Management's Discussion & Analysis of
Acerus Pharmaceuticals Corporation
For the three months ended March 31, 2018

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, 2018. This MD&A is dated May 14, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018, together with the notes and audited consolidated financial statements for the year ended December 31, 2017.

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 20, 2018 available at www.sedar.com.

Our ability to realize our assets and meet our obligations as they come due is dependent on successfully commercializing our existing products, bringing new products and technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, we will require additional funds, either from commercial sales of both existing and future products, commercial transactions and investors, to continue the development, commercialization and launch of additional products. These circumstances lend significant doubt as to our ability to meet our obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

We have assessed our ability to continue as a going concern and concluded that in order to complete our planned product development and commercialization programs, capital will be required. Our ability to accomplish our strategic plans is dependent upon earning sufficient revenues from existing products, bringing new products and technologies to market, achieving future profitable operations and possibly obtaining additional financing, executing other strategic initiatives that could provide cash flows, or alternatively curtail expenditures. There are no assurances that any of these initiatives will be successful. Factors within and outside our control could have a significant bearing on our ability to obtain additional financing.

Forward-looking statements

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

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

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

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

Description of business

These unaudited condensed interim audited consolidated financial statements represent the consolidated accounts of Acerus (incorporated in Ontario, Canada) and its wholly-owned subsidiaries, Acerus Labs Inc. ("ALI") (incorporated in Ontario), Acerus Biopharma Inc. ("ABI") (formerly named Acerus Pharmaceuticals SRL ("SRL")) (incorporated in Ontario), and Acerus Pharmaceuticals (Barbados) Inc. ("APBI") (incorporated in Barbados). On November 6, 2017, ABI migrated jurisdiction of incorporation, corporate law residence, and tax residence from Barbados to Canada. APBI was dissolved on February 26, 2018. The head office, principal address and records office of the Company are located in Mississauga, Ontario, Canada. The Company's registered address is 2486 Dunwin Drive, Mississauga, Ontario, L5L 1J9.

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

We currently have three marketed products: Estrace®, a product for relief of menopausal symptoms, is commercialized in Canada; Natesto®, a testosterone nasal gel for testosterone replacement therapy in adult males diagnosed with hypogonadism, is commercialized in Canada and the U.S.; and Urivarx®, a Natural Health Product that helps reduce symptoms of hyperactive bladder such as daytime urinary frequency, urgency and nocturia. Natesto® has been licensed for distribution in 48 additional countries worldwide. Marketing approvals in jurisdictions outside of Canada and U.S. are expected to take place over the course of the coming years. Our pipeline includes five products: Stendra®, a new chemical entity (PDE5 inhibitor) for the treatment of erectile dysfunction, which has been approved by the U.S. Food and Drug Administration ("FDA") and the European Medicines Agency ("EU EMA") and is commercialized in the U.S. under the trade name Stendra® and in the European Union ("EU") under the trade name Spedra®; Elegant™ Vaginal Moisturizer, to provide comfort to women suffering from vaginal dryness, and Elegant™ pH, to help maintain a balanced pH in the vaginal environment; Gynoflor™, an ultra-low dose vaginal estrogen combined with a probiotic, for which a New Drug Submission ("NDS") has been filed in Canada for the treatment of vaginal atrophy; and Tefina™, a clinical stage product aimed at addressing female sexual dysfunction. Finally, Acerus is working on expanding its product portfolio by leveraging its proprietary delivery systems, patents and formulation expertise. Acerus has a number of product programs at various stage of development. One of these programs relates to intranasal delivery of cannabinoids (whether synthetic or naturally derived cannabinoids) which may have multiple possible therapeutic applications (the "Cannabinoids Initiative"). We have filed patent applications on the Cannabinoids Initiative, are currently working on setting up a series of pharmacokinetic clinical trials and are actively looking at potential partnering transactions.

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

Key products and developments

Natesto®

We have entered into the following license, development and supply agreements for Natesto®:

Date	Company	Territory	Terms
April 22, 2016	Aytu BioScience Inc. ("Aytu")	United States	• Non-refundable upfront payments totaling $8.0 million • Sales-based milestones that could potentially total $37.4 million • Tiered supply price per unit
December 15, 2016	Hyundai Pharm Co., Ltd ("Hyundai")	South Korea	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
June 5, 2017	Therios Healthcare ("Therios")	Saudi Arabia, United Arab Emirates, and Egypt	• Fixed supply price per unit
June 14, 2017	medac Gesellschaft für Klinische Spezialpräparate mbH ("medac")	15 European countries	• Non-refundable upfront fee • Milestone payment on regulatory approval and sales-based milestone payments • Tiered supply price per unit
October 17, 2017	Eu Hwa Pte LTD. ("EU")	Thailand, Malaysia/Brunei, Singapore, Vietnam, Philippines, Hong Kong/Macau and one other small South East Asian country	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
November 23, 2017	Apsen Farmacêutica ("Apsen")	Brazil	• Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit

Natesto® to be listed for public reimbursement in Quebec

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

Gynoflor™

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

On December 24, 2017, we received a Notice of Deficiency ("NOD"). In its notice, Health Canada requested additional technical information on Gynoflor™ in order to complete its assessment of the product. Acerus officially responded to the NOD on April 11, 2018, focusing only the vaginal atrophy indication and expects to receive a decision from Health Canada in the first half of 2019.

Elegant™ franchise

On December 20, 2017, we entered into a license, development and supply agreement with Viramal Limited ("Viramal"), a London-based specialty pharmaceutical company, that grants us exclusive rights to commercialize the Elegant™ franchise in Canada. The Elegant™ franchise comprises Elegant™ Vaginal Moisturizer, which provides comfort to women suffering from vaginal dryness, and Elegant™ pH, which is a pH balanced vaginal product. Elegant™ Vaginal Moisturizer and Elegant™ pH are over-the-counter products. Under the terms of the license, development and supply agreement, we will pay Viramal a regulatory milestone payment upon receiving marketing approval in Canada, as well as milestone payments based on achieving sales targets. Viramal will oversee the manufacturing of Elegant™ and will receive a supply price for the product.

UriVarx®

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

Corporate Update

Long-term debt financing

On December 6, 2017, we entered into a senior secured term credit facility with Quantius Inc. ("Quantius") for up to CDN$5.0 million of which CDN$3.0 million was available at closing, with the remaining CDN$2.0 million becoming available upon satisfaction of certain future conditions, including 1) Aytu achieving a pre-determined number of prescriptions per month for Natesto® in the U.S., and 2) maintaining Estrace® sales at a pre-determined minimum level. These conditions were met subsequent to quarter end and we received the remaining CDN$2.0 million on April 20, 2018. The credit facility bears interest at a rate equivalent to the Bank of Canada prime plus 11.05% and matures on December 1, 2019. The credit facility is repayable in monthly instalments of 1/48 of the balance owing commencing December 1, 2018 with the remaining balance due at maturity. As part of the transaction, Quantius received an underwriting fee representing a low single digit percentage of the maximum facility amount and will receive a royalty fee representing low single digit percentage on our revenues over the term of the facility, capped at a high single digit percentage of the borrowed amount. Under terms of the agreement, we will have the option to prepay the loan with the payment of low single digit prepayment penalties. The prepayment penalties will be fully offset against the royalty fee payable at the time of termination. The terms of the agreement also contain customary financial covenants. We were in compliance with the covenants as of March 31, 2018.

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

Factors affecting results from operations

Revenue and cost of sales

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

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, including 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, benefits, and share-based compensation for Non-R&D executive management and other staff, professional fees, public company related costs, selling expenses, office expenses and amortization of leasehold improvements and equipment used for administrative purposes.

Other expenses

Other expenses consist of interest expense, accretion, amortization of deferred financing fees, fair value adjustment to the derivative financial instruments, foreign exchange gains and losses, interest income and a gain on extinguishment of payables. The foreign exchange gains and losses on the intercompany receivables and payables have been major components of the net financing costs as the receivables and payables are denominated in U.S. dollars and are held by the parent company in its functional currency, Canadian dollar, and thus the foreign exchange gain/loss does not eliminate on consolidation.

Foreign currency

For Acerus, ALI and APBI, a majority of the revenue and expenses are in Canadian dollars (functional currency) and are translated into U.S. dollar (reporting currency) for consolidated reporting. Accordingly, the results of operations are impacted by fluctuations in the U.S. dollar exchange rate. The Canadian legal entities' statement of (loss)/income and comprehensive (loss)/income, which are recorded in Canadian dollars, were translated to U.S. dollars at the average exchange rate of $0.7906 and $0.7700 respectively for the three months ended March 31, 2018 and 2017. Similarly, the Canadian entities' statement of financial position which is recorded in Canadian dollars was translated into U.S. dollars at the period-end spot rates of $0.7756 and $0.7971 at March 31, 2018 and December 31, 2017 respectively.

Taxation

Canada and Barbados have laws related to various taxes imposed by national/federal, provincial and municipal authorities. Applicable taxes include a value added tax ("VAT") and harmonized sales tax ("HST"), corporate income tax, payroll taxes and other taxes. The VAT and HST taxes that are payable on goods and services billed and purchased are 17.5% in Barbados, 19.6% in Europe and 13% in Canada, respectively. These may be recoverable due to input tax credits. Corporate income tax payable in Canada is 26.5% in 2017 and in Barbados there is a sliding scale of rates ranging from 2.5% on the first BBD$10.0 million of taxable income to 0.25% on taxable income of BBD$30.0 million and greater. On November 6, 2017, ABI migrated jurisdiction of incorporation, corporate law residence, and tax residence from Barbados to Canada. APBI was officially dissolved on February 26, 2018.

Select quarterly information

The following table highlights selected unaudited consolidated financial data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018. The selected financial information presented below reflects all adjustments, consisting primarily of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These results are not necessarily indicative of results for any future period and you should not rely on these results to predict future performance.

	Three months ended			
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Statement of operations data				
Product revenue*	$ 1,624	$ 1,779	$ 1,360	$ 1,194
Licensing revenue**	-	600	-	584
Cost of goods sold	3,441	1,328	661	636
Research and development	472	674	367	402
Selling, general & administrative expense	1,783	3,070	1,793	1,483
Finance costs, net	382	(914)	1,402	863
Net loss**	(4,454)	(1,826)	(2,863)	(1,606)
Basic and diluted net loss per common share**	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)

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

**Licensing revenue has been restated as a result of the adoption of IFRS 15 Revenue from contracts with customers. See note 3(c) in the unaudited condensed interim consolidated satements for the quarter ending March 31, 2018 for more information regarding the restatement as a result of a change in accounting policy.

	Three months ended			
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Statement of operations data				
Revenue	$ 1,015	$ 1,557	$ 1,389	$ 2,143
Licensing revenue**	-	150	-	-
Cost of goods sold	638	718	695	2,228
Research and development	723	364	343	402
Selling, general & administrative expense	1,621	1,594	1,441	1,466
Finance costs, net	364	(557)	116	(83)
Net loss**	(2,331)	(412)	(1,206)	(2,020)
Basic and diluted net loss per common share**	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)

**Licensing revenue has been restated as a result of the adoption of IFRS 15 Revenue from contracts with customers. See note 3(c) in the unaudited condensed interim consolidated satements for the quarter ending March 31, 2018 for more information regarding the restatement as a result of a change in accounting policy.

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

- Quarterly product revenue decreased until Q1 2017 due to generic competition for Estrace®. With Estrace® sales stabilized in the last three quarters of 2017 and Natesto® sales ramping in both Canada and U.S., product revenue grew quarter over quarter in 2017. Product revenue jumped in Q4 2017 with the Company's first Natesto® inventory shipment to Aytu, our U.S. partner. Although, there was a second Natesto® inventory shipment to Aytu in Q1 2018, product revenue declined in Q1 2018 due to the seasonality impact on Estrace® sales which decreased in Q1 2018 compared to Q4 2017.
- Q1 2018 cost of goods sold reflects an accrual of net minimum royalty obligation of $2.3 million on Natesto® sales.
- Research and development expense fluctuate depending on timing of regulatory activities and level of product development activities. Q1 2018 reflects continuing higher regulatory consulting fees to support our distribution partners with drug application filings for Natesto® in jurisdictions outside Canada and increased spending on product development.
- Selling, general and administrative expenses remained consistent with Q4 2017 after accounting for a one time accrual for termination costs of a member of the executive team incurred in Q4 2017.
- Financing and other expense fluctuations over the quarters are mainly due to foreign exchange gain/loss on translation of the U.S. dollar denominated intercompany receivable and payable with the parent company into Canadian dollar, and lower interest expense due to the repayment of the debt owed to MidCap in Q1 2017.

Results of operations – First quarter

The following table presents selected financial information for the three months ended March 31, 2018 and 2017, which were derived from the consolidated financial statements for the respective periods:

	Three months ended March 31, 2018	Restated three months ended March 31, 2017*
Revenue		
Product revenue	$ 1,624	$ 1,015
Cost of goods sold	3,441	638
Gross margin	(1,817)	377
Expenses		
Research and development	472	723
Selling, general and administrative	1,783	1,621
Total operating expenses	2,255	2,344
Other expenses/(income)		
Interest on long-term debt and other financing costs	191	116
Interest income	(5)	(8)
Foreign exchange loss	235	301
Change in fair value of derivative financial instruments	(39)	(45)
Total other expenses	382	364
Net loss for the period	(4,454)	(2,331)
Other comprehensive loss		
Foreign currency translation adjustment	90	432
Total comprehensive loss for the period	(4,364)	(1,899)
Basic and diluted net loss per common share	$ (0.02)	$ (0.01)
Weighted average common shares outstanding		
Basic	213,125,705	213,118,645
Diluted	213,125,705	213,118,645

**See note 3(c) for details regarding the restatement as a result of change in accounting policy.*

Revenue and gross profit

	Three months ending March,			
	2018	2017	Change $	Change %
Revenue				
Product revenue	$ 1,624	$ 1,015	$ 609	60 %
Cost of goods sold	3,441	638	2,803	439 %
Gross margin	$ (1,817)	$ 377	$ (2,194)	(582)%

Product revenues increased from $1.0 million for the three months ended March 31, 2017 to $1.6 million for the same 2018 period. On a Canadian dollar basis, Estrace® sales have remained stable at CDN$1.3 million (USD $1.0 million) for the three months ended March 31, 2017 and CDN$1.2 million (USD $0.9 million) in the same 2018 period. Estrace® sales appear to have stabilized as seen from the previous three quarters, CDN$1.5 million, CDN$1.4 million and CDN$1.5 million in Q2, Q3 and Q4 2017 respectively. The lower sales in Q1 is consistent with the historical seasonality of the product.

The balance of product revenue is from Natesto® and UriVarx®. The higher Natesto® product revenue in Q1 2018 over Q1 2017 is mainly due to a combination of higher sales and the Q1 2018 inventory shipment to Aytu.

Cost of goods sold for the three months ended March 31, 2018 was $3.4 million compared to $0.6 million for the three months ended March 31, 2017. Higher cost of goods sold for the three months ended March 31, 2018 is due to the inclusion of a $2.3 million accrual related to Natesto® minimum annual royalty. Furthermore, Q1 2018 gross margins were impacted by revenue from shipment of Natesto® inventory which is sold to Aytu at a contractual supply price with a small margin with the full margin only being realized when Aytu sells the product, we then receive an additional top-up revenue that has no related cost of goods other than a royalty expense. We expect to continue to see fluctuations in the gross margin depending on the relative proportion of revenue from inventory shipment and top up revenue and due to timing of minimum annual royalty accruals.

Operating expenses

	Three months ending March,			
	2018	2017	Change $	Change %
Operating expenses				
Research and development	$ 472	$ 723	$ (251)	(35)%
Selling, general and administrative	1,783	1,621	162	10 %
	$ 2,255	$ 2,344	$ (89)	(4)%

Research and development

A decrease of $0.3 million in research and development for the three months ended March 31, 2018 compared to the same prior year period is mainly due to regulatory and consulting fees related to the drug application filings for Gynoflor™ incurred in Q1 of 2017

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 clinical studies and as we incur regulatory costs to get product approvals in Canada as well as to support our distribution partners as they file for approval outside Canada and the U.S. In addition, formulation optimization and product development costs may be incurred for products utilizing other in-licensed or in-housed developed technologies in the future.

Selling, general and administrative

Selling, general and administrative expenses increased by $0.2 million for the three months ended March 31, 2018 over the same prior year period. Salaries, benefits, share based compensation and other expenses increased by $0.3 million over the prior year mainly due to the additional personnel, including the onboarding of the sales team. Business development expenses increased by $0.1 million over the prior year due increased outlicensing and in-licensing activity. These increases were offset by a $0.2 million decrease in selling expenses over the prior year period due to higher sales and marketing expenses incurred during the launch Natesto® in early 2017.

Other expenses

	Three months ending March, 2018	2017	Change $	Change %
Other expenses/(income)				
Interest on long-term debt and other financing costs	$ 191	$ 116	$ 75	65 %
Interest income	(5)	(8)	3	38 %
Foreign exchange loss	235	301	(66)	(22)%
Change in fair value of derivative financial instruments	(39)	(45)	6	13 %
	$ 382	$ 364	$ 18	5 %

The $0.1 million increase in interest on long-term debt and other financing costs for the three months ended March 31, 2018 compared to the same prior year period is mainly due to the additional Quantius credit facility of CDN$3.0 million entered into in December 2017. The decrease in foreign exchange loss is mainly driven by the fluctuation in the Canadian/U.S. exchange rate.

Financial position

The following table presents a summary of our financial position:

	March 31, 2018	December 31, 2017	Change $	Change %
Working cpaital (total current assets less total liabilities)	$ (370)	$ 3,996	$ (4,366)	(109)%
Non-current assets	13,694	14,048	(354)	(3)%
Long-term obligations	3,852	4,355	(503)	(12)%
Shareholders' equity	9,472	13,689	(4,217)	(31)%

Working capital

The approximately $4.4 million decrease in working capital from December 31, 2017 to March 31, 2018 reflects the following:

- $0.6 million decrease in cash due to a net loss of $4.5 million, interest and financing fees on long-term debt of $0.1 million, and $0.1 million outflow due to the acquisition of product rights. This was offset by the $1.0 million in non-cash expenses and $3.2 million inflow from working capital.
- $0.6 million decrease in accounts receivable and licensing fee receivable mainly due to timing of collections and sales.
- $2.6 million increase in accrued liabilities, mainly due to the $2.3 million accrual related to the Natesto® annual minimum royalty.

Non-current assets

Non-current assets consist of property and equipment, and intangible assets. Property and equipment mainly consists of office, 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, 2017 to March 31, 2018 is primarily due to depreciation and amortization expense and impact of foreign exchange.

At March 31, 2018 manufacturing equipment with a net book value of $0.8 million was held off-site by a third party ($0.8 million at December 31, 2017).

Intangible assets decreased due to amortization expense of $0.4 million, $0.3 million foreign exchange effect on the Canadian balance of the Estrace® intangible, offset by the addition of the intangible related to the UriVarx® product rights.

Long-term obligations

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

Pursuant to the transition agreement between Acerus and Endo, the parties entered into an agreement addressing 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 for the remaining $3.8 million a promissory note was issued, 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. On March 15, 2018, the promissory note was amended such that principal repayments under the promissory note would now be made annually on the last business day of the month of December of each year instead of quarterly. Payments of interest will continue to be made quarterly. 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, 2018 there was $2.4 million outstanding on the promissory note, of this amount, $0.9 million is payable within a year.

On December 6, 2017, we entered into a senior secured term credit facility with Quantius Inc. ("Quantius") for up to CDN$5.0 million, of which CDN$3.0 million was available at closing, with the remaining CDN$2.0 million becoming available upon satisfaction of certain future conditions, including 1) Aytu achieving a pre-determined number of prescriptions per month for Natesto® in the U.S., and 2) maintaining Estrace® sales at a pre-determined minimum level. These conditions were met subsequent to quarter end and we received the remaining CDN$2.0 million on April 20, 2018. The credit facility bears interest at a rate equivalent to the Bank of Canada prime plus 11.05% and matures on December 1, 2019. The credit facility is repayable in monthly instalments of 1/48 of the balance owing commencing December 1, 2018 with the remaining balance due at maturity. As part of the transaction, Quantius received an underwriting fee representing a low single digit percentage of the maximum facility amount and will receive a royalty fee representing low single digit percentage on our revenues over the term of the facility, capped at a high single digit percentage of the borrowed amount. Under terms of the agreement, we will have the option to prepay the loan with the payment of low single digit prepayment penalties. The prepayment penalties will be fully offset against the royalty fee payable at the time of termination. The terms of the agreement also contain customary financial covenants. We were in compliance with the covenants as of March 31, 2018.

Shareholders' equity

We are authorized to issue an unlimited number of common shares. As at March 31, 2018, we had 213,193,642 common shares issued and outstanding, 3,034,814 warrants outstanding and exercisable for 3,034,814 common shares, 16,634,959 outstanding stock options with a weighted average exercise price of CDN$0.19.

The $4.2 million decrease in shareholders' equity from December 31, 2017 to March 31, 2018 is primarily due to $4.5 million in net loss, offset by the $0.1 million foreign currency translation adjustment 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 March 31, 2018, there is $2.4 million of principal outstanding on the Endo promissory note and of this amount, $0.9 million is payable within a year and $2.3 million outstanding on the Quantius debt with $0.3 million payable within a year.

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

Cash flows

Cash flows from/(used in):	Three months ending March, 2018	2017	Change $	Change %
Operating activities	$ (268)	$ 2,354	$ (2,622)	(111)%
Financing activities	(142)	(3,732)	3,590	96 %
Investing activities	(132)	-	(132)	n/a
Exchange gain on cash	(66)	52	(118)	(227)%
Net decrease in cash for the period	$ (608)	$ (1,326)	$ 718	54 %

At March 31, 2018 we had a cash balance of $2.5 million, which is a $0.6 million decrease from December 31, 2017.

The cash outflow from operating activities for the three months ended March 31, 2018 are a result of a $4.5 million net loss, offset by $1.0 million in non-cash expenses and net $3.2 million inflow from working capital. The net inflow from working capital is largely due the $2.3 million Natesto® annual minimum royalty fee accrual. In the prior year comparable period, the inflow from operating activities was mainly driven by the receipt of $4.0 million upfront payment from Aytu offset by the $2.1 million net loss.

The cash used in financing activities in the three months ended March 31, 2018 is mainly a result of interest and financing fee payments. 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.

Cash used in investing activities for the three months ended March 31, 2018 is related to the purchase of the Canadian product rights of UriVarx® and the purchase of laboratory equipment.

Capital expenditures

Our 2018 capital expenditures primarily related to our investment in laboratory assets.

Off-balance sheet arrangements

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

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

Contractual obligations and commitments

As of March 31, 2018, and in normal course of business, we have the following obligations to make future payments, representing contracts and other commitments that are known and committed.

	Less than 3 months	3-6 months	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Accounts payable and accrued liabilities	$ 5,465	$ 173	$ 346	$ -	$ -	$ 5,984
Operating leases	44	44	87	174	558	907
Purchase commitments	520	-	-	-	-	520
Long-term debt (principal and interest)	129	130	1,491	3,198	484	5,432
As at March 31, 2018	$ 6,158	$ 347	$ 1,924	$ 3,372	$ 1,042	$ 12,843

Under certain conditions of our research and development agreements, we may be required to make payments contingent upon the achievement of specific developmental, regulatory, or commercial milestones. As described in note 5(a) of our December 31, 2017 consolidated financial statements, we may be required to make remaining milestone payments in the aggregate amount of $4.5 million related to Tefina™ ($2.0 million upon the acceptance for filing by the FDA or European Medicines Agencies ("EMEA") and $2.5 million upon first commercial sale), pursuant to the terms of certain product rights and asset acquisition agreements.

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

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

Related party transactions

Key management includes our directors and executive officers. The remuneration of directors and key members of management and professional fees paid or payable to firms affiliated with a current director of ABI and the interim CEO for the three months ended March 31, 2018 and 2017 were as follows:

	For the three months ended	
	March 31, 2018	March 31, 2017
Short-term compensation of key management and directors	$ 222	$ 416
Share-based compensation	98	73
Professional fees paid or payable to firms affiliated with directors & officers	153	1
	$ 473	$ 490

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately $1,220 if a change in control occurs, $1,192 if all are terminated without cause, and $nil if all are terminated with cause.

As at March 31, 2018, Acerus holds a $7,083 ($36,279 receivable as at December 31, 2017) receivable from its wholly owned subsidiary ABI. These payables and receivables is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange loss of $179 for the three months ended March 31, 2018 (loss of $311 for the three months ended March 31, 2017) 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

As at March 31, 2018, 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 March 31, 2018 the fair value of the long-term debt approximates its face value of $4.7 million. The fair values are based on cash flows discounted using a rate based on the borrowing rate and are within Level 3 of the fair value hierarchy.

Currency risk

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

	March 31, 2018		
	USD	EUR	GBP
Cash	$ 1,084	$ -	$ -
Trade and other receivables	490	-	-
Accounts payable and accrued liabilities	(9,811)	(133)	(8)
Long-term debt	(2,357)	-	-
	$ (10,594)	$ (133)	$ (8)

*includes intercompany payable of $7.0 million

Based on the above net exposure at March 31, 2018, 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

Net income effect:

	US	EUR	GBP	Total
Appreciate 5%	$ 504	$ (7)	$ -	$ 497
Depreciate 5%	(558)	7	-	(551)

Interest rate risk

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

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

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

Credit risk

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

We monitor the collectability of trade and other receivables and license fee receivable and estimates an allowance for doubtful accounts. We have a concentration risk, as approximately 35% of our trade receivables are due from three pharmaceutical wholesalers in Canada and 39% from an out-licensing partner.

As at March 31, 2018, the allowance for doubtful accounts was $1. Allowance for doubtful accounts is minimal because there has not been a significant change in credit quality and all amounts are considered recoverable.

Market risk

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

Assuming that all other variables remain constant, a 5% appreciation or depreciation of the Company's share price would have resulted in an $25 decrease and $26 increase in net loss respectively for the three months ended March 31, 2018 ($9 increase and $9 decrease in net income for the three months ended March 31, 2017).

Accounting pronouncements

The accounting policies applied are consistent with the significant accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2017. These policies have been consistently applied to all periods presented except for the adoption of IFRS 15 and IFRS 9 on January 1, 2018.

A number of new or amended standards became applicable for the current reporting period and we had to change our accounting policies and make retrospective adjustments as a result of adopting IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in the note below. The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

A number of new standards and amendments to standards and interpretations have not been applied in preparing these consolidated financial statements. None of these standards are expected to have a significant effect on our consolidated financial statements, except for the following set out below:

IFRS 16 *Leases*

The new standard brings most leases on-balance sheet, 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.

Impact of changes in accounting policy

IFRS 9 *Financial Instruments* was adopted without restating comparative information. The Company's financial assets primarily consist of trade receivables. The adoption of IFRS 9 was applied on a retrospective basis on January 1, 2018 without restatement of comparatives and did not have a material effect on the valuation of the Company's financial assets, as such there are no changes to the opening statement of financial position on January 1, 2018.

The Company adopted IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively and has restated comparatives for the 2017 fiscal year.

The impacts of adoption of the new standard are summarized below:

- The Company's product revenue is derived from the sale of goods where control transfers to the customer and the Company's performance obligations are satisfied. The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized under these arrangements.
- License and other revenue mainly consists of upfront payments and milestone payments received in license and supply agreements. In its review of out-licensing agreements, the Company concluded that the license is distinct from other goods and services in the contract. The license provides the partner with the right to use the Company's intellectual property. Previously, the licensing fees were recorded as deferred revenue and amortized as income over the life of the contract. Under IFRS 15, revenue will be recognized when control transfers to the licensee and the license period begins. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria is met, and the risk of reversal of revenue recognition is remote.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	January 1, 2017 As originally presented	IFRS 15	January 1, 2017 Restated
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of deferred revenue	1,006	(1,006)	-
Total current liabilities	8,467	(1,006)	7,461
Deferred revenue	6,198	(6,198)	-
Total liabilities	17,515	(7,204)	10,311
Shareholders' equity			
Accumulated other comprehensive loss	(15,931)	(129)	(16,060)
Deficit	(134,111)	7,333	(126,778)
Total shareholders' equity	12,201	7,204	19,405
Total liabilities & shareholders' equity	$ 29,716	$ -	$ 29,716

Balance sheet (extract)	December 31, 2017 As originally presented	IFRS 15	January 1, 2018 Restated
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of deferred revenue	1,206	(1,206)	-
Total current liabilities	5,416	(1,206)	4,210
Deferred revenue	6,567	(6,567)	-
Total liabilities	16,338	(7,773)	8,565
Shareholders' equity			
Accumulated other comprehensive loss	(14,091)	349	(13,742)
Deficit	(142,825)	7,424	(135,401)
Total shareholders' equity	5,916	7,773	13,689
Total liabilities & shareholders' equity	$ 22,254	$ -	$ 22,254

	March 31, 2017 As originally presented	IFRS 15	March 31, 2017 Restated
REVENUE			
Licensing and other fees	255	(255)	-
Total revenue	1,270	(255)	1,015
Gross profit	632	(255)	377
LOSS BEFORE INCOME TAXES	(2,076)	(255)	(2,331)
NET LOSS	$ (2,076)	$ (255)	$ (2,331)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment	369	63	432
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	$ (1,707)	$ (192)	$ (1,899)

Critical accounting estimates

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

Revenue recognition

Product revenue is recorded at the invoiced amount less estimated accruals for product returns, discounts, chargebacks and other price adjustments. These contract liabilities with respect to Estrace®, Natesto® and UriVarx® are presently based on historical levels and are recognized as a reduction of revenue. While such experience has allowed for reasonable estimates in the past, history may not always be an accurate indicator of future events. Management will monitor these contract liabilities and make adjustments when it believes actual results may differ from established contract liabilities.

License and other revenue mainly consists of upfront payments and milestone payments received in license and supply agreements. Management, in its review of out-licensing agreements, uses significant judgement to determine if the license is distinct from other goods and services in the contract and if the license provides the partner with the right to use or the right to access the Company's intellectual property. Management makes their decision by reviewing contracts and through discussions with internal and external personnel to determine the substance of the agreements.

Fair value of derivative financial instruments

The fair values of derivative financial instruments that are not traded in an active market are determined using valuation techniques. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Additional information is disclosed in note 14 of our December 31, 2017 consolidated financial statements.

Clinical trial expenses

Clinical trial expenses are accrued based on estimates of the services received and efforts expended pursuant to contracts with clinical research organizations (CROs), consultants and other vendors. In the normal course of business, we contract third parties to perform various clinical trial activities in the ongoing development of potential products. The financial terms of these agreements vary from contract to contract, are subject to negotiation and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrolment of patients or the completion of portions of the clinical trial or similar conditions. We accrue and expense clinical trial activities based upon estimates of the proportion of work completed over the life of the individual clinical trial and patient enrolment rates in accordance with agreements established with CROs and clinical trial sites. We determine the estimates by reviewing contracts, vendor agreements and purchase orders, and through discussions with internal personnel and external service providers as to the progress or stage of completion of trials or services and the agreed-upon fee to be paid for such services. However, actual costs and timing of clinical trials are highly uncertain, subject to risks and may change depending upon a number of factors, including our clinical development plan.

Share based payments

The compensation expense related to share-based payments is determined using the Black-Scholes option pricing model. The significant variables and estimates used in the model are volatility, dividend yield, expected option life, and risk-free interest rate. In addition, management also applies an estimated forfeiture rate. Additional information is disclosed in note 20 of our December 31, 2017 consolidated financial statements.

Income taxes

We are subject to income taxes in different jurisdictions and therefore use judgment to determine the provision for income taxes. Management makes estimates and takes tax filing positions and it is uncertain whether certain estimates and tax filing positions will be sustained upon examination by applicable tax authorities. Provisions for uncertain tax positions are recorded based on management's estimate of the most likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Non-IFRS financial measures

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

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

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

EBITDA and Adjusted EBITDA

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

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

	For the three months ended March 31,	
	2018	2017
Net (loss)/income	$ (4,454)	$ (2,331)
Adjustments:		
Amortization of intangible assets	425	453
Depreciation of property and equipment	65	66
Interest on long-term debt and other financing costs*	191	116
Interest income	(5)	(8)
Change in fair value of derivative	(39)	(45)
EBITDA	$ (3,817)	$ (1,749)
Royalty expense	2,414	-
Share based compensation	141	78
Foreign exchange loss/(gain)	235	301
Adjusted EBITDA	$ (1,027)	$ (1,370)

* 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, 2018 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, 2018 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, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Litigation

Shenk Litigation

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

Melnyk Litigation

In April 2016, the Company was served with a statement of claim filed in the Ontario Superior Court of Justice by Mr. Eugene Melnyk against the Company, as well as its Chairman and President & Chief Executive Officer. The Company, together with the other named co-defendants, brought a motion to strike the action as disclosing no reasonable cause of action, which was scheduled to be heard on July 27, 2016. In response to this motion the plaintiff advised of his intention to bring a motion to convert the proceeding into a derivative action and to pursue a new action in his personal capacity seeking, among other things, damages in the amount of CDN$100 million for negligent and/or reckless and/or fraudulent misrepresentation (the "Personal Action"). As a result, the hearing date was vacated, and the Court scheduled Mr. Melnyk's motion to convert the action into a derivative action, seeking, among other things, CDN$150 million in damages, for December 21, 2016. No further steps have occurred or have been scheduled with respect to the Personal Action. On December 21, 2016, the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice heard the motion brought by Mr. Eugene Melnyk for leave to commence a derivative action in the name of the Company and Justice Wilton-Siegel dismissed the motion with written reasons to follow. On February 22, 2017, Justice Wilton-Siegel issued his written reasons dismissing Mr. Melnyk's claim with costs. On April 6, 2017, Mr. Eugene Melnyk served a Notice of Appeal to appeal the decision of Justice Wilton-Siegel to the Divisional Court of the Ontario Superior Court of Justice. The appeal was heard by the Divisional Court on February 26, 2018 and was dismissed in a decision released on March 1, 2018. On March 14, 2018, Mr. Melnyk delivered a notice of motion for leave to appeal the dismissal of the motion to convert the action to a derivative action to the Court of Appeal for Ontario. On April 10, 2018, a settlement was reached. See subsequent event note for more detail.

Subsequent Events

Producto Científicos, S.A. de C.V

On April 9, 2018, we signed an agreement granting Producto Científicos, S.A. de C.V ("Carnot Laboratorios") the exclusive right to market Natesto® in Mexico and 18 Central and Latin American countries (Argentina, Columbia, Peru, Chile, Ecuador, Guatemala, El Salvador, Nicaragua, Honduras, Panama, Costa Rica, Cuba, Dominican Republic, Venezuela, Bolivia, Uruguay, Paraguay and Haiti). Under the terms of the agreement, we will receive an upfront fee and regulatory milestone payments upon Carnot Laboratorios receiving marketing approval. In addition, we will receive a tiered supply price for the product.

Melnyk Litigation

On April 10, 2018, the Company and certain of its present and former directors and officers reached a settlement with Eugene Melnyk pursuant to which Mr. Melnyk has agreed to a dismissal of the two actions that he commenced against the Company and certain of its directors and officers in the Ontario Superior Court of Justice in 2016. Mr. Melnyk has withdrawn his notice of motion for leave to appeal the decision of the Divisional Court dismissing his appeal of the decision of Justice Wilton-Siegel, who had dismissed his motion for leave to bring a derivative action in the name of the Company. As part of this settlement, the Company has agreed to waive payment of the $315 in costs that were awarded against Mr. Melnyk by Justice Wilton-Siegel and the Divisional Court. Other than this waiver of costs, no payments are being made to Mr. Melnyk as part of this settlement, and the parties have executed full and final mutual releases in respect of any claims up to the date of the settlement.

Gynoflor™

In order to complete its assessment of the product, Health Canada requested additional technical information on Gynoflor™. Acerus officially responded to the NOD on April 11, 2018, focusing only the vaginal atrophy indication and expects to receive a decision from Health Canada in the first half of 2019.

Quantius Credit Facility

On April 20, 2018, we received the remaining CDN$2.0 million under the CDN$5.0 million secured term credit facility with Quantius entered into late 2017. This second tranche was conditional on achieving certain commercial milestones. These conditions included our U.S. Partner for Natesto® reaching a set number of total prescriptions per month as well as the maintaining Estrace® sales at a set minimum level.

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.