MANAGEMENT'S DISCUSSION AND ANALYSIS OF
ACERUS PHARMACEUTICALS CORPORATION
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 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 year ended December 31, 2016. This MD&A is dated March 7, 2017 and should be read in conjunction with the notes and audited consolidated financial statements for the year ended December 31, 2016.

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 and 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 Acerus will be affected by, among others, the "Risk Factors" set out in our Annual Information Form dated March 7, 2017 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 may require additional funding, either from commercial sales of both existing and future products, commercial transactions or 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 programs, capital may be required. This assessment included taking into account the impact of a generic Estrace® launch, the impact of the recent Natesto® launch in Canada and the 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 and the planned launch of Gynoflor™. Subsequent to year end, we received the final $4.0 million upfront payment from Aytu, which was used to repay the outstanding long-term debt with MidCap Financial V, LLC ("MidCap"). It is expected that the cash flows generated from these revenue streams will be used to fund current operations, obligations and other initiatives. 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, 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 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; 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 7, 2017 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 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.

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 15 of our December 31, 2016 consolidated financial statements.

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 sales. While such experience has allowed for reasonable estimates in the past, history may not always be an accurate indicator of future events. We will monitor these provisions and make adjustments when it believes actual results may differ from established reserves.

We evaluate the multiple elements and units of accounting which are included within certain partnering and product supply agreements. We evaluated the license, development and supply agreement for the sales of Natesto® and has determined that the recognition of revenue on upfront fees under the applicable agreements with Endo and Aytu is over the estimated life of the agreements. In light of the termination notice received from Endo during the prior period, the life of the agreement was revised to June 30, 2016. The estimated period is reviewed at least annually and is updated if expectations change as a result of commercial partner interactions, product commercial obsolescence or other factors. It is possible that these factors may cause significant changes in the Company's recognition of revenue in the future.

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 expenses clinical trial activities based upon estimates of the proportion of work completed over the life of the individual clinical trial and patient enrolment rates in accordance with agreements established with CROs and clinical trial sites. 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 21 of our December 31, 2016 consolidated financial statements.

Impairment of non-financial assets

We review amortized non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. We also review annually non-financial assets with indefinite life for impairment. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments. Additional information is disclosed in note 10 of our December 31, 2016 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. There are transactions and calculations for which the ultimate tax determination is uncertain. 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.

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 fully-integrated, Canadian specialty pharmaceutical company engaged in the development, manufacture, marketing and distribution of innovative, branded products in Men's and Women's Health.

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 pursuing a global expansion for this product in various other countries through commercial partnerships, including a recently signed agreement with a company in South Korea. 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 treating women with female sexual dysfunction. We actively continue to pursue high quality opportunities that will help build our Canadian business.

For further information please see the Annual Information Form dated March 7, 2016 and our other filings available on SEDAR at www.sedar.com.

Key developments

Natesto® *U.S.*

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 after the return of the product rights from an affiliate of Endo International plc ("Endo"). Under the terms of the agreement, we received upfront payments equaling $8.0 million, including $2.0 million received at signing, $2.0 million was received in October 2016 and $4.0 million received 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.

Natesto® *Canada*

Natesto® was approved by Health Canada on January 7, 2016, as a 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 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.

Natesto® *South Korea*

On December 15, 2016, we granted exclusives rights to market Natesto® in South Korea to Hyundai Pharm Co., LTD. ("Hyundai"), a South Korean pharmaceutical company. Under the terms of the license, development and supply agreement, Acerus received a non-refundable upfront fee in January 2017. Additionally, we are eligible to receive another milestone payment upon regulatory approval of the product in South Korea and a fixed supply price per unit.

Estrace®

On November 16, 2015, Health Canada granted a Notice of Compliance (NOC) for a third party generic version of Estrace® which obtained public reimbursement across major provinces as of July 2016 and is commercially available in Canada. As expected, Estrace® sales have decreased in Q3 and Q4 2016 due to the generic launch. Estrace® sales in Q4 2016 were CDN$2.0 million compared to CDN$2.7 million in the same prior year period, representing a 27% decrease. Estrace® sales for the twelve months ending December 31, 2016 were CDN$9.0 million compared to CDN$10.1 million in the same prior year period, representing a 10% decrease. We are closely monitoring the situation and are implementing initiatives which can potentially 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. On February 28, 2017, the Corporation submitted a New Drug Submission ("NDS") to Health Canada to obtain marketing approval for the product in Canada.

Financing

We used $3.1 million of the cash proceeds received from the Aytu transactions to retire a portion of the outstanding principal amount owed to MidCap in connection with the senior financing. 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. As of December 31, 2016, the senior financing has an outstanding principal balance of $2.7 million and a $0.4 million exit fee. We extinguished the debt in January 2017.

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 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.

Selected consolidated financial information

The following table sets forth selected annual audited consolidated financial information for Acerus as of and for the last three years ended December 31, 2016. The information is derived from the annual audited consolidated financial statements. These results were prepared in accordance with IFRS.

	For the year ended December 31,		
Statement of income/(loss) and comprehensive income/(loss) data	**2016**	**2015**	**2014**
Revenues			
Product revenues	**$ 7,013**	$ 9,028	$ 4,166
Licensing and other fees	**17,473**	7,887	147
	24,486	16,915	4,313
Operating expenses:			
Cost of sales*	**4,453**	5,108	9,189
Research and development expenses			
Research and development expenses	**1,596**	2,874	6,554
Research and development milestone payments	**-**	-	2,500
Total research and development	**1,596**	2,874	9,054
Selling, general and administrative	**5,478**	5,781	5,459
Business acquisition costs	**-**	-	2,277
Impairment of intangible asset	**-**	14,210	-
	11,527	27,973	25,979
Finance costs, net	**1,540**	(1,637)	979
Total expenses	**13,067**	26,336	26,958
(Recovery of) income taxes	**300**	(390)	-
Net income/(loss)	**11,119**	(9,031)	(22,645)
Foreign currency translation adjustment	**1,267**	(10,362)	(5,196)
Total comprehensive income/(loss)	**12,386**	(19,393)	(27,841)
Net income/(loss) per basic and diluted common share (in dollars)	**$0.05**	($0.04)	($0.13)

*includes amortization of intangible asset, royalty expense, cost of inventory, distribution and other expenses

	As at December 31,		
Statement of financial position data	**2016**	2015	2014
Total assets	**$ 29,716**	$ 29,574	$ 75,944
Total liabilities	**17,515**	32,033	59,483
Total shareholders' equity (deficiency)	**12,201**	(2,459)	16,461

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 income/(loss) and comprehensive income/(loss) data	**Q4-2016**	**Q3-2016**	**Q2-2016**	**Q1-2016**	**Q4-2015**	**Q3-2015**	**Q2-2015**	**Q1-2015**
Revenues								
Product revenues	**$ 1,557**	$ 1,389	$ 2,143	$ 1,924	$ 2,078	$ 2,202	$ 2,132	$ 2,616
Licensing and other fees	**251**	256	8,483	8,483	6,067	613	607	600
	1,808	1,645	10,626	10,407	8,145	2,815	2,739	3,216
Operating expenses:								
Cost of sales	**718**	695	2,228	812	843	1,095	888	2,282
Research and development expenses	**364**	343	402	487	697	666	716	795
Selling general and administrative	**1,594**	1,441	1,466	977	1,319	1,422	1,690	1,350
Impairment loss on intangible asset	**-**	-	-	-	14,210	-	-	-
	2,676	2,479	4,096	2,276	17,069	3,183	3,294	4,427
Finance costs, net	**(557)**	116	(83)	2,064	(125)	(1,501)	1,072	(1,083)
Total expenses	**2,119**	2,595	4,013	4,340	16,944	1,682	4,366	3,344
(Recovery of) provision for income taxes	**-**	-	150	150	(300)	-	-	(90)
Net income/(loss)	**(311)**	(950)	6,463	5,917	(8,499)	1,133	(1,627)	(38)
Foreign currency translation adjustment	**(987)**	(360)	(152)	2,766	(1,690)	(4,141)	987	(5,518)
Net comprehensive income/(loss)	**$ (1,298)**	$ (1,310)	$ 6,311	$ 8,683	$ (10,189)	$ (3,008)	$ (640)	$ (5,556)
Net earnings/(loss) per basic and diluted common share (in dollars)	**($0.00)**	($0.00)	$0.03	$0.03	($0.04)	$0.01	($0.01)	($0.00)

	As at the end of							
Statement of financial position data	**Q4-2016**	**Q3-2016**	**Q2-2016**	**Q1-2016**	**Q4-2015**	**Q3-2015**	**Q2-2015**	**Q1-2015**
Total assets	**$ 29,716**	$ 32,360	$ 33,901	$ 29,331	$ 29,574	$ 63,113	$ 67,124	$ 67,760
Total liabilities	**17,515**	18,941	19,236	23,049	32,033	55,551	56,679	56,827
Total shareholders' equity (deficiency)	**12,201**	13,419	14,665	6,282	(2,459)	7,562	10,445	10,933

Our revenues reflect Estrace® and Natesto® product sales and in Q1 2016 and Q2 2016, 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. Cost of sales in Q1 2015 included a $0.8 million of a fair value adjustment on the inventory sold that was acquired from the seller of the Estrace® Canadian rights in accordance with IFRS standards. 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 fluctuation in the average level of selling, general and administrative costs in the past eight quarters is mainly a result of the lower salaries and benefit expenses in Q1-2016 due to changes in headcount are offset by increased selling expenses in the second half of 2016 associated with the Canadian launch of Natesto®. 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 $14.2 million 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 with the parent company due to the Canadian dollar functional currency 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® net of chargebacks, discounts and other price adjustments. Cost of sales reflect the cost of finished goods 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 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.

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 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.

Impairment loss on intangible asset

In Q4 2015, we took 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. Management reviewed the balance and determined that no further impairment was required.

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 $0.7548 and $0.7254 respectively for the year ended December 31, 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 $0.7448 and $0.7225 at December 31, 2016 and 2015 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 2016 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.

Fourth quarter results from operations

The following table presents selected financial information (including certain non-IFRS measures, as noted) for the three and twelve months ended December 31, 2016 and 2015, which were derived from the consolidated financial statements for the respective periods:

	For the three months ended December 31,		Q4 Change		For the year ended December 31,		YTD Change	
	2016	**2015**	**$**	**%**	**2016**	**2015**	**$**	**%**
Statement of (loss)/income and comprehensive income/(loss) data								
Revenues								
Product revenues	**$ 1,557**	$ 2,078	(521)	(25%)	**$ 7,013**	$ 9,028	(2,015)	(22%)
Licensing and other fees	**251**	6,067	(5,816)	(96%)	**17,473**	7,887	9,586	122%
	1,808	8,145	(6,337)	(78%)	**24,486**	16,915	7,571	45%
Operating expenses:								
Cost of sales	**718**	843	(125)	(15%)	**4,453**	5,108	(655)	(13%)
Research and development	**364**	697	(333)	(48%)	**1,596**	2,874	(1,278)	(44%)
Selling, general and administrative	**1,594**	1,319	275	21%	**5,478**	5,781	(303)	(5%)
Impairment of intangible asset	**-**	14,210	(14,210)	(100%)	**-**	14,210	(14,210)	(100%)
Total operating expenses	**2,676**	17,069	(14,393)	(84%)	**11,527**	27,973	(16,446)	(59%)
Finance costs, net	**(557)**	(125)	(432)	-346%	**1,540**	(1,637)	3,177	194%
Total expenses	**2,119**	16,944	(14,825)	-87%	**13,067**	26,336	(13,269)	(50%)
Income taxes expense/(recovery)	**-**	(300)	300	n/a	**300**	(390)	690	177%
Net income/(loss)	**(311)**	(8,499)	8,188	(96%)	**11,119**	(9,031)	20,150	223%
Foreign currency translation adjustment	**(987)**	(1,690)	703	42%	**1,267**	(10,362)	11,629	112%
Total comprehensive income/(loss) for the period	**(1,298)**	(10,189)	8,891	87%	**12,386**	(19,393)	31,779	164%
Net earnings/(loss) per basic and diluted common share (in dollars)	**$ 0.00**	$ (0.04)	$ 0.04	100%	**$ 0.05**	$ (0.04)	$ 0.09	n/a
EBITDA [(1)]	***205***	*(13,674)*			***(2,647)***	*(12,346)*		
Adjusted EBITDA [(1)]	***(492)***	*(37)*			***(581)***	*(900)*		

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

	As at December 31,	
Statement of financial position data	**2016**	**2015**
Total assets	**$ 29,716**	$ 29,574
Total liabilities	**17,515**	32,033
Total shareholders' equity (deficiency)	**12,201**	(2,459)

Revenue and gross profit

	For the three months ended December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Revenue								
Product revenues	$ 1,557	$ 2,078	(521)	(25%)	$ 7,013	$ 9,028	(2,015)	(22%)
Licensing and other fees	251	6,067	(5,816)	(96%)	17,473	7,887	9,586	122%
	1,808	8,145	(6,337)	(78%)	24,486	16,915	7,571	45%
Cost of sales	718	843	(125)	(15%)	4,453	5,108	(655)	(13%)
Total gross profit	$ 1,090	$ 7,302	(6,212)	(85%)	$ 20,033	$ 11,807	8,226	70%

Product revenues relate mainly to the sale of Estrace® of $1.5 million and $6.8 million for the three and twelve months ended December 31, 2016 (CDN$2.0 million and CDN$9.0 million for the three and twelve months ended December 31, 2016), compared to $2.0 million and $7.9 million for the three and twelve months ended December 31, 2015 (CDN$2.7 million and CDN$10.1 million for the three and twelve months ended December 31, 2015). The decrease in the sales of Estrace® 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 is 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 and previously written off.

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 twelve months ending December 31, 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 twelve months ended December 31, 2016 is $0.4 million and $1.5 million respectively ($0.4 million and $1.5 million for the three and twelve months ended December 31, 2015) in amortization of the product rights intangible. Cost of sales for three and twelve months ended December 31, 2015 also includes $nil 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 twelve months ended December 31, 2015 (but not, for greater certainty, the three and twelve months ended December 31, 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 twelve months ended December 31, 2016, cost of sales includes less than $0.1 million and $1.5 million of royalty expense related to the Aytu and Hyundai upfront licensing fee ($nil for the three and twelve months ended December 31, 2015).

Research and development

	For the three months ended December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Research and development expenses	$ 364	$ 697	(333)	(48%)	$ 1,596	$ 2,874	(1,278)	(44%)

The $0.3 million decrease in research and development expenses for the three months ended December 31, 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®. 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 $1.3 million decrease in research and development expenses for the twelve months ended December 31, 2016 is due to greater 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 December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Selling, general and administrative expense	$ 1,594	$ 1,319	275	21%	$ 5,478	$ 5,781	(303)	(5%)

Selling, general and administrative expenses have increased by $0.3 million for the three months ended December 31, 2016 versus the comparable prior year period. The increase is due to $0.4 million increase in selling expenses primarily related to the launch of Natesto® in Canada.

Selling, general and administrative expenses have decreased by $0.3 million for the twelve months ended December 31, 2016 versus the comparable prior year period. The decrease is mainly due to a $1.3 million decrease in salaries, benefits and stock based compensation due to a reduction in headcount and changes in bonus accruals. This is offset by the $0.3 million increase in professional fees, $0.3 million increase in business development expenses due to the signing of the Aytu agreement and $0.6 million increase in selling expenses to support the Canadian launch of Natesto®.

Impairment of intangible asset

	For the three months ended December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2015	2014	Change $	Change %
Impairment of intangible asset	$ -	$ 14,210	(14,210)	(100%)	$ -	$ 14,210	(14,210)	(100%)

Due to the approval of a generic third party version of 17-beta estradiol during the prior year, we impaired the intangible asset related to the Estrace® product rights in fiscal 2015 by $14,210. The intangible asset was written down to its recoverable amount using the discounted cash flow method. Key assumptions included the discount rate of 15%, estimated cash flows and declines in revenue. The Company also shortened the remaining useful life of the product rights.

Finance costs

	For the three months ended December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Interest on long-term debt and other financing costs	$ 327	$ 915	(588)	(64%)	$ 1,179	$ 3,792	(2,613)	(69%)
Interest income	(4)	(23)	19	83%	(17)	(129)	112	87%
Foreign exchange loss/(gain)	(804)	(741)	(63)	-9%	341	(4,192)	4,533	108%
Change in fair value of derivative financial instruments	(76)	(276)	200	72%	37	(1,108)	1,145	103%
Total finance costs, net	(557)	(125)	(432)	(346%)	1,540	(1,637)	3,177	194%

Finance costs for the three months ended December 31, 2016 was a gain of $0.5 million compared to a gain of $0.1 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 a decrease in the gain on the change in fair value of the derivative financial instruments due to the changes in share price.

Finance costs for the twelve months ended December 31, 2016 was an expense of $1.6 million compared to a gain of $1.6 million in the same prior year period. The variance is mainly due to a $4.6 million increase in foreign exchange loss and $1.1 million increase change in the fair value of the derivative financial instrument. The foreign exchange loss is primarily driven by the revaluation of the intercompany loan. The reduction in the change in fair value of the derivative financial instrument is driven by changes in share price year over year. 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 income/(loss) and comprehensive income/(loss)

	For the three months ended December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Net income/(loss)	**$ (311)**	$ (8,499)	8,188	96%	**$ 11,119**	$ (9,031)	20,150	223%
Total comprehensive income/(loss)	**$ (1,298)**	$ (10,189)	8,891	87%	**$ 12,386**	$ (19,393)	31,779	164%
Basic and diluted net income/(loss) per share	**($0.00)**	($0.04)			**$0.05**	($0.04)		

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 December 31,		Change	
	2016	2015	$	%
Working capital (total current assets less total current liabilities)	**$ 5,937**	$ (13,919)	19,856	143%
Non-current assets	**15,312**	17,377	(2,065)	(12%)
Long-term obligations	**9,048**	5,917	3,131	53%
Shareholders' equity (deficiency)	**12,201**	(2,459)	14,660	596%

Working capital

We had working capital of $5.9 million at December 31, 2016 compared to a deficit of $13.9 million at December 31, 2015. The $19.9 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 $4.0 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 due to royalty fees related to the Aytu upfront payment and inventory purchases.

Our cash position decreased from $6.3 million at December 31, 2015 to $5.2 million at December 31, 2016. The change in cash results mainly from inflows from operating activities of $3.2 million, $2.0 million proceeds from a private placement, offset by $5.8 million in debt principal payments and $0.6 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 December 31, 2016 is primarily due to depreciation expense offset by the effect of foreign exchange.

At December 31, 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).

The $1.4 million decrease in intangible assets is due to $1.8 million of amortization expense and $0.4 million foreign exchange effect on the Estrace® product rights intangible which is valued in Canadian dollars.

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 the first amendment, we immediately repaid $17.0 million of our 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 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 part of the Aytu agreement signed on April 22, 2016, we received upfront payments of $8.0 million, with $2.0 million received at signing, $2.0 million was received in October 2016 and $4.0 million was received 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 common shares were issued and outstanding.

The $14.7 million increase in the shareholders' equity from December 31, 2015 to December 31, 2016 is primarily due to $11.1 million net income, $1.3 million foreign currency translation adjustments, $2.0 million proceeds received upon the issuance of common shares to Aytu and $0.3 million in share-based compensation.

Liquidity and capital resources

Liquidity risk

As at December 31, 2016 we have $2.7 million of principal outstanding and $0.4 million of exit costs accrued on our senior financing which was fully repaid in January 2017. 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 (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 $0.5 million in December 31, 2016. The $3.3 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 authorized to issue an unlimited number of common shares. As at December 31, 2016, we had 213,118,645 common shares issued and outstanding, 3,086,453 warrants outstanding and exercisable for 3,086,453 common shares, 9,743,240 outstanding stock options with a weighted average exercise price of CDN$0.71 and 1,717,500 outstanding stock options with a weighted average exercise price of $6.25.

Cash flows

	For the three months ended December 31,				For the twelve months ended December 31,			
	2016	2015	Change $	Change %	2016	2015	Change $	Change %
Cash flows (used in)/from operating activities	**$ 1,488**	$ (1,419)	2,907	(205%)	**$ 3,211**	$ (1,022)	4,233	(414%)
Cash flows (used in)/from financing activities	**(1,234)**	(17,635)	16,401	93%	**(4,472)**	(19,648)	15,176	77%
Cash flows (used in)/from investing activities	**(60)**	(410)	350	85%	**(71)**	(682)	611	90%
Exchange gian/(loss) on cash	**(120)**	645	(765)	119%	**198**	(3,332)	3,530	106%
Net increase/(decrease) in cash for the period	**74**	(18,819)	18,893	100%	**(1,134)**	(24,684)	23,550	95%

At December 31, 2016 we had a cash balance of $5.2 million, which is a $0.1 million decrease from third quarter 2016 and $1.1 million decrease from December 31, 2015. Our net cash flows from operating activities were offset mainly by principal debt repayments.

Cash flow used in operating activities

We generated positive cash inflows from operating activities for the three months ended December 31, 2016 of $1.5 million and an outflow of $1.4 million for the three months ended December 31, 2015. Cash inflows for the fourth quarter 2016 consisted of $0.3 million net loss offset by $0.1 million of non-cash items, $1.9 million inflow from working capital items mainly due to the $2.0 million upfront payment from Aytu. The comparable prior year included outflows from $8.5 million net loss and $0.6 million used in working capital, offset by $7.6 million in non-cash expenses.

For the twelve months ended December 31, 2016 we had cash inflow from operating activities of $3.2 million, consisting of inflows from net income of $11.1 million and $5.5 million from working capital mainly due to the $4.0 million upfront received from Aytu, offset by $13.4 million in non-cash items. The comparable prior year period had an outflow of $1.0 million from operating activities consisting mainly of an ouflow of $9.0 million in net loss, $1.9 million used in working capital, offset by $9.9 million of non-cash items.

Cash flow used in financing activities

Cash used in financing for the three months ended December 31, 2016 and 2015 was an outflow of $1.2 million and $17.6 million respectively. We used $1.1 million in debt principal payments and $0.2 million in interest payments in the current period. In the prior year comparable period we used $0.6 million in interest and financing fees and had debt principal payments of $17.0 million.

For the twelve months ended December 31, 2016 we had a cash outflow of $4.5 million from financing activities due to the $5.8 million in debt principal payments and $0.7 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 $19.6 million consisting of interest and financing paid on

outstanding long term debt of $2.6 million and $17.0 million net principal payment of debt. The net change year over year are driven by amendments to the senior financing facility and a private placement in Q2 2016.

Cash flow used in investing activities

Net cash flows used in investing activities for the three months ended December 31, 2016 and 2015 were $0.1 and $0.4 million respectively. Cash outflows in the prior year period mainly relate to the acquisition of property and equipment for the new Canadian facility.

Net cash outflows from investing activities were $0.1 million and $0.7 million for the twelve months ended December 31, 2016 and 2015 respectively. Net cash outflows from investing activities in the prior year mainly related 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 March 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	$ 3,322	$ 3,322	$ -	$ -	$ -
Operating leases	1,495	171	335	350	639
Long-term debt (principal and interest)	7,120	4,418	2,212	490	-
Total Obligations	$ 11,937	$ 7,911	$ 2,547	$ 840	$ 639

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 December 31, 2016 audited 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 December 31, 2016 audited consolidated financial statements).

Related party transactions

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 twelve months ended December 31, 2016 and 2015 were as follows:

	For the three months ended December 31,		For the year ended December 31,	
	2016	**2015**	**2016**	**2015**
Short-term compensation of key management and directors	**$ 208**	$ 526	**$ 1,319**	$ 2,367
Termination benefits	**98**	-	**98**	279
Share-based compensation	**77**	158	**261**	578
Legal fees paid or payable to firms affilliated with directors	**3**	4	**12**	21
	$ 386	$ 688	**$ 1,690**	$ 3,245

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $0.3 million if a liquidity event occurs, $0.7 million if all are terminated without cause, and $nil if all are terminated with cause.

As at December 31, 2016, Acerus holds a $32.7 million ($29.8 million as at December 31, 2015) receivable from its wholly owned subsidiary SRL. This receivable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange loss of $0.7 million for the year ended December 31, 2016 (gain of $4.6 million for the year ended December 31, 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 December 31, 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 24 of the December 31, 2016 audited consolidated financial statements for more detail.

The long-term debt is measured at amortized cost. As at December 31, 2016, the fair value of the long-term debt approximates its face value of $6.4 million. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

Currency risk

We are exposed to currency risk related to the fluctuation of foreign exchange rates. We operate primarily in US and Canadian dollars. The Company's Barbados office incurs limited expenses and has a small bank balance in Bajan dollars, the totals of which are considered to have an insignificant effect on financial reporting.

We do not believe it is exposed to currency risk on the net assets denominated in Bajan dollars as the currency is fixed to the US dollar. We, however, are exposed to currency risk though its net assets denominated in Canadian dollars and Euros.

	As at December 31, 2016	
	USD	EUR
Cash	$ 2,401	$ -
Trade and other receivables	4,000	-
Accounts payable and accrued liabilities	1,107	(37)
Long-term debt	6,455	-
	$ 13,963	$ (37)

Based on the above net exposure at December 31, 2016, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the US dollar against the other currencies would have resulted in the following impact on net income:

	US Dollar Appreciate 5%		
	US	EUR	Total
December 31, 2016 net income	$ (665)	$ (2)	$ (667)

	Depreciate 5%		
	US	EUR	Total
December 31, 2016 net income	$ 735	$ 2	$ 737

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%. 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.

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, trade and other receivables and licensing fee receivable. In January 2017, we received $4.2 million of the licensing fee receivable outstanding. Our investment policies are designed to mitigate the possibility of deterioration of principal, enhance our ability to meet its liquidity needs and provide high returns within those parameters. Cash is on deposit with a Canadian chartered bank located in Canada and Barbados.

Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts. We have concentration risk, as approximately 45% of its trade receivables are due from three pharmaceutical wholesalers in Canada. As at December 31, 2016, 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 FVTPL, results from the periodic "mark-to-market" revaluation. The valuation is impacted, among other inputs, by the market price of the Company's common shares. As a result, the change in fair value of the derivative liability, which is reported through the consolidated statement of income/loss and comprehensive income/loss, has been and may continue in future periods to be materially affected most notably by changes in the Company's common share price.

Assuming that all other variables remain constant, a 5% appreciation or depreciation of the Company's share price would have resulted in a $13 decrease and $13 increase in net income respectively ($11 increase and $10 decrease in the net loss at December 31, 2015).

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, 2016. These policies have been consistently applied to all periods presented.

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 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.

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 will be implementing the additional disclosures required for fiscal 2017.

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, licensing fees 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, infrequent royalty expenses associated with triggering events, milestones, share based compensation, impairment of intangible asset 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, December 31,		For the year ended December 31,	
	2016	**2015**	**2016**	**2015**
Net income/(loss)	**$ (311)**	$ (8,499)	**$ 11,119**	$ (9,031)
Adjustments:				
Income tax (recovery)	**-**	(300)	**300**	(390)
Licensing fees	**(251)**	(6,067)	**(17,473)**	(7,887)
Amortization of intangible assets	**450**	444	**1,811**	1,843
Depreciation of property and equipment	**70**	132	**397**	564
Interest on long-term debt and other financing costs [(1)]	**327**	915	**1,179**	3,792
Interest income	**(4)**	(23)	**(17)**	(129)
Change in fair value of derivative	**(76)**	(276)	**37**	(1,108)
EBITDA	**205**	(13,674)	**(2,647)**	(12,346)
Inventory fair value and other adjustment [(2)]	**-**	-	**-**	844
Impairment loss on intangible asset	**-**	14,210	**-**	14,210
Royalty expense on upfront payment	**27**	-	**1,451**	-
Share based compensation	**80**	168	**274**	584
Foreign exchange loss/(gain)	**(804)**	(741)	**341**	(4,192)
Adjusted EBITDA	**(492)**	(37)	**(581)**	(900)

(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 December 31, 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 December 31, 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 year ended December 31, 2016 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 Chief Executive Officer (CEO) and Director of Finance. Based on this evaluation, the CEO and Director of Finance has concluded that, as of December 31, 2016, 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

In November 2013, each of the Company, SRL and APBI were served with a third party claim by Valeant Pharmaceuticals International, Inc. and Valeant International (Barbados) SRL (collectively, the "Valeant Parties"). The third party claim seeks certain contribution and indemnity, and damages relating to an underlying claim advanced against the Valeant Parties by Mr. Reiner Schenk. Mr. Schenk asserts that, *inter alia*, the Valeant Parties breached certain obligations owing to him under a confidentiality agreement in 2005 and 2006, and that he is accordingly owed certain damage amounts. Mr. Schenk had originally included the Company, SRL and APBI as party to his action in 2011 but promptly discontinued his claims against such parties. Each of the Company, SRL and APBI believes that the claim of Mr. Schenk, and the related third party claim by the Valeant Parties, is in each case without merit, and they intend to defend themselves against the claims to the fullest extent possible.

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. On December 21, 2016, the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice heard a motion brought by Mr. Eugene Melnyk for leave to commence a derivative action in the name of the Company against certain of the Company's directors and officers, and the motion was dismissed with written reasons to follow. On February 22, 2017, Justice Wilton-Siegel issued his written reasons dismissing Mr. Melnyk's claim with costs.

Subsequent Events

Aytu upfront payment

We received $4.0 million of the upfront payments owing under the Aytu license and supply agreement in January 2017.

MidCap debt

On January 6, 2017 we repaid all the amounts due under our senior financing provided by an affiliate of MidCap Financial, LLC. As such, there was also a corresponding release of all collateral pledged as security.

Gynoflor™

On February 28, 2017, the Corporation submitted a NDS to Health Canada to obtain marketing approval for the product in Canada.

Natesto®

In February, Acerus obtained approval by the Pediatric Committee (PDCO) of the European Medical Agency for a Natesto® Pediatric Investigation Plan (PIP) aimed at generating clinical data that will inform pediatric endocrinologists on the safe and effective use of Natesto® in adolescents with congenital hypogonadism, who lack the testosterone required to achieve puberty. The PIP approval was required in order to file Natesto® for EU marketing authorization in the adult male hypogonadism indication. The study is expected to start before the end of the year and expected to run out to 2021.

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.