



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

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Acerus Pharmaceuticals Corporation and its wholly owned subsidiaries (the "Company", "Acerus", "we" or "our") constitutes management's review of the factors that affected our financial and operating performance for the three months ended March 31, 2017. This MD&A is dated May 12, 2017 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2017, together with the notes and audited consolidated financial statements for the year ended December 31, 2016.

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 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 and investors, to continue the development, commercialization and launch of additional products. These circumstances lend significant doubt as to our ability to meet our obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

We have assessed our ability to continue as a going concern and concluded that in order to complete our planned product development 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™ if approved by Health Canada. We received the final \$4.0 million upfront payment from Aytu in January 2017, which was partially used to repay the outstanding long-term debt with MidCap Financial V, LLC ("MidCap"). It is expected that the cash flows generated from our product and license 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, executing other strategic initiatives that could provide cash flows, or alternatively curtail expenditures and possibly obtaining additional financing. 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 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, 2016. 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 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 countries through commercial partnerships, including a recently signed agreement with Hyundai Pharm Co., LTD ("Hyundai") 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, 2017 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. Under the terms of the agreement, we received upfront payments equaling \$8.0 million, including \$4.0 million in Q1 2017. Additionally, we are entitled to sales-based milestones that could potentially total \$37.5 million. Finally, we are responsible for the manufacturing of the product and will receive a tiered supply price that varies during the term of the agreement.

Natesto® Canada

Natesto® was approved by Health Canada on January 7, 2016, as 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, 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 as well as a fixed supply price per unit. In April 2017, Hyundai filed for marketing approval of Natesto® with the Ministry of Food and Drug Safety (MFDS) in South Korea.

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. On a cumulative Canadian dollar basis, product sales of Estrace® from July 1, 2016 to March 31, 2017 have decreased by 35% over the same prior year period. We are closely monitoring the situation and have implemented initiatives which may 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. As part of our agreement with Medinova AG, 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. The Company has already initiated launch preparation activities.

Financing

The outstanding debt owed to MidCap was extinguished in January 2017.

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.

Statement of (loss)/income and comprehensive (loss)/income data	For the three months ended							
	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Revenues								
Product revenues	\$ 1,015	\$ 1,557	\$ 1,389	\$ 2,143	\$ 1,924	\$ 2,078	\$ 2,202	\$ 2,132
Licensing and other fees	255	251	256	8,483	8,483	6,067	613	607
	1,270	1,808	1,645	10,626	10,407	8,145	2,815	2,739
Cost of sales	638	718	695	2,228	812	843	1,095	888
Gross profit	632	1,090	950	8,398	9,595	7,302	2	2
<u>Operating expenses:</u>								
Research and development expenses	723	364	343	402	487	697	666	716
Selling general and administrative	1,621	1,594	1,441	1,466	977	1,319	1,422	1,690
Impairment loss on intangible asset	-	-	-	-	-	14,210	-	-
	2,344	1,958	1,784	1,868	1,464	16,226	2,088	2,406
Finance costs, net	364	(557)	116	(83)	2,064	(125)	(1,501)	1,072
Total expenses	2,708	1,401	1,900	1,785	3,528	16,101	587	3,478
(Recovery of) provision for income taxes	-	-	-	150	150	(300)	-	-
Net (loss)/income	(2,076)	(311)	(950)	6,463	5,917	(8,499)	1,133	(1,627)
Foreign currency translation adjustment	369	(987)	(360)	(152)	2,766	(1,690)	(4,141)	987
Total comprehensive (loss)/income	\$ (1,707)	\$ (1,298)	\$ (1,310)	\$ 6,311	\$ 8,683	\$ (10,189)	\$ (3,008)	\$ (640)
Net (loss)/earnings per basic and diluted common share (in dollars)	(\$0.01)	(\$0.00)	(\$0.00)	\$0.03	\$0.03	(\$0.04)	\$0.01	(\$0.01)
As at the end of								
Statement of financial position data	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Total assets	\$ 23,510	\$ 29,716	\$ 32,360	\$ 33,901	\$ 29,331	\$ 29,574	\$ 63,113	\$ 67,124
Total liabilities	12,938	17,515	18,941	19,236	23,049	32,033	55,551	56,679
Total shareholders' equity (deficiency)	10,572	12,201	13,419	14,665	6,282	(2,459)	7,562	10,445

Our revenues reflect Estrace® and Natesto® product sales and from Q4 2015 to 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. The increase in research and development expenses in Q1 2017 is driven primarily by the NDS filing fee for Gynoflor™. 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 due to changes in headcount, offset by increased selling expenses starting 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 repayment of the debt owed to MidCap.

Factors affecting results from operations

Revenue and cost of sales

Our product revenues reflect the net sales of Etracet[®] and Natesto[®] net of chargebacks, discounts and other price adjustments. Cost of sales reflect the cost of finished goods which includes manufacturing, distribution and warehousing costs, the amortization of the Etracet[®] 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.

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.

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 therefore the foreign exchange gain/loss 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 (loss)/ income and comprehensive (loss)/ income, which are recorded in Canadian dollars, were translated into U.S. dollars at the average exchange rate of \$0.7554 and \$0.7274 respectively for the three months ended March 31, 2017 and 2016. 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 \$0.7513 and \$0.7448 at March 31, 2017 and December 31, 2016 respectively.

Taxation

Canada and Barbados have laws related to various taxes imposed by national/federal, provincial and municipal authorities. Applicable taxes include a value added tax (“VAT”) and harmonized sales tax (“HST”), corporate income tax, payroll taxes and other taxes. The VAT and HST taxes that are payable on goods and services billed and purchased are 17.5% in Barbados, 19.6% in Europe and 13% in Canada respectively. These may be recoverable due to input tax credits. Corporate income tax payable in Canada is 26.5% in 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.

First quarter results from operations

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

	For the three months ended		Q1 Change	
	March 31,			
	2017	2016	\$	%
Statement of (loss)/income and comprehensive income/(loss) data				
Revenues				
Product revenues	\$ 1,015	\$ 1,924	(909)	(47%)
Licensing and other fees	255	8,483	(8,228)	(97%)
	1,270	10,407	(9,137)	(88%)
Cost of sales	638	812	(174)	(21%)
Gross profit	632	9,595	(8,963)	(93%)
Operating expenses:				
Research and development	723	487	236	48%
Selling, general and administrative	1,621	977	644	66%
Total operating expenses	2,344	1,464	880	60%
Finance costs, net	364	2,064	(1,700)	(82%)
Total expenses	2,708	3,528	(820)	(23%)
Income taxes expense/(recovery)	-	150	(150)	(100%)
Net income/(loss)	(2,076)	5,917	(7,993)	(135%)
Foreign currency translation adjustment	369	2,766	(2,397)	(87%)
Total comprehensive income/(loss) for the period	(1,707)	8,683	(10,390)	(120%)
Net (loss)/earnings per basic and diluted common share (in dollars)	\$ (0.01)	\$ 0.03	\$ (0.04)	(133%)
EBITDA⁽¹⁾				
Adjusted EBITDA ⁽¹⁾	(1,749)	(1,514)		
	(1,370)	268		

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

	As at	
	March 31,	
	2017	2016
Statement of financial position data		
Total assets	\$ 23,510	\$ 29,716
Total liabilities	12,938	17,515
Total shareholders' equity (deficiency)	10,572	12,201

Revenue and gross profit

	For the three months ended March 31,			
	2017	2016	Change \$	Change %
Revenue				
Product revenues	\$ 1,015	\$ 1,924	(909)	(47%)
Licensing and other fees	255	8,483	(8,228)	(97%)
	1,270	10,407	(9,137)	(88%)
Cost of sales	638	812	(174)	(21%)
Total gross profit	\$ 632	\$ 9,595	(8,963)	(93%)

Product revenues relate mainly to the sale of Estrace® of \$1.0 million and \$1.9 million for the three months ended March 31, 2017 and 2016 (CDN\$1.3 million and CDN\$2.5 million for the three months ended March 31, 2017 and 2016). 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. It is expected that the Company will start delivering new product to Aytu in the current fiscal year. Revenues from the sale of Natesto® in Canada is based on sales to wholesalers less the applicable estimates for discounts, rebates and returns.

Licensing revenue in the current quarter reflects the amortization of the \$8.0 million upfront payment received from Aytu in the Natesto® license, development and supply agreement. The licensing revenue recognized in the three months ending March 31, 2016 relates to the recognition of the remaining deferred revenue amounts related to the Endo agreement.

Included in the Estrace® cost of sales for each of the three months ended March 31, 2017 and 2016 is \$0.4 million of amortization of the intangible product rights.

Research and development

	For the three months ended March 31,			
	2017	2016	Change \$	Change %
Research and development expenses	\$ 723	\$ 487	236	48%

The \$0.2 million increase in research and development expenses for the three months ended March 31, 2017 versus the comparable prior year period is mainly due to NDS fees for Gynoflor™. Overhead allocations regarding depreciation and rent decreased over the prior year period due to the accelerated depreciation taken on leasehold improvements in the prior year as the Canadian offices moved to a different facility.

Given the nature of our business and product pipeline, we expect to continue to incur research and development expenses in the future. Research and development expenditures may increase if we initiate further Natesto®, Tefina™ or other 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 March 31,			
	2017	2016	Change \$	Change %
Selling, general and administrative expense	\$ 1,621	\$ 977	644	66%

Selling, general and administrative expenses have increased by \$0.6 million for the three months ended March 31, 2017 versus the comparable prior year period. The increase is mainly due to \$0.5 million increase in selling expenses primarily related to the launch of Natesto® in Canada.

Finance costs

	For the three months ended March 31,		Change \$	Change %
	2017	2016		
Interest on long-term debt and other financing costs	\$ 116	\$ 311	(195)	(63%)
Interest income	(8)	(5)	(3)	(60%)
Foreign exchange loss/(gain)	301	1,724	(1,423)	(83%)
Change in fair value of derivative financial instruments	(45)	34	(79)	(232%)
Total finance costs, net	364	2,064	(1,700)	(82%)

Finance costs for the three months ended March 31, 2017 decreased by \$1.7 million compared to the same prior year period. The decrease is mainly due to the decrease in foreign exchange loss driven by the US denominated intercompany receivable and the decrease in interest on long-term debt and other financing costs due to a lower average principal balance on outstanding debt.

Net (loss)/income and comprehensive (loss)/income

	For the three months ended March 31,		Change \$	Change %
	2017	2016		
Net (loss)/income	\$ (2,076)	\$ 5,917	(7,993)	(135%)
Total comprehensive (loss)/income	\$ (1,707)	\$ 8,683	(10,390)	(120%)
Basic and diluted net (loss)/income per share	(\$0.01)		\$0.03	

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	
	March 31, 2017	December 31, 2016	\$	%
Working capital (total current assets less total current liabilities)	\$ 4,231	\$ 5,937	(1,706)	(29%)
Non-current assets	14,900	15,312	(412)	(3%)
Long-term obligations	8,559	9,048	(489)	(5%)
Shareholders' equity (deficiency)	10,572	12,201	(1,629)	(13%)

Working capital

Working capital decreased by \$1.7 million from December 31, 2016. The decrease in working capital is due to \$1.3 million decrease in cash, the receipt of the remaining \$4.0 million license fee receivable from Aytu, the \$3.1 million decrease in the current portion of long-term debt and the \$0.9 million decrease in accounts payable mainly due to the payment of royalty fees related to the Aytu upfront payment.

Our cash position decreased by \$1.3 million from December 31, 2016 due to the \$2.4 million inflow from operating activities offset by \$3.7 million paid in principal and interest on long-term debt.

Non-current assets

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

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

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

The \$0.4 million decrease in intangible assets is mainly due to amortization expense of \$0.5 million offset by \$0.1 million foreign exchange effect on the Estrate® product rights intangible which is valued in Canadian dollars.

Long-term obligations

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

On December 11, 2015 and April 22, 2016 we entered into two separate amendments to our senior financing agreement with MidCap. Pursuant to the terms and conditions of the first amendment, we immediately repaid \$17.0 million of 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 at March 31, 2017, there was \$3.1 million outstanding on this promissory note, of this amount, \$0.9 million is payable within a year.

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 \$1.6 million decrease in the shareholders' equity from December 31, 2016 to March 31, 2017 is primarily due to \$2.1 million net loss, offset by the \$0.4 million foreign currency translation and \$0.1 million in share-based compensation.

Liquidity and capital resources

Liquidity risk

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"). As at March 31, 2017 there is \$3.1 million of principal outstanding on the note.

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 March 31, 2017, we had 213,118,645 common shares issued and outstanding, 3,086,453 warrants outstanding and exercisable for 3,086,453 common shares, 13,846,466 outstanding stock options with a weighted average exercise price of CDN\$0.40 and 1,717,500 outstanding stock options with a weighted average exercise price of \$6.25.

Cash flows

	For the three months ended March 31,			
	2017	2016	Change \$	Change %
Cash flows from operating activities	\$ 2,354	\$ 312	2,042	654%
Cash flows (used in) financing activities	(3,732)	(828)	(2,904)	351%
Cash flows (used in) investing activities	-	(2)	2	100%
Exchange gain on cash	52	383	(331)	(86%)
Net (decrease) in cash for the period	(1,326)	(135)	(1,191)	(882%)

At March 31, 2017 we had a cash balance of \$3.9 million, which is a \$1.3 million decrease from December 31, 2016. 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 March 31, 2017 of \$2.4 million due to \$2.1 million net loss, offset by \$0.7 million of non-cash items and \$3.8 million inflow from working capital. The inflow from working capital is driven by the receipt of \$4.0 upfront payment from Aytu. In the prior year comparable period we had an inflow of \$0.3 million due to a net income of \$5.9 million offset by non-cash items of \$5.9 million and working capital inflow of \$0.3 million.

Cash flow used in financing activities

Cash used in financing for the three months ended March 31, 2017 was an outflow of \$3.7 million mainly due to the extinguishment of the senior financing, and principal and interest paid on the promissory note. In the prior year comparable period we used \$0.3 million in interest and financing fees and had debt principal payments of \$0.6 million.

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.

Contractual obligations and commitments

We are obligated to make the following payments:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Accounts payable and accrued liabilities	\$ 2,374	\$ 2,374	\$ -	\$ -	\$ -
Operating leases	1,465	172	338	357	598
Long-term debt (principal and interest)	3,636	1,232	2,162	242	-
Total Obligations	\$ 7,475	\$ 3,778	\$ 2,500	\$ 599	\$ 598

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 March 31, 2017 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 March 31, 2017 unaudited condensed interim consolidated financial statements) for products submitted for approval by SRL.

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 months ended March 31, 2017 and 2016 were as follows:

	For the three months ended	
	March 31,	
	2017	2016
Short-term compensation of key management and directors	\$ 416	\$ 405
Share-based compensation	73	1
Legal fees paid or payable to firms affiliated with directors	1	3
	\$ 490	\$ 409

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately \$1,874 if a change in control occurs, \$1,123 if all are terminated without cause, and \$nil if all are terminated with cause.

As at March 31, 2017, Acerus holds a \$36,279 (\$32,716 as at December 31, 2016) 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 \$311 for the three months ended March 31, 2017 (loss of \$2,025 for the three months ended March 31, 2016) that has been recorded in the consolidated statement of (loss)/income.

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

The long-term debt is measured at amortized cost. At March 31, 2017, the fair value of the long-term debt approximates its face value of \$3,064. The fair values are based on cash flows discounted using a rate based on the borrowing rate and are within Level 3 of the fair value hierarchy.

Currency risk

We are exposed to currency risk related to the fluctuation of foreign exchange rates. We 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 to be 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 US dollars and Euros.

	As at March 31,	
	2017	
	USD	EUR
Cash	\$ 1,808	\$ -
Intecompany receivable	36,279	-
Accounts payable and accrued liabilities	(3,182)	(65)
Long-term debt	(3,064)	-
	\$ 31,841	\$ (65)

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 (loss)/income:

US Dollar			
Appreciate 5%			
	US	EUR	Total
	\$ (1,516)	\$ (3)	\$ (1,519)

US Dollar			
Depreciate 5%			
	US	EUR	Total
	\$ 1,676	\$ 3	\$ 1,679

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, and trade and other receivables. 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 61% of its trade receivables are due from four pharmaceutical wholesalers in Canada. As at March 31, 2017, the allowance for doubtful accounts was \$nil. We have not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and all amounts are considered recoverable.

Market risk

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

Assuming that all other variables remain constant, a 5% appreciation or depreciation of the Company’s share price would have resulted in a \$9 decrease and \$9 increase in net income respectively (\$13 increase and \$13 decrease in the net loss at December 31, 2016).

Accounting pronouncements

The accounting policies applied are consistent with the significant accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2016. These policies have been consistently applied to all periods presented.

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

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

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

IAS 12 Income taxes – Deferred tax

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

New and revised IFRSs issued but not yet effective

A number of new standards and amendments to standards and interpretations have not been applied in preparing these consolidated financial statements. The standards that are expected to have a significant effect our unaudited condensed interim consolidated financial statements are stated below:

IFRS 9 Financial instruments

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.

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 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.

Non-IFRS financial measures

The non-IFRS measures included in this MD&A are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Despite the importance of these measures to management in goal setting and performance measurement, we stress that these are non-IFRS measures that may be limited in their usefulness to investors.

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

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

EBITDA and Adjusted EBITDA

EBITDA is defined as net (loss)/income adjusted for income tax, depreciation of property and equipment, amortization of intangible assets, interest on long-term debt and other financing costs, interest income, amortizing 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 (loss)/income to EBITDA (and Adjusted EBITDA) is set out below.

Adjusted EBITDA is defined as EBITDA adjusted for, as applicable, 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 an alternative measure of cash flow generation than, for example, cash flow from operations, particularly because it removes cash flow fluctuations caused by extraordinary changes in working capital.

	For the three months ended March 31,	
	2017	2016
Net income/(loss)	\$ (2,076)	\$ 5,917
Adjustments:		
Income tax expense	-	150
Licensing fees	(255)	(8,483)
Amortization of intangible assets	453	439
Depreciation of property and equipment	66	123
Interest on long-term debt and other financing costs ⁽¹⁾	116	311
Interest income	(8)	(5)
Change in fair value of derivative	(45)	34
EBITDA	(1,749)	(1,514)
Share based compensation	78	58
Foreign exchange loss	301	1,724
Adjusted EBITDA	(1,370)	268

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

Management's responsibility for financial reporting

Disclosure controls and procedures and internal controls over financial reporting

As at March 31, 2017 management has disclosure controls and procedures ("DCP") that provide reasonable assurance that information required to be disclosed by the Company in its filings under Canadian securities legislation is recorded, processed, summarized and reported in a timely manner. The system of DCP includes, among other things, the Company's Corporate Disclosure and Whistleblower policies and Code of Conduct, the review and approval procedures of the Disclosure Committee and continuous review and monitoring procedures by senior management.

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

Changes in internal controls over financial reporting

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

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. On April 6, 2017, Mr. Eugene Melnyk served a Notice of Appeal to appeal the decision of Justice Wilton-Siegel to the Divisional Court of the Ontario Superior Court of Justice. A hearing date for the appeal to the Divisional Court has not yet been set.

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.