Merus Labs International Inc.
Form 20-F/A
January 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

Amendment No. 1 to Form 20-F

[ ] Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

OR

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **September 30, 2013**

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

OR

[ ] Shell company report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report _____

Commission file number **000-30082**

MERUS LABS INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

_____

(Translation of Registrant s name into English)

British Columbia, Canada
(Jurisdiction of incorporation or organization)

100 Wellington St. West, Ste. 2110, Toronto, Ontario, Canada M5K 1H1
(Address of principal executive offices)

Andrew Patient, Tel. 416-593-3725 Fax 416-593-4434,
100 Wellington St. West, Ste. 2110, P.O. Box 151, Toronto Ontario, Canada M5K 1H1
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

COMMON SHARES
(Title of Class)

The Nasdaq Capital Market
(Name of each exchange on which registered)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:
As at September 30, 2013, there were 38,391,512 common shares outstanding.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] YES [X] NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
[X] YES [ ] NO

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] YES [ ] NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted (Not applicable) pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[ ] YES [ ] NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer:

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [ ] International Financial Reporting Standards as issued by the International Other [ ]
Accounting Standards Board [X]
If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
[ ] Item 17 [ ] Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
[ ] YES [X] NO

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
[ ] YES [ ] NO

EXPLANATORY NOTE

Merus Labs International Inc. (the **Registrant**) is filing this amendment to Form 20-F in order to amend its annual report on Form 20-F for the year ended September 30, 2013 originally filed with the Securities and Exchange Commission on December 31, 2013 (the **Original Form 20-F**) in order to include Item 17 the audited financial statements of the Registrant for the years ended September 30, 2013, 2012 and 2011 and the auditor s report thereon (the **Audited Financial Statements**). The Audited Financial Statements were inadvertently not included with the Original Form 20-F.

No other amendments are being made to the Original Form 20-F.

PART III

Item 17: Financial Statements

The audited financial statements of the Company for the years ended September 30, 2013, 2012 and 2011 are presented as follows.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Merus Labs International Inc.

We have audited the accompanying consolidated financial statements of Merus Labs International Inc. (the Company), which comprise the consolidated balance sheets as at September 30, 2013 and September 30, 2012 and the consolidated statement of operations, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years in the three-year period ended September 30, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Merus Labs International Inc. as at September 30, 2013 and September 30, 2012, and its financial performance and its cash flows for each of the years in the three-year period ended September 30, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
December 30, 2013
Toronto, Canada

Merus Labs International Inc.
Consolidated Balance Sheets
(Expressed in Canadian dollars)

As at:		**September 30 2013**	September 30 2012
Assets			
Current assets			
Cash and cash equivalents		**$ 8,084,367**	$ 3,462,919
Short-term investments	*note 4*	**104,807**	1,273,936
Trade and other receivables	*note 5*	**7,048,104**	4,917,455
Inventories	*note 6*	**1,168,933**	2,179,612
Loans receivable	*note 7*	**166,909**	737,400
Prepaid expenses		**127,409**	488,266
		16,700,529	13,059,588
Non-current assets			
Property and equipment		**11,291**	11,069
Intangible assets	*notes 3, 9*	**70,328,140**	79,307,879
Total assets		**$ 87,039,960**	$ 92,378,536
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**4,177,960**	1,607,040
Income taxes payable		**594,344**	**-**
Derivative liabilities	*note 10*	**-**	336,700
Provisions	*note 11*	**190,701**	697,480
Long term debt due within one year	*note 12*	**8,116,260**	31,926,688
		13,079,265	34,567,908
Non-current liabilities			
Provisions	*note 11*	**92,572**	386,704
Long term debt	*note 12*	**29,949,502**	22,160,142
Total liabilities		**43,121,339**	57,114,754
Equity			
Share capital	*note 13*	**56,014,232**	51,639,478
Equity reserve	*note 14*	**33,881,330**	31,468,434
Warrants reserve	*note 14*	**-**	1,427,175
Convertible debt - equity component	*note 12*	**1,313,550**	-
Accumulated deficit		**(52,972,037)**	(49,869,908)
Accumulated other comprehensive income	*note 15*	**5,681,546**	598,603
Total equity		**43,918,621**	35,263,782
Total liabilities and equity		**$ 87,039,960**	$ 92,378,536

Approved on behalf of the Board:

(signed)	(signed)
Tim Sorensen,	Dave Guebert,
Director	Director

The accompanying notes are an integral part of these consolidated financial statements

Merus Labs International Inc.
Consolidated Statements of Operations
(Expressed in Canadian dollars)

		Years ended September 30		
		2013	2012	2011
Revenues	*note 2*	**$ 28,385,968**	$ 9,257,843	$ -
Cost of goods sold		**2,451,191**	867,123	-
Gross margin		**25,934,777**	8,390,720	-
Operating expenses:				
Sales and marketing		**1,165,353**	281,272	-
General and administrative		**6,396,971**	4,896,095	2,587,633
Acquisition costs	*note 3*	**-**	518,819	-
Amortization of intangible assets	*note 9*	**11,254,497**	3,855,604	-
Depreciation		**2,826**	5,015	17,062
Intangible assets and goodwill impairment charge	*note 9*	**-**	22,208,721	-
Foreign exchange losses (gains)		**1,608,563**	(1,825,206)	-
Restructuring costs		**-**	-	6,061,413
		20,428,210	29,940,320	8,666,108
Operating income (loss)		**5,506,567**	(21,549,600)	(8,666,108)
Interest expense		**5,462,466**	1,466,151	10,865
Investment expense (income) and impairment	*notes 4, 7*	**1,216,406**	(467,001)	(1,882,347)
Loss before income taxes		**(1,172,305)**	(22,548,750)	(6,794,626)
Income tax expense - current	*note 18*	**557,518**	-	-
- deferred	*note 18*	**-**	(1,608,758)	-
Loss from continuing operations		**(1,729,823)**	(20,939,992)	(6,794,626)
(Loss) income from discontinued operations, net of income taxes	*note 19*	**(1,372,306)**	219,444	(766,328)
Net loss for the year		**$ (3,102,129)**	$ (20,720,548)	$ (7,560,954)
Attributable to:				
Owners of the Company		**$ (3,102,129)**	$ (20,720,548)	$ (7,553,936)
Non-controlling interest		**-**	**-**	(7,018)
		$ (3,102,129)	$ (20,720,548)	$ (7,560,954)
Loss per share	*note 20*			
Basic		**$ (0.09)**	$ (0.90)	$ (0.94)
Diluted		**$ (0.09)**	$ (0.90)	$ (0.94)
Loss per share - continuing operations				
Basic		**$ (0.05)**	$ (0.91)	$ (0.85)

Diluted	**$**	**(0.05)**	$ (0.91)	$ (0.85)
(Loss) earnings per share - discontinued operations				
Basic	**$**	**(0.04)**	$ 0.01	$ (0.09)
Diluted	**$**	**(0.04)**	$ 0.01	$ (0.09)
Weighted average number of common shares outstanding - basic		**33,151,593**	22,929,402	8,028,377
Weighted average number of common shares outstanding - diluted		**33,151,593**	22,929,402	8,028,377

The accompanying notes are an integral part of these consolidated financial statements

Merus Labs International Inc.
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

	Years ended September 30		
	2013	2012	2011
Net loss for the year	**$ (3,102,129)**	$ (20,720,548)	$ (7,560,954)
Other comprehensive income			
Items that may be reclassified to income:			
Currency translation differences (net of tax of $20,429)	**5,082,943**	598,603	-
Other comprehensive income for the year	**5,082,943**	598,603	-
Total comprehensive income (loss)	**$ 1,980,814**	$ (20,121,945)	$ (7,560,954)
Attributable to:			
Owners of the Company	**$ 1,980,814**	$ (20,121,945)	$ (7,553,936)
Non-controlling interest			(7,018)
	$ 1,980,814	$ (20,121,945)	$ (7,560,954)

The accompanying notes are an integral part of these consolidated financial statements

Merus Labs International Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended September 30		
	2013	2012	2011
Operating activities			
Net loss for the year	**$ (3,102,129)**	$ (20,720,548)	$ (7,560,954)
less: loss (income) from discontinued operations (note 19)	**1,372,306**	(219,444)	766,328
Items not involving cash:			
Amortization of intangible assets	**11,254,497**	3,855,604	-
Depreciation	**2,826**	5,015	17,062
Gain on sale of real estate (note 8)	**-**	(20,238)	-
Impairment of intangible assets and goodwill	**-**	22,208,721	-
Unrealized gains on foreign exchange	**(900,759)**	(2,206,967)	-
Fair value adjustment of loan receivable (note 7)	**-**	-	517,352
Deferred tax liability	**-**	(1,608,758)	-
Loss on disposal of property and equipment	**7,290**	-	32,486
Share-based compensation	**993,049**	2,214,421	938,176
Writedown of investments	**1,230,947**	-	-
Change in fair value of derivative liabilities	**(355,811)**	336,700	(775,318)
Net change in non-cash working capital balances:			
Accrued interest and loan fees	**132,799**	42,082	(408,945)
Increase (decrease) in provisions	**680**	(261,295)	-
Trade and other receivables	**(2,788,626)**	(2,116,552)	(67,808)
Prepaid expenses	**360,857**	(466,717)	190,086
Inventories	**(64,377)**	(396,221)	-
Accounts payable and accrued liabilities	**2,726,803**	528,952	250,532
Income taxes payable	**594,344**	(534,249)	-
Net cash provided by (used in) operating activities	**11,464,696**	640,506	(6,101,003)
Financing activities			
Repayment of operating line of credit	**-**	-	(780,000)
Non-controlling interest	**-**	-	(224)
Payment to Old Merus	**-**	(6,809,082)	-
Proceeds from debt issuance, net of issuance costs	**39,379,312**	55,713,186	-
Repayment of long-term debt	**(54,219,629)**	(4,088,861)	-
Private placement proceeds	**4,364,626**	7,945,633	-
Proceeds from prospectus offering	**-**	9,206,711	-
Proceeds from exercise of stock options	**2,800**	79,000	-
Proceeds from exercise of stock warrants	**-**	246,592	-
Net cash (used in) provided by financing activities	**(10,472,891)**	62,293,179	(780,224)

The accompanying notes are an integral part of these consolidated financial statements

Merus Labs International Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended September 30		
	2013	2012	2011
Investing activities:			
Acquisition of Factive	**-**	(3,969,644)	-
Disposal of Factive	**2,127,506**	-	-
Acquisition of Enablex	**-**	(64,664,491)	-
Short-term investments	**-**	1,189,067	3,727,997
Loan receivable advances	**-**	-	(2,200,000)
Loan receivable repayments	**-**	1,598,260	493,333
Purchase of property and equipment	**(10,000)**	(3,934)	-
Proceeds from sale of subsidiary, net	**-**	-	1,647,463
Proceeds from sale of real estate (note 8)	**-**	1,136,238	-
Cash acquired in amalgamation	**-**	980,539	-
Net cash provided by (used in) investing activities	**2,117,506**	(63,733,965)	3,668,793
Net change in cash from continuing operations	**3,109,311**	(800,280)	(3,212,434)
Cash flows from discontinued operations			
Net cash provided by (used in) operating activities	**1,021,363**	(59,051)	(438,906)
Net cash provided by (used in) investing activities	**490,774**	(737,400)	-
Net change in cash from discontinued operations	**1,512,137**	(796,451)	(438,906)
Net change in cash and cash equivalents	**4,621,448**	(1,596,731)	(3,651,340)
Cash and cash equivalents, beginning of year	**3,462,919**	5,059,650	8,710,990
Cash and cash equivalents, end of year	**$ 8,084,367**	$ 3,462,919	$ 5,059,650
Supplemental cash flow information:			
Interest paid	**$ 5,329,667**	$ 1,424,069	$ 10,865
Income taxes paid	**$ -**	$ 534,249	

The accompanying notes are an integral part of these consolidated financial statements

Merus Labs International Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital	Equity reserve	Warrants reserve	Convertible debt - equity componen
Balance, October 1, 2010	**$ 8,762,524**	**$ 29,781,172**	**$ -**	**$**
Share-based compensation (note 13)	-	938,176	-	
Net loss and comprehensive loss for the year	-	-	-	
Foreign currency revaluation	-	-	-	
Balance, September 30, 2011	**$ 8,762,524**	**$ 30,719,348**	**$ -**	**$**
Share-based compensation (note 13)	-	2,214,421	-	
Private placement (note 13)	7,945,633	-	-	
Issuance of securities pursuant to amalgamation (notes 3, 13)	23,501,892	337,223	1,521,743	
Issuance of shares pursuant to acquisition (note 13)	1,486,558	(1,486,558)	-	
Exercise of stock options (note 13)	395,000	(316,000)	-	
Exercise of warrants (note 14)	341,160	-	(94,568)	
Prospectus offering (note 13)	9,206,711	-	-	
Net loss for the year	-	-	-	
Other comprehensive income (note 15)	-	-	-	
Balance, September 30, 2012	**$ 51,639,478**	**$ 31,468,434**	**$ 1,427,175**	**$**
Share-based compensation (note 13)	-	993,049	-	
Exercise of stock options (note 13)	10,128	(7,328)	-	
Expiry of warrants (note 14)	-	1,427,175	(1,427,175)	
Private placement (note 9)	4,364,626	-	-	
Issuance of convertible debt (note 12)	-	-	-	1,313,550
Net loss for the year	-	-	-	

Other comprehensive income (note 15)	-	-	-	
Balance, September 30, 2013	**$ 56,014,232**	**$ 33,881,330**	**$ -**	**$ 1,313,550**

The accompanying notes are an integral part of these consolidated financial statements

Merus Labs International Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

For the years ended September 30, 2013, 2012 and 2011

1. Presentation of Financial Statements

Nature of Business

Merus Labs International Inc., incorporated under the Business Corporations Act (British Columbia) and its subsidiaries (the Company), operate in Canada and Europe. The head office of the Company is 100 Wellington St. West, Ste. 2110, Toronto, Ontario M5K 1H1. The Company is a specialty pharmaceutical company engaged in the acquisition and licensing of branded prescription pharmaceutical products.

Basis of Preparation

These consolidated annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) (IFRS) for financial statements. The consolidated annual financial statements have been prepared on a historical cost basis, except for items that are required to be accounted for at fair value. The policies set out below have been consistently applied to all the periods presented.

The consolidated financial statements were authorized for issue by the Company s Board of Directors on December 27, 2013.

2. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, collectively known as Merus Labs International Inc. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions, and revenues and expenses are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Merus Labs International Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

For the years ended September 30, 2013, 2012 and 2011

Subsidiaries of the Company as at September 30, 2013 and September 30, 2012 are as follows:

Company	September 30 2013 % ownership	September 30 2012 % ownership	Jurisdiction of incorporation
Merus Labs Luxco S.a r.l.	100.0	100.0	Luxembourg
Merus Labs Netherlands BV	100.0	100.0	Netherlands
ECG Properties Inc.	100.0	100.0	Ontario
Envoy Securities Corp.	100.0	100.0	Ontario
ECG Holdings (US) Inc.	100.0	100.0	Delaware
Orbis Pharma Inc.	100.0	100.0	Ontario

From December 19, 2011 through September 30, 2012 the Company owned 100% of Merus Labs Inc. which was subsequently amalgamated with the Company.

(b) Accounting judgements, estimates, and uncertainties Critical judgements

The following are the critical judgements, apart from those involving estimations (see below), that have been made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Acquisition accounting

Management exercised judgement in determining the accounting treatment for the amalgamation transaction of Envoy and Old Merus as described in note 3. In addition, judgement was exercised in determining that the product acquisitions of Factive and Enablex, as described in Note 3, was a business combination accounted for under the acquisition method of accounting and an asset acquisition, respectively. Management considered the guidance and definitions per IFRS 3 in making this determination. These transactions have been recorded in the consolidated financial statements based on management s assessment of fair value for the acquired assets and liabilities.

Functional currency

Management has exercised judgement in selecting the functional currency of each of the entities that it consolidates based on the primary economic environment in which the entity operates and in reference to the various indicators as provided by IAS 21 *The effects of changes in foreign exchange rates*. The consolidated financial statements of the Company are presented in Canadian dollars (CAD), which is the parent Company s functional and presentation currency.

Merus Labs International Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

For the years ended September 30, 2013, 2012 and 2011

Use of estimates

In preparation of the Company s consolidated financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the Company s consolidated financial statements and such differences could be material. Significant estimates include:

the allowance for doubtful accounts;
the allowance for inventory obsolescence;
estimate for product returns;
allocation of the purchase price and estimates of fair value for the acquired assets and liabilities;
the estimated useful lives of property and equipment and intangible assets;
impairment of financial and non-financial assets;
the valuation of deferred tax assets and liabilities;
the valuation of warrants and share-based compensation expense; and
the valuation of the equity component of convertible debt
the valuation of non-cash consideration received on the sale of Factive

Significant estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(i) Allowance for doubtful accounts

The Company reviews its sales and accounts receivable aging and determines the balance for the allowance for doubtful accounts. The Company has minimal overdue accounts and has determined that no allowance for doubtful accounts is required as at September 30, 2013.

(ii) Inventory obsolescence

The Company reviews the net realizable value of its inventory. The Company has recorded a write-down of $104,477 relating to inventory that management has determined is no longer saleable as at September 30, 2013. The Company has determined that there are adequate sales to support the carrying amount for all other inventory as at September 30, 2013. In addition, management reviews specific product and industry experience with returns in assessing if a write-down is required.

(iii) Estimated product returns

Revenue from product sales is recognized net of estimated sales discounts, credits, returns, rebates and allowances. The Company s return policy is limited to damaged or expired product. The return allowance is determined based on an analysis of the historical rate of returns, industry return data, and current market conditions, which is applied directly against sales.

(iv) Allocation of the purchase price and estimates of fair value for the acquired assets and liabilities

The Company as part of its business combinations and product acquisitions performs a preliminary assessment of the fair value of all assets and liabilities acquired based on all current available information. As part of the measurement period to finalize the purchase price allocation, management updates the estimated fair values as information becomes available, support from third party market data becomes available, and where necessary, third party independent valuations are obtained. Management is ultimately responsible for concluding on the allocation of purchase price and estimates of fair value for the acquired assets and liabilities.

(v) Impairment of financial and non-financial assets

Financial Assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss has occurred on an unquoted or not actively traded equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and is recognized in profit or loss for the period. Reversals of impairment losses on assets carried at cost are not permitted.

For financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (i.e. the effective interest rate computed at initial recognition).

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

For the years ended September 30, 2013, 2012 and 2011

Non-Financial Assets

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units (CGUs) or groups of CGUs to which goodwill has been allocated. The determination of recoverable amount requires the Company to estimate the future cash flows expected to arise from these CGUs and a suitable discount rate in order to calculate the recoverable amount of the CGUs. If the recoverable amount of the CGUs is less than its carrying amount, an impairment loss is recorded.

During the second and third quarters of 2013, the Company s market capitalization was less than the total net assets of the Company and as such, the Company was required to assess its intangible assets for impairment. The Company carried out a review of the recoverable amount of the assets of each of its cash generating units (CGUs), which are defined at the product line level (Vancocin, Enablex and Factive. The carrying values of the CGUs at each impairment evaluation date, as well as at September, 30, 2013 are included below:

	Enablex	Vancocin	Factive
March 31, 2013	$ 60,930	$ 11,148	$ 3,294
June 30, 2013	61,479	10,694	3,082
September 30, 2013	60,093	10,235	N/A

The recoverable amount was calculated based on the CGUs fair value less costs to sell, determined using a discounted cash flow model. The assumptions in the discounted cash flow model that have the greatest estimation uncertainty include forecasted revenue and the discount rate which was based on the factors specific to each CGU, including risks inherent in the discounted cash flow models. The rates applied were as follows:

Vancocin	20%
Enablex	20%
Factive	35%

As a result of the review, the Company concluded that an impairment loss was not required in respect of the intangible assets.

At the end of each reporting period, the Company reviews property, plant and equipment and intangible assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into a CGU and a recoverable amount is estimated for that CGU.

(vi) Useful lives of property, equipment and intangible assets

The Company reviews the estimated useful lives of property, equipment and intangible assets at the end of each year, with the effect of any changes in estimates being accounted for on a prospective basis.

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Depreciation on property, equipment, and intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Furniture, fittings and equipment	3 5 years
Leasehold improvements	Over the term of the lease
Product rights	2 10 years
Product patents	Remaining economic life of patent

During the year ended September 30, 2013, the useful lives were considered reasonable.

(vii) Valuation of deferred tax assets and liabilities

The Company estimates the probability that taxable profits will be available against deductible temporary differences can be utilized and thus give rise to deferred tax assets. The Company has reviewed the expected profitability and determined that no deferred tax asset should be recognized at this time.

(viii) Valuation of warrants and share-based compensation expense

The Company estimates the fair value of warrants and share options issued for employment services based on the Black Scholes option-pricing model for warrants and share options with a service condition. These methods of valuation were applied to the equity transactions during the year.

(ix) Valuation of the equity component of convertible debt

The Company estimates the fair value of convertible debt by first estimating the liability component of the instrument based on a discounted cash flow model. The fair value of the equity component of the instrument is then determined as the difference between the fair value of the liability component and the fair value of the instrument at inception.

(x) Valuation of non-cash consideration received on the sale of Factive

Proceeds from the sale of Factive (note 19) consisted of non-cash consideration of convertible debentures and shares. Management was required to make significant estimates in order to determine the fair value of the non-cash consideration at the transaction date due to the limited objective information available at that date. The significant estimates included in the calculation are as follows:

Management estimated the likelihood of repayment of the convertible debenture based on working capital levels and short-term commitments and determined there was significant uncertainty of collection

Management estimated the net realizable value of the shares received based on the limited trading history and determined that given the large number of shares and low trading volumes, there was significant uncertainty as to whether the shares could be sold on a timely basis.

(c) Financial instruments

The Company classifies all financial instruments as either fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM), loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Financial instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the results of operations. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. HTM instruments, loans and receivables, and other financial liabilities are measured at amortized cost. Transaction costs for FVTPL financial instruments are expensed as incurred, whereas transaction costs for AFS, HTM, and other financial liability instruments are capitalized upon initial recognition of the instrument.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Loans and receivables
Publicly-traded investments	Fair value through profit or loss
Privately-held investments	Available-for-sale at cost
Trade and other receivables	Loans and receivables
Loans receivable	Loans and receivables
Bank indebtedness	Other financial liability
Accounts payable and accrued liabilities	Other financial liability
Derivative liabilities	Fair value through profit or loss
Long term debt	Other financial liability

At each financial reporting period, the Company s management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

(i) Publicly-traded investments:

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted market prices at the consolidated balance sheet dates or the closing price on the last day the security traded if there were no trades at the consolidated balance sheet dates.

Securities which are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer may be recorded at amounts discounted from market value. In determining whether a discount is appropriate for such investments, the Company considers the nature and length of the restriction, the business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments.

(ii) Privately-held investments:

Securities in privately-held companies that are not considered equity investments are recorded at fair value upon acquisition and subsequently measured at their initial cost less impairment.

(iii) Other financial liabilities

Other financial liabilities (including debt and trade and other payables) are initially recorded at fair value less transaction costs and subsequently measured at amortized costs using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(d) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as one of the following:

i) Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
ii) Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
iii) Hedges of a net investment in a foreign operation (net investment hedge).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of operations.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of operations. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of operations within foreign exchange (gains) losses.

The Company has not designated any of its derivatives as hedges as at September 30, 2013 and 2012.

(e) Cash and cash equivalents

Cash includes demand deposits with financial institutions of $8,054,367 and $3,174,863, at September 30, 2013 and 2012, respectively. Cash equivalents consist of short-term, highly liquid investments purchased with original maturities of three months or less and were $30,000 and $288,056, at September 30, 2013 and 2012, respectively. Interest earned on cash and cash equivalents was $375 and $21,977, for the years ended September 30, 2013 and 2012, respectively.

(f) Inventories

Inventories are comprised of raw materials, work-in-progress and finished goods of pharmaceutical product and are recorded at the lower of cost and net realizable value on a first-in first-out basis. Costs are comprised of raw materials (active pharmaceutical ingredient), conversion costs (contract manufacturing), and batch-specific stability testing. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and applicable selling expenses. The Company writes down inventory to its estimated net realizable value based upon assumptions about future and market conditions when necessary.

(g) Trade and other receivables

Trade and other receivables are stated at their amortized cost and are non-interest bearing and unsecured. Management conducts a periodic review of the collectability of trade receivables. The Company records an allowance for doubtful accounts if any uncertainty exists with respect to the recoverability of certain amounts based on historical experience or economic climate.

(h) Intangible assets

Intangible assets include all costs incurred to acquire licensing and distribution agreements, product rights and patents. Intangible assets are recorded at cost and amortized on a straight-line basis over their estimated useful life of 2 to 10 years. Management has estimated the useful life based on industry data of similar products and patents. The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for intangible assets and any changes arising from the assessment are applied by the Company prospectively.

(i) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value. Acquisition costs incurred are expensed and included in acquisition costs.

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible and identifiable intangible assets acquired. Goodwill is carried at cost, less impairment losses if any. Goodwill is tested for impairment at the end of each fiscal year or if events or changes in circumstances indicate a potential impairment. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units (CGUs) to which goodwill has been allocated.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(j) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment, intangible assets and goodwill to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. In addition, goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, if any, are tested for impairment annually.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the greater of the asset s or CGU s fair value less costs to sell (FVLCTS) and value in use (VIU). In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining FVLCTS, a post-tax discounted cash flow model is used. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. If the recoverable amount of the asset or CGU is less than its carrying amount, an impairment loss is recognized immediately in the statement of operations.

Other than goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Goodwill impairment losses are not reversed.

(k) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(l) Income taxes

Provision for income taxes consists of current and deferred income tax expense. Tax is recognized in the statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end in the countries where the Company and its subsidiaries operate and generate taxable income, adjusted for amendments to tax payable with regards to previous years.

Deferred income tax is recognized, using the liability method, on temporary differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date.

Deferred tax assets also result from unused losses and other deductions carried forward. An assessment of the probability that a deferred tax asset will be recovered is made prior to any deferred tax asset being recognized. The valuation of deferred tax assets is reviewed on a quarterly basis and adjusted, if necessary, to reflect the estimated realizable amount.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Foreign currency translation

(i) Functional and presentation currency

The Company s return policy is limited to damaged or expired product. The return allowance is determined based on analysis of the historical rate of returns and current market conditions, which is applied directly against sales.

(o) Share-based compensation

From time to time, the Company grants options to directors, officers, employees and non- employees to purchase common shares. The Company accounts for its stock options using the fair-value method. Share-based payments, equal to the fair value of the options on the date of grant, are recognized in operations, with an offsetting credit to equity reserves, for stock options granted to employees, officers and directors over the period during which the related options vest. Share-based payments are recognized in operations, with an offsetting credit to equity reserves, for options granted to non-employees based on the fair value of the services received. Consideration paid upon exercise of stock options, along with the applicable amount of equity reserves, is credited to share capital.

(p) Comprehensive income or loss

Comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources, and comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the balance sheet.

(q) Basic and diluted net earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used to compute the dilutive effect of equity instruments. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. The diluted earnings per share is equal to the basic earnings per share if the effects of the outstanding options and warrants are anti-dilutive.

(r) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(s) Changes in accounting standards

During the year ended September 30, 2013 the following new or amended standards were issued and are effective for annual periods beginning on or after January 1, 2013 (October 1, 2013 for the Company), unless otherwise noted.

Accounting standards implemented in fiscal 2013:

IAS 1 Presentation of Financial Statements: Amendments to IAS 1 change the disclosure of items presented in other comprehensive income. IAS 1 requires the presentation of items in other comprehensive income as two separate groups based on whether or not those items will be recycled to profit or loss in the future. The amendment affected presentation only and had no impact on the Company s financial position or results of operations.

Future changes in accounting standards:

IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities: Amendments to IFRS 7 These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments are not expected to significantly impact the Company s financial position or results of operations.

IAS 27 Separate Financial Statements: IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non- consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements. These amendments are not expected to impact the Company s financial position or results of operations.

IAS 28 Investments in Associates and Joint Ventures: IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled IAS 28 Investments in Associates. These amendments are not expected to impact the Company s financial position or results of operations.

IFRS 10 Consolidated Financial Statements: IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements. IFRS 10 is not expected to impact the Company s financial position or results of operations.

IFRS 11 Joint Arrangements: IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement. IFRS 11 is not expected to impact the Company s financial position or results of operations.

IFRS 12 Disclosure of Interests in Other Entities: IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity s interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity s financial position, financial performance and cash flows. These new disclosures are not expected to impact the Company s financial position or results of operations

IFRS 13 Fair Value Measurement: IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements. IFRS 13 is not expected to significantly impact the Company s financial position or results of operations.

IFRS 7 Financial Instruments: Disclosures: The IASB published new disclosures requirements jointly with the Financial Accounting Standards Board (FASB) that enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. The Company is currently assessing the impact of this standard.

All of the above standards are effective for the Company on October 1, 2013.

IFRS 9 Financial Instruments. IFRS 9 will replace IAS 39, Financial Instruments Recognition and Measurements, on classification and measurement of financial assets and financial liabilities. The mandatory effective date of IFRS 9 is for fiscal years beginning on or after January 1, 2015. The Company is currently assessing the impact of this standard.

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3. Acquisitions

Business Combinations

Amalgamation

On December 19, 2011, the Company and Merus Labs International Inc. (Old Merus) amalgamated and formed a new entity under the name Merus Labs International Inc. The securities of the two companies that were issued and outstanding immediately before the Amalgamation were converted into securities of the Company as follows:

(a) the common shares of Old Merus were exchanged for common shares of the Company on

	Old Merus Outstanding Pre-Amalgamation	Issued by the Company
Common shares	47,003,784	11,750,946
Stock options	910,000	227,500
Share purchase warrants	9,614,230	2,403,557

Bringing together the financial experience and capital of the Company combined with the sales and growth potential of Old Merus were perceived as beneficial to both parties. In determining which entity was the acquirer and which was the acquiree, management considered a number of factors including share ownership of the combined entity, the existence of minority control groups, board control and the ability to elect its members, the ability to direct finance and operating policies and the composition of senior management and the relevant size of each entity s assets in reaching the conclusion that the Company was the acquirer.

The Amalgamation was accounted for using the acquisition method, with the Company as the acquirer, whereby all the Old Merus assets acquired and liabilities assumed were recorded at fair value. The common shares exchanged were valued using the market rate at the time of amalgamation, while the stock options and warrants were valued using the Black-Scholes pricing model.

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The purchase price allocation is summarized as follows:

Purchase price consideration		
Common shares issued	**$**	**23,501,892**
Stock options issued		**337,223**
Share purchase warrants issued		**1,521,743**
Fair value of net assets acquired		**25,360,858**
Fair value of investment in Old Merus		**671,134**
Total purchase price consideration	**$**	**26,031,992**

The Company stock options granted and warrants issued in exchange for the Old Merus options and warrants were assigned a fair value based on the following weighted average assumptions used in the Black-Scholes option pricing model:

	Options	**Warrants**
Risk-free interest rate	**1.0%**	**1.0%**
Expected share price volatility	**86%**	**86%**
Weighted average expected life	**0.66 years**	**1.28 years**
Forfeiture rate	**0%**	**0%**
Expected dividends	**Nil**	**Nil**

Costs incurred to complete the amalgamation were approximately $455,000. In addition, the Company recorded a gain of $108,641 in investment income on the shares of Old Merus held prior to the amalgamation in order to recognize the increase in value of its holdings. The gain was recorded as investment income in the period. Goodwill recorded on acquisition, representing intangible assets which do not qualify for separate recognition, is not deductible for income tax purposes.

The fair value of the acquired identifiable net assets was allocated as follows:

Cash	**$**	**980,539**
Trade and other receivables, net of allowance of $nil		**1,830,902**
Inventories		**708,335**
Prepaid expenses		**1,873**
Intangible assets		**19,510,423**
Goodwill		**16,676,097**
Accounts payable and accrued liabilities		**(547,813)**
Due to related party		**(2,000)**
Income taxes payable		**(534,249)**
Long term debt		**(11,226,005)**

Deferred income taxes		**(1,366,110)**
Net assets acquired	**$**	**26,031,992**

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The results for the year ended September 30, 2012 included the operations of Old Merus from December 20, 2011, the first day after amalgamation, to September 30, 2012. The financial information in the table below summarizes selected results of operations on a pro-forma basis as if the Company had acquired Old Merus as of October 1, 2011. The pro-forma presentation is for information purposes only and does not purport to represent what the Company s results would have been had the acquisition occurred at the beginning of the period, or to project the Company s results of operations for any future period.

(Unaudited)	As reported in the Statement of Operations	Old Merus results from October 1, 2011 to amalgamation	Pro-forma Statement of Operations fiscal 2012
Revenues	$ 9,257,843	$ 2,483,176	$ 11,741,019
Cost of goods sold	867,123	306,202	1,173,325
Gross margin	8,390,720	2,176,974	10,567,694
Operating expenses:			
Sales and marketing	281,272	66,711	347,983
General and administrative	4,896,095	165,745	5,061,840
Acquisition costs	518,819	-	518,819
	5,696,186	232,456	5,928,642
Earnings before depreciation, amortization, interest expense and investment income	2,694,534	1,944,518	4,639,052
Amortization of intangible assets	3,855,604	299,970	4,155,574
Depreciation	5,015	-	5,015
Interest expense	1,466,151	64,961	1,531,112
Foreign exchange (gains) losses	(1,825,206)	-	(1,825,206)
Investment income	(467,001)	(2,892)	(469,893)
Impairment charge	22,208,721	-	22,208,721
Earnings (loss) before income taxes	(22,548,750)	1,582,479	(20,966,271)

Factive

On March 7, 2012, the Company completed the acquisition of the North American product rights for Factive (Gemifloxacin Mesylate) tablets from Cornerstone Therapeutics Inc. (Cornerstone). The Company acquired the license to the Factive product rights and patent, inventory on hand, and certain related intellectual property and other information and materials for total consideration of US$3,979,000, fully paid at closing. This transaction was accounted for as a business combination under the acquisition method of accounting.

For the years ended September 30, 2013, 2012 and 2011

Costs incurred to complete the acquisition were approximately $63,000, which were expensed in the current period. The fair value of the acquired identifiable assets and liabilities was allocated as follows:

Inventories	**$**	**1,149,350**
Product returns liability		**(1,118,422)**
Deferred tax liability		**(242,648)**
Product rights		**3,036,004**
Patent		**1,145,360**
Net assets acquired	**$**	**3,969,644**

The Company has not provided pro-forma information with respect to the operations of Factive as determining such information is impracticable. Costs relating to operation of the business by the seller were not segregated in sufficient detail in order to accurately determine product profitability. This product was divested on August 26, 2013, see note 19.

Product Acquisitions Enablex

On July 11, 2012, the Company announced that it had acquired the Canadian and European rights (excluding France, Spain and Italy) to manufacture, market, and sell the branded prescription medicine product Emselex®/Enablex® (Enablex or darifenacin) extended release tablets.

Pursuant to the acquisition, Merus acquired the Emselex®/Enablex® product rights and patent, certain related intellectual property, and other information and materials required to continue marketing the brand in the territories acquired. Total consideration for the product acquisition was US$63,000,000 in the form of US$43,000,000 cash and a US$20,000,000 vendor take back note (VTB Note) due July 11, 2013. US$35,000,000 of the upfront cash payment was funded through a US$55,000,000 debt facility from a private lender, with the remainder funded from cash on hand. The VTB Note was guaranteed by the aforementioned debt facility and management utilized the unused balance of the debt facility to repay the VTB Note at maturity. The transaction was accounted for as an asset acquisition.

Costs incurred to complete the acquisition were approximately $431,000, which were capitalized to the cost of the assets acquired. The fair value of the acquired identifiable net assets was $64,233,646 (US$63,000,000), which was allocated between the intangible assets acquired (product rights and patent). The fair value of the acquired identifiable net assets was allocated as follows:

Product rights	$	**45,293,991**
Patent		**19,370,500**
Net assets acquired	**$**	**64,664,491**

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4. Short-term investments

		September 30 2013		September 30 2012
Short-term investments				
Publicly-traded investments Equities	**$**	**104,807**	$	11,936
		104,807		11,936
Privately held investments				
Equities (note 22(b))		**-**		1,262,000
Total short-term investments	**$**	**104,807**	$	1,273,936

As at September 30, 2013 the portfolio of short-term investments was invested in marketable securities, including common shares as well as an investment in a private entity. The marketable securities have been classified as held for trading and recorded at FVTPL. The investment in a private entity is recorded at a nil value, representing cost less impairment charges. During the year ended September 30, 2013, the Company recognized impairment charges of approximately $1,262,000 on its privately held investment. The charges were recorded as investment expenses in the financial statements. The impairment assessment was based on evidence of other financing transactions undertaken by the investee as well as detailed financial information from the investee itself. For the year ended September 30, 2013, the investment portfolio, including interest and dividend income, realized and unrealized investment gains and losses, earned $31,053 (September 30, 2012: $244,424), after deducting fees and expenses.

5. Trade and other receivables

		September 30 2013		September 30 2012
Trade receivables	**$**	**6,683,674**	$	4,555,705
Less: provision for doubtful accounts		**-**		-
Trade receivables net		**6,683,674**		4,555,705
Other receivables		**364,430**		361,750
Trade and other receivables	**$**	**7,048,104**	$	4,917,455

For the years ended September 30, 2013, 2012 and 2011

The aging analysis of trade receivables is as follows:

		September 30 2013		September 30 2012
Current	**$**	**6,248,681**	$	4,035,826
1 to 30 days overdue		**250,867**		352,757
31 to 60 days overdue		**62,152**		15,812
61 to 90 days overdue		**339**		53,856
Greater than 90 days overdue		**121,635**		97,454
Total trade receivables	**$**	**6,683,674**	$	4,555,705

The Company s customer base is primarily comprised of large domestic, national, and multinational pharmaceutical distribution companies.

6. Inventories

		September 30 2013		September 30 2012
Raw materials	**$**	**467,499**	$	1,014,973
Work-in-progress		**91,125**		-
Finished goods		**610,309**		1,164,639
Total inventories	**$**	**1,168,933**	$	2,179,612

The amount of inventories expensed in cost of goods sold during the year amounted to $2,200,168 (2012: $753,659, 2011: nil). During the year, the Company recorded inventory impairments of $104,477 (2012:$21,000, 2011: nil)

7. Loans receivable

		September 30 2013		September 30 2012
Loans receivable Vansen	**$**	**166,909**	$	737,400
Total loans receivable	**$**	**166,909**	$	737,400

On March 7, 2012, the Company entered into a sales and promotion agreement for Factive with Vansen Pharma Inc. (Vansen) to market the product in the United States. As part of this arrangement, the Company agreed to provide Vansen with a short-term loan in the amount of US$1,000,000 for working capital purposes. The original loan was due within twelve months with monthly payments of US$83,333 beginning July 1, 2012, plus a lump sum payment of US$333,333 due March 1, 2013. During the second quarter of fiscal 2013, the Company agreed to extend the terms of the remaining US$500,000 balance. The revised terms called for eight monthly payments of US$35,000 from May to December 2013, with a lump sum payment of US$220,000 due December 31, 2013.

Effective August 26, 2013, in connection with the sale of Factive (Note 19), the Company entered into two new loan agreements with Vansen; one representing part of the sale proceeds, the other being a renegotiation of the original loan from March 2012. The first new loan has a principal value of US$800,000, is non-interest bearing and scheduled to be repaid in four installments of US$200,000, due February 28, May 31, August 31 and November 30, 2014. The second new loan has a principal value of US$280,000 and represents the remaining balance of the original loan under similar repayment terms of US$35,000 per month starting September 1, 2013, with a lump sum payment of US$140,000 due December 31, 2013. Both new loans are unsecured, but contain a right of conversion at the holder's option into common shares of Vansen for any overdue installments based on 95% of the 20-day moving average price of the shares. The fair value of the loans were determined to be US$162,000, collectively based on the information available at the date of sale as well as information received subsequent to August 26, 2013 and after the balance sheet date. Management assessed the fair value of the loans based on a number of factors and determined that given the deterioration in Vansen s financial condition and their dependence on raising additional financing, the value of the loans should be discounted accordingly.

In May 2011, the Company advanced a loan in the principal amount of $1,850,000 to Old Merus, a then unrelated entity. In connection with the loan, the Company received certain equity compensation which it accounted for as loan fees by adjusting the yield on the loan.

The loan fees, valued at $517,352, were amortized using the effective interest method over the six month term of the loan and recorded as interest income. During fiscal 2012, $116,546 (2011: $400,806) of interest related to these loan fees and $5,427 (2011: $75,973) of cash interest was recorded. On October 14, 2011, the loan was paid in full, including all accrued interest.

On November 25, 2011, the Company advanced another loan to Old Merus in the amount of US$6,500,000, for purposes of making the second installment on the purchase of Vancocin. The term of the loan was six months, bearing interest at 12% per annum, and was eliminated upon the amalgamation of the Company with Old Merus in December 2011. Interest of $58,359 was recorded during fiscal 2012 related to this loan.

On September 30, 2011, the Company agreed to accept partial payment on the sale of Watt International Inc. (Note 19) in the form of a loan receivable in the amount of $350,000. The loan was non-interest bearing and due on demand. Payment was received in full on January 18, 2012.

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8. Real estate held for sale

The Company previously owned two properties in Toronto, which it had planned to develop for use. Given market conditions, the Company made a decision not to develop the properties and subsequently offered the properties for sale. In late 2011, the Company entered into an agreement to sell the properties. Book value of the properties approximated fair value, net of disposal costs. On February 27, 2012, the Company completed the sale of the properties for net proceeds of approximately $1,136,238, realizing a gain of $20,238, which is included in investment income.

9. Intangible assets

Continuity of intangible assets for the year ended September 30, 2013 was as follows:

	Licensing and Distribution	Product Rights	Patents	Goodwill	Total
Cost at September 30, 2012	$ 122,020	$ 68,298,401	$ 20,766,160	$ 16,676,097	$ 105,862,678
Product divestitures	-	(3,029,782)	(1,142,725)	-	(4,172,507)
Foreign exchange differences	-	4,622,125	1,976,930	-	6,599,055
Cost at September 30, 2013	**$ 122,020**	**$ 69,890,744**	**$ 21,600,365**	**$ 16,676,097**	**$ 108,289,226**
Accumulated Amortization at September 30, 2012	$ 122,020	$ 8,625,444	$ 1,131,238	$ 16,676,097	$ 26,554,799
Amortization charge	-	6,658,156	4,596,341	-	11,254,497
Product divestitures	-	(284,930)	(184,311)	-	(469,241)
Foreign exchange differences	-	321,004	300,027	-	621,031
Accumulated Amortization at September 30, 2013	**$ 122,020**	**$ 15,319,674**	**$ 5,843,295**	**$ 16,676,097**	**$ 37,961,086**
Carrying amount at September 30, 2012	$ -	$ 59,672,957	$ 19,634,922	$ -	$ 79,307,879
Carrying amount at September 30, 2013	**$ -**	**$ 54,571,070**	**$ 15,757,070**	**$ -**	**$ 70,328,140**

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Continuity of intangible assets for the year ended September 30, 2012 was as follows:

	Licensing and Distribution	Product Rights	Patents	Goodwill	Total
Cost at September 30, 2011	$ -	$ -	$ -	$ -	$ -
Acquired through amalgamation (note 3)	122,020	19,388,403	-	16,676,097	36,186,520
Product acquisitions	-	48,318,627	20,513,225	-	68,831,852
Foreign exchange differences	-	591,371	252,935	-	844,306
Cost at September 30, 2012	**$ 122,020**	**$ 68,298,401**	**$ 20,766,160**	**$ 16,676,097**	**$ 105,862,678**
Accumulated Amortization at September 30, 2011	$ -	$ -	$ -	$ -	$ -
Amortization charge	24,957	3,174,456	1,125,432	-	4,324,845
Impairment charge	97,063	5,435,561	-	16,676,097	22,208,721
Foreign exchange differences	-	15,427	5,806	-	21,233
Accumulated Amortization at September 30, 2012	**$ 122,020**	**$ 8,625,444**	**$ 1,131,238**	**$ 16,676,097**	**$ 26,554,799**
Carrying amount at September 30, 2011	$ -	$ -	$ -	$ -	$ -
Carrying amount at September 30, 2012	**$ -**	**$ 59,672,957**	**$ 19,634,922**	**$ -**	**$ 79,307,879**

Amortization charges for intangible assets for 2012 include $469,241 related to discontinued operations (Note 19)

Licensing and Distribution

As part of the amalgamation transaction disclosed in Note 3, the Company acquired an exclusive licensing and distribution agreement to import, distribute and sell products of Innocoll Pharmaceuticals Inc.

The Company has limited visibility with respect to the sales of this product line due to the slower than expected product marketing authorization of a key product in the portfolio and a refocusing of management priorities. Based on this, management believes the recoverable amount of the licensing and distribution agreements to be nil and therefore the value of the agreements was reduced to nil through the recognition of an impairment charge of 97,063 in fiscal 2012 against this intangible asset.

Vancocin Product Rights

The product rights provides the Company with the rights to manufacture, market and sell Vancocin Oral 125 mg and 250 mg capsules in the Canadian market. In accordance with the asset purchase agreement between Old Merus and Iroko International LP (Iroko), the final payment for the acquisition of the product rights was paid on February 28, 2012.

Although there are a number of barriers to entry, in December 2011, Health Canada granted a notice of compliance (NOC) to Pharmaceutical Partners of Canada Inc. (PPC), which grants PPC the authority to market their generic version of Vancocin capsules in the Canadian market. In July 2012, PPC confirmed that it would market a generic Vancomycin capsule product. The Company viewed this announcement as an indicator for impairment with respect to its Vancocin product rights intangible asset. The recoverable amount of the product rights was determined based on FVLCTS calculations using a discounted cash flow analysis. These calculations used post-tax cash flow projections covering a five-year period based on management s best estimate of the impact of the generic entrant at September 30, 2012. Cash flows beyond the five-year period were extrapolated using an estimated rate of decline of -13.0%. A post-tax discount rate of 20.0% was applied. Based on this analysis, the carrying amount of the Vancocin product rights was reduced to its recoverable amount through recognition of an impairment charge in fiscal 2012 of $5,435,561 against the product rights.

Goodwill Impairment Test

Goodwill was recognized on amalgamation of the Company with Old Merus. In connection with the impairment of the Vancocin product rights at September 30, 2012, as discussed above, management tested the Company s goodwill for impairment. The recoverable amount of the CGU to which goodwill had been allocated was determined based on FVLCTS calculations using a discounted cash flow analysis. These calculations used post-tax cash flow projections based on financial budgets covering a five-year period that reflect management s best estimate. Cash-flows beyond the five-year period were extrapolated using an estimated rate of decline of -13.0%. A post-tax discount rate of 20.0% was applied. Based on this analysis, the carrying amount of goodwill was reduced to its recoverable amount through recognition of an impairment charge in fiscal 2012 of $16,676,097 against the goodwill.

10. Derivative liabilities

	September 30 2013	September 30 2012
Liabilities:		
Forward foreign exchange contracts	**$ -**	$ 336,700
Total	**$ -**	$ 336,700

In connection with its European operations of Enablex, the Company uses foreign currency contracts in order to partially hedge the risk associated with its Euro currency source revenue. At September 30, 2013, the Company had forward foreign exchange contracts outstanding with a notional principal amount of $9,843,967 (2012: $8,527,400). The fair value of these contracts at September 30, 2013 was $19,111 and was included in trade and other receivables. For the period ended September 30, 2013, losses of $382,059 (2012: $373,800, 2011: nil) were recognized in foreign exchange (gains) losses in the statement of operations in connection with these contracts.

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11. Provisions

	Year ended September 30		
	2013	2012	2011
Balance at beginning of year	**$ 1,084,184**	$ -	$ -
Additions from business combinations	**-**	1,118,422	-
Charges	**2,819,120**	1,102,626	-
Utilization	**(2,438,657)**	(1,136,864)	-
Product divestitures	**(1,181,374)**	-	-
Balance at end of year	**283,273**	1,084,184	$ -
Less: current portion of provisions	**190,701**	697,480	-
Non-current portion of provisions	**$ 92,572**	$ 386,704	$ -

The Company s provisions are comprised of the following product-related liabilities:

Product Returns Liability:

The Company accepts all product returns relating to North American product sales. Management estimates the fair value of the product returns liability by taking into consideration the amount of units previously sold, returns experience to date, and changes in the marketplace.

Coupons Liability:

With respect to the Company s sales of Factive in the United States, the Company provided for a coupon program that subsidized the insurance cost of the product to the patient.

Rebates Liability:

With respect to the Company s sales of Factive in the United States, the Company provided for certain state and federal Medicare and Medicaid rebates.

Certain comparative period amounts (September 2012: $353,187) related to product returns, coupons and rebates previously included in accounts payable and accrued liabilities were reclassified to be included in provisions to conform to the current period presentation. This reclassification had no impact on the prior year opening balance sheet as no provisions existed at that time.

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12. Long-term debt

		September 30 2013		September 30 2012
Current				
Senior secured facility, net of unamortized transaction costs of $283,740 (a)	**$**	**8,116,260**	$	-
Convertible debenture (b)		**-**		-
Enablex debt facility (c)		**-**		12,122,563
Enablex VTB note (d)		**-**		19,664,000
Support services agreement (e)		**-**		140,125
Total	**$**	**8,116,260**	$	31,926,688
Non-Current				
Senior secured facility, net of unamortized transaction costs of $285,298 (a)	**$**	**21,314,702**	$	-
Convertible debenture, net of unamortized transaction costs of $1,365,200 (b)		**8,634,800**		-
Enablex debt facility (c)		**-**		21,972,205
Support services agreement (e)		**-**		187,937
Total	**$**	**29,949,502**	$	22,160,142

(a) Senior secured facility:

On September 24, 2013, the Company entered into a new senior secured debt facility with a syndicate of Canadian chartered banks. The new facility, in combination with the convertible debenture described below, refinanced the Company's existing debt at a lower rate and extended term. The new facility matures September 30, 2016 and provides for a $30 million term loan, currently at prime plus 3.0%, with monthly payments of principal and interest. Principal payments are $700,000 per month for the first 24 months, increasing to $1,100,000 per month for the final 12 months. The facility also provides for up to $2 million on a revolving line of credit, based on eligible accounts receivable. The facility is secured by all assets of the Company and contains affirmative and negative covenants including compliance with laws and restrictions on additional debt, as well as financial covenants such as debt to earnings and fixed charge coverage ratios. The Company was in compliance with all covenants of the senior secured facility as at September 30, 2013. Finance costs of $569,038 were capitalized to the loan balance and will be amortized over the term of the loan.

(b) Convertible debenture:

In connection with the refinancing described above, the Company issued convertible debentures with a principal value of $10,000,000 to two investment funds. The debentures have a term of five years, maturing September 20, 2018, with interest at 8.0%, payable quarterly. The principal amount of the debentures are convertible at the option of the holder into common shares at a fixed rate of $1.50 per common share, with an option for the Company to force conversion if its common shares trade at, or above, $2.30 per share for 20 consecutive days. In the event of conversion into common shares, any accrued but unpaid interest is converted at the market price on the date of conversion. As required by accounting rules, management has bifurcated the fair value of the convertible debenture into a liability component and an equity component, based on first determining the fair value of the liability with the remainder being the equity value. Based on these calculations, management has determined the equity component to be $1,313,550, which has

been included as part of equity in the financial statements. Finance costs of $51,650 were capitalized to the debentures, allocated between the liability and equity component. Both the equity component and the finance costs have been deducted from the liability on initial recognition and will be accreted over the term of the instrument.

(c) Enablex debt facility:

On July 10, 2012, in connection with the acquisition of Enablex, the Company entered into a credit agreement (Enablex Debt Facility) of up to US$55,000,000 with a third-party lender. US$35,000,000 of this amount was drawn down upon acquisition of the asset with a further US$20,000,000 guaranteed through a letter of credit facility. The loan bore interest at 13.5% per annum, with monthly interest payments and periodic principal repayments until maturity on March 31, 2015. The Enablex Debt Facility contained customary affirmative covenants, including compliance with laws and contractual obligations and payment of taxes. The facility also contained customary negative covenants, including restrictions on the incurrence of indebtedness, the granting of liens, making restricted payments and investments, entering into affiliate transactions and transferring assets. The Company was also required by the terms of the credit agreement to comply with customary financial covenants, which were not applicable until March 31, 2013. Finance costs of $359,314 were capitalized to the loan balance and amortized over the term of the loan. This loan was extinguished upon funding of the new facility as discussed in note 12(a) and (b).

(d) Enablex VTB note:

In connection with the acquisition of Enablex, part of the consideration included a US$20,000,000 vendor take back note (VTB Note), which was due on July 11, 2013. On that date, the VTB Note was repaid through an additional draw on the Enablex Debt Facility, discussed above. The VTB Note bore no interest and was guaranteed by the Enablex Debt Facility. This loan was extinguished upon funding of the new facility as discussed in note 12(a) and (b).

(e) Support services agreement:

In connection with its support services agreement with a distribution services provider, the distribution services provider provided the Company with loan of $500,000 to be used for working capital purposes and in consideration for being the Company s exclusive provider of certain distribution services for the Company s products in Canada. Payments were made based on net sales of Vancocin. The agreement was for a five year term with automatic renewal terms of two years until terminated. For the year ended September 30, 2012, the Company repaid $171,938. On September 24, 2013, the Company extinguished the remaining balance of $273,481 as part of its refinancing under the Senior secured facility discussed above. This loan was extinguished upon funding of the new facility as discussed in note 12(a) and (b).

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13. Share capital

(a) Authorized:

Unlimited common shares without par value. Issued:

	Year ended September 30, 2013		Year ended September 30, 2012	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**30,708,478**	**$ 51,639,478**	8,028,377	$ 8,762,524
Common shares issued pursuant to private placement	**7,678,034**	**4,364,626**	4,196,500	7,945,633
Common shares issued pursuant to amalgamation	**-**	**-**	11,750,946	23,501,892
Common shares issued pursuant to acquisition	**-**	**-**	825,035	1,486,558
Common shares issued pursuant to options exercised	**5,000**	**10,128**	197,500	395,000
Common shares issued pursuant to warrants exercised	**-**	**-**	154,120	341,160
Common shares issued pursuant to prospectus offering	**-**	**-**	5,556,000	9,206,711
Balance, end of year	**38,391,512**	**$ 56,014,232**	**30,708,478**	**$ 51,639,478**

(b) Private placements

On June 7, 2013, the Company completed a private placement of 7,678,034 shares at a price of $0.60 per share for gross proceeds of $4,606,820. Proceeds were used for debt repayment and general corporate purposes. Costs of the offering were approximately $242,000.

On December 19, 2011, the Company completed a private placement consisting of 4,196,500 units (Unit) at a price of $2.00. Each Unit consists of one common share of the Company and one half of one warrant, which entitles the holder to purchase an additional common share of the Company at an exercise price of $3.00 at any time for a period of 36 months. The Company may accelerate the term to 30 days if the share price exceeds $4.00 for 20 consecutive trading days. In connection with the private placement, the Company also issued 197,700 warrants as a finder s fee. Each of these warrants entitles its holders to purchase one Unit until December 2, 2014 at an exercise price of $2.00 per Unit. Costs of the offering were approximately $447,000.

(c) Amalgamation

On December 19, 2011, the Company entered into a plan of arrangement whereby it amalgamated with Merus Labs International Inc. (Old Merus). Pursuant to the Arrangement, all of the outstanding common shares of Old Merus were exchanged on a 4:1 basis for common shares of the Company. Holders of options and warrants of Old Merus received options and warrants to purchase shares of the Company on the same terms and conditions after adjustment for the foregoing share exchange ratio. In connection with the amalgamation, the Company issued 11,750,946 common shares, 227,500 common share options and 2,403,557 common share warrants (see note 3).

(d) Acquisition

On January 6, 2012, the Company acquired 51% of Orbis Pharma Inc. (Orbis), a development stage pharmaceutical company. The arrangement involved the issuance of 300,000 shares which are released over a 3 year period. The Company was also obligated to purchase the remaining 49%, based on the achievement of certain milestones, through the issuance of additional common shares. Upon closing of the Enablex transaction, the Company issued an additional 525,035 shares in connection with the purchase of the remaining 49% of Orbis. The Company determined Orbis did not meet the definition of a business for accounting purposes and thus was not accounted for as a business combination. The estimated fair value of the shares issued was $1,486,558, of which $660,874 (2012: $609,906) was recognized in general and administrative expenses during fiscal 2013. The balance of these shares will be recognized over the remaining escrow period.

(e) Prospectus offering

On May 4, 2012, the Company announced a bought deal common share financing with a syndicate of underwriters, pursuant to which the Company sold 5,556,000 common shares at a price of $1.80 per share. The arrangement closed on May 29, 2012. Costs of the offering were approximately $794,000.

(f) Stock option plan

The Company has reserved 3,839,151 common shares under a 10% rolling reloading stock option plan. Under the plan, the options are exercisable for one common share and the exercise price of the option must equal the market price of the underlying share at the grant date. The options have vesting periods ranging from the date of grant up to three years. Once vested, options are exercisable at any time until expiry.

On October 31, 2011 the Company granted one of its directors 150,000 options at the exercise price of $2.00 per share. One third of the options vest immediately with one-third vesting on each of the next two anniversaries, and expire on October 31, 2016.

In January 2012, the Company granted a total of 1,440,000 options to officers of the Company in connection with their employment agreements. 600,000 options were granted with an exercise price of $2.05 per share and the remaining 840,000 with an exercise price of $2.02.

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Of the 1,440,000 options granted, 840,000 of the options vested immediately, with the remaining 600,000 options vesting as follows: 200,000 in January 2013, 200,000 in January 2014 and 200,000 in January 2015. All of the options have a term of five years.

In September 2012, the Company granted 100,000 options to an officer of the Company in connection with their employment agreement. The options were granted with an exercise price of $1.52 per share, with 25,000 options vesting immediately and 25,000 on each of the next three anniversaries.

In January 2013, the Company granted 50,000 options to an officer of the Company as incentive compensation. The options have a five year term and were granted with an exercise price of $1.19 per share, with all options vesting on the first anniversary date of the grant.

In February 2013, 5,000 options previously granted were exercised by a former director of the Company at $0.56 per share for proceeds of $2,800.

In May 2013, the Company granted 25,000 options to an employee of the Company as incentive compensation. The options have a five year term and were granted with an exercise price of $0.51 per share, with one third vesting immediately and one third vesting on each of the next two anniversary dates.

In July 2013, the Company granted 150,000 options to a new director. The options have a term of five years, vesting immediately, with an exercise price of $0.91 per share.

The estimated fair value of the options granted during the twelve months of fiscal 2013, using the Black-Scholes option pricing model, was $132,080 (2012: $2,138,973). $332,175 was expensed in the financial statements during the twelve months ending September 30, 2013 (2012: $1,604,515) relating to current and prior period grants, and has been included in equity as equity reserves. The remaining expense will be recognized over the balance of the vesting periods.

(g) Stock option details

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the following assumptions:

	Year ended September 30		
	2013	2012	2011
Weighted-average fair value of options	**$0.59**	$1.27	$1.56
Risk-free interest rate	**2.0%**	2.0%	2.0%
Volatility of the Company's common shares	**80%**	77%	124%
Weighted average expected life of the options	**5 years**	5 years	5 years
Forfeiture rate	**0%**	0%	0%

Expected dividends	**Nil**	Nil	Nil

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Volatility was determined based on daily observations of the historical stock price over a period consistent with the expected life of the options at the date of grant.

Details of the options are as follows:

	Number of options	Weighted average price per share
Options outstanding, September 30, 2011	600,000	$ 2.00
Options issued pursuant to amalgamation (note 3)	227,500	0.69
Options granted	1,690,000	2.00
Options exercised	(197,500)	0.40
Options outstanding, September 30, 2012	2,320,000	$ 2.01
Options granted	225,000	0.93
Options exercised	(5,000)	0.56
Options expired	(25,000)	3.00
Options forfeited	(50,000)	2.00
Options outstanding, September 30, 2013	**2,465,000**	**$ 1.90**

The range of exercise prices for outstanding and exercisable options at September 30, 2013 are as follows:

Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable
$ 0.51	25,000	4.62	8,333
$ 0.91	150,000	4.77	150,000
$ 1.19	50,000	4.27	-
$ 1.52	100,000	3.95	50,000
$ 2.00	700,000	2.87	700,000
$ 2.02	840,000	3.30	740,000
$ 2.05	600,000	3.27	300,000
	2,465,000		1,948,333

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14. Equity reserves and warrants reserve

Pursuant to the amalgamation in December 2011, the Company issued 227,500 stock options and 2,403,557 warrants in exchange for the existing issued and outstanding warrants of Old Merus. The fair value of these options and warrants was calculated using the Black-Scholes model to be $337,223 for the options and $1,521,743 for the warrants. These amounts were accounted for as equity reserves and warrants reserve, respectively. Assumptions used to value these warrants are disclosed in note 3.

On December 19, 2011, the Company completed a private placement consisting of 4,196,500 Units at a price of $2.00. Each Unit consisted of one common share of the Company and one half of one warrant, which entitles the holder to purchase an additional common share of the Company at an exercise price of $3.00 at any time for a period of 36 months. The Company may accelerate the term to 30 days if the share price exceeds $4.00 for 20 consecutive trading days. In allocating the fair value of the proceeds between the common shares and these half warrants, it was determined that the fair value of the common shares was more reliably measurable and since the common shares of the Company were trading at $2.00 per share on December 19, 2011, the entire value of the proceeds was allocated to the shares. In addition, the Company also issued 197,700 warrants as a finder s fee. The fair value of these warrants was deemed to be of nominal value.

	Number of warrants	Weighted average exercise price
Balance, September 30, 2011	-	$ -
Warrants issued pursuant to private placement	2,295,950	3.00
Warrants issued pursuant to amalgamation	2,403,557	2.34
Warrants exercised	(154,120)	1.60
Warrants expired	(68,000)	1.60
Balance, September 30, 2012	4,477,387	$ 2.70
Warrants expired	(2,181,437)	2.48
Balance, September 30, 2013	**2,295,950**	**$ 2.91**

The following share purchase warrants were outstanding at September 30, 2013:

Exercise Price	Number Outstanding	Weighted Average Contractual Life
$ 2.00	197,700	1.22
$ 3.00	2,098,250	1.22
	2,295,950	

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15. Accumulated other comprehensive income

	Translation	Total
At September 30, 2011	$ -	$ -
Currency translation differences	598,603	598,603
At September 30, 2012	598,603	598,603
Currency translation differences, net of tax of $20,429	5,082,943	5,082,943
At September 30, 2013	**$ 5,681,546**	**$ 5,681,546**

16. Commitments

(a) Operating lease commitments

The Company has entered into non-cancellable operating lease agreements for office premises and equipment with minimum annual lease payments to expiry as follows:

	September 30 2013	September 30 2012
Less than 1 year	**$ 143,750**	$ 61,594
1 to 2 years	**128,265**	25,408
2 to 3 years	**105,576**	22,689
3 to 4 years	**105,576**	-
4 to 5 years	**26,394**	-
Thereafter	**-**	-
Total	**$ 509,561**	$ 109,691

Lease expense recognized during the period was $219,693 (2012: $71,714, 2011: $74,236), which has been included in general and administrative expenses in the statements of operations.

(b) Revenue based commitments

Pursuant to the Company s exclusive licensing and distribution agreement with Innocoll, the Company is subject to licensing fees based on a percentage of sales of the products. As at September 30, 2013, the Company is not obligated for any licensing fees as it has not launched the sale of the products.

Merus Labs International Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

For the years ended September 30, 2013, 2012 and 2011

17. Related party transactions

At September 30, 2013, there were no amounts owing to or from related parties. The remuneration of directors and other members of key management personnel are as follows:

	Year ended September 30		
	2013	2012	2011
Salaries	**$ 1,627,662**	$ 968,751	$ 931,623
Share based compensation	**993,049**	2,214,421	938,176
Termination payments related to restructuring	-	-	5,689,135
	$ 2,620,711	$ 3,183,172	$ 7,558,934

18. Income taxes

The major components of income tax expense for the years ended September 30, 2013 and 2012 are:

	Year ended September 30		
Income tax recognized in profit or loss	**2013**	2012	2011
Current tax			
Current period tax expense	**$ 454,426**	$ -	$ -
Adjustments recognized for current tax of prior periods	**103,092**	-	-
Deferred tax:			
Recognition of opening unrecognized deferred tax assets	**-**	(1,608,758)	-
Provision for income taxes	**$ 557,518**	$ (1,608,758)	$ -

A reconciliation between income tax expense and the product of accounting income multiplied by Canada s domestic tax rate (26.46% for Merus) for the years ended September 30, 2013 and 2012 is as follows:

	Year ended September 30		
	2013	2012	2011
Loss from continuing operations before income taxes and non-controlling interest	**$ (1,172,305)**	$ (22,548,750)	$ (6,794,626)
Income tax expense (benefit) at the statutory income tax rate of 26.46% (2012: 25.01%, 2011: 28.75%)	**(310,192)**	(5,639,442)	(1,953,455)
Impairment losses on goodwill that is not tax deductible	**-**	4,170,692	-
Utilization or expiry of previously unrecognized tax losses	**-**	(643,862)	348,396
Non-deductible expenses for tax purposes	**542,732**	455,021	383,956

Merus Labs International Inc.
Notes to Consolidated Financial Statements
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Deductible temporary differences and unused tax losses not recognized, including impact of change in rate	**2,095,830**	48,833	(183,837)
Effect of income taxes recorded at rates different from the Canadian tax rate	**(1,857,547)**	-	1,398,362
Other differences	**86,695**	-	6,578
Tax expense (recovery)	**$ 557,518**	$ (1,608,758)	$ -

The difference in statutory tax rate is due to changes in provincial rates and differences in allocation of revenue between jurisdictions.

In 2012, deferred tax liabilities of $1,608,758 were recorded as part of business combinations as discussed in Note 3. Deferred tax assets of $1,608,758 were recognized since the taxable temporary differences giving rise to the above mentioned deferred tax liability were of the appropriate character and reverse in the appropriate carryforward period. The benefit of the recognition of deferred tax assets is recorded to profit or loss from continuing operations in accordance with IAS 12.

As at September 30, 2013, approximately $511,993 (2012: $471,978) of deferred tax liabilities relating to differences between the carrying value and fair value of debt have been recognized and are offset by recognized deferred tax assets of the same amount relating to debt financing costs. The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authorities.

The following is an analysis of deferred tax assets, which are currently not being recognized in the consolidated balance sheets:

	Year ended September 30	
	2013	2012
Unrecognized deferred tax assets in relation to:		
Unused capital and non-capital losses	**$ 7,012,290**	$ 5,628,859
Capital and Intangible assets	**832,044**	329,585
Undeducted share and debt issuance costs	**356,764**	564,226
	$ 8,201,098	$ 6,522,670

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognized is approximately $2,418,000.

For the years ended September 30, 2013, 2012 and 2011

The Company has unused non-capital tax losses that may be applied against future taxable income for Canadian federal and provincial income tax purposes, which expire between 2014 and 2033 as follows:

Non-capital losses		**Federal and provincial**
Expires in		
2014	$	1,424,000
2015		1,641,000
2027 to 2029		12,744,000
2030 to 2033		5,573,000
Total	**$**	**21,382,000**

The Company has realized net capital losses of approximately $12,411,000 available for carry forward to be applied against future taxable capital gains for Canadian tax purposes. These losses are available for carry forward indefinitely. The Company has not recognized any potential deferred income tax assets that may be associated with these non-capital and net capital losses.

19. Discontinued operations

On August 26, 2013, the Company divested its North American product rights for Factive (Gemifloxacin Mesylate) tablets to Vansen Pharma. Proceeds from the disposition included US$2,200,000 cash, a note receivable for US$800,000, plus 3 million shares of Vansen. Expenses of US$261,860 were incurred on the sale. The disposition of Factive resulted in a loss on disposal, net of income taxes, of $522,271.

The results of Factive were as follows:

			Year ended September 30	
		2013	2012	2011
Revenue	**$**	**1,145,742**	$ 1,088,284	-
Cost of goods sold		**569,024**	247,223	-
Gross margin		**576,718**	841,061	-
Sales and marketing		**218,863**	-	-
General and administrative		**456,370**	152,376	
Amortization of intangible assets		**751,520**	469,241	-
(Loss) earnings from discontinued operations		**(850,035)**	219,444	-
Loss on sale of discontinued operations		**(522,271)**	-	-
Net (loss) income	**$**	**(1,372,306)**	$ 219,444	-

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Notes to Consolidated Financial Statements
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On September 30, 2011, the Company completed the sale of its wholly-owned subsidiary, Watt International Inc. Gross proceeds from the sale were $2,150,000, consisting of $1,800,000 cash paid on closing and a loan receivable for $350,000 due on demand with no specific term, which the Company received in full in January 2012. The disposition of Watt resulted in a loss on disposal of discontinued operations, net of income taxes, of $547,375.

The results of Watt International Inc. were as follows:

	Year ended September 30		
	2013	2012	2011
Net revenue	**$ -**	$ -	$ 7,873,704
Operating expenses	**-**	-	7,775,117
Interest expense	**-**	-	13,884
Depreciation	**-**	-	303,656
Loss from discontinued operations		**-** -	(218,953)
Loss on sale of discontinued operations	**-**	-	(547,375)
Net loss	**$ -**	$ -	$ (766,328)

20. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended September 30		
	2013	2012	2011
Loss attributable to equity holders of the Company	**$ (1,729,823)**	$ (20,939,992)	$ (6,787,608)
Loss (profit) from discontinued operation attributable to equity holders of the Company	**(1,372,306)**	219,444	(766,328)
Total	**$ (3,102,129)**	$ (20,720,548)	$ (7,553,936)
Weighted average number of ordinary shares in issue	**33,151,593**	22,929,402	8,028,377

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: warrants and stock options. As the Company recorded a net loss for the periods ended September 30, 2013, 2012 and 2011, these items were considered anti-dilutive and have therefore been excluded from the calculation of diluted earnings per share.

Merus Labs International Inc.
Notes to Consolidated Financial Statements
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For the years ended September 30, 2013, 2012 and 2011

	Year ended September 30		
	2013	2012	2011
Loss (profit)			
Loss attributable to equity holders of the Company	**$ (1,729,823)**	$ (20,939,992)	$ (6,787,608)
Profit (loss) from discontinued operation attributable to equity holders of the Company	**(1,372,306)**	219,444	(766,328)
Total	**$ (3,102,129)**	$ (20,720,548)	$ (7,553,936)
Weighted average number of ordinary shares in issue	**33,151,593**	22,929,402	8,028,377
Weighted average number of ordinary shares for diluted earnings per share	**33,151,593**	22,929,402	8,028,377

21. Management of capital

The Company includes the following in its definition of capital:

	September 30 2013	September 30 2012
Debt comprised of:		
Senior secured facility	**$ 29,430,962**	$ -
Convertible debenture	**8,634,800**	**-**
Enablex debt facility	**-**	34,094,768
Enablex VTB note	**-**	19,664,000
Support services agreement	**-**	328,062
Equity comprised of:		
Share capital	**$ 56,014,232**	$ 51,639,478
Equity reserve	**33,881,330**	31,468,434
Warrants reserve	**-**	1,427,175
Convertible debt - equity component	**1,313,550**	**-**
Deficit and AOCI	**(47,290,491)**	(49,271,305)
	$ 81,984,383	$ 89,350,612

The Company s objectives when managing capital are:

(a) to allow the Company to respond to changes in economic and/or marketplace conditions;

(b) to give shareholders sustained growth in shareholder value by increasing shareholders equity;

(c) to ensure that the Company maintains the level of capital necessary to meet the requirements of its long-term debt;

(d) to comply with financial covenants required under its debt facilities; and

(e) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) raising capital through equity financings;

(b) utilizing leverage in the form of third party debt; and

(c) realizing proceeds from the disposition of its investments

The Company is not subject to any capital requirements imposed by a regulator. The Company is subject to certain capital requirements and negative covenants with respect to its Senior Secured Facility (refer to note 12). There were no changes in the Company s approach to capital management during the year. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company s management is responsible for the management of capital and monitors the Company s use of various forms of leverage on a regular basis.

22. Financial instruments and financial risk management

a) Fair Value Estimation

The Company s carrying value of cash, short-term investments, trade and other receivables, loan receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments. The fair value of long-term liabilities is not materially different than its carrying value due to the recent issuance of these liabilities.

Carrying value and fair value of financial assets and liabilities are summarized as follows:

		September 30, 2013		
Classification		**Carrying value**		**Fair value**
Financial assets at FVTPL				
- Short-term investments	**$**	**104,807**	**$**	**104,807**
Loans and receivables				
- Cash		**8,084,367**		**8,084,367**
- Trade and other receivables		**7,048,104**		**7,048,104**
- Loans receivable		**166,909**		**166,909**
Other financial liabilities				
- Accounts payable and accrued liabilities		**4,177,960**		**4,177,960**

- Long term debt	**38,065,762**	**38,679,630**

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Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

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Classification	September 30, 2012 Carrying value	Fair value
Financial assets at FVTPL		
- Short-term investments	$ 11,936	$ 11,936
Loans and receivables		
- Cash	3,462,919	3,462,919
- Trade and other receivables	4,917,455	4,917,455
- Loans receivable	737,400	737,400
Other financial liabilities		
- Accounts payable and accrued liabilities	1,607,040	1,607,040
- Long term debt	54,086,830	54,404,062
Derivative financial liabilities used for hedging	336,700	336,700

The Company is required to present information about its financial assets and liabilities with respect to the hierarchy of the valuation techniques the Company utilized to determine fair value. The different levels have been defined as follows:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves
- Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability.

At September 30, 2013, the Company s financial assets and liabilities would be classified as follows:

	September 30, 2013	Significant Observable Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	**$ 104,807**	$ 42,989	$ -	$ 61,818
	$ 104,807	$ 42,989	$ -	$ 61,818
Liabilities:				
	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -

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For the years ended September 30, 2013, 2012 and 2011

At September 30, 2012, the Company s financial assets and liabilities would be classified as follows:

		September 30, 2012	Significant Observable Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Short-term investments	**$**	**11,936**	$ 11,936	$ -	$ -
	$	**11,936**	$ 11,936	$ -	$ -
Liabilities:					
Derivative liabilities	**$**	**336,700**	$ -	$ 336,700	$ -
	$	**336,700**	$ -	$ 336,700	$ -

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm s length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in Level 3.

b) Reclassification of Financial Instruments

Until December 19, 2011, a major component of the Company s strategy revolved around investment operations. On December 19, 2011, in conjunction with the Company s amalgamation with Old Merus to become a specialty pharmaceutical company that acquires, sells, and distributes prescription medicine products, the Company no longer holds certain investments for the purpose of selling or repurchasing them in the near term. As a result of this change, the Company has reclassified its privately-held investments from FVTPL to AFS measured at cost during the period. The amount reclassified at December 19, 2011 was $1,262,000.

c) Financial Risk Factors

Until December 19, 2011, a major component of the Company s strategy revolved around investment operations. The Company s business involved the purchase and sale of securities and, accordingly, the majority of the Company s assets were comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including market, credit and liquidity risks. Apart from the risks listed below, management is of the opinion that they are not exposed to any other significant risks. A discussion of the Company s use of financial instruments and its risk management is provided below.

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(i) Liquidity risk

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they come due. The Company s liquidity and operating results may be adversely affected if the Company s access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company s investments declines, resulting in losses upon disposition. In order to mitigate this risk, the Company maintains a sufficient cash balance in order to satisfy short-term liabilities as they come due and actively pursues raising capital through various public and private financing mechanisms to satisfy longer term needs.

The table below analyzes the Company s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and do not include capitalized transaction costs.

					Year ended September 30
At September 30, 2013	**2014**	**2015**	**2016**		**Thereafter**
Debt	$ 8,400,000	$ 8,400,000	$ 13,200,000	$	10,000,000
Accounts payable and accrued liabilities	4,177,960	-	-		-
Income taxes payable	594,344	-	-		-
Total	**$ 13,172,304**	**$ 8,400,000**	**$ 13,200,000**	**$**	**10,000,000**

				Year ended September 30
At September 30, 2012	**2013**	**2014**	**2015**	**Thereafter**
Debt	$ 32,094,125	$ 10,019,937	$ 12,290,000	$ -
Accounts payable and accrued liabilities	1,960,227	-	-	-
Derivative liabilities	336,700	-	-	-
Total	**$ 34,391,052**	**$ 10,019,937**	**$ 12,290,000**	**$ -**

(ii) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Company s financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices.

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The following table shows the estimated sensitivity of the Company s after-tax net loss for the period ended September 30, 2013 from a change in the closing price of the Company s investments with all other variables held constant as at September 30, 2013:

Percentage change in closing price	Change in net after-tax loss from % increase in closing price	Change in net after-tax loss from % decrease in closing price
2%	$ 831	$ (831)
4%	1,662	(1,662)
6%	2,492	(2,492)
8%	3,323	(3,323)
10%	4,154	(4,154)

(iii) Currency risk:

The Company is subject to currency risk through its sales of products denominated in foreign currencies, purchases of inventory in US dollars and product acquisitions denominated in foreign currencies.. As such, changes in the exchange rate affect the operating results of the Company. Dependent on the nature, amount and timing of foreign currency receipts and payments, the Company may from time to time enter into foreign currency derivative contracts to reduce its exposure to foreign currency risk as discussed in note 10.

The following financial assets and liabilities were denominated in foreign currencies at September 30, 2013 (U.S. dollar 1.0303, Euro 1.3920) and September 30, 2012:

	September 30 2013	September 30 2012
Denominated in U.S. dollars		
Cash	**$ 5,865,221**	$ 197,308
Trade and other receivables	**972,313**	3,064,751
Loans receivable	**166,909**	737,400
Accounts payable and accrued liabilities	**(80,294)**	(744,573)
Debt	-	(54,076,000)
Net assets denominated in U.S. dollars	**$ 6,924,149**	$ (50,821,114)
Denominated in Euros		
Cash	**$ 578,484**	$ 144,624
Trade and other receivables	**4,953,268**	-
Accounts payable and accrued liabilities	**(2,980,091)**	-
Income taxes payable	**(594,344)**	(435,721)
Net assets denominated in Euros	**$ 1,957,317**	$ (291,097)

For the years ended September 30, 2013, 2012 and 2011

The following table shows the estimated sensitivity of the Company s total comprehensive loss for the year ended September 30, 2013 from a change in foreign currencies with all other variables held constant as at September 30, 2013:

Percentage change in foreign currencies	Change in net after-tax loss from % increase in foreign currencies	Change in net after-tax loss from % decrease in foreign currencies
2%	$ 177,629	$ (177,629)
4%	355,259	(355,259)
6%	532,888	(532,888)
8%	710,517	(710,517)
10%	888,146	(888,146)

(iv) Credit risk:

Certain of the Company s financial assets, including cash, short-term investments and loans receivable are exposed to the risk of financial loss occurring as a result of default of a counterparty on its obligations to the Company. The Company may, from time to time, invest in debt obligations. The Company is also exposed, in the normal course of business, to credit risk from customer receivables. These amounts are continually monitored by management for collectability, and, in general, are lower risk as they are typically due from large institutions or multinational distributors.

(v) Interest rate risk:

Interest risk is the impact that changes in interest rates could have on the Company s earnings and liabilities. The Company is exposed to variable interest rates as a result of its senior secured debt, which currently bears interest at bank prime plus 3.0%. The Company is able to manage this exposure through facilities under its credit agreement which allow the Company to convert the interest charge to a fixed rate, either through converting to Bankers' Acceptance notes on a short-term basis or through interest rate swaps over the remaining term of the loan. As a result of this flexibility, it is management s opinion that the Company is not exposed to significant interest rate risk. At September 30, 2013, the Company held no interest-bearing investments.

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23. Segment information

The Company operates in a single reportable segment focused on acquiring, in-licensing, marketing and distributing pharmaceutical products in Canada and internationally. The Company carries out business principally in Canada and Europe.

Revenues by geographic region are detailed as follows:

	Year ended September 30		
	2013	2012	2011
Canada	**$ 8,983,681**	$ 6,905,932	$ -
International	**19,402,287**	2,351,911	-
	$ 28,385,968	$ 9,257,843	$ -

The only country, other than Canada, from which the Company derived more than 10% of its revenues in either 2013 or 2012 was Germany. Revenues in Germany of $7,395,851 in 2013 (2012: $188,538) are included in International in the table above.

Long-term assets by geographic region are comprised of product rights and patents and property and equipment, detailed as follows:

	September 30 2013	September 30 2012
Canada	**$ 10,242,846**	$ 15,772,896
International	**60,096,585**	63,546,052
	$ 70,339,431	$ 79,318,948

Item 19: Exhibits

EXHIBIT INDEX

Exhibit No.	Description
1.1	Articles dated December 19, 2011 (Incorporated by reference to our Report of Foreign Private Issuer on Form 6-K filed on December 21, 2011)
1.2	Notice of Articles of Merus Labs International Inc. dated October 1, 2012 (Incorporated by reference to our Annual Report on Form 20-F, filed on January 2, 2013)
1.3	Certificate of Amalgamation dated October 1, 2012 (Incorporated by reference to our Annual Report on Form 20-F, filed on January 2, 2013)
4.1	Exclusive License and Distribution Agreement between Merus Labs and Innocoll Pharmaceuticals Limited dated September 17, 2010 (Incorporated by reference to our Report by Foreign Private Issuer on Form 6-K filed on April 16, 2012)
4.2	Asset Purchase Agreement between Merus Labs and Iroko International LP dated May 13, 2011 (Incorporated by reference to our Report by Foreign Private Issuer on Form 6-K filed on April 16, 2012)
4.3	Arrangement Agreement between Old Merus and Envoy dated November 10, 2011 (Incorporated by reference to our Report by Foreign Private Issuer on Form 6-K filed on April 16, 2012)
4.4	Asset Purchase Agreement between Novartis Pharma AG and Merus Labs Luxco SARL dated July 11, 2012 *(portions of the exhibit have been omitted pursuant to a request for confidential treatment)* (Incorporated by reference to our Annual Report on Form 20-F, filed on January 2, 2013, as amended)
4.5	Credit Agreement among Merus Labs International Inc., Merus Labs Luxco S.A.R.L., Merus Labs Inc., ECG Holdings Inc., Merus Labs Netherlands B.V. and PDL BioPharma, Inc. dated July 10, 2012 *(portions of the exhibit have been omitted pursuant to a request for confidential treatment)* (Incorporated by reference to our Annual Report on Form 20-F, filed on January 2, 2013, as amended)
4.6	Credit Agreement among Merus Labs International Inc., Bank of Montreal and Royal Bank of Canada dated September 20, 2013 (Incorporated by reference to our Report by Foreign Private Issuer on Form 6-K filed on September 20, 2013)
4.7	Form of Convertible Debenture dated September 20, 2013 (Incorporated by reference to our Annual Report on Form 20-F filed on December 31, 2013)
4.8	2011 Incentive Stock Option Plan (Incorporated by reference to our Annual Report on Form 20-F filed on December 31, 2013)
8.1	Subsidiaries (contained in Item 4.A hereof)
11.1	Code of Business Conduct (Incorporated by reference to our Annual Report on Form 20-F, filed on December 29, 2005)
11.2	Complaint Procedures for Accounting and Auditing Matters (Incorporated by reference to our Annual Report on Form 20-F, filed on December 29, 2005)
11.3	Board Mandate (Incorporated by reference to our Annual Report on Form 20-F, filed on December 29, 2005)
12.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

12.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Audit Committee Charter (Incorporated by reference to our Annual Report on Form 20-F, filed on December 29, 2005)
15.2	Compensation Committee Charter (Incorporated by reference to our Annual Report on Form 20-F, filed on December 29, 2005)
15.3	Nominating and Corporate Governance Committee Charter (Incorporated by reference to our Annual Report on Form 20-F, filed on December 29, 2005)
16.1	Letter dated February 27, 2012 from Saturna Group Chartered Accountants LLP has re change in certifying accountant (Incorporated by reference to our Report by Foreign Private Issuer on Form 6- K filed on April 20, 2012)
16.2	Letter dated April 3, 2012 from PricewaterhouseCoopers LLP re change in certifying accountant (Incorporated by reference to our Report by Foreign Private Issuer on Form 6-K filed on April 20, 2012)

* Filed as an exhibit to this Amendment No. 1 to Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report, as amended, on its behalf.

MERUS LABS INTERNATIONAL INC.

Date: January 7, 2014

/s/ ELIE FARAH
Name: Elie Farah
Title: Chief Executive Officer