MANAGEMENT'S DISCUSSION AND ANALYSIS OF
ACERUS PHARMACEUTICALS CORPORATION
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

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 three and nine months ended September 30, 2016. This MD&A is dated November 1, 2016 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2016, together with the notes and audited consolidated financial statements for the year ended December 31, 2015.

The unaudited condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements including International Accounting Standards 34: *Interim Financial Reporting* 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 1, 2016 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 funding, either from commercial sales of both existing and future products, commercial transactions or investors, to continue the development and commercialization of additional products. These circumstances lend substantial 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 programs, capital will be required. This assessment included taking into account the impact of a generic Estrace® launch, the more restrictive cash covenants included in the amendment to our long term debt agreement, the conservative impact of the recent Natesto™ launch in Canada and the new Natesto™ license and supply agreement entered into with Aytu BioScience Inc. ("Aytu") on April 22, 2016 pursuant to which Aytu has been commercializing Natesto™ in the U.S. since July 2016. It is expected that the cash flows generated from these revenue streams will be used to fund a portion of current operations, obligations and other initiatives. We continue to explore commercial or strategic transactions as well as a number of financing options to raise additional capital to fund other initiatives. There are no assurances that any of these initiatives will be successful. Furthermore, factors within and outside our control could have a significant bearing on our ability to obtain additional financing. Alternatively, we might have to limit the number of developmental programs we fund or curtail our operations and expenditures.

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 we have also made certain macroeconomic and general industry assumptions in their preparation. While we consider 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 our 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: our ability to continue as a going concern; our limited operating history; our ability to meet future capital requirements; our ability to comply with our debt covenants; the degree of market acceptance of our products; marketing and distribution risks; manufacturing-related risks; supplier risks; risks relating to the supply of raw materials; publication of adverse clinical trial results; risks relating to promotional activities; risks relating to generic competition for our products; risks associated with the cost and reimbursement of our products; 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 associated with trade secrets; risks related to changes to government regulation; risks related to the performance of services by third parties; risks associated with the public market and volatility associated with our shares; risk of potential third-party liability; risks relating to clinical testing we conducted; regulatory approval related matters; research and development related risks; risk associated with debt financing; 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 associated with returns, allowances and chargebacks; risks relating to our ability to expand our operations; competition risks; risks associated with technological change; foreign exchange risk; concentration risk; risks associated with certain indemnity obligations; tax-related risks; our intention to not pay dividends in the foreseeable future; risks relating to the enforcement of judgments and risks relating to our ability to generate ancillary additional revenue.

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 1, 2016 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 of 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.

Critical accounting estimates

In preparing our unaudited condensed interim 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 unaudited condensed interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates. Significant estimates made by management include those that applied to the audited annual consolidated financial statements for the year ended December 31, 2015. We have not had any significant changes in estimates and judgments as compared to those that applied at year end.

Overview

Acerus is the parent corporation of two wholly-owned subsidiaries, Acerus Pharmaceuticals SRL ("SRL") (incorporated in Barbados) and Acerus Pharmaceuticals (Barbados) Inc. ("APBI") (incorporated in Barbados). Our corporate head office, principal address and records office are located in Mississauga, Ontario, Canada. Our registered address is 2486 Dunwin Drive, Mississauga, Ontario, L5L 1J9.

We are a Canadian pharmaceutical company focused on the development, manufacture, marketing and distribution of innovative, branded products that improve the patient experience. Our current therapeutic areas of focus are urology and women's health (e.g. hormone replacement therapy, female sexual dysfunction).

We currently have the rights to two commercial-stage products. In Canada we market Estrace®, a product indicated for the symptomatic relief of menopausal symptoms; as well as Natesto™, the first and only testosterone nasal gel for testosterone replacement therapy in adult males diagnosed with hypogonadism. Our Natesto™ product is also sold in the U.S. via our commercial partner Aytu and we are evaluating various out-licensing opportunities to expand our commercial coverage for this product in various other countries. Our pipeline includes two new innovative products: Gynoflor™, an ultra-low dose vaginal estrogen combined with a probiotic, used in the treatment of atrophic vaginitis, restoration of vaginal flora and treatment of certain vaginal infections; and

Tefina™, a 'use as required' drug development candidate, aimed at addressing a significant unmet need for women with female sexual dysfunction.

For further information please see the Annual Information Form dated March 1, 2016 and our other filings available on SEDAR at www.sedar.com.

Key developments

Natesto™ U.S.

The license, development and supply agreement with an affiliate of Endo International plc ("Endo"), a third party pharmaceutical company, to manage the sales and marketing of Natesto® in the United States and Mexico was terminated effective June 30, 2016.

On April 22, 2016, we entered into a license and supply agreement with Aytu pursuant to which Aytu began commercializing Natesto™ in the United States in the third quarter of 2016. Under the terms of the agreement, we are entitled to upfront payments equaling $8.0 million, including $2.0 million paid at signing. From the $6.0 million remaining, $2.0 million was received in October 2016 and $4.0 million is payable in January 2017. Additionally, we are entitled to sales-based milestones that could potentially equal $37.5 million. Finally, we will be responsible for the manufacturing of the product and will receive a tiered supply price that varies during the term of the Agreement.

We entered into a private placement with Aytu pursuant to which it agreed to purchase 12,245,411 common shares of Acerus for gross cash proceeds of $2.0 million. This subscription was completed on April 27, 2016.

We used $3.0 million of the cash proceeds received from the above transactions to retire a portion of the outstanding principal amount owed to MidCap Financial V, LLC ("MidCap") in connection with the senior financing. In connection with such repayment, an amendment to the senior financing was entered into pursuant to which certain adjustments were made to the Company's minimum cash covenants. The senior financing matures in January 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. As of September 30, 2016, the senior financing has an outstanding principal balance of $3.3 million and $0.4 million in an outstanding exit fee.

Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the customer deposit owed to Endo following the termination of the Natesto™ agreement. A $0.5 million cash payment was paid to Endo on July 5th, 2016 and the remaining $3.8 million principal amount is subject to a promissory note with a maturity date of June 30, 2020. For further information please see filings available on SEDAR at www.sedar.com.

Natesto™ Canada

Natesto™ was approved by Health Canada on January 7, 2016, including a twice-daily starting dose and is now commercially available in Canada. It is the first and only nasal gel for testosterone replacement therapy ("TRT") 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. We have prioritized key physicians and healthcare professionals in the TRT space and have deployed a sales force across major Canadian provinces.

Estrace®

On November 16, 2015, Health Canada granted a Notice of Compliance (NOC) for a third party generic version of Estrace®. Lupin-estradiol is now commercially available in Canada and obtained public reimbursement across major provinces as of July 2016. As expected, Estrace® sales have decreased in Q3 2016 due to the generic launch. Estrace® sales in Q3 2016 were CDN$1.7 million compared to CDN$2.6 million in the same prior year period, representing a 30% decrease. Estrace® sales for the nine months ending September 30, 2016 were CDN$7.0 million compared to CDN$7.4 million in the same prior year period, representing only a 4% decrease. We are closely monitoring the situation and are implementing strategies to minimize the impact on sales going forward.

Gynoflor™

We 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. We are obligated to seek marketing approval for the product in Canada.

Selected consolidated financial information

The following table sets forth selected consolidated financial information for Acerus as of and for the last eight quarters. This information is derived from quarterly unaudited condensed interim consolidated financial statements. These results were prepared in accordance with IFRS.

	For the three months ended							
Statement of (loss)/income and comprehensive loss data	**Q3-2016**	**Q2-2016**	**Q1-2016**	**Q4-2015**	**Q3-2015**	**Q2-2015**	**Q1-2015**	**Q4-2014**
Revenues								
Product revenues	**$ 1,389**	$ 2,143	$ 1,924	$ 2,078	$ 2,202	$ 2,132	$ 2,616	$ 2,418
Licensing and other fees	**256**	8,483	8,483	6,067	613	607	600	147
	1,645	10,626	10,407	8,145	2,815	2,739	3,216	2,565
Operating expenses:								
Cost of sales	**695**	2,228	812	843	1,095	888	2,282	7,163
Research and development expenses	**343**	402	487	697	666	716	795	1,169
Selling general and administrative	**1,441**	1,466	977	1,319	1,422	1,690	1,350	1,160
Impairment loss on intangible asset	**-**	-	-	14,210	-	-	-	-
	2,479	4,096	2,276	17,069	3,183	3,294	4,427	9,492
Finance costs, net	**116**	(83)	2,064	(125)	(1,501)	1,072	(1,083)	1,153
Total expenses	**2,595**	4,013	4,340	16,944	1,682	4,366	3,344	10,645
(Recovery of) provision for income taxes	**-**	150	150	(300)	-	-	(90)	-
Net income/(loss)	**(950)**	6,463	5,917	(8,499)	1,133	(1,627)	(38)	(8,080)
Foreign currency translation adjustment	**(360)**	(152)	2,766	(1,690)	(4,141)	987	(5,518)	(2,296)
Net comprehensive income/(loss)	**$ (1,310)**	$ 6,311	$ 8,683	$ (10,189)	$ (3,008)	$ (640)	$ (5,556)	$ (10,376)
Net earnings/(loss) per basic and diluted common share (in dollars)	**($0.00)**	$0.03	$0.03	($0.04)	$0.01	($0.01)	($0.00)	($0.04)

	As at the end of							
Statement of financial position data	**Q3-2016**	**Q2-2016**	**Q1-2016**	**Q4-2015**	**Q3-2015**	**Q2-2015**	**Q1-2015**	**Q4-2014**
Total assets	**$ 32,360**	$ 33,901	$ 29,331	$ 29,574	$ 63,113	$ 67,124	$ 67,760	$ 75,944
Total liabilities	**18,941**	19,236	23,049	32,033	55,551	56,679	56,827	59,483
Total shareholders' equity (deficiency)	**13,419**	14,665	6,282	(2,459)	7,562	10,445	10,933	16,461

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 sales in Q2 2016 is a $1.4 million royalty expense on the $8.0 million upfront payment due from Aytu. The royalty payments are due thirty days after we receive the proceeds from the upfront payment. The decrease in research and development expenses over the past several quarters is driven primarily by the timing associated with clinical trial expenses, milestone expenses and product development costs. The average level of selling, general and administrative costs in the past eight quarters has remained relatively stable. The Estrace® intangible asset was tested for impairment after the approval of Health Canada of a generic version in late 2015 and an impairment loss of $14,210 was recorded in Q4 2015. The fluctuation in the finance costs over the quarters is mainly a result of the foreign exchange gain/loss during the period on the revaluation of a U.S. dollar denominated intercompany receivable and a lower interest expense due to the partial repayment of the outstanding debt.

Factors affecting results from operations

Revenue and cost of sales

Our product revenues reflect the net sales of Estrace® and Natesto™ which include adjustments for chargebacks, discounts and other price adjustments. Cost of sales reflect the cost of finished goods inventory which included a fair value adjustment until Q2 2015 to the Estrace® inventories acquired as part of a business combination, manufacturing, distribution and warehousing costs, the amortization of the Estrace® product rights intangible asset and royalty expense for Natesto™.

Our licensing and other fee revenue reflects the amortization of the license fee 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, 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 research and development activities focus on clinical research and development and include internal and external activities associated with advancing product candidates towards obtaining regulatory approval for manufacture and marketing in various jurisdictions.

Share-based compensation is recognized as an expense in the statement of income/(loss) and comprehensive income/(loss) based on the fair value of share-based payments awarded using the Black-Scholes option pricing model. Assumptions that affect the application of the fair value model include volatility, the risk free interest rate and the term of the options issued. The expense recognized in the period is based on the value of the share-based awards that are expected to vest.

Selling, general and administrative expenses

Our selling, general and administrative costs mainly consist of salary and benefits for executive management and administrative 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.

Impairment loss on intangible asset

This cost reflects the $14.2 million impairment charge taken on the intangible asset related to the Canadian rights to Estrace® in Q4 2015.

Net finance costs

Our financing expenses consist of interest expense, accretion, amortization of deferred financing fees, fair value adjustment to the derivative financial instruments, and foreign exchange gains and losses. The foreign exchange gains and losses are significantly affected by an intercompany receivable that is denominated in U.S. dollars and is held by the parent company, whose functional currency is the Canadian dollar, and does not eliminate on consolidation.

Foreign currency

The majority of our Canadian legal entity revenue and expenses are incurred in Canadian dollars and are translated into our reporting currency, the U.S. dollar, for consolidated reporting. Accordingly, the results of operations for Acerus are impacted by fluctuations of the Canadian dollar against the U.S. dollar exchange rate. The Canadian legal entity's statement of income/(loss) and comprehensive income/(loss), which are recorded in Canadian dollars, were translated into U.S. dollars at the average exchange rate of $0.7560 and $0.7936 respectively for the nine months ended September 30, 2016 and 2015. Similarly, the Canadian entity's statement of financial position which is recorded in Canadian dollars was translated into U.S. dollars at the period-end spot rates of $0.7687 and $0.7225 at September 30, 2016 and December 31, 2015.

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 2015 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.

Third quarter results from operations

The following table presents selected financial information (including certain non-IFRS measures, as noted) for the three and nine months ended September 30, 2016 and 2015, which were derived from the unaudited condensed interim consolidated financial statements for the respective periods:

	For the three months ended September 30,		Q3 Change		For the nine months ended September 30,		Period Change	
	2016	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Statement of (loss)/income and comprehensive income/(loss) data								
Revenues								
Product revenues	**$ 1,389**	$ 2,202	(813)	(37%)	**$ 5,456**	$ 6,950	(1,494)	(21%)
Licensing and other fees	**256**	613	(357)	(58%)	**17,222**	1,820	15,402	846%
	1,645	2,815	(1,170)	(42%)	**22,678**	8,770	13,908	159%
Operating expenses:								
Cost of sales	**695**	1,095	(400)	(37%)	**3,735**	4,265	(530)	(12%)
Research and development	**343**	666	(323)	(48%)	**1,232**	2,177	(945)	(43%)
Selling, general and administrative	**1,441**	1,422	19	0	**3,884**	4,462	(578)	(13%)
Total operating expenses	**2,479**	3,183	(704)	(22%)	**8,851**	10,904	(2,053)	(19%)
Finance costs, net	**116**	(1,501)	1,617	108%	**2,097**	(1,512)	3,609	239%
Total expenses	**2,595**	1,682	913	54%	**10,948**	9,392	1,556	17%
Income taxes expense/(recovery)	**-**	-	-	n/a	**300**	(90)	390	433%
Net income/(loss)	**(950)**	1,133	(2,083)	(184%)	**11,430**	(532)	11,962	2248%
Foreign currency translation adjustment	**(360)**	(4,141)	3,781	91%	**2,254**	(8,672)	10,926	126%
Total comprehensive income/(loss) for the period	**(1,310)**	(3,008)	1,698	56%	**13,684**	(9,204)	22,888	249%
Net earnings/(loss) per basic and diluted common share (in dollars)	**$ 0.00**	$ 0.01	$ (0.01)	100%	**$ 0.05**	$ 0.00	$ 0.05	n/a
EBITDA [(1)]	***(244)***	*1,311*			***(2,852)***	*1,328*		
Adjusted EBITDA [(1)]	***(478)***	*(259)*			***(89)***	*(863)*		

[(1)] Represents a non-IFRS measure. For the relevant definitions and reconciliation to reported results, see "Non-IFRS Financial Measures"

	As at	
Statement of financial position data	**September 30, 2016**	**December 31, 2015**
Total assets	**$ 32,360**	$ 29,574
Total liabilities	**18,941**	32,033
Total shareholders' equity (deficiency)	**13,419**	(2,459)

Revenue and gross profit

	For the three months ended September 30,				For the nine months ended September 30,			
	2016	**2015**	**Change $**	**Change %**	**2016**	**2015**	**Change $**	**Change %**
Revenue								
Product revenues	**$ 1,389**	$ 2,202	(813)	(37%)	**$ 5,456**	$ 6,950	(1,494)	(21%)
Licensing and other fees	**256**	613	(357)	(58%)	**17,222**	1,820	15,402	846%
	1,645	2,815	(1,170)	(42%)	**22,678**	8,770	13,908	159%
Cost of sales	**695**	1,095	(400)	(37%)	**3,735**	4,265	(530)	(12%)
Total gross profit	**$ 950**	$ 1,720	(770)	(45%)	**$ 18,943**	$ 4,505	14,438	(320%)

Product revenues relate mainly to the sale of Estrace® $1.4 million and $5.3 million for the three and nine months ended September 30, 2016 (CDN$1.8 million and CDN$7.0 million for the three and nine months ended September 30, 2016), compared to $1.9 million and $5.8 million for the three and nine months ended September 30, 2015 (CDN$2.6 million and CDN$7.4 million for the three and nine months ended September 30, 2015). The decrease in the sales of Estrace® in Q3 2016 compared to the same prior year period is due to the launch of a third party generic. The remaining revenues relate to Natesto™ product sales.

Revenues from the sale of Natesto™ in the United States are earned in two steps: 1) at a contractual price when the product is delivered to the marketing partner; and 2) an additional top-up amount is earned based on a tiered pricing schedule when the marketing partner recognizes sales of the product. On transition of US commercialization rights for Natesto™, Aytu purchased inventory from Endo, as such revenues earned during the quarter only reflect additional top-up amounts based on the sale of the product. Revenues from the sale of Natesto™ in Canada will be based on sales to wholesalers less the applicable estimates for discounts, rebates and returns. Included in cost of sales for Q1 2015 is a $0.2 million inventory write-down reversal regarding raw materials that have been deemed suitable for commercial use.

Licensing revenue in the current quarter reflects the amortization of the Aytu $8.0 million upfront payment earned in the Natesto™ license, development and supply agreement. The licensing revenue earned in the nine months ending September 30, 2016 also include the recognition of the remaining deferred revenue amounts related to the Endo agreement.

Included in the Estrace® cost of sales for the three and nine months ended September 30, 2016 is $0.3 million and $1.1 million respectively ($0.4 million and $1.2 million for the three and nine months ended September 30, 2015) in amortization of the product rights intangible. Cost of sales for three and nine months ended September 30, 2015 also includes a less than $0.1 million and $0.8 million fair value adjustment related to inventory sold that was acquired as part of the Estrace® acquisition. In accordance with IFRS the inventory was recorded at its fair value on the date of acquisition. As a result, gross profit in the three and nine months ended September 30, 2015 (but not, for greater certainty, the three and nine months ended September 30, 2016) reflected greater costs than anticipated to be experienced in the normal course of business after the acquired inventory is sold.

For the three and nine months ended September 30, 2016, cost of sales includes $nil and $1.4 million royalty expense related to the Aytu upfront licensing fee ($nil for the three and nine months ended September 30, 2015).

Research and development

	For the three months ended September 30,				For the nine months ended September 30,			
	2016	**2015**	**Change $**	**Change %**	**2016**	**2015**	**Change $**	**Change %**
Research and development expenses	**$ 343**	$ 666	(323)	(48%)	**$ 1,232**	$ 2,177	(945)	(43%)

The $0.3 million decrease in research and development expenses for the three months ended September 30, 2016 versus the comparable prior year period is mainly due to clinical trial costs incurred in 2015 related to the U.S. twice-daily dosing ("BID") clinical trial for Natesto™ and product development costs regarding the Natesto™ manufacturing process offset by investment tax credits earned in the prior year. Overhead allocations regarding depreciation and rent decreased over the prior year period due to the accelerated depreciation taken on leasehold improvements in 2015 as the Canadian offices moved to a different facility.

The $0.9 million decrease in research and development expenses for the nine months ended September 30, 2016 is due to additional costs incurred in the prior year period related to the U.S. BID Natesto™ clinical trial and product development and professional fees regarding the Natesto™ manufacturing process. Overhead allocations regarding depreciation and rent decreased due to the

accelerated depreciation taken on leasehold improvements in 2015 as the Canadian offices moved to a different facility and lower employment costs due to changes in staff offset by investment tax credits earned in the prior year.

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 due to Gynoflor™ related regulatory initiatives and if we initiate further Natesto™ and/or Tefina™ clinical studies. In addition, formulation optimization and product development costs may be incurred related to products utilizing the TriVair™ technology or other technology in the future.

Selling, general and administrative

	For the three months ended September 30,				For the nine months ended September 30,			
	2016	**2015**	**Change $**	**Change %**	**2016**	**2015**	**Change $**	**Change %**
Selling, general and administrative expense	**1,441**	1,422	19	1%	**3,884**	4,462	(578)	(13%)

Selling, general and administrative expenses have decreased by less than $0.1 million for the three months ended September 30, 2016 versus the comparable prior year period. The decrease is due to a $0.5 million decrease in salaries and benefits and $0.1 million decrease in stock option expense in the current period due to changes in the number of employees and changes in bonus accruals. This is offset by $0.4 million increase in professional fees and $0.3 million increase in selling expenses related to the Natesto™ Canada launch.

Selling, general and administrative expenses have decreased by $0.6 million for the nine months ended September 30, 2016 versus the comparable prior year period. This is mainly due to the $0.9 million decrease in salaries and benefits and $0.2 million decrease in stock option expense in the current period due to changes in the number of employees and changes in bonus accruals. This is offset by the $0.3 million increase in professional fees, $0.2 million increase in business development expenses due to the signing of the Aytu agreement and $0.2 million increase in selling expenses to support the Canadian launch of Natesto™.

Finance costs

	For the three months ended September 30,				For the nine months ended September 30,			
	2016	**2015**	**Change $**	**Change %**	**2016**	**2015**	**Change $**	**Change %**
Interest on long-term debt and other financing costs	**$ 271**	$ 968	(697)	(72%)	**$ 852**	$ 2,877	(2,025)	(70%)
Interest income	**(3)**	(42)	39	93%	**(13)**	(106)	93	88%
Foreign exchange loss/(gain)	**(298)**	(1,695)	1,397	82%	**1,145**	(3,451)	4,596	133%
Change in fair value of derivative financial instruments	**146**	(732)	878	120%	**113**	(832)	945	114%
Total finance costs	**116**	(1,501)	1,617	108%	**2,097**	(1,512)	3,609	239%

Finance costs for the three months ended September 30, 2016 was an income of $0.1 million compared to a loss of $1.5 million in the same prior year period. The decrease in expenses is mainly due to the decrease in interest on long-term debt and other financing costs due to a lower average principal balance on the outstanding debt. This is offset by the decrease in foreign exchange gain incurred in the current period related to the revaluation of the intercompany loan which is denominated in US dollars but receivable at the parent company which has a Canadian dollar functional currency and the expense incurred in the current period related to the fair value of the derivative financial instrument.

Finance costs for the nine months ended September 30, 2016 was an expense of $2.1 million compared to a gain of $1.5 million in the same prior year period. The variance is mainly due to the foreign exchange loss of $1.1 million incurred compared to a gain of $3.5 million in the prior year which is primarily driven by the revaluation of the intercompany loan and the loss incurred in the current period related to the fair value of the derivative financial instrument. This is offset by the lower interest on long-term debt and other financing fees incurred in the current period due to a lower average principal balance on the outstanding debt.

Net loss and comprehensive loss

	For the three months ended September 30,				For the nine months ended September 30,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Net income/(loss)	**$ (950)**	$ 1,133	(2,083)	184%	**$ 11,430**	$ (532)	11,962	2,248%
Total comprehensive income/(loss)	**$ (1,310)**	$ (3,008)	1,698	56%	**$ 13,684**	$ (9,204)	22,888	249%
Basic and diluted net income/(loss) per share	**($0.00)**	$0.01			**$0.05**	($0.00)		

Please refer to the discussions above for more detail on the period changes.

Financial position

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

	As at		Change	
	September 30, 2016	December 31, 2015	$	%
Working capital (total current assets less total current liabilities)	**$ 6,941**	$ (13,919)	20,860	150%
Non-current assets	**16,123**	17,377	(1,254)	(7%)
Long-term obligations	**9,645**	5,917	3,728	63%
Shareholders' equity (deficiency)	**13,419**	(2,459)	15,878	646%

Working capital

We had working capital of $6.9 million at September 30, 2016 compared to a deficit of $13.9 million at December 31, 2015. The $20.9 million improvement in working capital is mainly due to the recognition of $17.0 million of deferred revenue related to the Endo agreement which terminated on June 30, 2016 and the remaining $6.0 million licensing fee receivable related to the Aytu upfront payment offset by changes in the current portion of long-term debt and increased accounts payable to due royalty fees related to the Aytu upfront payment.

Our cash position decreased from $6.3 million at December 31, 2015 to $5.1 million at September 30, 2016. The change in cash is mainly from inflows from operating activities of $1.7 million, $2.0 million proceeds from a private placement, offset by $4.7 million in debt principal payments and $0.5 million in interest payments.

Non-current assets

Non-current assets consist of property and equipment, intangible assets and deferred income tax 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, 2015 to September 30, 2016 is primarily due to depreciation expense offset by the effect of foreign exchange.

At September 30, 2016, manufacturing equipment with a net book value of $1.0 million was held off-site by a third party ($1.1 million at December 31, 2015).

A $0.7 million decrease in intangible assets is due to the $0.7 million foreign exchange effect on the Estrace® product rights intangible which is valued in Canadian dollars offset by amortization of $1.4 million.

The deferred income tax assets have been recognized based on an assessment of the probability of our future taxable income against which the deferred tax assets can be utilized. The recognition of the deferred income tax asset as at December 31, 2015 is mainly due to the impact of the accelerated recognition of the deferred licensing fee.

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 these amendments, we immediately repaid $17.0 million of our existing $25.0 million principal amount outstanding in December 2015. An 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 matures January 9, 2017; provided, however, that we may elect, at our option, to retire all or a portion of the remaining indebtedness 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.

Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the customer deposit 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 of the remaining principal amount is subject to a promissory note, of which $0.5 million is due in December 2016 and the remaining amounts to be paid 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 part of the Aytu agreement signed on April 22, 2016, we are entitled to upfront payments of $8.0 million, with $2.0 million paid at signing, and of the remaining $6.0 million, $2.0 million was received in October 2016 and $4.0 million is payable in January 2017. The full upfront payment was recognized as deferred revenue and will be amortized over the life of the agreement. 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 Acerus common shares were issued and outstanding.

The $15.9 million increase in the shareholders' equity from December 31, 2015 to September 30, 2016 is primarily due to $11.4 million net income, $2.3 million foreign currency translation adjustments, $2.0 million proceeds received upon the issuance of common shares to Aytu and $0.2 million in share-based compensation.

Liquidity and capital resources

Liquidity risk

We currently have $3.3 million of principal outstanding and $0.4 million of exit costs accrued on our senior financing which matures in January 2017. The facility allows us to repay all outstanding principal at our option at any time prior to maturity. The senior financing includes a covenant to maintain a minimum cash balance as set out in the agreement.

Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the customer deposit 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 of the remaining principal amount is subject to a promissory note, bearing interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1% and a maturity date of June 30, 2020. (See "Long-term obligations").

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 (including convertible 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 pursuing commercial or strategic transactions as well as exploring options to raise additional funds. We have some ability to defer research and development programs and expenditures; however, any postponement of research and development expenditures could negatively affect anticipated product development timelines.

We are authorized to issue an unlimited number of common shares. As at September 30, 2016, we had 213,118,645 common shares issued and outstanding, 3,086,453 warrants outstanding and exercisable for 3,086,453 common shares, 9,323,573 outstanding stock options with a weighted average exercise price of CDN$0.74 and 1,842,500 outstanding stock options with a weighted average exercise price of $5.98.

Cash flows

	For the three months ended September 30,				For the nine months ended September 30,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Cash flows (used in)/from operating activities	**$ 75**	$ 2,070	(1,995)	(96%)	**$ 1,723**	$ 397	1,326	334%
Cash flows (used in)/from financing activities	**(446)**	(460)	14	3%	**(3,238)**	(2,013)	(1,225)	(61%)
Cash flows (used in)/from investing activities	**-**	(121)	121	100%	**(11)**	(272)	261	96%
Exchange gian/(loss) on cash	**(41)**	(1,866)	1,825	98%	**318**	(3,977)	4,295	108%
Net increase/(decrease) in cash for the period	**(412)**	(377)	(35)	(9%)	**(1,208)**	(5,865)	4,657	79%

At September 30, 2016 we had a cash balance of $5.1 million, which is a $0.4 million decrease from second quarter 2016. We received $2.0 million of the upfront payments owing under the Aytu license and supply agreement in October 2016. The remaining $4.0 million will be paid in January 2017.

Cash flow used in operating activities

We generated positive cash inflows from operating activities for the three months ended September 30, 2016 and 2015 of $0.1 million and $2.1 million respectively. Cash inflows for the third quarter 2016 consisted of $1.0 million net loss offset by $0.6 million of non-cash expenses and $0.5 million from working capital items which included a $0.5 million repayment of the Endo customer deposit. The comparable prior year period included a $1.1 million inflow from net income and $0.7 million from working capital and $0.2 million in non-cash expenses.

For the nine months ended September 30, 2016 we had a cash inflow of $1.7 million from operating activities consisting of inflows of $11.4 million of net income and $3.6 from working capital, offset by $13.3 million of non-cash expenses. The comparable prior year period had an inflow of $0.4 million from operating activities consisting mainly of an outflow of $0.5 million net loss and $1.3 million used in working capital offset by $2.3 million in non-cash expenses.

Cash flow used in financing activities

Cash used in financing activities for the three months ended September 30, 2016 and 2015 was an outflow of $0.4 million and $0.5 million respectively. We used $0.4 million in debt principal payments and $0.1 million in interest payments in the current period. In the prior year comparable period we used $0.5 million in interest and financing fees.

For the nine months ended September 30, 2016 we had a cash outflow of $3.2 million from financing activities due to the $4.7 million in debt principal payments and $0.5 million in interest and financing fees offset by $2.0 million proceeds from the issuance of common shares. For the comparable prior year period, we had an outflow of $2.0 million consisting of interest and financing paid on outstanding long term debt. The change year over year is mainly due to the amendment made to the Senior Financing and outstanding customer deposit (see note 8 in the September 30, 2016 unaudited interim condensed consolidated statements).

Cash flow used in investing activities

Net cash flows used in investing activities for the three months ended September 30, 2016 and 2015 was an outflow of less than $nil and $0.1 million respectively. Cash outflows in the prior year period mainly relate to the acquisition of equipment.

Net cash outflows from investing activities are less than $0.1 million for the nine months ended September 30, 2016 related to the purchase of property and equipment. Net cash outflows from investing activities were $0.3 million for the nine months ended September 30, 2015, mainly due to leasehold improvements made on the facility offset by the sale of property and equipment.

Capital expenditures

Our capital expenditures primarily relate to our investment in leasehold improvements at our Canadian facilities, and manufacturing and laboratory assets at an offsite third party supplier location.

Off-balance sheet arrangements

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

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

Our Barbados office is under a lease that expires in January 2017.

Contractual obligations and commitments

We are obligated to make the following payments:

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**Over 5 years**
Accounts payable and accrued liabilities	$ 3,450	$ 3,450	$ -	$ -	$ -
Operating leases	1,660	176	343	347	794
Inventory purchase	192	192	-	-	-
Long-term debt (principal and interest)	8,377	5,370	2,262	745	-
Total Obligations	$ 13,679	$ 9,188	$ 2,605	$ 1,092	$ 794

Under certain 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 September 30, 2016 unaudited condensed interim 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™, starting 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. Should there be a royalty shortfall in two consecutive years, the minimum royalty obligation decreases to $1.5 million if the gross annual sales of Natesto™ are below $75.0 million in a calendar year and $3.0 million if the gross annual sales of Natesto™ exceed $75.0 million in a calendar year. If a royalty shortfall occurs for two consecutive years for the reduced minimum royalty that is applicable, the minimum royalty obligation shall cease to apply. As soon as, in any two consecutive years, no royalty shortfall occurs, with either the minimum royalty or the reduced minimum royalty, the minimum royalty amounts will be reapplied.

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 September 30, 2016 unaudited interim condensed consolidated financial statements).

Related party transactions

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

Key management includes our 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 nine months ended September 30, 2016 and 2015 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Short-term compensation of key management and directors	**$ 362**	$ 608	**$ 1,111**	$ 1,841
Termination benefits	**-**	279	**$ -**	$ 279
Share-based compensation	**71**	135	**184**	420
Legal fees paid or payable to firms affilliated with directors	**-**	8	**9**	17
	$ 433	$ 1,030	**$ 1,304**	$ 2,557

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $283 if a liquidity event occurs, $687 if all are terminated without cause, and $nil if all are terminated with cause.

As at September 30, 2016, we hold a $35,437 ($29,816 as at December 31, 2015) receivable from our wholly owned subsidiary SRL. This receivable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange gain of $367 and loss of $1,543 for the three and nine months ended September 30, 2016 (gain of $1,998 and $3,631 for the three and nine months ended September 30, 2015) 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 and other instruments

As at September 30, 2016, our financial instruments consisted of cash, trade and other receivables, license fee receivable, accounts payable and accrued liabilities, customer deposit, long-term debt, derivative financial instrument and an embedded derivative instrument. The derivative financial instrument and embedded derivative instrument are measured at fair value with any changes recognized through the consolidated statement of income/(loss) and comprehensive income/(loss) and are classified as Level 2. Cash, trade and other receivables, license fee receivable, accounts payable and accrued liabilities and customer deposits are measured at amortized costs and their fair values approximate carrying values due to their short-term nature. See note 16 of the September 30, 2016 unaudited condensed interim consolidated financial statements for more detail.

The long-term debt is measured at amortized cost. As at September 30, 2016, the fair value of the long-term debt approximates its face value of $7.5 million. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

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, 2015. These policies have been consistently applied to all periods presented, unless otherwise stated.

New and amended standards adopted by the Company

There were no new standards, amendments to standards and interpretations that were adopted by us on January 1, 2016.

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 interim condensed consolidated financial statements are stated below:

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, with early application permitted but only if the entity also applies *IFRS 15, Revenue from contracts with customers*. We have yet to assess IFRS 16's full impact.

IFRS 15 *Revenue from contracts with customers*

IFRS 15 specifies how and when to recognize revenue as well as requiring the Company to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. 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. We have yet to determine the full impact of the amendment.

IFRS 9 *Financial instruments*

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling to profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 32. For financial liabilities, there were no changes to classification and comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness test. It requires an economic relationship between the hedged item and the hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 32. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. We have yet to assess IFRS 9's full impact.

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. We have 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. We have yet to determine the full impact of the amendment.

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

Adjusted EBITDA is defined as EBITDA adjusted for, as applicable, inventory fair value and other adjustments, acquisition costs, infrequent royalty expenses associated with triggering events, milestones, share based compensation, impairment of property and equipment and foreign exchange (gain)/loss. 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 a better 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.

	For the three months ended, September 30,		**For the nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Net income/(loss)	**$ (950)**	$ 1,133	**$ 11,430**	$ (532)
Adjustments:				
Income tax (recovery)	**-**	-	**300**	(90)
Licensing revenue	**(256)**	(613)	**(17,222)**	(1,820)
Amortization of intangible assets	**458**	452	**1,361**	1,399
Depreciation of property and equipment	**90**	145	**327**	432
Interest on long-term debt and other financing costs [(1)]	**271**	968	**852**	2,877
Interest income	**(3)**	(42)	**(13)**	(106)
Change in fair value of derivative	**146**	(732)	**113**	(832)
EBITDA	**(244)**	1,311	**(2,852)**	1,328
Inventory fair value and other adjustment [(2)]	**-**	-	**-**	844
Royalty expense on upfront payment	**-**	-	**1,424**	-
Share based compensation	**64**	125	**194**	416
Foreign exchange loss/(gain)	**(298)**	(1,695)	**1,145**	(3,451)
Adjusted EBITDA	**(478)**	(259)	**(89)**	(863)

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

(2) This figure represents the fair value adjustment on the inventory acquired from the seller of the Canadian rights of Estrace® in accordance with IFRS standards.

Management's responsibility for financial reporting

Disclosure controls and procedures and internal controls over financial reporting

As at September 30, 2016 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 September 30, 2016 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 nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Litigation

In April 2016, we were 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. We firmly believe that the entirety of the allegations are without merit from a factual or legal basis, and maintain our position regarding the appropriate conduct of the business and management. In particular, we believe that the claims relating to alleged improper related party and non-arm's length transactions are entirely baseless and without support. We, 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 $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 for December 13, 2016. No further steps have occurred or have been scheduled with respect to the Personal Action. We continue to believe that Mr. Melnyk's position is without merit and will be opposing the motion scheduled for December 13, 2016. The parties are currently in the process of delivering their evidence in support of their positions on this motion and accordingly the outcome is not determinable at this time.

Subsequent Events

We received $2.0 million of the upfront payments owing under the Aytu license and supply agreement in October 2016. The remaining $4.0 million will be paid in January 2017.

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.