and a decrease in inventory of $0.8 million, offset by an increase in accounts receivable of $0.5 million. The decrease in current assets is offset by a decrease of $3.1 million reduction of the current portion of long-term debt mainly due to the extinguishment of the MidCap loan.

Non-current assets

Non-current assets consist of property and equipment, and intangible assets.

Property and equipment mainly consists of office equipment and fixtures, lab and manufacturing equipment, fixtures and leasehold improvements. Intangible assets consist of technology, patents and product rights. The decrease in property and equipment from December 31, 2016 to December 31, 2017 is primarily due to depreciation expense and impact of foreign exchange.

At December 31, 2017 manufacturing equipment with a net book value of $0.8 million is held off-site by a third party ($1.0 million at December 31, 2016).

Intangible assets decreased due to amortization expense of $1.8 million offset by the effect of foreign exchange on the Estrace® product rights intangible valued in Canadian dollars.

Long-term obligations

Long-term obligations consist of long-term debt, derivative financial instruments, deferred lease inducement and deferred revenue.

On December 11, 2015 and April 22, 2016, we entered into two separate amendments to our senior financing agreement with MidCap. Pursuant to the terms and conditions of the first amendment, we immediately repaid $17.0 million of the existing $25.0 million principal amount outstanding in December 2015. A second amendment to the senior financing was entered into on April 22, 2016 pursuant to which certain adjustments were made to our minimum cash covenants. The senior financing was fully repaid on January 6, 2017. The senior financing bore interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1% and was secured by all of the assets of the Company and included a covenant to maintain a minimum cash balance.

Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the customer deposit (pre-paid inventory) owed to Endo following the termination of the Natesto® agreement. A $0.5 million cash payment was paid to Endo on July 5, 2016 and $3.8 million was converted to a promissory note, of which $0.5 million was paid in December 2016 and the remaining amounts are payable in equal quarterly installments of $0.2 million until 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%. As at December 31, 2017 there was $2.4 million outstanding on the promissory note, of this amount, $0.9 million is payable within a year.

On December 6, 2017, we entered into a senior secured term credit facility with Quantius Inc. ("Quantius") for up to CDN$5.0 million. Of which CDN$3.0 million was available at closing, with the remaining CDN$2.0 million becoming available upon satisfaction of certain future 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. The credit facility bears interest at a rate equivalent to the Bank of Canada prime plus 11.05% and matures on December 1, 2019. The credit facility is repayable in monthly instalments of 1/48 of the balance owing commencing December 1, 2018 with the remaining balance due at maturity. As part of the transaction, Quantius received an underwriting fee representing low single digit percentage of the maximum facility amount and will receive a royalty fee representing low single digit percentage on our revenues over the term of the facility, capped at a high single digit percentage of the borrowed amount. Under terms of the agreement, we will have the option to prepay the loan with the payment of low single digit prepayment penalties. The prepayment penalties will be fully offset against the royalty fee payable at the time of termination. The terms of the agreement also contain customary financial covenants. We were in compliance with the covenants as of December 31, 2017.

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

We have received upfront payments as part of the our Natesto® licensing, development and supply agreements with our world-wide partners. We recognize the full upfront payment as deferred revenue and amortize it over the life of the various agreements. The balance has been separated into current and long-term portions.

Shareholders' equity

We are authorized to issue an unlimited number of common shares without par value. As of the date of this MD&A, 213,118,645 common shares were issued and outstanding.

The $6.3 million decrease in shareholders' equity from December 31, 2016 to December 31, 2017 is primarily due to $8.7 million in net loss, offset by the $1.8 million foreign currency translation adjustment and $0.6 million in share-based compensation.

Liquidity and capital resources

Liquidity risk

As detailed in the long-term obligations section above, as at December 31, 2017 there is $2.4 million of principal outstanding on the Endo promissory note and of this amount, $0.9 million is payable within a year and $2.2 million outstanding on the Quantius debt with $0.1 million payable within a year.

Liquidity risk is the risk that we may encounter difficulties in meeting our financial liability obligations as they become due. We have planning and budgeting processes in place to help determine the funds required to support our normal operating requirements on an ongoing basis. Since inception, we have financed our cash requirements primarily through issuances of equity securities and long-term debt. We control liquidity risk through management of working capital, cash flows and the availability and sourcing of financing.

The purpose of liquidity management is to ensure that there is sufficient cash to meet all of our financial commitments and obligations as they come due. Our ability to accomplish our strategic plans is dependent upon earning sufficient revenues from our existing products, bringing new products and technologies to market, achieving future profitable operations and possibly obtaining additional financing or executing other strategic initiatives that could provide cash inflows.

We are authorized to issue an unlimited number of common shares. As at December 31, 2017, we had 213,118,645 common shares issued and outstanding, 3,034,814 warrants outstanding and exercisable for 3,034,814 common shares, 17,316,200 outstanding stock options with a weighted average exercise price of CDN$0.23.

Cash flows

	For the years ended December 31,			
Cash flows from/(used in):	2017	2016	Change $	Change %
Operating activities	$ 99	$ 3,211	$ (3,112)	(97)%
Financing activities	(2,433)	(4,472)	2,039	46 %
Investing activities	10	(71)	81	114 %
Exchange gain on cash	281	198	83	42 %
Net decrease in cash for the year	$ (2,043)	$ (1,134)	$ (909)	(80)%

At December 31, 2017 we had a cash balance of $3.2 million, which is a $2.0 million decrease from December 31, 2016 as cash used in financing activities was only partially offset by cash inflows from operating activities.

The inflow of cash flows from operating activities for the year ended December 31, 2017 are a result of the receipt of the $5.0 million of upfront payments from various marketing partners, offset by net loss adjusted for items not affecting cash of $3.1 million. The $3.2 million inflow of cash for the year ended December 31, 2016 was a result of the receipt of $4.0 million in upfront payment from Aytu, an additional $1.5 million inflow from other working capital items, offset by net loss, after adjusting for items not affecting cash of $2.3 million.

Cash flows used in financing activities for the year ended December 31, 2017 of $2.4 million are mainly due to the extinguishment of the MidCap senior debt and principal payments made on the Endo promissory note of $4.1 million, the interest and financing fees of $0.7 million offset by the additional Quantius debt incurred of CDN$3.0 million ($2.4 million). In the prior year comparable period, we used $4.5 million in financing activities which reflects $5.8 million in principal debt payments, $0.7 million in interest and financing costs, offset by $2.0 million raised through issuance of common shares to Aytu.

Capital expenditures

Our 2016 capital expenditures primarily related to our investment in leasehold improvements at our Canadian facilities, and manufacturing and laboratory assets at an offsite third-party supplier location. There were no capital expenditures in 2017.

Off-balance sheet arrangements

We have operating leases for the right to use office equipment and laboratory facilities in our Canadian head office. There are no other off-balance sheet arrangements.

We have a lease agreement for a 10,000 sq. ft. facility in Canada that expires in June 2025.

Contractual obligations and commitments

As of December 31, 2017, and in normal course of business, we have the following obligations to make future payments, representing contracts and other commitments that are known and committed.

	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	$ 2,601	$ 178	$ 356	$ 178	$ -	$ 3,312
Operating leases	45	45	90	179	570	929
Purchase commitments	-	304	-	-	-	304
Operating leases	45	45	90	179	570	929
Long-term debt (principal and interest)	365	360	786	3,553	490	5,554
As at December 31, 2017	$ 3,056	$ 932	$ 1,322	$ 4,089	$ 1,630	$ 11,028

Under certain conditions of our research and development agreements, we may be required to make payments contingent upon the achievement of specific developmental, regulatory, or commercial milestones. As described in note 5(a) of our December 31, 2017 consolidated financial statements, we may be required to make remaining milestone payments in the aggregate amount of $4.5 million related to 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 the terms of certain product rights and asset acquisition agreements.

With regards to Natesto®, in fiscal 2018, we have a minimum annual royalty obligation of $2.5 million if the gross annual sales of Natesto® are below $75.0 million in a calendar year and $5.0 million if the gross annual sales of Natesto® exceed $75.0 million in a calendar year.

In relation to the pulmonary and nasal dry powder delivery technology, there is a milestone payment of $2.0 million due upon FDA approval for each product up to a maximum of $8.0 million (see note 5(b) of the December 31, 2017 consolidated financial statements) for products submitted for approval by ABI.

Related party transactions

Key management includes our directors and executive officers. The remuneration of directors and key members of management and professional fees paid or payable to firms affiliated with a current director of ABI and the interim CEO for the three and twelve months ended December 31, 2017 and 2016 were as follows:

	For the three months ended	
	December 31, 2017	December 31, 2016
Short-term compensation of key management and directors	$ 244	$ 208
Termination benefits	1,061	98
Share-based compensation	339	77
Professional fees paid or payable to firms affiliated with directors & officers	115	3
	$ 1,759	$ 386

	For the year ended	
	December 31, 2017	December 31, 2016
Short-term compensation of key management and directors	$ 1,432	$ 1,319
Termination benefits	1,061	98
Share-based compensation	550	261
Professional fees paid or payable to firms affiliated with directors & officers	116	12
	$ 3,159	$ 1,690

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $447 if a change in control occurs, $914 if all are terminated without cause, and $nil if all are terminated with cause.

As at December 31, 2017, Acerus held a $7,188 payable ($32,716 receivable and $4,000 payable as at December 31, 2016) to its wholly owned subsidiary ABI. During the year, APC forgave $18,268 of its receivable outstanding and the remaining balance was converted to equity of ABI. The payable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange loss of $1,677 for the year ended December 31, 2017 (loss of $690 for the year ended December 31, 2016) that has been recorded in the consolidated statement of income loss.

Dividends

We intend to re-invest future earnings to finance our growth and therefore do not intend to pay dividends in the foreseeable future. Any subsequent decision to pay dividends is at the discretion of the Board of Directors and will depend on our financial position, operating results, capital requirements and other factors deemed relevant by the Board of Directors.

Financial instruments

As at December 31, 2017, our financial instruments consisted of cash, trade and other receivables, license fee receivable, accounts payable and accrued liabilities, long-term debt, and derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statement of (loss)/income and comprehensive (loss)/income and is classified as Level 2. Cash, trade and other receivables, license fee receivable, accounts payable and accrued liabilities are measured at amortized costs and their fair values approximate carrying values due to their short-term nature.

The long-term debt is measured at amortized cost. At December 31, 2017 the fair value of the long-term debt approximates its face value of $4.6 million. 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.

Currency risk

We are exposed to currency risk related to the fluctuation of foreign exchange rates. We are exposed to currency risk through our net assets denominated in US dollars, Euros, and the British Pound.

	December 31, 2017		
	USD	EUR	GBP
Cash	$ 939	$ -	$ -
Trade and other receivables	415	-	-
Accounts payable and accrued liabilities*	(7,039)	(183)	(30)
Long-term debt	(2,357)	-	-
	$ (8,042)	$ (183)	$ (30)

*includes intercompany payable of $7,030

Based on the above net exposure at December 31, 2017, 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 (loss)/income:

U.S. Dollar

Net income effect:

	US	EUR	GBP	Total
Appreciate 5%	$ 383	$ (9)	$ (10)	$ 364
Depreciate 5%	(423)	9	10	(404)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has an interest rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1.0% for the promissory note and Bank of Canada prime rate plus 11.05% for the Quantius debt.

Due to the LIBOR floor, a 0.5% appreciation or depreciation in the present LIBOR rate would have a nil effect on interest expense. However, in the event that LIBOR exceeds 1.0% in the future, any appreciation or depreciation of LIBOR could impact our interest expense.

A 0.5% increase or decrease in the Bank of Canada prime rate would have an immaterial impact on our remaining interest expense.

Credit risk

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

We monitor the collectability of trade and other receivables and license fee receivable and estimates an allowance for doubtful accounts. We have a concentration risk, as approximately 38% of our trade receivables are due from three pharmaceutical wholesalers in Canada and 27% from an out-licensing partner.

As at December 31, 2017, the allowance for doubtful accounts was $nil. We have not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and all amounts are considered recoverable.

Market risk

The change in fair value of our derivative liability, which is measured at fair value through profit and loss (“FVTPL”), results from the periodic “mark-to-market” revaluation. The valuation is impacted, among other inputs, by the market price of our 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 our 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 $28 decrease and $28 increase in net loss respectively for the year ended December 31, 2017 ($13 increase and $13 decrease in net income at December 31, 2016).

Accounting pronouncements

The accounting policies applied are consistent with the significant accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2017. These policies have been consistently applied to all periods presented.

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

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

Amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for years beginning on or after January 1, 2017. Management has implemented the additional disclosures required in its annual consolidated financial statements for the year ending December 31, 2017.

IAS 12 *Income taxes – Deferred tax*

Amended the standard to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. The adoption of this standard on January 1, 2017 did not have a material impact on the consolidated financial statements.

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. The standards that are expected to have a significant effect our unaudited condensed interim consolidated financial statements are stated below:

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. Our financial assets primarily consist of trade receivables. The adoption of IFRS 9 will be applied on a retrospective basis on January 1, 2018 without restatement of comparatives and will not have a significant effect on the valuation of the financial assets.

IFRS 15 *Revenue from contracts with customers*

IFRS 15 specifies how and when to recognize revenue as well as requiring us to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Extensive disclosures will be required, including: disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods; and key judgments and estimates. IFRS 15 applies to annual reporting periods beginning on or after January 1, 2018. In our review of out-licensing agreements, we expect that the license will be considered distinct from the other goods and services in the contract. The license provides the partner with the right to use our intellectual property. As such, we expect that revenue may be recognized when control transfers to the licensee and the license period begins. We are continuing to evaluate the impact of the standard.

We will adopt this accounting standard on January 1, 2018, using the full retrospective approach. We expect the adoption of the standard to result in a decrease in the amount recognized as deferred revenue by $7,204, a decrease in accumulated other comprehensive income of $129, and a corresponding increase in retained earnings of approximately $7,333, net of income taxes, as at January 1, 2017. Revenue for the year ended December 31, 2017 is expected to increase by $91 and the net loss and comprehensive loss is expected to decline by $91.

IFRS 16 *Leases*

The new standard brings most leases on-balance sheet for lessees, 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. We have yet to assess IFRS 16's full impact and will not early adopt the standard.

Critical accounting estimates

In preparing our consolidated financial statements, we are 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates.

Revenue recognition

Product revenue is recorded at the invoiced amount less estimated accruals for product returns, discounts, chargebacks and other price adjustments. These provisions with respect to Estrace® and Natesto® are presently based on historical levels and are recognized as a reduction of 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. We use our 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 of our December 31, 2017 consolidated financial statements.

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, we contract 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. We accrue and expense 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. We determine 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 our 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 of our December 31, 2017 consolidated financial statements.

Income taxes

We are 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.

Non-IFRS financial measures

The non-IFRS measures included in this MD&A are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to

complement those IFRS measures by providing further understanding of our results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Despite the importance of these measures to management in goal setting and performance measurement, we stress that these are non-IFRS measures that may be limited in their usefulness to investors.

We use non-IFRS measures, such as EBITDA and Adjusted EBITDA to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the valuation of issuers. We also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure and working capital requirements.

The definition and reconciliation of EBITDA and Adjusted EBITDA used and presented by the Company to the most directly comparable IFRS measures follows below:

EBITDA and Adjusted EBITDA

EBITDA is defined as net (loss)/income adjusted for income tax, depreciation of property and equipment, amortization of intangible assets, interest on long-term debt and other financing costs, interest income, licensing revenue and changes in fair values of derivative financial instruments. Management uses EBITDA to assess the Company's operating performance.

Adjusted EBITDA is defined as EBITDA adjusted for, as applicable, royalty expenses associated with triggering events, milestones, share based compensation, impairment of intangible asset, foreign exchange (gain)/loss and gain on extinguishment of payables. We use Adjusted EBITDA as a key metric in assessing our business performance when we compare results to budgets, forecasts and prior years. Management believes Adjusted EBITDA is an alternative measure of cash flow generation than, for example, cash flow from operations, particularly because it removes cash flow fluctuations caused by extraordinary changes in working capital. A reconciliation of net (loss)/income to EBITDA (and Adjusted EBITDA) is set out below.

	For the three months ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
Net (loss)/income	$ (2,105)	$ (311)	$ (8,714)	$ 11,119
Adjustments:				
Income tax expense	47	-	47	300
Licensing fees	(321)	(251)	(1,096)	(17,473)
Amortization of intangible assets	406	450	1,781	1,811
Depreciation of property and equipment	66	70	264	397
Interest on long-term debt and other financing costs*	85	327	380	1,179
Interest income	(3)	(4)	(21)	(17)
Change in fair value of derivative	255	(76)	156	37
EBITDA	$ (1,570)	$ 205	$ (7,203)	$ (2,647)
Royalty expense on upfront payment	201	27	201	1,451
Share based compensation	372	80	589	274
Foreign exchange loss/(gain)	(930)	(804)	1,521	341
Gain on extinguishment of payables	(321)	-	(321)	-
Adjusted EBITDA	$ (2,248)	$ (492)	$ (5,213)	$ (581)

* This figure includes interest expense and the amortization of deferred financing costs and accretion expense related to our outstanding debts.

Management's responsibility for financial reporting

Disclosure controls and procedures and internal controls over financial reporting

As at December 31, 2017 management has disclosure controls and procedures ("DCP") that provide reasonable assurance that information required to be disclosed by the Company in its filings under Canadian securities legislation is recorded, processed,

summarized and reported in a timely manner. The system of DCP includes, among other things, the Company's Corporate Disclosure and Whistleblower policies and Code of Conduct, the review and approval procedures of the Disclosure Committee and continuous review and monitoring procedures by senior management.

As at December 31, 2017 management has designed internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. These controls were designed based on the framework established by Internal Control - Integrated Framework: 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Due to its inherent limitations, ICFR may not prevent or detect misstatements. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial reporting.

Changes in internal controls over financial reporting

There have been no changes to the Company's internal controls over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

An evaluation of the design and effectiveness of the Company's DC&P and ICFR has been conducted by management, under the supervision of the Interim Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2017, the Company's disclosure controls and procedures and internal control over financial reporting, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are operating effectively.

Litigation

Shenk Litigation

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

Melnyk 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 maintains 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 of his intention to bring a motion to convert the proceeding into a derivative action and to pursue a new action in his personal capacity seeking, among other things, damages in the amount of CDN$100 million for negligent and/or reckless and/or fraudulent misrepresentation (the "Personal Action"). As a result, the hearing date was vacated, and the Court scheduled Mr. Melnyk's motion to convert the action into a derivative action, seeking, among other things, CDN$150 million in damages, for December 21, 2016. No further steps have occurred or have been scheduled with respect to the Personal Action. On December 21, 2016, the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice heard the motion brought by Mr. Eugene Melnyk for leave to commence a derivative action in the name of the Company and Justice Wilton-Siegel dismissed the motion with written reasons to follow. On February 22, 2017, Justice Wilton-Siegel issued his written reasons dismissing Mr. Melnyk's claim with costs. On April 6, 2017, Mr. Eugene Melnyk served a Notice of Appeal to appeal the decision of Justice Wilton-Siegel to the Divisional Court of the Ontario Superior Court of Justice. The appeal was heard by the Divisional Court on February 26, 2018 and was dismissed in a decision

released on March 1, 2018. On March 14, 2018, Mr. Melnyk delivered a notice of motion for leave to appeal the dismissal of the motion to convert the action to a derivative action to the Court of Appeal for Ontario.

Subsequent Events

UriVarx®

On January 8, 2018 we entered into an exclusive distributor and license agreement with Innovus Pharmaceuticals, Inc. ("Innovus"), granting the Corporation the exclusive rights to commercialize UriVarx® in Canada. UriVarx® is a Natural Health Product (NHP) that helps reduce symptoms of hyperactive bladder such as daytime urinary frequency, urgency and nocturia. The product was recently approved by Health Canada and will be offered over-the-counter to Canadians dealing with such symptoms. Under the terms of the exclusive distributor and license agreement, we paid an upfront payment at signing and will pay milestone payments based on the achieving certain sales targets. Innovus will oversee the manufacturing of UriVarx® and will receive a supply price for the product. We expect to generate sales of UriVarx® starting as early as Q1 2018.

Natesto® to be listed for public reimbursement in Quebec

On February 1, 2018, we received notice from Quebec's National Institute for Excellence in Health and Social Services (INESSS) of a positive recommendation to the Health Minister for the inclusion of Natesto® on the list of medications of the Régie de l' assurance maladie du Québec. This recommendation takes effect on February 1, 2018.

Amendment to Endo Promissory Note

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 the month of December of each year instead of quarterly. Payments of interest will continue to be made quarterly.

Additional information

Additional information about Acerus, including the Company's Annual Information Form, is available in documents filed by the Company with Canadian securities regulatory authorities and made available on the System for Electronic Document Analysis and Retrieval at www.sedar.com.