



**MANAGEMENT’S DISCUSSION AND ANALYSIS OF
ACERUS PHARMACEUTICALS CORPORATION
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 2017. This MD&A is dated August 10, 2017 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 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 funds, either from commercial sales of both existing and future products, commercial transactions and investors, to continue the development, commercialization and launch of additional products. These circumstances lend significant doubt as to our ability to meet our obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

We have assessed our ability to continue as a going concern and concluded that in order to complete our planned product development programs, capital may be required. This assessment included taking into account the impact of a generic Estrace[®], 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, as well as, the three license and supply agreements entered into with partners outside North America, 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 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 and 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. by our commercial partner Aytu and we are pursuing global expansion for this product in various countries through commercial partnerships, including recently signed agreements with Hyundai Pharm Co., LTD (“Hyundai”) for South Korea, Therios Health Care (“Therios”) for Saudi Arabia, the United Arab Emirates and Egypt, and medac Gesellschaft für klinische Spezialpräparate mbH (“medac”) for the following countries: Germany, United Kingdom, France, Italy, Czech Republic, Slovakia, Spain, Sweden, Finland, Denmark, Norway, Poland, Austria, Netherland, and Belgium. 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 continue to actively pursue high quality opportunities with strong strategic fit to 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 products and 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, of which the last \$4.0 million was received in Q1 2017. Additionally, we are entitled to sales-based milestones that could potentially total \$37.5 million. We are also responsible for the manufacturing of the product and receive a tiered supply price 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.

Natesto® Middle East

On June 5, 2017, the Company announced that it had entered into an agreement with U.S based Therios Healthcare ("Therios"), granting exclusives rights to market Natesto® in the Saudi Arabia, United Arab Emirates, and Egypt. Under the terms of the license, Acerus will receive a fixed supply price per unit.

Natesto® Europe

On June 14, 2017, the Company announced that it had signed an agreement with German based medac GmbH ("medac"), granting exclusive rights to market Natesto® in 15 European countries. Under the terms of the license, development and supply agreement, Acerus will receive a non-refundable upfront fee in the final quarter of fiscal 2017, a milestone payment upon regulatory approval, and milestones upon achieving certain sales milestones totalling €1.5 million, as well as, 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. On a cumulative Canadian dollar basis, product sales of Estrace® from July 1, 2016 to June 30, 2017 have decreased by approximately 48% over the same prior year period. We continue to closely monitor the situation and have implemented initiatives aimed at preventing further erosion going forward.

Gynoflor™

We entered into a license and supply agreement with Medinova AG, a Swiss pharmaceutical company that grant us the exclusive rights to commercialize Gynoflor™ in Canada. Gynoflor™ is an ultra-low dose estrogen (estriol) and lactobacillus combination vaginal tablet

exchange gain/loss on translation of the U.S. dollar denominated intercompany receivable with the parent company into Canadian dollar, and lower interest expense due to the repayment of the debt owed to MidCap.

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 include manufacturing, distribution, 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, new product submissions, formulation development and packaging design costs as well as milestone obligations based on the achievement of specific development, regulatory or commercial milestones on or before specific dates. Research and development expenses also include salary, benefits and share-based compensation for R&D management and staff and amortization of intangible assets, leasehold improvements and manufacturing and laboratory assets.

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

Selling, general and administrative expenses

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

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 on the intercompany receivable has been a major component of the net financing costs as the receivable is denominated in U.S. dollars and is held by the parent company in its functional currency, Canadian dollar, and thus the foreign exchange gain/loss does not eliminate on consolidation.

Foreign currency

For the Canadian parent legal entity, majority of the revenue and expenses are in Canadian dollars (functional currency) and are translated into US dollar (reporting currency) for consolidated reporting. Accordingly, the results of operations are impacted by fluctuations in the U.S. dollar exchange rate. For the statement of (loss)/ income and comprehensive (loss)/ income, the average exchange rate used for the three and six months ended June 30, 2017 and 2016 were of 0.7519 and 0.7509, respectively. Similarly, for the statement of financial position at June 30, 2017 and June 30, 2016, the spot rates used were 0.7705 and 0.7447, respectively.

Taxation

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

Second quarter results from operations

The following table presents selected financial information (including certain non-IFRS measures, as noted) for the three and six months ended June 30, 2017 and 2016, which were derived from the unaudited condensed interim consolidated financial statements for the respective periods:

	For the three months ended June 30,		Q2 Change		For the six months ended June 30,		Period Change	
	2017	2016	\$	%	2017	2016	\$	%
Statement of (loss)/income and comprehensive income/(loss) data								
Revenues								
Product revenues	\$ 1,194	\$ 2,143	(949)	(44%)	\$ 2,209	\$ 4,067	(1,858)	(46%)
Licensing and other fees	252	8,483	(8,231)	(97%)	507	16,966	(16,459)	(97%)
	1,446	10,626	(9,180)	(86%)	2,716	21,033	(18,317)	(87%)
Cost of sales	636	2,228	(1,592)	(71%)	1,274	3,040	(1,766)	(58%)
Gross profit	810	8,398	(7,588)	(90%)	1,442	17,993	(16,551)	(92%)
<u>Operating expenses:</u>								
Research and development expense	402	402	-	0	1,125	\$ 889	236	0
Selling, general and administrative	1,483	1,466	17	0	3,104	\$ 2,443	661	27%
Total operating expenses	1,885	1,868	17	0	4,229	3,332	897	27%
Finance costs, net	863	(83)	946	1140%	1,227	1,981	(754)	(38%)
Total expenses	2,748	1,785	963	54%	5,456	5,313	143	0
Income taxes expense/(recovery)	-	150	(150)	(100%)	-	300	(300)	(100%)
Net income/(loss)	(1,938)	6,463	(8,401)	(130%)	(4,014)	12,380	(16,394)	(132%)
Foreign currency translation adjustment	934	(152)	1,086	714%	1,303	2,614	(1,311)	(50%)
Total comprehensive income/(loss) for the period	(1,004)	6,311	(7,315)	(116%)	(2,711)	14,994	(17,705)	(118%)
Net (loss)/earnings per basic and diluted common share (in dollars)	\$ (0.01)	\$ 0.03	\$ (0.04)	133%	\$ (0.02)	\$ 0.06	\$ (0.08)	(133%)
EBITDA ⁽¹⁾	(1,616)	(1,094)			(3,365)	(2,608)		
Adjusted EBITDA ⁽¹⁾	(748)	121			(2,118)	389		

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

	As at	
	June 30, 2017	December 31, 2016
Statement of financial position data		
Total assets	\$ 22,009	\$ 29,716
Total liabilities	12,375	17,515
Total shareholders' equity	9,634	12,201

Revenue and gross profit

	For the three months ended June 30,		Q2 Change		For the six months ended June 30,		Period Change	
	2017	2016	\$	%	2017	2016	\$	%
Revenues								
Product revenues	\$ 1,194	\$ 2,143	(949)	(44%)	\$ 2,209	\$ 4,067	(1,858)	(46%)
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Gross profit	810	8,398	(7,588)	(90%)	1,442	17,993	(16,551)	(92%)

Estrace® accounts for the bulk of the product revenues at \$1.1 million and \$2.0 million for the three and six months ended June 30, 2017 (CDN\$1.4 million and CDN\$2.5 million for the three and six months ended June 30, 2017), compared to \$2.1 million and \$4.0 million for the three and six months ended June 30, 2016 (CDN\$2.7 million and CDN\$5.3 million for the three and six months ended

June 30, 2016). The decrease in Estrace[®] compared to the same prior year period is due to the launch of a third party generic. The remaining revenues are from Natesto[®] product sales in Canada, as well as, upfront, license and supply revenues from commercial partners outside Canada.

Revenues from the sale of Natesto[®] in the United States are earned in two steps: 1) at a contractual supply 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. The Company is expected to deliver a new supply of product to Aytu in Q3 of fiscal 2017. 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 for the three and six months ended June 30, 2017 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 and six months ending June 30, 2016 relates to the recognition of the \$25.0 million upfront payment earned in the Natesto[®] license, development and supply agreement with Endo. The agreement with Endo was terminated as of June 30, 2016.

Included in the Estrace[®] cost of sales for the three and six months ended June 30, 2017 is \$0.4 million and \$0.8 million (\$0.4 million and \$0.8 million for the three and six months ended June 30, 2016) in amortization of the product rights intangible, respectively.

Research and development

	For the three months ended June 30,		Q2 Change		For the six months ended June 30,		Period Change	
	2017	2016	\$	%	2017	2016	\$	%
	Research and development expense	\$ 402	\$ 402	-	-	\$ 1,125	\$ 889	236

Research and development expenses for the three months ended June 30, 2017 is consistent with expenses from the comparable prior year period. The \$0.2 million increase in research and development expenses for the six months ended June 30, 2017 versus the comparable prior year period is mainly due to NDS fees for Gynoflor[™]. Overhead allocations of 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[™] and other clinical studies. In addition, formulation optimization and product development costs may be incurred for products utilizing other in-licensed technologies in the future.

Selling, general and administrative

	For the three months ended June 30,		Q2 Change		For the six months ended June 30,		Period Change	
	2017	2016	\$	%	2017	2016	\$	%
	Selling, general and administrative	\$ 1,483	\$ 1,466	17	1%	\$ 3,104	\$ 2,443	661

Selling, general and administrative expenses for the three months ended June 30, 2017 is consistent with expenses from the comparable prior year period. Selling, general and administrative expenses have increased by \$0.7 million for the six months ended June 30, 2017 versus the comparable prior year period. The increase is mainly due to a \$0.8 million increase in selling expenses related to the launch of Natesto[®] in Canada, \$0.3 million increase in salaries and benefits, offset by a decrease in other expenses of \$0.4 million.

Finance costs

	For the three months ended June 30,				For the six months ended June 30,							
	2017		2016		Q2 Change		2017		2016		Period Change	
	\$		\$		\$	%	\$		\$		\$	%
Interest on long-term debt and other financing costs	\$	81	\$	270	(189)	(70%)	\$	197	\$	581	(384)	(66%)
Interest income		(5)		(5)	-	-		(13)		(10)	(3)	(30%)
Foreign exchange (gain)/loss		802		(281)	1,083	385%		1,103		1,443	(340)	(24%)
Change in fair value of derivative financial instruments		(15)		(67)	52	78%		(60)		(33)	(27)	(82%)
Total finance costs	\$	863	\$	(83)	946	1140%	\$	1,227	\$	1,981	(754)	(38%)

Finance costs for the three months ended June 30, 2017 increased by \$0.9 million compared to the same prior year period. The increase is mainly due to a change in the foreign exchange loss driven by the US denominated intercompany receivable. The increase in the foreign exchange loss was offset by the decrease in interest on long-term debt and other financing costs due to a lower average principal balance on outstanding debt. Financing costs for the six months ended June 30, 2017 decreased by \$0.8 million compared to the same prior year period. The decrease is partially due to a change in the foreign exchange loss driven by the US denominated intercompany receivable as well as a decrease in interest on long-term debt and other financing costs due lower average outstanding debt principal balance.

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

	For the three months ended June 30,				For the six months ended June 30,							
	2017		2016		Q2 Change		2017		2016		Period Change	
	\$		\$		\$	%	\$		\$		\$	%
Net income/(loss)	\$	(1,938)	\$	6,463	(8,401)	(130%)	\$	(4,014)	\$	12,380	(16,394)	(132%)
Net comprehensive income/(loss)	\$	(1,004)	\$	6,311	(7,315)	(116%)	\$	(2,711)	\$	14,994	(17,705)	(118%)
Basic and diluted net income/(loss) per share	\$	(0.01)	\$	(0.03)			\$	(0.02)	\$	0.06		

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			
	June 30, 2017	December 31, 2016	\$	%		
	\$	\$				
Working capital (total current assets less total current liabilities)	\$	3,271	\$	5,937	(2,666)	(45%)
Non-current assets		14,673		15,312	(639)	(4%)
Long-term obligations		8,310		9,048	(738)	(8%)
Shareholders' equity		9,634		12,201	(2,567)	(21%)

Working capital

The approximately \$2.7 million decrease in working capital from December 31, 2016 to June 30, 2017 reflects the following:

Net decrease of current assets, including net decrease of \$2.3 million in cash position, elimination of \$4.1 million in license fee receivable recorded in 2016 with payment by Atyu in Q1 2017, and decrease in inventory of \$0.3.

Offset by \$1.2 million decrease in accounts payable due to payment of short term obligations as well as payment of royalty fees related to the Aytu upfront, and \$3.1 reduction in current portion of long-term debt with payments to Midcap and Endo.

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 June 30, 2017 is primarily due to depreciation expense and impacted by foreign exchange.

At June 30, 2017, manufacturing equipment with a net book value of \$1.0 million is held off-site by a third party (\$1.0 million at December 31, 2016).

Intangible assets decreased due to amortization expense of \$0.9 million offset by the effect of foreign exchange on the Estrace[®] product rights intangible valued in Canadian dollars.

Long-term obligations

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

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

Pursuant to the transition agreement between Acerus and Endo, both parties have also entered into an agreement related to the customer deposit (pre-paid inventory) owed to Endo following the termination of the Natesto[®] agreement. A \$0.5 million cash payment was paid to Endo on July 5, 2016 and \$3.8 million was converted to a promissory note, of which \$0.5 million was paid in December 2016 and the remaining amounts are payable in equal quarterly installments of \$0.2 million until the maturity date of June 30, 2020. The promissory note is unsecured and bears interest at a rate of LIBOR + 9.5% per annum with a LIBOR floor rate of 1%. As at June 30, 2017 there was \$2.8 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 \$2.6 million decrease in the shareholders' equity from December 31, 2016 to June 30, 2017 is primarily due to \$4.0 million net loss, offset by the \$1.3 million foreign currency translation and \$0.1 million in share-based compensation.

Liquidity and capital resources

Liquidity risk

As detailed in the long-term obligations section above, as at June 30, 2017 there is \$2.8 million of principal outstanding on the Endo promissory note and of this amount, \$0.9 million is payable within a year.

Liquidity risk is the risk that we may encounter difficulties in meeting our financial liability obligations as they become due. We have planning and budgeting processes in place to help determine the funds required to support our normal operating requirements on an ongoing basis. Since inception, we have financed our cash requirements primarily through issuances of equity securities and long-term debt (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 June 30, 2017, we had 213,118,645 common shares issued and outstanding, 3,086,453 warrants outstanding and exercisable for 3,086,453 common shares, 14,461,166 outstanding stock options with a weighted average exercise price of CDN\$0.38 and 1,717,500 outstanding stock options with a weighted average exercise price of \$6.25.

Cash flows

	For the six months ended			
	June 30, 2017			
	2017	2016	Change \$	Change %
Cash flows from operating activities	\$ 1,646	\$ 1,648	\$ (2)	-
Cash flows used in financing activities	(4,048)	(2,792)	(1,256)	45%
Cash flows from/(used in) investing activities	5	(11)	16	145%
Exchange gain on cash	107	359	(252)	(70%)
Net decrease in cash for the period	\$ (2,290)	\$ (796)	\$ (1,494)	(188%)

At June 30, 2017 we had a cash balance of \$2.9 million, which is a \$2.3 million decrease from December 31, 2016 as cash used in financing activities was only partially offset by cash inflows from operating activities.

Cash flows used in operating activities

We generated positive cash inflows from operating activities for the six months ended June 30, 2017 of \$1.6 million which reflects the \$4.0 million net loss, being offset by \$1.9 million in net positive cashflow from non-cash items and \$3.7 million inflows from net change in working capital. The inflow from working capital is largely due to the receipt of \$4.0 upfront payment from Aytu. In the prior year comparable period, we had \$1.6 million in positive operating cashflow which reflected the net income of \$12.4 million plus \$1.3 million of cash inflow from net change in working capital, being offset by net negative non-cash items of \$13.9 million.

Cash flows used in financing activities

Cash used in financing for the six months ended June 30, 2017 was \$4.0 million mainly due to the extinguishment of the Midcap senior debt, and principal and interest paid on the Endo promissory note. In the prior year comparable period, we used \$2.8 million in financing activities which reflects \$0.5 million to pay interest and financing fees, \$4.3 million in debt principal payments, offset by \$2.0 million from the issuance of common shares.

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 equipment and laboratory facilities in our Canadian head office. 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	\$ 2,145	\$ 2,145	\$ -	\$ -	\$ -
Operating leases	1,465	172	338	357	598
Long-term debt (principal)	2,829	943	1,886	-	-
Total obligations	\$ 6,439	\$ 3,260	\$ 2,224	\$ 357	\$ 598

Under certain conditions of our research and development agreements, we may be required to make payments contingent upon the achievement of specific developmental, regulatory, or commercial milestones. As described in note 5(a) of our June 30, 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 June 30, 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 and six months ended June 30, 2017 and 2016 were as follows:

	For the three months ended June 30,		For the six months ended, June 30,	
	2017	2016	2017	2016
Short-term compensation of key management and directors	\$ 406	\$ 344	\$ 822	\$ 749
Share-based compensation	67	112	140	113
Legal fees paid or payable to firms affiliated with directors	-	6	1	9
	\$ 473	\$ 462	\$ 963	\$ 871

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately \$2,078 if a change in control occurs, \$1,327 if all are terminated without cause, and \$nil if all are terminated with cause.

As at June 30, 2017, Acerus holds a \$36,720 (\$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 \$939 and gain of \$1,250 for the three and six months ended June 30, 2017 (gain of \$115 and loss of \$1,910 for the three and six months ended June 30, 2016).

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 June 30, 2017, our financial instruments consisted of cash, trade and other receivables, accounts payable and accrued liabilities, long-term debt, and derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statement of (loss)/income and comprehensive (loss)/income and is classified as Level 2. Cash, trade and other receivables, 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 June 30, 2017 the fair value of the long-term debt approximates its face value of \$2.8 million. The fair values are based on cash flows discounted using a rate based on the borrowing rate and are within Level 3 of the fair value hierarchy.

Currency risk

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

	As at June 30,	
	2017	
	USD	EUR
Cash	\$ 1,391	\$ -
Intercompany receivable	36,720	-
Accounts payable and accrued liabilities	(3,192)	(8)
Long-term debt	(2,829)	-
	\$ 32,090	\$ (8)

Based on the above net exposure at June 30, 2017, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the US dollar against the other currencies would have resulted in the following impact on net (loss)/income:

US Dollar		
Appreciate 5%		
USD	EUR	Total
\$ (1,528)	\$ -	\$ (1,528)
Depreciates 5%		
USD	EUR	Total
\$ (1,689)	\$ -	\$ (1,689)

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 June 30, 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 an \$8 decrease and \$8 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 on 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 Company is required to adopt the standard effective January 1, 2018. 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, June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net income/(loss)	\$ (1,938)	\$ 6,463	\$ (4,014)	\$ 12,380
Adjustments:				
Income tax expense	-	150	-	300
Licensing fees	(252)	(8,483)	(507)	(16,966)
Amortization of intangible assets	448	464	901	903
Depreciation of property and equipment	65	114	131	237
Interest on long-term debt and other financing costs ⁽¹⁾	81	270	197	581
Interest income	(5)	(5)	(13)	(10)
Change in fair value of derivative	(15)	(67)	(60)	(33)
EBITDA	\$ (1,616)	\$ (1,094)	\$ (3,365)	\$ (2,608)
Royalty expense on upfront payment	-	1,424	-	1,424
Share based compensation	66	72	144	130
Foreign exchange loss / (gain)	802	(281)	1,103	1,443
Adjusted EBITDA	\$ (748)	\$ 121	\$ (2,118)	\$ 389

(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 June 30, 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 June 30, 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 June 30, 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. Mr. Melnyk has perfected the appeal and the Company’s responding materials are due by the end of August. 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.