



**Management's Discussion & Analysis of
Acerus Pharmaceuticals Corporation
For the three and nine months ended September 30, 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 and nine months ended September 30, 2018. This MD&A is dated November 5, 2018 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 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 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 the symptomatic relief of menopausal symptoms, is commercialized in Canada; Natesto[®], the first and only 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. UriVarx[®] was recently approved by Health Canada and is offered over-the-counter to Canadians dealing with such symptoms. Also, Natesto[®] has been licensed for distribution in 69 additional countries worldwide. Marketing approvals in jurisdictions outside of North America are expected to take place over the course of the coming years. In June 2018, South Korea's Ministry of Food and Drug Safety (MFDS) approved Natesto[®] for the treatment of hypogonadism. Our pipeline includes six innovative products: avanafil, 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[®]; Shact[™], a short acting lidocaine formulation delivered through a proprietary device into the vaginal mucosal tissue; Elegant[™] Vaginal Moisturizer, which provides comfort to women suffering from vaginal dryness, and Elegant[™] pH, which is a pH balanced vaginal product; 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 a significant unmet need for women with female sexual dysfunction. Finally, Acerus is working on expanding its product portfolio by leveraging its proprietary delivery systems, patents and formulation expertise. As such, Acerus has a number of products in various stage of development. One of these projects relates to cannabinoids (whether synthetic or naturally derived cannabinoids) to be delivered

intranasally to patients, which may have multiple possible therapeutic applications (the “Cannabinoids Initiative”). Acerus has filed patent applications on the Cannabinoids Initiative, achieved first dosing of subjects in a Phase I clinical trial testing a proprietary intranasal formulation of nasal tetrahydrocannabinol (“THC”) – rich cannabis oil in health volunteers and is working to initiate other pharmacokinetic clinical trials and is evaluating potential commercialization pathways including partnering transactions or Acerus-led approaches.

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Fixed supply price per unit
June 14, 2017	medac Gesellschaft für Klinische Spezialpräparate mbH (“medac”)	15 European countries: Germany, United Kingdom, France, Italy, Czech Republic, Slovakia, Spain, Sweden, Finland, Denmark, Norway, Poland, Austria, Netherland and Belgium	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
November 23, 2017	Apsen Farmacêutica (“Apsen”)	Brazil	<ul style="list-style-type: none"> • Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
April 9, 2018	Producto Científicos, S.A. de C.V (“Carnot Laboratorios”)	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)	<ul style="list-style-type: none"> • Non-refundable upfront fee • Milestone payment on regulatory approval • Tiered supply price per unit
October 31, 2018	medac	Amended to include all existing European Union Member states and the United Kingdom, Norway, Liechtenstein, Iceland, Turkey,	<ul style="list-style-type: none"> • Non-refundable upfront fee • All other terms as per the original agreement

Buyout of all obligations under the Mattern License Agreement

On May 17, 2018, we entered into an agreement with Mattern Pharma AG (“Mattern”) to buy out all of our obligations (the “Buyout”) under the Amended and Restated Intellectual Property Rights and Product Development Agreement, dated December 21, 2013 (as amended) (“License Agreement”), including all of our future royalty payment obligations.

Under the License Agreement, we owed royalties on upfronts, milestones and revenues from products, including Natesto[®], covered by the License Agreement, including minimum annual royalty payments of \$5.0 million if gross product sales are \$75.0 million or greater, or \$2.5 million if gross product sales are below \$75.0 million, starting in fiscal 2018 and ending in 2024. Pursuant to the Buyout, with the payment of \$7.5 million, all of our material obligations owed to Mattern are suspended, but Mattern’s obligations to us remain in force. Under the Buyout, among other rights, we receive a perpetual, fully-paid, irrevocable license to all of Mattern’s patents and know-how for the products covered by the License Agreement. We will pay the \$7.5 million in the following instalments: \$0.75 million was paid 10 days following execution (paid in Q2 2018), \$1.75 million was paid on September 20, 2018, \$2.5 million by January 20, 2019, and \$2.5 million by January 20, 2020. We recorded an expense of \$6.7 million in May 2018 representing the fair value of the \$7.5 million obligations under the Buyout at that date. The fair value was estimated by discounting the payments using a rate of 14.75%.

The Buyout also includes a covenant not to sue and a waiver from Mattern, which will become irrevocable upon payment of the last instalment to Mattern. The Buyout will remain in full force and effect as long as the License Agreement is in force. In the event of a payment default, following a grace period, the Buyout automatically terminates and the License Agreement’s obligations become binding on Acerus again. In such an event, all monies paid by Acerus pursuant to the Buyout, with the exception of the first instalment, can be offset against monies that would otherwise be owed to Mattern under the License Agreement.

Natesto[®]

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. Natesto[®] was listed on February 1, 2018.

In June 2018, South Korea’s Ministry of Food and Drug Safety (MFDS) approved Natesto[®] for the treatment of hypogonadism.

Additionally, on April 9, 2018 we signed an agreement granting Carnot Laboratories the exclusive right to market Natesto[®] in Mexico and 18 Central and Latin American countries. Under the terms of the agreement, we received an upfront fee and will receive regulatory milestone payments and upon Carnot Laboratories receiving marketing approval. In addition, we will receive a tiered supply price for the product.

In October 2018, we signed an amendment to our existing licensing and supply agreement with medac expanding their exclusive right to market Natesto[®] in the totality of the 28 current European Union member countries (including the United Kingdom) as well as Norway, Liechtenstein, Iceland, Turkey (including Turkish Cyprus), Australia, New Zealand, Israel and South Africa. In addition, medac has submitted a dossier for Natesto[®] in 21 European Member States under the under the Decentralised Procedure (DCP) on September 28th, 2018.

GynoflorTM

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

ElegantTM 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 ElegantTM franchise in Canada. The ElegantTM franchise comprises ElegantTM 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 is 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.

Stendra®

On March 27, 2018 we entered into an exclusive distributor and license agreement with Metuchen Pharmaceuticals LLC (“Metuchen”), a privately-held specialty pharmaceutical company, granting us the exclusive rights to commercialize Stendra® in Canada. Stendra® is a new chemical entity targeting the large and growing Erectile Dysfunction (“ED”) market. Under the terms of the sublicense agreement, Metuchen will receive regulatory milestone payments upon Acerus filing a New Drug Submission (“NDS”) with Health Canada and upon Acerus receiving marketing approval in Canada. Metuchen will also receive milestone payments based on Acerus achieving sales targets. Metuchen will oversee the manufacturing of Stendra® and will receive a supply price for the product comprised of a transfer price and royalties on net sales of the product.

Shact™

On May 29, 2018 we entered into an exclusive agreement to commercialize Pharmanest AB (“Pharmanest”) Short Acting Lidocaine Product (“Shact™”), a pain relief drug device combination in Canada. Under the terms of the license agreement, Pharmanest will receive an upfront and regulatory milestone payments when we receive marketing approval in Canada. Pharmanest will also receive milestone payments based on the Company achieving sales targets. Pharmanest will oversee the manufacturing of Shact™ and will receive a tiered supply price for the product based on a percentage on net sales of the product.

Corporate Update

Long-term debt financing

On October 12, 2018, we entered into a senior secured term loan credit facility with SWK Funding LLC (“SWK”) for up to \$11.0 million (“New Facility”). An initial tranche of \$9.0 million of the New Facility was received at closing, with the remaining \$2.0 million of the New Facility becoming available upon satisfaction of certain future conditions.

The New Facility bears interest at a rate per annum equal to the greater of (a) the three-month London Inter-Bank Offered Rate (“LIBOR”), or (b) 1.50%, with such base rate being capped at no greater than 4.25%, plus an applicable margin of 10.50%. The New Facility matures on October 11, 2023 and is interest-only for the first two years of the term. Under the terms of the agreement, we will have the option to prepay the loan prior to the maturity date subject to the payment of certain prepayment fees. The terms of the agreement also contain customary financial covenants. The proceeds from the New Facility was used primarily to (i) repay the amount outstanding under the Quantius credit facility, including a prepayment penalty and royalty retirement fee; (ii) retire the Endo promissory note; and (iii) for ongoing general working capital.

As part of the transaction, SWK received an origination fee representing a low single digit percentage of the maximum facility amount and will receive a final payment representing a single digit percentage of the principal amount actually advanced under the facility. Acerus has also issued 5,331,563 common share purchase warrants (the “Warrants”) to SWK as partial consideration for the New Facility. Each Warrant entitles SWK to purchase one common share of Acerus at an exercise price of CDN\$0.40 per common share, expires on October 11, 2023 and has a cashless exercise feature. Following the second anniversary of the issuance of the Warrants, we can cause SWK to exercise the Warrants prior to their expiry date if the closing price of our common shares on the TSX is at or above CDN\$0.80 per share for a period of at least 21 consecutive trading days.

Endo – Promissory note

On October 11, 2018, the promissory note and outstanding accrued interest was repaid in full and the note was extinguished.

Quantius Inc. credit facility

The Quantius credit facility was subsequently extinguished on October 12, 2018 with the payment of principal, accrued interest and capped royalty payment amount.

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. License and other revenue mainly consist of upfront payments and milestone payments received from license and supply agreements. 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 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 \$0.7766 and \$0.7983 respectively for the nine months ended September 30, 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 \$0.7725 and \$0.7971 at September 30, 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.

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 consolidated financial information

The following table sets forth selected consolidated data for the three and nine months ended September 30, 2018 and 2017 and as at September 30, 2018 and December 31, 2017 as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Statement of operations data				
Revenue*	\$ 1,583	\$ 1,360	\$ 5,309	\$ 4,153
Operating (loss)/income	(2,104)	(1,461)	(12,204)	(4,171)
Net Loss	(2,871)	(2,863)	(13,735)	(6,800)
Basic and diluted net (loss)/earnings per common share	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ (0.03)
Balance sheet data:				
	September 30,	December 31,		
	2018	2017		
Total assets	\$ 18,286	\$ 22,254		
Long-term debt	5,006	4,569		

*Licensing and other 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 statements for the quarter ending September 30, 2018 for more information regarding the restatement as a result of a change in accounting policy.

Review of operating results – Nine months ended September 30

Revenue and gross profit

	Nine months ending September 30,		Change \$	Change %
	2018	2017		
Revenue				
Product revenue	\$ 5,159	\$ 3,569	\$ 1,590	45 %
Licensing and other revenue	150	584	(434)	(74)%
	5,309	4,153	1,156	28 %
Cost of goods sold	2,833	1,935	898	46 %
Royalty buyout	6,680	-	6,680	n/a
Gross margin	\$ (4,204)	\$ 2,218	\$ (6,422)	(290)%

Product revenue increased from \$3.6 million for the nine months ended September 30, 2017 to \$5.2 million for the same 2018 period. The increase in product revenue is primarily a result of higher Natesto[®] sales in the U.S. and Canada and the introduction of UriVarx[®] revenues in Q1 2018. The increased sales in the U.S. are mainly due to a higher number of inventory shipments to our U.S. partner for Natesto[®], Aytu. Natesto[®] revenue from the U.S. is expected to fluctuate between periods based on the timing of large and potentially non-regular inventory orders. These orders may impact both quarterly and annual revenue figures, and the related variance compared to prior periods, as a large order may comprise a relatively large portion of the period's total revenues until inventory purchases become regular and/or revenues from Aytu's sales become a larger portion of U.S. revenues. As a result, changes in revenues on a period-to-period basis may not provide a clear indication of actual sales trends for the U.S. market. We continue to see steady growth in the Natesto[®] Canadian market as various marketing initiatives come to fruition.

There was a slight decline in Estrace[®] sales which were \$2.8 million for the nine months ended September 30, 2018 versus \$3.2 million for the same prior year period due to the presence of a generic.

Licensing and other revenues are primarily dependent on the timing of out-licensing transactions and the achievement of milestones.

Cost of goods sold for the nine months ended September 30, 2018 was \$2.8 million compared to \$1.9 million in the same 2017 period. Gross margins were impacted by revenue from shipments of Natesto[®] inventory, which is sold to Aytu at a contractual supply price with a small margin. When Aytu sells the product, we then receive an additional top-up revenue that has no related cost of goods. 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. During Q2 2018 we expensed \$6.7 million of expense related to the Mattern Buyout.

Operating expenses

	Nine months ending September 30,						
	2018		2017		Change \$	Change %	
Operating expenses							
Research and development	\$	1,827	\$	1,492	\$	335	22 %
Selling, general and administrative		6,173		4,897		1,276	26 %
	\$	8,000	\$	6,389	\$	1,611	25 %

Research and development

Research and development expenses have increased by \$0.3 million for the nine months ended September 30, 2018 versus the same 2017 period. Clinical trial expense increased by \$0.2 million mainly due to costs associated with the various Natesto[®] studies, including the cardiovascular trial in the U.S. and cannabinoid trial set up costs and there was a \$0.2 million increase in salaries and benefits due to additional personnel hired. This was offset by a \$0.1 million decrease in amortization of intangible assets due to the extension of the expected life of certain assets.

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 June 2018, South Korea's MFDS approved Natesto[®] for the treatment of hypogonadism. 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 \$1.3 million for the nine months ended September 30, 2018 over the same prior year period. Salaries and benefits increased by \$0.4 million and shared-based compensation increased by \$0.1 million over the prior year mainly due to the additional personnel, including the onboarding of the sales team in Q4 2017. Selling expenses increased by \$0.2 million due to the increased activities related to Natesto[®] and the launch of UriVarx[®]. Professional fees and business development fees increased by \$0.1 million and \$0.3 million, respectively, over the prior year due to increased consulting fees related to additional business activities and vacant personnel positions. Office and sundry expenses have increased by \$0.2 million and over the prior year mainly due to the increase in personnel and related recruiting fees.

Other expenses

	Nine months ending September 30,						
	2018		2017		Change \$	Change %	
Other expenses/(income)							
Interest on long-term debt and other financing costs	\$	1,276	\$	295	\$	981	333 %
Interest income		(12)		(18)		6	33 %
Foreign exchange loss		353		2,451		(2,098)	(86)%
Change in fair value of derivative financial instruments		(88)		(99)		11	11 %
	\$	1,529	\$	2,629	\$	(1,100)	(42)%

The \$1.0 million increase in interest on long-term debt and other financing costs for the nine months ended September 30, 2018 over the same prior year period is mainly due to the Quantius credit facility of CDN\$5.0 million and the accelerated amortization of the financing fees and royalty accrual due to the early retirement of the facility in October 2018. Interest expense also includes \$0.3 million in accretion expense related to the accrual of the long-term Mattern Buyout.

The decrease in foreign exchange loss is due to the fluctuation in the Canadian/U.S. exchange rate and the decrease in the inter-company loan balances, for which the foreign exchange loss does not eliminate on consolidation.

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 and nine months ended September 30, 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			
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Statement of operations data				
Product revenue	\$ 1,583	\$ 1,952	\$ 1,624	\$ 1,779
Licensing and other revenue**	-	150	-	600
Cost of goods sold	777	1,029	1,027	1,328
Royalty Buyout/Minimum royalty	-	4,266	2,414	-
Research and development	751	604	472	674
Selling, general & administrative expense	2,159	2,231	1,783	3,070
Finance costs, net	765	382	382	(914)
Net loss**	(2,871)	(6,410)	(4,454)	(1,826)
Basic and diluted net loss per common share**	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.01)

**Licensing and other 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 statements for the quarter ending September 30, 2018 for more information regarding the restatement as a result of a change in accounting policy.

	Three months ended			
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Statement of operations data				
Product revenue	\$ 1,360	\$ 1,194	\$ 1,015	\$ 1,557
Licensing and other revenue**	-	584	-	150
Cost of goods sold	661	636	638	718
Research and development	367	402	723	364
Selling, general & administrative expense	1,793	1,483	1,621	1,594
Finance costs, net	1,402	863	364	(557)
Net loss**	(2,863)	(1,606)	(2,331)	(412)
Basic and diluted net loss per common share**	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)

**Licensing and other 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 statements for the quarter ending September 30, 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:

- With Natesto[®] sales ramping in both Canada and the U.S. (including inventory purchases) and revenues from UriVarx[®], product revenue grew quarter over quarter in the first half of 2018. We saw a modest increase in product revenues in Q3 2018 after we adjust the Q2 2018 figures for the inventory shipment to Aytu. The slight decrease in Estrace[®], due to the impact of the generic, and UriVarx[®] revenues, due to increased returns, over Q2 2018 are offset by the growth in Natesto Canada product revenues and Natesto US tier-two product revenues.
- In Q1 2018, we expensed the minimum royalty obligation of \$2.4 million on Natesto[®] sales. In Q2 2018 the Buyout with Mattern was finalized and the minimum royalty obligation of \$2.4 million was reversed. However, we accrued \$6.7 million, the discounted value of the \$7.5 million Mattern Buyout in Q2 2018.
- Research and development expense fluctuate depending on timing of regulatory activities and level of product development activities. Q2 and Q3 2018 reflects increased spending on clinical trials related to Natesto[®], including the cardiovascular trial in the US and cannabinoid trial set up costs.
- Selling, general and administrative expenses have increased in Q2 and Q3 2018 over the prior quarters mainly due to the onboarding of the sales team in Q4 2017, increased selling expenses related to Natesto[®] and UriVarx[®] and increased professional fees and business development costs due to increased business activities and consulting fees.
- Net finance costs 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, offset by the interest from the Quantius credit facility obtained in Q4 2017.

Review of operating results – Three months ended September 30

Revenue and gross profit

	Three months ending September 30,			
	2018	2017	Change \$	Change %
Revenue				
Product revenue	\$ 1,583	\$ 1,360	\$ 223	16 %
Licensing and other revenue	-	-	-	n/a
	1,583	1,360	223	16 %
Cost of goods sold	777	661	116	18 %
Royalty buyout	-	-	-	n/a
Gross margin	\$ 806	\$ 699	\$ 107	15 %

Product revenues increased from \$1.4 million for the three months ended September 30, 2017 to \$1.6 million for the same 2018 period. While Natesto[®] sales in Canada and the US increased, we saw a \$0.3 million decrease in Estrace[®] net revenue from Q3 2017 due to the presence of a generic. Furthermore, Q3 2018 saw revenues from UriVarx[®] which was launched in Q1 2018 and as such does not have a comparable revenue figure in 2017. The higher Natesto[®] product revenue in Q3 2018 over Q3 2017 was mainly due to a higher Canadian market share and greater tier-two revenues received from Aytu.

Revenues from the sale of Natesto[®] in the U.S. are earned in two steps: 1) at a contractual supply price reflecting cost of goods sold plus a nominal margin when the product is delivered to the marketing partner (tier-one); and 2) an additional top-up amount is earned based on a tiered pricing schedule when the marketing partner recognizes the sale of product (tier-two). As such, the gross margin earned for tier-one revenues are nominal with a bulk of the gross margins being recognized when tier-two revenues are earned. Depending on the mix of tier-one and tier-two, gross margins can fluctuate substantially.

Cost of goods sold for the three months ended September 30, 2018 was \$0.8 million compared to \$0.7 million for the same prior year period. Gross margins remain consistent with the level of sales.

Operating expenses

	Three months ending September 30,			
	2018	2017	Change \$	Change %
Operating expenses				
Research and development	\$ 751	\$ 367	\$ 384	105 %
Selling, general and administrative	2,159	1,793	366	20 %
	\$ 2,910	\$ 2,160	\$ 750	35 %

Research and development

An increase of \$0.4 million in research and development for the three months ended September 30, 2018 compared to the same prior year period was mainly due to product development expenses for Natesto[®] including the cardiovascular trial in the U.S. and cannabinoid trial set up costs coupled with increased salaries and benefits costs due to additional personnel.

As stated previously, 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-house developed technologies in the future.

Selling, general and administrative

Selling, general and administrative expenses increased by \$0.4 million for the three months ended September 30, 2018 over the same prior year period. Selling expenses increased by \$0.1 million due to the increased activities related to Natesto[®] and the launch of UriVarx[®]. Business development costs increased by \$0.1 million due to additional activities and consulting fees. Salaries, benefits, share based compensation and other expenses increased by \$0.2 million over the prior year mainly due to the additional personnel, including the onboarding of the sales team.

Other expenses

	Three months ending September 30,			
	2018	2017	Change \$	Change %
Other expenses/(income)				
Interest on long-term debt and other financing costs	\$ 718	\$ 98	\$ 620	633 %
Interest income	(3)	(5)	2	40 %
Foreign exchange gain	48	1,348	(1,300)	(96)%
Change in fair value of derivative financial instruments	2	(39)	41	105 %
	<u>\$ 765</u>	<u>\$ 1,402</u>	<u>\$ (637)</u>	<u>(45)%</u>

The \$0.6 million increase in interest on long-term debt and other financing costs for the three months ended September 30, 2018 over the same prior year period is mainly due to the Quantius credit facility of CDN\$5.0 million and the accelerated amortization of the financing fees and royalty accrual due to the early retirement of the facility in October 2018. Interest expense also includes \$0.3 million in accretion expense related to the accrual of the long-term Mattern Buyout.

The decrease in foreign exchange loss is due to the fluctuation in the Canadian/U.S. exchange rate and the decrease in the inter-company loan balances, for which the foreign exchange loss does not eliminate on consolidation.

Financial position

The following table presents a summary of our financial position:

	September 30,		December 31,	
	2018	2017	Change \$	Change %
Working capital (total current assets less total current liabilities)	\$ (2,479)	\$ 3,996	\$ (6,475)	(162)%
Non-current assets	12,881	14,048	(1,167)	(8)%
Long-term obligations	5,638	4,355	1,283	29 %
Shareholders' equity	4,764	13,689	(8,925)	(65)%

Working capital

The approximately \$6.5 million decrease in working capital from December 31, 2017 to September 30, 2018 reflects the following:

- \$1.9 million decrease in cash due to \$5.5 million used in operations, offset by an inflow of \$3.9 million from financing activities.
- \$0.5 million decrease in trade and other receivables due to timing of sale and collections.
- \$0.3 million decrease in licensing fee receivable mainly due to timing of business activities and additional consultants.
- \$0.3 million decrease in inventory mainly due to the sale of product offset by purchases.
- \$2.8 million increase in accrued liabilities, mainly due to the \$4.5 million accrual related to the Mattern Buyout, of which \$2.1 million is recorded as a long-term liability.
- \$0.9 million increase in current portion of long-term debt mainly due to the repayment obligations under the Endo promissory note with regards to the equity financing that was closed June 2018. On July 5, 2018, the promissory note was amended such that the holder accepted a prepayment of \$1.5 million in full satisfaction of our obligation to prepay a portion of the promissory note from 50% of the net proceeds of the equity financing closed on June 28, 2018. See “Long-term obligations” for more detail.

Non-current assets

Non-current assets consist of property and equipment, and intangible assets. Property and equipment mainly consist of office, lab and manufacturing equipment, fixtures, and leasehold improvements. Intangible assets consist of technology, patents and product rights. The \$0.1 million decrease in property and equipment from December 31, 2017 to September 30, 2018 is primarily due to depreciation and amortization expense and impact of foreign exchange.

At September 30, 2018 manufacturing equipment with a net book value of \$0.7 million was held off-site by a third party (\$0.8 million at December 31, 2017).

Intangible assets decreased due to amortization expense of \$1.3 million, \$0.3 million foreign exchange effect on the Canadian balance of intangible assets offset by the \$0.6 million addition of the intangible asset related to the UriVarx[®], Stendra[™] and Shact[™] product rights.

Long-term obligations

Long-term obligations consist of long-term portion of the Mattern Buyout, 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 were 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%.

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 December of each year instead of quarterly. Payments of interest were to continue to be made quarterly.

On July 5, 2018, the promissory note was amended such that Endo accepted a prepayment of \$1.5 million in full satisfaction of our obligation to prepay a portion of the promissory note from the net proceeds of the equity financing closed on June 28, 2018. Under the amended promissory note, the remaining balance and all interest accrued and unpaid would be paid the earlier of (i) the next equity financing completed by the Company; and (ii) June 30, 2019 unless another prepayment obligation under the promissory note is triggered.

As of September 30, 2018, the we had \$0.9 million outstanding on the promissory note.

On October 11, 2018, the promissory note and outstanding accrued interest was repaid in full and the note was extinguished.

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 received on April 20, 2018 following the satisfaction of certain 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. 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. Due to the Mattern payment of \$1.75 million (related to the buyout agreement) in September, the Company obtained a waiver for the financial covenants for the month ending September 30, 2018.

As of September 30, 2018, we had \$4.2 million outstanding on the credit facility including the royalty payment.

The credit facility was subsequently extinguished on October 12, 2018 with payments of principal, accrued interest and capped royalty payment amount.

On October 12, 2018, we entered into a senior secured term loan credit facility with SWK for up to \$11.0 million. An initial tranche of \$9.0 million of the New Facility was received at closing, with the remaining \$2.0 million of the New Facility becoming available upon satisfaction of certain future conditions. The proceeds from the New Facility was used primarily to (i) repay the amount outstanding under the Quantius Facility, including a prepayment penalty and royalty retirement fee; (ii) retire the Endo promissory note; and (iii) for ongoing general working capital. Please see the subsequent events note for more information.

Shareholders' equity

We are authorized to issue an unlimited number of common shares. As at September 30, 2018, we had 235,290,597 common shares issued and outstanding, 26,619,438 warrants outstanding and exercisable for 26,619,438 common shares, 17,587,995 outstanding stock options with a weighted average exercise price of CDN\$0.18.

The \$9.0 million decrease in shareholders' equity from December 31, 2017 to September 30, 2018 is primarily due to \$13.7 million in net loss, offset by the \$0.1 million foreign currency translation adjustment, \$0.3 million in share-based compensation, \$1.4 million increase in warrants and \$3.0 million increase in share capital.

On June 28, 2018, we closed an offering, under which we issued 22,041,705 units at a price of CDN\$0.30 per unit, which included 2,875,005 units in connection with the exercise in full of the over-allotment option granted to the Underwriters of the offering. Each unit is comprised of one common share and one common share purchase warrant of the Company. Each warrant shall entitle the holder thereof to purchase one additional common share of the Company at an exercise price of CDN \$0.40 at any time up to 24 months following closing of the offering. On closing, the Underwriter received cash commission equal to 7% of the gross proceeds from the sale of Units and compensation options entitling it to purchase 1,542,919 Common Shares at a price of CDN \$0.30 within 24 months of closing. The proceeds from this transaction were used to fund ongoing general working capital as well as pay the \$1.8 million tranche in the Buyout.

The gross proceeds have been segregated into their common share and warrant components based on their relative fair values of CDN\$4.6 million and CDN\$2.0 million respectively. The common share and warrant components are shown net of transaction costs of CDN\$0.7 million and CDN\$0.3 million respectively. The fair value of the warrants was based on a Black-Scholes model, with the residual amounts of the net proceeds being allocated to the value of the common shares. The fair value of the warrants, CDN\$0.09 per warrant, was based on a Black-Scholes model using the following variables: an expected life of 2 years; a risk-free rate of 1.95%; a volatility rate of 86%; and an exercise price of CDN\$0.40. The fair value of the broker warrants, CDN\$0.11 per warrant, was based on a Black-Scholes model using the following variables: an expected life of 2 years; a risk-free rate of 1.95%; a volatility rate of 86%; and an exercise price of CDN\$0.30.

Liquidity and capital resources

Liquidity risk

As detailed in the long-term obligations section above, as at September 30, 2018, there is \$0.9 million of principal outstanding on the Endo promissory note and \$4.2 million outstanding on the Quantius debt which was extinguished subsequent to September 30, 2018.

On October 12, 2018, we entered into a senior secured term loan credit facility with SWK for up to \$11.0 million. An initial tranche of \$9.0 million of the New Facility was received at closing, with the remaining \$2.0 million of the New Facility becoming available upon satisfaction of certain future conditions. A portion of the proceeds from the New Facility was used to retire the Endo and Quantius facilities.

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 funding.

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 obtaining additional financing or executing other strategic initiatives that could provide cash inflows.

Cash flows

Cash flows from/(used in):	Nine months ending September 30,			
	2018	2017	Change \$	Change %
Operating activities	\$ (5,482)	\$ 408	\$ (5,890)	(1,444)%
Financing activities	3,888	(3,731)	7,619	204 %
Investing activities	(244)	5	(249)	(4,980)%
Exchange (loss)/gain on cash	(87)	267	(354)	(133)%
Net increase/(decrease) in cash	\$ (1,925)	\$ (3,051)	\$ 1,126	37 %

At September 30, 2018 we had a cash balance of \$1.2 million, which is a \$1.9 million decrease from December 31, 2017.

The cash outflow from operating activities for the nine months ended September 30, 2018 is a result of a \$13.7 million net loss, offset by \$3.3 million in non-cash expenses and net \$4.9 million inflow from working capital. The net inflow from working capital is largely due to the Mattern Buyout 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 Ayto offset by the \$6.8 million net loss, \$4.3 million in non-cash expenses, and \$1.2 million of funds used in accounts payable.

The cash from financing activities in the nine months ended September 30, 2018 is mainly a result of the \$4.4 million net proceeds from issuance of common shares and warrants, \$1.6 million of proceeds from debt issuance, offset by \$0.6 million in interest and financing fees paid and \$1.5 million in principal debt payments. Cash used in financing for the nine months ended September 30, 2017 was an outflow of \$3.7 million mainly due to the extinguishment of the senior financing, and principal paid on the promissory note and \$0.3 million in interest and financing fees paid.

Cash used in investing activities for the nine months ended September 30, 2018 is related to the purchase of the Canadian product rights of UriVarx® and Shact™ 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 September 30, 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	\$ 3,317	\$ 2,570	\$ -	\$ 2,093	\$ -	\$ 7,980	
Operating leases	43	43	87	174	564	911	
Purchase commitments	-	173	-	-	-	173	
Interest on Buyout	159	95	158	97	-	509	
Long-term debt (principal and interest)	6,288	-	-	-	-	6,288	
As at June 30, 2018	\$ 9,807	\$ 2,881	\$ 245	\$ 2,364	\$ 564	\$ 15,861	

On October 12, 2018, we entered into a senior secured term loan credit facility with SWK for up to \$11.0 million. An initial tranche of \$9.0 million of the New Facility was received at closing, with the remaining \$2.0 million of the New Facility becoming available upon satisfaction of certain future conditions. A portion of the proceeds from the New Facility was used to retire the Endo and Quantius facilities. The table above reflects the extinguishment of the Endo promissory note and Quantius credit facility in October 2018, but does not reflect the obligations under the New Facility. The New Facility bears interest at a rate per annum equal to the greater of (a) the three-month London Inter-Bank Offered Rate (“LIBOR”), or (b) 1.50%, with such base rate being capped at no greater than 4.25%, plus an applicable margin of 10.50%. The New Facility matures on October 11, 2023 and is interest-only for the first two years of the term. Under the terms of the agreement, we will have the option to prepay the loan prior to the maturity date subject to the payment of certain prepayment fees. The terms of the agreement also contain customary financial covenants.

We have accrued the full value of the Mattern Buyout under accrued liabilities. The Buyout has been discounted at a rate of 14.75%. The Buyout will remain in full force and effect as long as the License Agreement is in force. In the event of a payment default, following a grace period, the Buyout automatically terminates and the License Agreement’s obligations become binding on Acerus again. In such an eventuality, all monies paid by Acerus pursuant to the Buyout, with the exception of the first instalment, can be offset against monies that would otherwise be owed to Mattern under the License Agreement.

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 and nine months ended September 30, 2018 and 2017 were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Short-term compensation of key management and directors	\$ 572	\$ 366	\$ 1,184	\$ 1,188
Share-based compensation	110	71	280	211
Professional fees paid or payable to firms affiliated with directors & officers	-	-	189	1
	\$ 682	\$ 437	\$ 1,653	\$ 1,400

These transactions are in the normal course of operations.

Executive employment agreements allow for total additional payments of approximately \$1.6 million if a change in control occurs, \$1.5 million if all are terminated without cause, and \$nil if all are terminated with cause.

As at September 30, 2018, Acerus has a \$4.7 million payable (\$7.2 million payable as at December 31, 2017) to its wholly owned subsidiary ABI. The payable is non-interest bearing, due on demand and eliminates upon consolidation except for the foreign exchange gain of \$0.1 million and loss of \$0.3 million for the three and nine months ended September 30, 2018 (loss of \$1.6 million and \$2.9 million for the three and nine months ended September 30, 2017) that has been recorded in the consolidated statement of loss.

Dividends

We intend to re-invest future earnings to finance our growth and therefore do not intend to pay dividends in the foreseeable future. Any subsequent decision to pay dividends is at the discretion of the Board of Directors and will depend on our financial position, operating results, capital requirements and other factors deemed relevant by the Board of Directors.

Financial instruments

As at September 30, 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 except for the Buyout payable. The Buyout payable has been discounted using a current interest rate and accordingly its carrying value approximates fair value.

The long-term debt is measured at amortized cost. At September 30, 2018 the fair value of the long-term debt approximates its face value of \$5.0 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.

	September 30, 2018		
	USD	EUR	GBP
Cash	\$ 36	\$ -	\$ -
Trade and other receivables	223	-	-
Accounts payable and accrued liabilities*	(7,976)	(119)	(9)
Long-term debt	(857)	-	-
	\$ (8,574)	\$ (119)	\$ (9)

*includes intercompany payable of \$7.0 million and receivable of \$2.3 million

Based on the above net exposure at September 30, 2018, and assuming that all other variables remain constant, a 5% appreciation or depreciation of the Canadian 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%	\$ 408	\$ (6)	\$ -	\$ 402
Depreciate 5%	(451)	6	-	(445)

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 Endo promissory note and Bank of Canada prime rate plus 11.05% for the Quantius debt.

A 0.5% increase or decrease in the Bank of Canada prime rate or LIBOR rate would have an immaterial impact on our net loss.

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 53% of our trade receivables are due from three pharmaceutical wholesalers in Canada.

As at September 30, 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 an immaterial impact on our net loss.

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 2018 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.

Other 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:

Impact of changes and updates to accounting policies

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.

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 consist of upfront and milestone payments received in license and supply agreements. In our 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 upfront payments were recorded as deferred revenue and amortized to 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. For milestone payments, there has been no change in the recognition criteria, 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)	(439)	(16,370)
Deficit	(134,111)	7,643	(126,468)
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)	39	(14,052)
Deficit	(142,825)	7,734	(135,091)
Total shareholders' equity	5,916	7,773	13,689
Total liabilities & shareholders' equity	\$ 22,254	\$ -	\$ 22,254

	For the three months ended,		
	September 30, 2017 As originally presented	IFRS 15	September 30, 2017 Restated
REVENUE			
Licensing and other fees	268	(268)	-
Total revenue	1,628	(268)	1,360
Gross profit	967	(268)	699
LOSS BEFORE INCOME TAXES	(2,595)	(268)	(2,863)
NET LOSS	\$ (2,595)	\$ (268)	\$ (2,863)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustment	1,531	328	1,859
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	\$ (1,064)	\$ 60	\$ (1,004)

	For the nine months ended,		
	September 30, 2017 As originally presented	IFRS 15	September 30, 2017 Restated
REVENUE			
Licensing and other fees	775	(191)	584
Total revenue	4,344	(191)	4,153
Gross profit	2,409	(191)	2,218
LOSS BEFORE INCOME TAXES	(6,609)	(191)	(6,800)
NET LOSS	\$ (6,609)	\$ (191)	\$ (6,800)
OTHER COMPREHENSIVE LOSS, NET OF INCOME TAX			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustment	2,834	548	3,382
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	\$ (3,775)	\$ 357	\$ (3,418)

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, 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, licensing and other revenue, royalty expenses associated with triggering events, Buyout, 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		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net (loss)	\$ (2,871)	\$ (2,863)	\$ (13,735)	\$ (6,800)
Adjustments:				
Income tax expense	2	-	2	-
Amortization of intangible assets	447	474	1,300	1,375
Depreciation of property and equipment	64	67	193	198
Interest on long-term debt and other financing costs*	718	98	1,276	295
Interest income	(3)	(5)	(12)	(18)
Change in fair value of derivative	2	(39)	(88)	(99)
EBITDA	\$ (1,641)	\$ (2,268)	\$ (11,064)	\$ (5,049)
Licensing and other revenue	-	-	(150)	(584)
Royalty expense/Buyout	-	-	6,680	-
Share based compensation	111	73	337	217
Foreign exchange loss/(gain)	48	1,348	353	2,451
Adjusted EBITDA	\$ (1,482)	\$ (847)	\$ (3,844)	\$ (2,965)

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

Despite the higher product revenues for the 2018 periods, EBITDA for 2018 has decreased from the comparable 2017 periods. The decrease is mainly driven by the additional expenses incurred in 2018 related to additional personnel and expenses related to selling, professional fees and clinical trials as we continue to grow and develop our respective products.

Management's responsibility for financial reporting

Disclosure controls and procedures and internal controls over financial reporting

As at September 30, 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 September 30, 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 nine months ended September 30, 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. 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.

Subsequent Events

SWK credit facility

On October 12, 2018, we entered into a senior secured term loan credit facility with SWK Funding LLC ("SWK") for up to \$11.0 million ("New Facility"). An initial tranche of \$9.0 million of the New Facility was received at closing, with the remaining \$2.0 million of the New Facility becoming available upon satisfaction of certain future conditions.

The New Facility bears interest at a rate per annum equal to the greater of (a) the three-month London Inter-Bank Offered Rate ("LIBOR"), or (b) 1.50%, with such base rate being capped at no greater than 4.25%, plus an applicable margin of 10.50%. The New Facility matures on October 11, 2023 and is interest-only for the first two years of the term. Under the terms of the agreement, we will have the option to prepay the loan prior to the maturity date subject to the payment of certain prepayment fees. The terms of the agreement also contain customary financial covenants. The proceeds from the New Facility was used primarily to (i) repay the amount outstanding under the Quantius Facility, including a prepayment penalty and royalty retirement fee; (ii) retire the Endo promissory note; and (iii) for ongoing general working capital.

As part of the transaction, SWK received an origination fee representing a low single digit percentage of the maximum facility amount and will receive a final payment representing a single digit percentage of the principal amount actually advanced under the facility. Acerus has also issued 5,331,563 common share purchase warrants (the "Warrants") to SWK as partial consideration for the New Facility. Each Warrant entitles SWK to purchase one common share of Acerus at an exercise price of CDN\$0.40 per common share,

expires on October 11, 2023 and has a cashless exercise feature. Following the second anniversary of the issuance of the Warrants, we can cause SWK to exercise the Warrants prior to their expiry date if the closing price of our common shares on the TSX is at or above CDN\$0.80 per share for a period of at least 21 consecutive trading days.

Endo – Promissory note

On October 11, 2018, the promissory note and outstanding accrued interest was repaid in full and the note was extinguished.

Quantius Inc. credit facility

The credit facility was subsequently extinguished on October 12, 2018 with the payment of principal, accrued interest and capped royalty payment amount.

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.